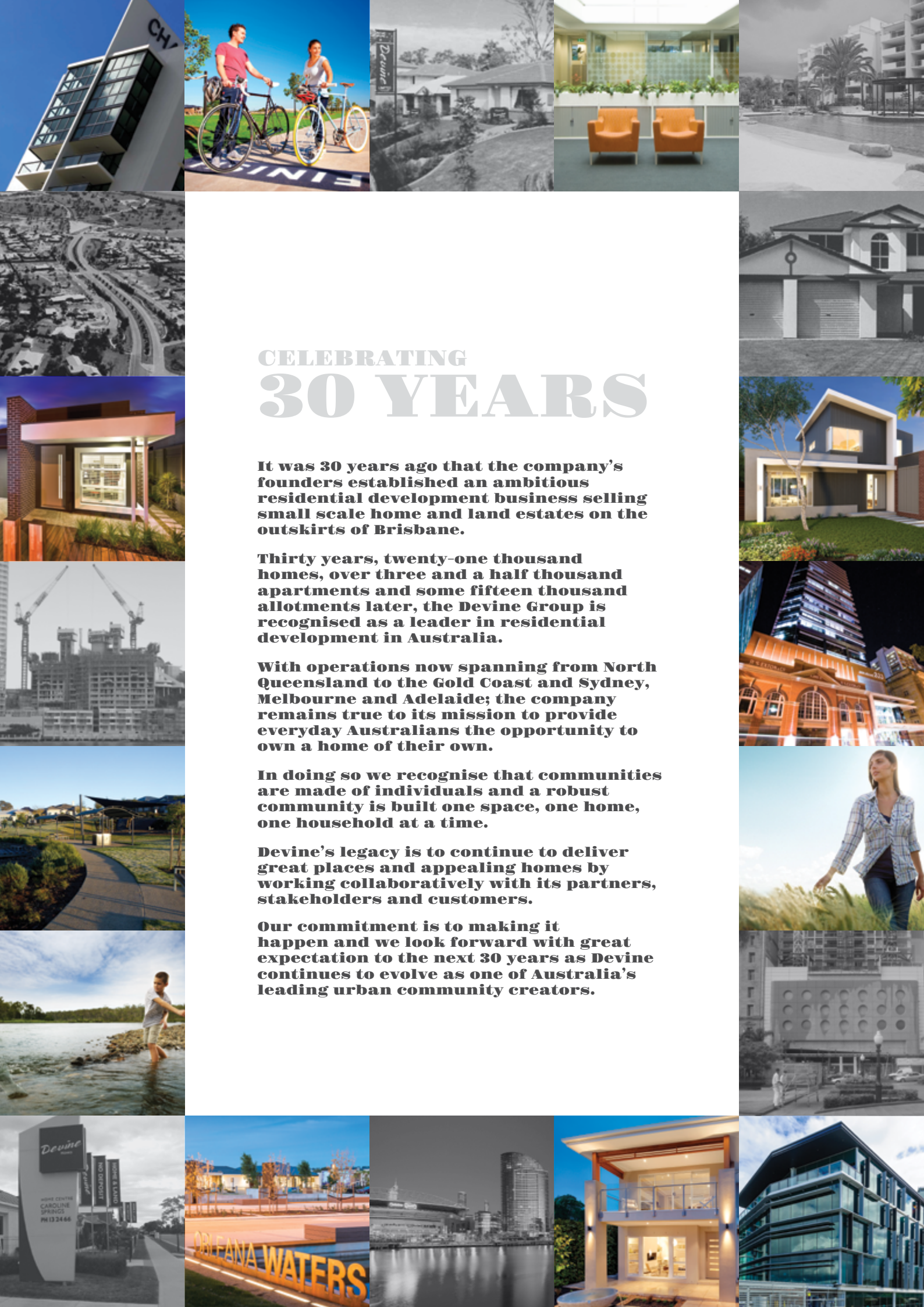




## 2012/13 ANNUAL REPORT



## CELEBRATING 30 YEARS

**It was 30 years ago that the company's founders established an ambitious residential development business selling small scale home and land estates on the outskirts of Brisbane.**

**Thirty years, twenty-one thousand homes, over three and a half thousand apartments and some fifteen thousand allotments later, the Devine Group is recognised as a leader in residential development in Australia.**

**With operations now spanning from North Queensland to the Gold Coast and Sydney, Melbourne and Adelaide; the company remains true to its mission to provide everyday Australians the opportunity to own a home of their own.**

**In doing so we recognise that communities are made of individuals and a robust community is built one space, one home, one household at a time.**

**Devine's legacy is to continue to deliver great places and appealing homes by working collaboratively with its partners, stakeholders and customers.**

**Our commitment is to making it happen and we look forward with great expectation to the next 30 years as Devine continues to evolve as one of Australia's leading urban community creators.**

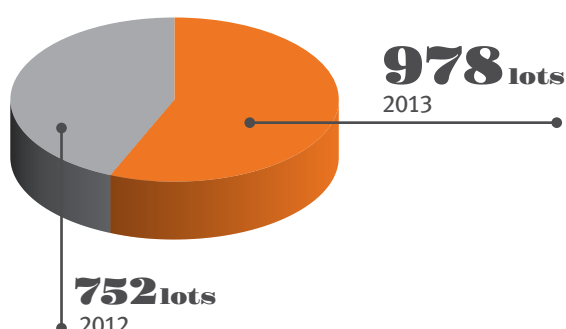
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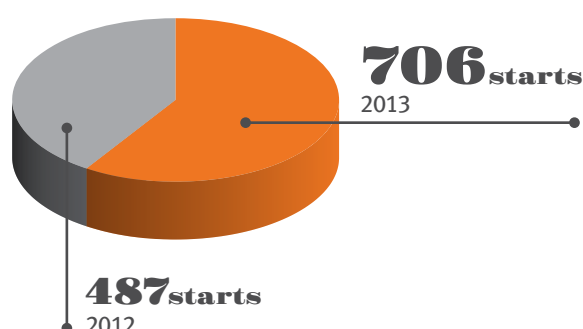
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# KEY RESULTS

## Residential Land Settlements up 30%

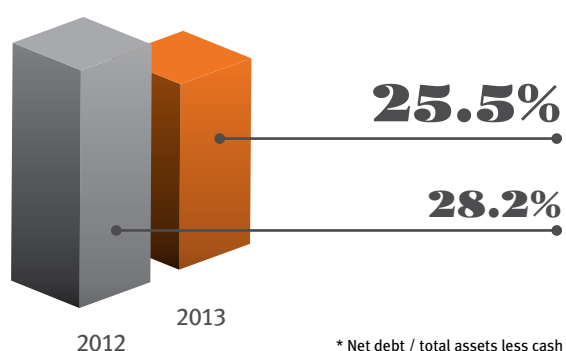


## Housing Commencements up 45%



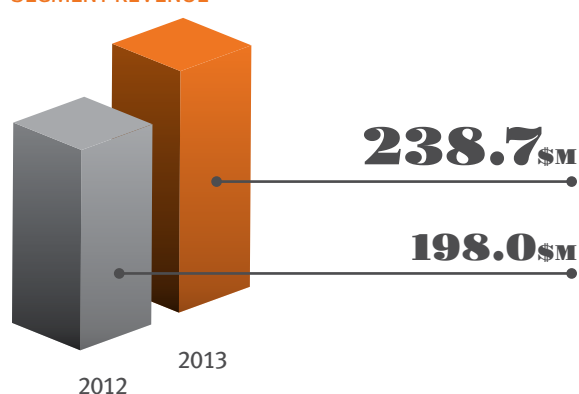
## Capital Management

GEARING %\*



## Housing & Land

SEGMENT REVENUE



This financial report covers the consolidated Devine Group consisting of Devine Limited and its subsidiaries.

Devine Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is Level 1, KSD1, 485 Kingsford Smith Drive, Hamilton, QLD 4007

A description of the nature of the consolidated group's operations and its principal activities is included in the review of operations and activities and in the Directors' Report, both of which are not part of the financial report. The financial report was authorised for issue by the directors on the 28th August 2013.

For queries in relation to our reporting please call (07) 3608 6300.





1. Hamilton Harbour's penthouses offer spectacular views of Brisbane's city skyline
2. The Devine reception at the recently completed KSD1 commercial building at Hamilton Harbour, Brisbane
3. The Hilltop Park provides an abundance of open space at Devine's The Summit, South Australia
4. The Encore, one of Devine's contemporary family homes
5. The Stonehill entry statement is a welcome landmark for the community, Victoria

# CHAIRMAN'S & MANAGING DIRECTOR'S REPORT



**Market conditions have remained challenging over the past 12 months with only a modest increase in dwelling commencements in Australia being recorded.**

This is despite historically low interest rates and added stimulus being provided by some State Governments to promote new housing construction. Consumer confidence has remained fragile and whilst there was evidence of an uplift in confidence levels in the June 2013 quarter, buyers remained cautious as job security and concerns over broader economic conditions weighed on the market. The Company's strategy proved successful in delivering increased trading volumes and providing a sound base on which to grow the Company as market conditions begin to return to more normal levels.

## FINANCIAL RESULTS

Devine's results for the year in part reflected these difficult market conditions, with an underlying operating profit after tax of \$6.4 million being recorded (FY12: \$11.1 million) on revenue from operations of \$311.1 million (FY12: \$313.9 million).

Following the termination by Devine in June 2013 of a conditional contract for the sale on one of its property development assets, the Company recorded an impairment charge of \$7 million after tax on the carrying value of that asset. This resulted in a statutory net loss of \$0.6 million being reported for the year (FY12: \$12.9 million loss).

Total assets for the Devine Group stood at \$544.4 million as at 30 June 2013 (FY12: \$569.4 million) resulting in net tangible assets per share of \$1.98 (30 June 2012: \$2.00). The Company's balance sheet remained conservatively geared at 25.5% as at 30 June 2013 (30 June 2012: 28.8%).

The Company's multi-option core debt facility with ANZ was extended out to October 2015.

In light of the result recorded for the year, Directors did not declare a final dividend (FY13: Nil – FY12: 4.0 cents).

## SAFETY & ENVIRONMENT

The Company is committed to providing a healthy and safe work environment for its employees, contractors, suppliers, stakeholders and any other person who may be affected by its operational activities. This commitment extends to eliminating where possible and minimising where reasonably practicable, hazards and risks that have the potential to harm people and/or the environment. In order to achieve these objectives and minimize the risk of injury, Devine has a comprehensive Workplace Health and Safety (WHS) system in place.

This system, together with the Company's compliance with various environmental regulations, is closely monitored via monthly reports to management and the Devine Board. In the year ended 30 June 2013 there were two notifiable WHS incidents (FY12: 10).

## STRATEGY

The Devine Group's growth strategy remains focused on:

- › Expansion of the Company's apartment business through re-entering the NSW market;
- › Selling developed residential lots as "land only" to other builders, investors and future homebuyers;
- › Innovative product offerings in the Housing business;
- › Securing additional "wholesale build" contracts; and
- › Diversifying the Devine Constructions business by securing selected build contracts for external customers.

As detailed further on in this report, good progress was made on the implementation of this strategy during the year and further initiatives and operational improvements will be implemented during the 2013/14 year.



## DEVINE COMMUNITIES

Residential land settlements for FY13 totalled 978 – up 30% on FY12. During the year significant progress on the Group's signature Master Planned Communities was achieved (Riverstone Rise in Gladstone, QLD, Stonehill at Bacchus Marsh in VIC and Orleana Waters in Adelaide) with key place infrastructure delivered resulting in increased sales velocity. The Company has a strong presence in the key growth corridors of Brisbane, Melbourne and Adelaide and also has communities in the strong regional growth markets of Gladstone and Townsville in Queensland. Devine Communities' pipeline of future equivalent lots was 11,400 as at June 2013 which places it in a strong position as activity in the residential sector continues to improve.

## DEVINE HOMES

Housing starts for the 12 months ended 30 June 2013 were 706 – up 45% on FY12. This included securing additional wholesale housing opportunities but these were offset by the continuation of a challenging retail housing market. Despite the increase in trading activity for the Housing business, it performed poorly over FY13 recording a loss which detracted from the overall result of the Housing & Land business. This stemmed primarily from pressure on selling prices and hence margins, higher marketing overheads as a percentage of turnover being incurred as a result of the tight market conditions and commencements occurring late in the financial year resulting in little turnover being generated on them. A detailed review of the Housing business was undertaken and this has resulted in a number of initiatives

being implemented to address the underperformance of this division, including:

- The appointment of a new General Manager – Housing to oversee the housing businesses in each state;
- Realigning staff numbers to reflect current trading volumes;
- Reducing the number of display homes resulting in a reduction of fixed costs;
- Refining and refreshing the Housing product range;
- Reducing build costs in order to better protect margins; and
- Streamlining building operations and efficiencies on site.

These initiatives are expected to deliver an improved performance from the Housing business over FY14 and beyond.



1. The Vibe is one of many living options available at Stonehill, Victoria
2. Designer finishes are attracting attention in Devine's new Loft Home
3. The pool amenity at Harbour One and Harbour Two residential buildings at Hamilton Harbour, Brisbane
4. Riverstone Rise offers liveable family homes, Gladstone
5. Devine's Coda display home at Orleana Waters, South Australia

## DEVINE APARTMENTS

The Devine Apartments' business recorded 179 settlements for the year. Settlements occur when the residential project is completed and the decrease in settlements on the prior year reflected the fact that one residential tower at the Hamilton Harbour project was completed and settled in FY13 compared with two in FY12. A total of 604 apartments, representing 92% of the total, have now been sold and settled at this landmark project.

As at 30 June 2013, 75% of the 111 apartments in the Company's "DoubleOne3" apartment project in Teneriffe in inner Brisbane had been sold. Construction commenced on this project in April 2013 and completion is forecast to occur in the June 2014 quarter. In keeping with Devine's capital and risk management strategies, a 50% interest in the "DoubleOne3" project was sold into a Joint Venture with Investec in June 2013.

The Company's stated objective of re-entering the NSW market was realised during the year with an option secured over a 5,900 square metre site in Turramurra in Sydney which is earmarked for an 86 apartment development. Appropriate planning approvals for its development are expected to be achieved in the first half of 2014.

To further the Company's presence in the NSW market, Devine was successful through a tender process in securing a large re-development site adjacent to the Parramatta CBD. This site is earmarked for a multiple-stage apartment project totalling approximately 350 apartments with marketing expected to commence in FY15.

Devine has also acquired a 1,919sqm site in the prestigious Brisbane riverside suburb of Newstead with plans to build an \$80 million apartment development. The proposed 12-storey development will feature 157 one and two bedroom residential apartments and is expected to be launched to the market in early 2014.

The pipeline of future apartment development opportunities stood at 2,300 at June 2013.

## DEVINE CONSTRUCTIONS

Revenue for the Devine Constructions' business was \$56 million and this division also achieved a number of milestones in the FY13 year. These included:

- › Completion in November 2012 of the third residential tower, "Riverside", at Hamilton Harbour;

- › Completion in March 2013 of the first commercial building known as "KSD1" at Hamilton Harbour. Eighty per cent of this project is now leased;
- › Commencing the construction of the "DoubleOne3" project in April 2013; and
- › Consistent with the Group's strategy, Devine Constructions tendered for and has been awarded the construction contract for the Alex Perry Residential project. Alex Perry Residential is a large scale apartment project being developed by third party developer Chrome Properties and project managed by Xede Property Services.

Devine Constructions continues to bid for work for selected external customers.

## BOARD, GOVERNANCE & CORPORATE CHANGES

Devine's former Chairman, Doug Ridley retired from the Board at the end of December 2012. Doug joined the Board in January 1999 and during his time with the Company, served as Chairman on two separate occasions and also served as a member of both the Audit and Remuneration and Nomination Committees. On behalf of Directors and management and the wider Devine team we record our appreciation for Doug's contribution over his 14 year association with Devine.

Ms Judith Downes joined the Board as an independent non-executive Director on 1 January 2013. Judith has extensive experience in various senior accounting and finance roles, having held senior executive positions with top 100 ASX listed companies including one of Australia's top four banks. She was appointed to the Audit Committee in February of this year and her depth of experience in accounting and finance disciplines will allow her to make a valuable contribution as a Director and member of the Audit Committee.

The Company's commitment to diversity is articulated in the Directors' Report section of this Annual Report. It outlines the key elements of Devine's Diversity Policy and the measurable objectives that the Company has set. Good progress was made during the year in meeting these objectives and this will continue to be actioned in the 2013/14 year and beyond.

The *Corporations Act 2001* (Sec 323D (3)) requires that, given Leighton's position as a "controlling shareholder" in Devine, Devine is required to align its financial year to that of Leighton. Accordingly Devine will change its financial year-end

from 30 June to 31 December to align with that of Leighton. This change will occur via a transitional six month reporting period for the period 1 July 2013 to 31 December 2013 before reverting to a 12 month financial year, the first of which will commence on 1 January 2014 and end on 31 December 2014.

## COMPANY OUTLOOK AND FOCUS

Whilst dwelling commencements are forecast to show modest improvement over the next 12 months, the level of net migration to Australia, the low interest rate environment, state governments re-focusing their incentive programs for first homebuyers on new dwellings and the underlying stock deficiency in dwellings in most major markets are all positive factors for the residential sector over the next few years.

Devine's pipeline of current and future developments is well represented in the growth corridors of the Brisbane, Melbourne and Adelaide markets. This together with its residential communities in a number of key regional markets including Gladstone and its planned return to the NSW market provides a sound base from which to grow sales volumes and profits as the residential sector improves.

An update on trading conditions and the outlook for the six months to 31 December 2013 will be provided at the Company's AGM to be held on 1 November 2013.

In concluding, on behalf of the Board our thanks go to the management and staff at Devine for the contribution they have made to the Company over what has been another challenging year for the property sector. We also acknowledge the valuable support of Devine's shareholders, customers and suppliers and subcontractors as we continue to position the Group for sustained success in future years.



**Peter Dransfield**  
Chairman



**David Keir**  
Managing Director &  
Chief Executive Officer



# BUSINESS ACTIVITY REPORT

**From the announcement of new development opportunities that will deliver future earnings, to welcoming the first residents at signature community developments and realising the completion of projects large and small; the activities of the past year represent the Group's diversity strategy in action.**

## RIVERSTONE RISE DOMINATES MARKET

The \$1.4 billion Riverstone Rise community in Gladstone is dominating the city's property market achieving 30% market share in only its first year of trading.

There has been over \$79 million in sales since the launch of the project in March 2012.

The master planned community is now transforming into the region's most popular new address.

General Manager Devine Communities, Andrew Brimblecombe, said Riverstone Rise had achieved an excellent outcome so early into the project.

"Riverstone Rise has welcomed its first residents, features the largest display village in Gladstone with eleven homes and is well on its way to realising its vision as Gladstone's first truly master-planned community," he said.

1. Work progressing at Devine's Riverstone Rise, Gladstone
2. Corimba Park at Riverstone Rise, Gladstone
3. The new Loft at Stonehill, Victoria





## **DEVINE COLLABORATES ON HEATHMONT PLACE**

As an example of Devine's wholesale building strategy in action, Heathmont Place in Melbourne is progressing both in construction and sales with one third now sold.

Construction of Stage 1 homes is at 50% completion and earthworks have begun on Stage 2a with plans to release eleven homes in Stage 3 in the near future.

General Manager Devine Homes, Simon Norris, said Heathmont Place is the first of many collaborative projects in Melbourne that Devine is targeting to work with business partners in the industry.

"Heathmont Place is a collaboration between Places Victoria and other partners with Devine providing design input, construction and sales management," he said.

"The project is attracting a diverse range of buyers including young families, singles and empty nesters."

On completion the 3.6 hectare master-planned community in Melbourne will incorporate 66 architecturally designed homes and town homes.

## **STONEHILL EXCEEDS 100 SETTLEMENTS**

The Stonehill community at Bacchus Marsh in Victoria continues to take shape with over 100 settlements achieved to date.

The community has attracted a variety of first and second home buyers due to its diverse housing choice and planned amenities including schools, retail centre and a range of active open spaces and parklands.

Also attracting attention at Stonehill are the recently launched series of innovative homes such as The Loft which is inspired by the iconic Californian bungalow and is unlike anything currently available in the Melbourne market.

General Manager Marketing and Sales, Warren Thomson, said The Loft is the first of a range of new living innovations to be delivered to the market by Devine.

"Stonehill will lead the way in product innovation with a series of new homes being launched in the coming year, which will cater to the community's diverse buyer profile," he said.

## **DEMAND CONTINUES AT ORLEANA WATERS**

The demand for home and land packages at Devine's Orleana Waters at Evanston Gardens in Adelaide has seen over 160 sales at the community since its launch in March last year.

There are approximately 125 people now living in the community with the population on the rise with currently two homes completed per week.

The community has achieved another milestone with the Stage 2 civil construction finalised in preparation for further home construction.

Manager Devine Communities, South Australia, Mark Devine, said with only a handful of allotments remaining in Stage 2, the community continues to live up to its reputation as a pre-eminent destination in Adelaide's north.

"Orleana Waters will be developed over the next seven years and grow to become home to over 2,000 people," he said.

4. Water feature at the entry of Orleana Waters, South Australia



## HAMILTON HARBOUR REALISED

With 1,500 residents living at Hamilton Harbour in Brisbane, the vision of a vibrant mixed use precinct has been realised with the completion of the third residential tower and the KSD1 retail and commercial building.

Hamilton Harbour's retail and commercial component now boasts key tenants including Devine, Woolworths, Anytime Fitness, Coffee Club, Domino's and Flight Centre.

General Manager Apartments, Cameron Mana, said Hamilton Harbour is an example of a landmark community.

"With over 600 of Hamilton Harbour's apartments sold, the community is now established with a mixture of residential, retail and commercial offerings," he said.

## DEVINE MAKES A PUSH INTO NEW SOUTH WALES APARTMENT MARKET

Devine is continuing its expansion into the New South Wales residential apartment market following the announcement that the Group is in a preferred position for the acquisition of a 2.25ha site in Parramatta.

Devine is proposing to build a \$180 million development with up to 350 apartments across a number of multi-storey buildings at a site in Morton Street, adjacent to the Parramatta CBD fringe.

The project is expected to launch in early 2015, with construction to commence the following year.

Managing Director and CEO, David Keir, said Devine has a successful history of apartment projects with 3,500 completed with a value of more than \$1 billion since 1996.

"This has included developments such as Victoria Point Docklands, River Place, Charlotte Towers and the newly completed Hamilton Harbour precinct," he said.

## DEVINE RECOGNISED WITH WORKPLACE GIVING AWARD

Devine's workplace giving and community engagement program has been recognised with the announcement it had won a prominent national award by The Australian Charities Fund (ACF).

After increasing workplace giving participation by 62%, Devine was the recipient of the ACF Workplace Giving Month 2013 Engagement Award.

In announcing the award, Margaret Smith - General Manager at The Australian Charities Fund said that on behalf of the fund she warmly congratulates Devine on achieving such a great result through Workplace Giving Month.

"Our research shows workplace giving is a powerful vehicle to create much greater levels of social impact, whilst also delivering value through staff engagement and improved business outcomes," she said.

Devine's workplace giving and community engagement program matches up to \$25,000 of employee donations for chosen charities, Redkite and Kids Under Cover.

In FY13, Devine matched \$25,000 of employee workplace giving contributions dedicated to the chosen charities.

General Manager, Corporate Services, Jacque Courtney-Pitman, said Devine is committed to ensuring it operates in a sustainable, ethical and safe manner, as well as focusing on the well-being of all stakeholders.

"Our workplace giving and community engagement program is a great opportunity for our staff to contribute to the community through financial giving, volunteering and sharing our expertise," she said.



1. KSD1 at Hamilton Harbour, Brisbane





2. Parks Edge (Victoria) is proving a popular choice for active growing families



3. Artist's impression of the Alex Perry Residential project, Brisbane

## **SIGHTS SET ON NEWSTEAD APARTMENT PROJECT**

Devine recently announced the acquisition of a 1,919sqm site in the prestigious Brisbane riverside suburb of Newstead with plans to build an \$80 million apartment development to be known as Mode Apartments.

Located in Wyandra Street, the planned 12-storey development will feature 157 one and two bedroom residential apartments.

The project will appeal to the active investment market in Brisbane with prices expected to be within the \$415,000-\$650,000 range.

General Manager Apartments, Cameron Mana, said Mode Apartments is expected to launch to market in early 2014.

"Located only three kilometres from the Brisbane CBD, Mode Apartments will offer a vibrant inner-city lifestyle," he said.

"The project follows on from Devine's other inner-city apartment developments in Brisbane, the \$500m Hamilton Harbour at Hamilton and the \$58m DoubleOne3 development in Teneriffe."

## **THE GLENN FULLY BUILT**

Devine's community, The Glenn, at Morphett Vale in South Australia will soon sell out after launching only two years ago.

With only one home left for sale, the community features 53 premium Devine home and land packages.

General Manager Devine Homes, Simon Norris, said The Glenn presented a rare opportunity for buyers.

"It is an example of the small scale infill opportunities that Devine will continue to actively pursue across all regions in which we operate," he said.

"Located in Adelaide's inner south, The Glenn is located within walking distance to shopping and easy access to walkways and bike tracks."

"It has a great choice of schools and childcare facilities and is just minutes from the Southern Expressway and 30 minutes to the Adelaide CBD."

## **DEVINE CONSTRUCTIONS AWARDED ALEX PERRY RESIDENTIAL CONSTRUCTION CONTRACT**

Devine's construction business, Devine Constructions, has been awarded the construction contract by Chrome Properties for a new Brisbane apartment development.

Devine Constructions was appointed principal contractor after a competitive tender process.

The Alex Perry branded apartment project is being developed by Chrome Properties and project managed by Xede Property Services.

The project is a 12-storey apartment building on the corner of Ann and Chester streets in Brisbane's Fortitude Valley, 1.5 kilometres north-east of the CBD.

General Manager, Constructions, Michael Tucker, said securing the contract was a great achievement.

"Devine Constructions has built a number of large multi-level and medium size commercial and apartment projects since being established in 2005 and we are committed to diversifying our portfolio with external construction opportunities," he said.

# DIRECTORS' REPORT



Left to right - David Keir, Peter Dransfield, Rick Parris, Judith Downes, Vyrl Vella, Terry Mackenroth, Travis Young and Graeme McOrist.

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Devine Limited and the entities it controlled at the end of, or during, the year ended 30 June 2013.

## DIRECTORS

The following persons held office as Directors of Devine Limited during the financial year and until the date of this report. Directors were in office for the entire period unless otherwise stated.

P J Dransfield  
(Chairman)

D B Keir  
(Managing Director and CEO)

D J Ridley  
(retired 31 December 2012)

J S Downes  
(appointed 1 January 2013)

Hon. T M Mackenroth

G E McOrist

R W Parris

V A Vella

T G Young

## INFORMATION ON DIRECTORS

### P J Dransfield - Chairman

#### Experience and expertise

Mr Peter Dransfield has been an independent non-executive Director since April 2010. Peter has held senior executive positions with Australand and Walker Corporation and was a Director of the Multiplex Group and Director of Housing for the NSW Government. Peter is also an adviser to Pepper Property, a Director of Macquarie Real Estate Equity Fund and Chairman of several Landcom joint ventures.

#### Other current directorships (listed entities)

None

#### Former directorships in last 3 years (listed entities)

National Leisure and Gaming Limited (appointed 5 July 2007)

Bremer Park Limited (appointed 4 November 2011)

#### Special responsibilities

Chairman of the Board

Chairman of the Remuneration and Nomination Committee

#### Interests in shares and options

100,000 ordinary shares in Devine Limited.

### D B Keir - Managing Director and CEO

#### Experience and expertise

Mr David Keir has been an executive Director since April 2010. David has over 25 years' experience in the property industry in town planning, project management, operations and construction. He has an in-depth understanding of acquisition, funding, development, sales and marketing. Prior to joining Devine in 2010 he spent over 16 years working in a variety of roles at Delfin Limited and Delfin Lend Lease, including as CEO. David holds a Bachelor of Applied Science, Built Environment as well as post graduate qualifications in Town Planning and Project Management.

#### Other current directorships (listed entities)

None

#### Former directorships in last 3 years (listed entities)

None

#### Special responsibilities

Managing Director and Chief Executive Officer

Member of the Remuneration and Nomination Committee (executive remuneration only)

#### Interests in shares and options

17,500 ordinary shares in Devine Limited.

787,750 options over ordinary shares in Devine Limited.



#### **J S Downes - Director**

##### **Experience and expertise**

Ms Judith Downes joined the Devine Board as an independent non-executive Director on 1 January 2013. She has extensive experience in accounting and finance having previously held senior roles in those fields including CFO of Alumina Limited and CFO and Chief Operating Officer, Institutional Division for the Australia and New Zealand Banking Group Limited. Judith has also held a number of professional appointments including having just completed seven years as a member of the IFRS Advisory Council of the International Accounting Standards Board. She is a Director and Chair of the Audit Committee of bankmecu, Australia's first customer owned bank.

##### **Other current directorships (listed entities)**

None

##### **Former directorships in last 3 years (listed entities)**

Alumina Limited  
(alternate Director,  
appointed 29 January 2009  
resigned 24 August 2011)

##### **Special responsibilities**

Member of the Audit Committee  
(appointed 4 February 2013)

##### **Interests in shares and options**

55,000 ordinary shares in Devine Limited (acquired August 2013).

#### **Hon. T M Mackenroth - Director**

##### **Experience and expertise**

Hon. Terry Mackenroth has been an independent non-executive Director since September 2005. Terry is a former Queensland Deputy Premier and Treasurer, and was the Minister for State Development, Communication & Information, Housing, Planning & Local Government, Regional & Rural Communities and Sport. He was responsible for establishing the Office of Urban Management and oversaw the South East Queensland Regional Plan and the South East Queensland Infrastructure Plan. Terry is currently the Chairman of Lenard's Pty Ltd, a Director of the Queensland Rugby League and Chairman of the Camp Hill Carina Welfare Association.

##### **Other current directorships (listed entities)**

None

##### **Former directorships in last 3 years (listed entities)**

None

##### **Special responsibilities**

None

##### **Interests in shares and options**

52,353 ordinary shares  
in Devine Limited.

#### **G E McOrist - Director**

##### **Experience and expertise**

Mr Graeme McOrist has been a non-independent non-executive Director since April 2007. Graeme worked at Leighton Holdings Limited from 1969 until his retirement in January 2006. During his time at Leighton, Graeme was involved in and responsible for a number of areas of the business including accounting, treasury, project finance, mergers and acquisitions and risk management. He was also involved in securing and executing a number of major infrastructure projects in Australia and South East Asia. He is a Director of Gemco Investments Pty Ltd, Gemco Advisory Pty Ltd and Southern Way Holdings Pty Ltd.

##### **Other current directorships (listed entities)**

None

##### **Former directorships in last 3 years (listed entities)**

None

##### **Special responsibilities**

Chairman of the Audit Committee.

##### **Interests in shares and options**

60,402 ordinary shares  
in Devine Limited.

# DIRECTORS' REPORT

## Continued

### R W Parris - Director

#### Experience and expertise

Mr Rick Parris has been an independent non-executive Director since October 1993. Rick is a quantity surveyor who was formerly Queensland Regional Director for Civil & Civic and Lend Lease Property Group Queensland. He is an Honorary Ambassador for the City of Brisbane and a Director of several private property advisory companies.

#### Other current directorships (listed entities)

None

#### Former directorships in last 3 years (listed entities)

None

#### Special responsibilities

Member of the Audit Committee.

#### Interests in shares and options

121,476 ordinary shares in Devine Limited.

### V A Vella - Director

#### Experience and expertise

Mr Vyril Vella has been a non-independent non-executive Director since April 2007. Vyril has over 40 years' experience in the property development and construction industry. He was the Managing Director of Leighton Properties from 1988 until his retirement in June 2007. Vyril is also a director of Macmahon Holdings Limited.

#### Other current directorships (listed entities)

Macmahon Holdings Limited (appointed 19 November 2007).

#### Former directorships in last 3 years (listed entities)

None

#### Special responsibilities

Member of the Remuneration and Nomination Committee.

#### Interests in shares and options

184,750 ordinary shares in Devine Limited.

### T G Young - Director

#### Experience and expertise

Mr Travis Young has been a non-independent non-executive Director since November 2010. Travis retired from Leighton Holdings in June 2012 after a 35 year career with that company. His final role was that of Deputy Chief Financial Officer and prior to that, Executive General Manager, Finance and Administration.

#### Other current directorships (listed entities)

None

#### Former directorships in last 3 years (listed entities)

None

#### Special responsibilities

Member of the Remuneration and Nomination Committee (appointed 1 January 2013).

#### Interests in shares and options

363,125 ordinary shares in Devine Limited.

## INFORMATION ON MANAGEMENT

### CHIEF FINANCIAL OFFICER (CFO)

#### P V Cochrane

Mr Paul Cochrane joined Devine in 2009 and as Chief Financial Officer manages the Company's corporate and financial strategies. He has an acute knowledge of property finance and commercial transactions and development operations. Paul's financial career commenced at PricewaterhouseCoopers Chartered Accountants. He has worked in a number of senior management positions with major blue chip organisations in the property sector including Lend Lease Corporation, Ariadne Australia Ltd and FKP Ltd.

### COMPANY SECRETARY

#### V N Grayson

Mr Viv Grayson joined Devine as CFO and Company Secretary in March 1999. Prior to joining Devine, Viv worked at AVJennings from 1973 to 1995 in various accounting and management roles which included three and a half years as Vice President Accounting and Finance of the Company's USA operations and, on his return in early 1987, as CFO in Melbourne. On leaving AVJennings in December 1995, Viv spent three years as Finance Manager of a large Melbourne based timber and hardware company, Bowen & Pomeroy Pty Ltd.



## MEETINGS OF DIRECTORS

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each Director of the Company during the financial year are:

	Full meetings of directors		Meetings of committees			
			Audit		Remuneration and Nomination	
	A	B	A	B	A	B
P J Dransfield	11	11	**	**	3	3
D B Keir	11	11	**	**	3	3
D J Ridley	5	5	2	2	1	1
J S Downes	6	6	2	2	**	**
Hon. T M Mackenroth	11	11	**	**	**	**
G E McOrist	10	11	4	4	**	**
R W Parris	10	11	4	4	**	**
V A Vella	9	11	**	**	3	3
T G Young	11	11	**	**	2	2

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

\*\* = Not a member of the relevant Committee

## PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of:

- › Land development and home building;
- › Property development and construction.

There were no significant changes in the nature of the activities of the Group during the year.

## DIVIDENDS

Dividends paid to members during the financial year were as follows:

	2013 \$'000
Final ordinary dividend for the year ended 30 June 2012 of 2 cents per ordinary share (disclosed as recommended in the 2012 financial report)	3,174
Interim ordinary dividend for the year ended 30 June 2013	-
	3,174

# DIRECTORS' REPORT

## Continued

### OPERATING AND FINANCIAL REVIEW

#### 1 About Devine

Devine was first established in 1983 and today, the Company is one of the most recognised brands in the Australian residential property sector proudly standing by its record for quality and value.

Devine's property experience extends across community development and creation, home building and apartment and mixed use projects. In addition the Company includes a dedicated construction business, established to maximise efficiencies and ensure the timely delivery of major projects.

With operations established throughout Queensland, Victoria and South Australia and having just re-entered the New South Wales market, Devine has been responsible for providing homes and apartments for more than 24,000 Australian families since listing on the Australian Securities Exchange in 1993.

As a leader in the Australian housing and property development industry, the Company is committed to providing quality housing choices and residential developments that people are proud to call home.

The Company aims to create vibrant communities in which all who play a role, whether in their design, development or enjoyment, can be proud. In achieving this goal Devine has established an enviable reputation for the delivery of innovative modern homes that meet the needs of Australians today and into the future.

With more than \$3 billion worth of major projects planned and underway, Devine commands respect from its peers and offers strength in the market place. As at 30 June 2013, Devine's land and apartment development pipeline included the equivalent of 13,700 future dwellings.

#### 2 Business Units

A summary of consolidated revenues and results for the year by operating segment is set out below:

	Segment revenues		Segment results	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Segment results</b>				
Housing and land	238,754	197,961	3,822	(16,339)
Development and construction	76,682	123,101	(1,697)	2,876
Corporate / other	1,776	1,770	(2,923)	(4,763)
<b>Total</b>	<b>317,212</b>	<b>322,832</b>	<b>(798)</b>	<b>(18,226)</b>
Profit / (loss) before income tax expense			(798)	(18,226)
Income tax benefit / (expense)			239	5,333
Profit / (loss) attributable to members of Devine Limited			(559)	(12,893)

#### 3 Strategy and New Opportunities

Devine Group's growth strategy remains focused on:

- › Expansion of the Company's apartment business including re-entering the NSW market;
- › Selling developed residential lots as "land only" to other builders, investors and future homebuyers;
- › Innovative product offerings in the Housing business;
- › Securing additional "wholesale housing build" contracts;
- › Diversifying the Devine Constructions business by securing selected build contracts for external customers.

#### 4 Financial Results

The following is a summary of the results that were recorded for the year ended 30 June 2013 (FY13):

- › Total statutory revenue from operations of \$311 million (FY12: \$314 million). Additional revenue of \$46 million which includes Devine's share of the settlement of apartments at the Hamilton Harbour joint venture project is not included in the statutory revenue;
- › An underlying net profit after tax and before impairments of \$6.4 million;
- › A statutory net loss after tax of \$0.6 million (includes impairment of \$7 million after tax);
- › A positive operating cash flow surplus of \$26 million;
- › A strong balance sheet has been maintained with gearing levels (net debt / total assets less cash) reduced from 28% at 30 June 2012 to 25% at 30 June 2013.

	30 June 2013 \$'000	30 June 2012 \$'000
Revenue from operations *	311,073	313,865
Statutory net profit / (loss) after tax	(559)	(12,893)
Impairments after tax	(7,000)	(24,010)
Underlying operating profit after tax **	6,441	11,117
Gearing	25%	28%
Net tangible assets - \$ per share	\$1.98	\$2.00
EPS - cents per share	(0.4)c	(8.1)c
Full year dividend (fully franked) - cents per share	-	4.0c

\* Excludes Devine's share of revenue from settlements at Hamilton Harbour (2013 - \$45.8m; 2012 - \$99.2m).

\*\* Underlying profit after tax excludes impairments.

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Reconciliation of results for the year</b>		
Underlying operating profit before impairments and tax	9,202	16,074
Income tax benefit / (expense)	(2,761)	(4,957)
Underlying operating profit after tax	6,441	11,117
Write-down of inventory (impairment) after tax	(7,000)	(24,010)
Statutory profit / (loss) for the year	(559)	(12,893)



# DIRECTORS' REPORT

## Continued

### Comments on operations and operating highlights

The following key trading statistics were achieved in the year ended 30 June 2013:

- › Residential land settlements: 978 - up 30% on FY12
- › Housing Starts: 706 - up 45% on FY12
- › Apartment settlements: 179 - down 58% on FY12
- › Construction revenue: \$56 million - down 51% on FY12

FY13 was characterised by an increase in residential land settlements and housing starts offset by a decrease in apartment settlements with settlements occurring when the residential project is completed. One residential tower at the Hamilton Harbour project was completed and settled in FY13 compared with two towers in FY12.

Land and housing values year on year remained flat. However a slight improvement in gross margins on land was achieved as lower levels of discounting remained in the general market.

Despite the increase in trading activity for the Housing business, it performed poorly over FY13 recording a loss which detracted from the overall result of the Housing & Land business. This stemmed primarily from pressure on selling prices and hence margins, higher marketing overheads as a percentage of turnover being incurred as a result of the tight market conditions and commencements occurring late in the financial year resulting in little turnover being generated from them.

A detailed review of the Housing business was undertaken and this has resulted in a number of initiatives being implemented to address the underperformance of this division.

Some key operating highlights for the 2012/13 financial-year included:

- › Significant progress on the Group's signature Master Planned Communities was achieved (Riverstone Rise in Gladstone, QLD, Stonehill at Bacchus Marsh in VIC and Orleana Waters in Adelaide) with key place infrastructure delivered resulting in increased sales velocity;
- › Securing additional wholesale housing opportunities, but these were offset by the continuation of a challenging retail housing market;
- › Completion by Devine Constructions in November 2012 of the third residential tower, "Riverside", at Hamilton Harbour;
- › Settlement of 179 apartments at the Hamilton Harbour project in Queensland. A total of 604 apartments, representing 92% of the total, have now been sold and settled at this landmark project;
- › Completion by Devine Constructions in March 2013 of the first commercial building known as "KSD1" at Hamilton Harbour. 80% of this project is now leased;
- › A 50% interest in Devine Apartments' "DoubleOne3" project at Teneriffe in inner Brisbane was sold into a Joint Venture with Investec in June 2013;
- › Devine Constructions commencing the construction of the "DoubleOne3" project in April 2013;
- › Extending the Company's multi-option core debt facility with ANZ to October 2015;
- › The Company's development pipeline totalled approximately 13,700 equivalent lots at June 2013. This continues to place Devine in a strong position as activity in the residential sector continues to improve.

### 5 Market Conditions

Market conditions remained challenging over the 2012/13 financial-year with only a modest increase in dwelling commencements recorded. This is despite historically low interest rates and added stimulus provided by some State Governments to promote new housing construction.

Consumer confidence has remained fragile and whilst there has been an uplift in confidence levels over the last quarter, purchasers remain cautious as job security remains of concern.

Within various markets the following trends are emerging:

#### Queensland

Some tentative signs of an improvement in the new housing sector are emerging however the market remains inconsistent with investors being more active than owner occupiers. Total dwelling commencements were flat in FY13 when compared to FY12.

#### New South Wales

New South Wales has been the first market to emerge from the prolonged slowdown in new home construction with total dwellings commencements expected to show a 22% increase in FY13 when compared to FY12. A further increase in commencements of around 10% is forecast for FY14.

#### Victoria

Market conditions for new housing remain weak in Victoria and this is evidenced by the forecast 30% drop in dwelling commencements in FY13 when compared to FY12. This market is expected to show gradual improvement during FY14.

#### South Australia

The market for new homes in South Australia is expected to remain flat through FY14 with dwelling commencements over 20% lower than what has been recorded in recent years.

## 6 Change to FY Reporting

The *Corporations Act 2001* (Sec 323D (3)) requires that, given Leighton Holdings' position as a "controlling shareholder" in Devine, Devine is required to align its financial year to that of Leighton. Accordingly Devine's Directors have resolved to change the Company's financial year-end from 30 June to 31 December to align with that of Leighton.

## 7 Risk Management

The risk management processes at Devine Limited consider and manage business risks at a Group, Business Unit and Project level. A detailed risk assessment process is undertaken on a quarterly basis but with monthly updates provided to the Devine Board when a specific risk event occurs. The risk assessment process considers both the likelihood of a risk occurring and the impact that the risk would have on the business should it occur. Where the rating assigned to a specific risk warrants it, action plans are established to mitigate both the likely occurrence of the risk and its potential impact on the business.

### Key Risks

The key risks to the Devine business, whilst not exhaustive, include:

#### Trading and Operations Risks

Devine's revenue and profits are reliant on Devine achieving an acceptable level of sales of its products and not incurring any protracted interruptions to its normal operations. To offset this, Devine has a diversified range of product offerings and operates in a number of growth corridors in the major markets in which it operates.

#### Strategic and Market Risks

Devine is susceptible to major changes to activity levels in the residential sector as a result of changes to macro-economic settings in Australia and the market conditions in the geographies in which it operates. These factors including the actions of its competitors are largely outside of the control of Devine. In order to mitigate the potential impact of these external factors, Devine has a detailed Strategic Plan in place with the key elements of this highlighted earlier in this Operating and Financial Review.

#### Safety and the Environment

The Company is committed to providing a healthy and safe work environment for its employees, contractors, suppliers, stakeholders and any other person who may be affected by its operational activities. This commitment extends to eliminating where possible and minimising where reasonably practicable, hazards and risks that have the potential to harm people and/or the environment. In order to achieve these objectives and minimize the risk of injury, Devine has a comprehensive Workplace Health and Safety system in place. This system together with the Company's compliance with various environmental regulations is closely monitored via monthly reports to management and the Devine Board.

#### Other Risks

Other areas of risk that are faced by Devine include:

- › Reputational risks associated with ensuring that high quality standards for its products are maintained and that there is an appropriate response to any complaints received from customers.

- › Risks associated with securing adequate funding for the Company's major projects and normal trading operations.
- › Securing adequate people and material resources to meet the Company's trading requirements, particularly when there is a significant lift in market activity.
- › General risks of a Corporate nature which include risks associated with a potential prolonged interruption to the Company's IT Systems, the provision of appropriate Insurance Cover, disruptions to Devine's administrative functions due to a fire, flood or other major event occurring to one of its offices.

## 8 Outlook

Whilst dwelling commencements are forecast to remain flat over the next 12 months, the level of net migration to Australia, the low interest rate environment, state governments re-focusing their incentive programs for first homebuyers on new dwellings and the underlying stock deficiency in dwellings in most major markets, are all positive factors for the residential sector over the next few years.

Devine's pipeline of current and future developments is well represented in the growth corridors in the Brisbane, Melbourne and Adelaide markets. This together with its residential communities in a number of key regional markets including Gladstone, and its planned return to the NSW market provides a sound base from which to grow sales volumes and profits as the residential sector improves.

# DIRECTORS' REPORT

## Continued

### EARNINGS PER SHARE

	2013 Cents	2012 Cents
<b>Basic and diluted earnings per share</b>		
Total basic and diluted earnings per share attributable to the ordinary equity holders of the Company	(0.4)	(8.1)

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no significant events which have occurred post 30 June 2013.

### ENVIRONMENTAL REGULATION

The Company's activities are primarily involved in the sale and construction of houses, medium density and high-rise developments and the development and sale of residential land. As such it is subject to the relevant local, state and federal government environmental regulations relating to these activities. The Company strives at all times to meet the requirements of these regulations and is conscious of its obligations to protect the environment. To the best of the Directors' knowledge, all activities have been undertaken in compliance with these requirements.

### WORKPLACE HEALTH AND SAFETY

The nature of the industry in which Devine operates heightens the potential risk of injuries being sustained on its many construction sites. The Company's WH&S officers, and through them its site managers, are at the forefront of ensuring that the Company's many employees and sub-contractors observe strict safety guidelines. The Directors recognise their responsibilities to ensure the Company's policies and procedures and legislative requirements are adhered to and receive monthly reports on any workplace incidents or injuries. In the year ended 30 June 2013 there were two notifiable incidents (2012: 10).

### DIVERSITY POLICY

Devine's Diversity policy details the key elements of the Company's commitment to diversity and also recognises the need to set diversity objectives that can be articulated and measured. The policy is available on the Devine Limited website under "Investor Relations - Corporate Governance". The policy addresses the following key factors as they relate to diversity:

- › Devine's corporate culture;
- › Devine's commitment to diversity;
- › Measurable objectives;
- › Annual disclosure to shareholders; and
- › The role of the Remuneration and Nomination Committee.

Whilst the policy addresses the importance of diversity including in relation to age, ethnicity, culture as well as gender, these measurable objectives focus primarily on gender diversity.

### Measurable Objectives

In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following measurable objectives in relation to gender diversity. A number of factors have been considered in setting the measurable objectives and these include:

- › The historic nature of the industry in which Devine operates in respect to gender diversity;
- › The current level of gender diversity in the Devine Group, particularly at senior management level;
- › Where gender gaps exist in the Company's management and general workforce;
- › The level of female representation on the Devine Board;
- › The importance of having procedural measures in place to foster diversity;
- › Establishing effective monitoring systems to assist in meeting the Company's diversity objectives; and
- › That overriding the desire for greater gender diversity across the Devine Group is the need to ensure that at all times the best person is recruited or promoted to fill a particular position.



The following measurable objectives were framed in the context of the above objectives:

#### Female representation

At 30 June 2013			
Employment group	Total Directors/ Employees	Females	Target representation
Board including MD & CEO	8	1	Minimum 1 Female Director
Senior executives	11	1	Minimum 1, target of 2
Management	48	10 (21%)	25 to 30 %
Balance of workforce	161	74 (44%)	45 to 55 % by June 2014

#### Monitoring and Implementation

The Remuneration and Nomination Committee has direct responsibility on behalf of the Board for overseeing the implementation of the Diversity policy and achievement of the diversity targets. This is a standard agenda item at each committee meeting and, in addition, a report on diversity is included in the monthly Board papers.

#### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The likely developments and expected results are covered in the Operating and Financial review above. In the opinion of the Directors, further information, including expected future results, would prejudice the interests of the Company.

#### LOANS TO DIRECTORS AND EXECUTIVES

No loans were secured or made to Directors and executives during the year ended 30 June 2013 (2012: Nil).

#### INSURANCE OF OFFICERS

Insurance and indemnity arrangements existing in the previous year concerning officers of the Group were renewed or continued. The constitution of Devine Limited provides an indemnity (to the maximum permitted by law) in favour of each Director, Secretary and executive officer. The indemnity is against any liability incurred by that person in their capacity as a Director, Secretary or executive officer to another person (other than Devine or a related body corporate) unless the liability arises out of conduct involving a lack of good faith. The indemnity includes costs and expenses incurred by an officer in successfully defending that person's position. The Company has paid a premium regarding a contract insuring each Devine Director and each full time executive, Director and Secretary of the Company against certain liabilities incurred in those capacities, to the extent permitted by law. Disclosure of premiums and coverage is prohibited by the contract of insurance.

#### NON-AUDIT SERVICES

The Company may decide to employ the external auditor (Ernst & Young) on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- › all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- › none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditors' independence declaration, as required under section 307(c) of the *Corporations Act 2001*, is set out later in this report.

During the year the following fees were paid or payable for services provided by Ernst & Young and its related practices:

	Consolidated	
	2013 \$	2012 \$
<b>Ernst &amp; Young</b>		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	283,250	283,250
Other assurance and technical accounting services	76,119	21,000
Tax compliance and advisory services	26,348	22,754
<b>Total auditors' remuneration</b>	<b>385,717</b>	<b>327,004</b>

# DIRECTORS' REPORT

## Continued

### REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2013 outlines the remuneration arrangements for the Devine Group and this has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The remuneration report is presented under the following sections:

- (1) Introduction
- (2) Remuneration governance
- (3) Executive remuneration arrangements
- (4) Executive remuneration outcomes for the 2013 financial year
- (5) Additional statutory disclosures.

#### 1. Introduction

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined in accordance with AASB 124 *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent entity.

For the purposes of this report the term “executive” includes the Managing Director and Chief Executive Officer (MD & CEO), executive Directors and other senior executives of the Parent entity and the Group.

#### Directors and key management personnel disclosed in this report

Name	Position
For non-executive and executive Directors - see information on directors within this report	
<b>Other KMP</b>	
P V Cochrane	Chief Financial Officer
V N Grayson	Company Secretary
N Anderson *	General Manager: Victoria
A Brimblecombe	General Manager: Queensland
M Devine	General Manager: South Australia
C Mana	General Manager: Apartments
M Tucker	General Manager: Constructions

\* N Anderson ceased employment with the Company on 17 July 2013.

## 2. Remuneration Governance

A key objective of the Company is to maximise shareholder returns through the attraction and retention of a high quality Board and executive team. To achieve this, Directors and key executives need to receive fair and appropriate remuneration.

The Remuneration and Nomination Committee's approach is to take account of the employment market conditions and to link the nature and amount of the Executive Directors' and Senior Executives' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- › To provide satisfactory returns to shareholders;
- › The retention and motivation of key executives;
- › To attract quality management to the Company; and
- › By way of performance incentives, to allow executives to share in the success of the Company.

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee:

- › Is made up of a majority of Non-executive Directors with the Managing Director & CEO attending with regard to other executives;
- › Is responsible for reviewing and determining the compensation arrangements and employment conditions for the Directors, the Managing Director & CEO, and the executive team; and
- › Monitors and reviews the performance hurdles associated with incentive plans as appropriate.

## 3. Executive remuneration arrangements

In accordance with best practice corporate governance, the structure of remuneration for the Non-executive Directors and Senior Executives is separate and distinct.

### Non-executive Director Remuneration

#### Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

#### Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-executive Directors shall be determined from time to time by a General Meeting. An amount not exceeding the amount so determined is divided between Directors as agreed. The latest determination was at the General Meeting held on 26 April 2007 where shareholders approved an aggregate remuneration allowance of \$1,000,000 per year. In accordance with the Company's Constitution and the *Corporations Act 2001*, the Company meets the cost of any travel and other costs they may incur in attending to the Company's affairs. In addition, any Director who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Directors, are outside the scope of the ordinary duties of a Director, or who at the request of the Directors engages in any journey on the business of the Company, may be paid extra remuneration as determined by the Directors. Any amount paid does not form part of the aggregate remuneration allowance.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers the fees paid to Non-executive Directors of comparable companies when undertaking the annual review process.

Non-executive Directors are encouraged by the Board to hold shares in the Company (purchased by Directors on market within appropriate trading windows) as it is considered good corporate governance for Directors to have a financial stake in the Company.

Non-executive Directors do not participate in any short or long term incentives.

The remuneration of Non-executive Directors is detailed in Section 4 of this report.



# DIRECTORS' REPORT

## Continued

### Executive Directors and Executive Management Remuneration

#### Objective

The Company aims to reward executives with a mix of remuneration commensurate with their position and responsibilities within the Company to:

- › Align the interests of executives with those of shareholders; and
- › Ensure total remuneration is competitive by market standards.

#### Structure

In determining the level and makeup of executive remuneration, the Remuneration and Nomination Committee considers market levels of remuneration for comparable executive roles and, from time to time, engages external consultants to provide comparative information and advice.

During the 2012 financial year, the Remuneration and Nomination Committee commissioned a complete external review of the amount, structure and form of executive remuneration.

Devine Limited's executive remuneration was compared to ASX listed entities based on the following criteria:

- › Market Capitalisation - Devine Limited's market capitalisation at the time of the review was approximately \$100 million and executive remuneration was compared to companies with a market capitalisation of \$50 to \$200 million.
- › Index - Devine Limited's executive remuneration was compared to companies in the Real Estate and Developer's Index.
- › Employees - Devine Limited's number of employees at the time of the review was 230 employees and executive remuneration was compared to companies with employees ranging from 150 to 450 employees.

The executive remuneration at Devine Limited was compared to the above data with a view to remunerate senior executives at between the 50th and 75th percentiles of comparable companies. The Remuneration and Nomination Committee believes that this level of remuneration will be sufficient to achieve Devine Limited's remuneration philosophy.

Remuneration consists of fixed and variable remuneration elements in the form of short term and long term incentives. The amount of fixed and variable remuneration is established for each executive by the Remuneration and Nomination Committee using the principles outlined below.

#### Fixed Remuneration

##### Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and competitive in the market. Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee and the process consists of reviewing individual performance and considering comparative remuneration on offer in the market place.

##### Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment will be optimal for the recipient without creating undue cost for the Company. Where remuneration is made by way of a fringe benefit, the cost of the applicable fringe benefits tax is absorbed by the executive.

Certain key executives are provided with an additional benefit in the form of a retention bonus. The additional benefit is provided when it is considered that the Company and its shareholders would benefit from providing the executive with an additional incentive for the employee to remain with the Company. The executive normally becomes entitled to the retention bonus progressively from between the third, fifth and seventh anniversary of entering into the retention arrangement.

The Remuneration and Nomination Committee accepted the recommendations from the external review of executive remuneration that was completed in the 2011/12 financial year. The recommendations were that:

- (1) There be no increase in Fixed Remuneration for the 2012/13 financial year; and
- (2) No further allocations be made under the retention bonus scheme.

## **Variable Remuneration - Short Term Incentive (STI)**

### **Objective**

The key objective of the STI program is to link the achievement of the Company's financial targets with the remuneration received by the executive charged with meeting those targets. Other objectives of the STI are to motivate executives to outperform the base financial targets that are set each year and to also achieve certain personal goals that relate to the Company's core values and strategic objectives.

### **Structure**

The total STI is set at a base level so as to remunerate executives for achieving the financial targets and specific objectives. It also incorporates a sliding scale element whereby executives who outperform their financial targets are rewarded appropriately. The aggregate of the annual STI payments available to executives across the Company is subject to the approval of the Remuneration and Nomination Committee. Entitlements are paid by way of a cash bonus.

The Remuneration and Nomination Committee accepted the recommendations contained in the report from the 2012 external review of executive remuneration that there be no increase in STI Remuneration percentages for the 2012/13 financial year.

In brief, the current Executive STI program operates as follows:

- › Payment of the STI reward is dependent upon final approval by the Remuneration and Nomination Committee;
- › Each participant has the potential to be paid a "base bonus" amount, being a percentage of the executive's Fixed Remuneration, for the achievement of the budgeted financial targets and the agreed personal goals, as follows:
  - Managing Director & CEO - 60% of fixed remuneration;
  - CFO and General Managers of operational business units - 40% of fixed remuneration; and
  - Company Secretary and General Managers of functional business units - 30% of fixed remuneration.
- › Each participant's "base bonus" is then divided between financial goals (75%) and personal goals (25%);
- › Financial goals are the budgeted Devine Group and Business Unit's Profit before Tax (PBT) and the budgeted Devine Group and Business Unit's Return on Sales (ROS %) with the weighting generally being 75% to the PBT and 25% to the ROS measure;
- › Personal Goals are defined in the participant's individual performance management plan and reference the Company's core values and strategic objectives which are underpinned by the three pillars of "refine, innovate and grow";
- › Entitlement to an STI is dependent firstly upon the Devine Group achieving at least 90% of the budgeted PBT and ROS for the financial year and secondly for the relevant managers of each Business Unit, that Business Unit's budgeted PBT and ROS being achieved. Seventy percent of the "base bonus" is payable at 90% achievement of PBT and ROS and increases on a sliding scale to 100% of "base bonus" on achievement of the budget outcome to a maximum 190% of "base bonus" on achievement of 140% of budgeted PBT and ROS.
- › For managers of the respective Business Units, 50% of the STI is weighted to the financial performance of the Business Unit and 25% is weighted to the performance of the Devine Group. The balance 25% STI relates to the individual manager achieving the specific Personal Goals that have been set for them.
- › Generally no STI payment is made if the Devine Group does not achieve at least 90% of budget PBT.

# DIRECTORS' REPORT

## Continued

### Variable Remuneration - Long-term incentive (LTI)

#### Objective

The objective of the LTI plan is to align the interests of the executives with those of the Company's shareholders by rewarding executives when the financial performance of the Company generates improved returns for shareholders.

#### Structure

LTI's have been historically offered to executives by way of an allocation of options over shares in Devine Limited (Executive Option Plan). The timing of an issue, the number of options granted and recipients who become entitled to an allocation were at the discretion of the Remuneration and Nomination Committee. The exercise of these options is dependent on specified financial hurdles being achieved in relation to total shareholder returns.

A new LTI plan based on the issue of shares and/or performance rights in Devine Limited will be put to shareholders for approval at the Company's 2013 AGM. Approval of this new LTI plan will result in there being no further options over Devine shares being issued to executives however existing options that have been granted and that have not yet expired will remain on issue until they either vest and are exercised or expire.

### Use of remuneration consultants

To ensure the Remuneration and Nomination Committee is fully informed when making remuneration decisions it seeks external remuneration advice.

New legislation was introduced in 2011 that impacts how companies can seek advice which includes a remuneration recommendation in relation to KMP remuneration. Therefore in the 2012 financial year the Board underwent a formal appointment process and Owen Thomas & Associates Pty Ltd (OTA) was appointed as the remuneration advisor to the Company.

In order to ensure the Remuneration and Nomination Committee is provided with advice free from undue influence by members of the KMP to whom the recommendations may relate, and as required, the engagement of OTA by the Remuneration and Nomination Committee was based on an agreed set of protocols that would be followed by OTA, members of the Remuneration and Nomination Committee and KMP.

OTA made the following statement when presenting the remuneration recommendations that formed the basis of the review of remuneration for KMP for the 2013 financial year:

*"OTA has made recommendations regarding the remuneration for these directors and executives at Devine free from undue influence by any member or members of the key management personnel or any executive, director or directors of Devine to whom the recommendation may relate".*

The Remuneration and Nomination Committee concurred with this statement and undertook the following procedures to ensure compliance:

- (1) OTA was appointed by the Chairman of the Remuneration and Nomination Committee without influence from executives;
- (2) All correspondence during the data collection and assessment period was sent to the Chairman of the Remuneration and Nomination Committee and the committee members and relevant executives were provided with a copy of the correspondence; and
- (3) OTA Report 1 - Remuneration Review, Report 2 - Short Term Incentive Review and Report 3 - Long Term Incentives Review were not distributed to the executives and were delivered direct to the Chairman of the Remuneration and Nomination Committee when completed. Once reviewed by the Chairman of the Remuneration and Nomination Committee, a copy of these reports was provided to the committee members and the relevant executives.

During the 2013 financial year OTA invoiced fees of \$7,200 excluding GST (2012: \$31,480) in relation to additional remuneration recommendations.



#### 4. Executive remuneration outcome for 2013 financial year

##### STI for the 2013 financial year

For the 2013 financial year, the aggregate of the amount that would have been payable in relation to the STI for the Executive Director and other KMP had 100% of the potential bonus been paid was \$2,377,660 (2012: \$2,428,700). Based on the actual results achieved against budgeted financial targets for the 2013 financial year, the aggregate of the STI payable to the Executive Director and other KMP was Nil (2012:Nil).

Name	STI earned - % of maximum 2013	STI earned - % of maximum 2012
<b>Managing Director and CEO</b>		
D B Keir	0%	0%
<b>Senior Executives</b>		
P V Cochrane	0%	0%
V N Grayson	0%	0%
N Anderson	0%	0%
A Brimblecombe	0%	0%
M Devine	0%	0%
C Mana	0%	0%
M Tucker	n/a	n/a

# DIRECTORS' REPORT

## Continued

### Details of remuneration

The following tables show details of the remuneration received by the Directors and the KMP of Devine Limited.

		Short-term benefits				Post employ- ment	Sub- total	Long-term benefits		Share based payments	Termi- nation pay- ments	Total
		Salary & fees	Bonus	Non monetary benefits	Committee & other fees	Super- annuation		Long service leave *	Retention bonus **	Share options		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Executive Director												
D B Keir	2013	720,098	-	54,902	-	25,000	800,000	-	320,000	-	-	1,120,000
	2012	723,084	-	51,916	-	25,000	800,000	-	-	88,601	-	888,601
Non-executive Directors												
P J Dransfield	2013	160,550	-	-	-	14,450	175,000	-	-	-	-	175,000
	2012	96,330	-	-	10,563	8,670	115,563	-	-	-	-	115,563
D J Ridley	2013	48,165	-	-	25,000	4,335	77,500	-	-	-	-	77,500
(retired 31 December 2012)	2012	160,550	-	-	50,000	14,450	225,000	-	-	-	-	225,000
J S Downes	2013	48,165	-	-	1,300	4,335	53,800	-	-	-	-	53,800
(appointed 1 January 2013)	2012	-	-	-	-	-	-	-	-	-	-	-
Hon. T M Mackenroth	2013	80,000	-	-	-	25,000	105,000	-	-	-	-	105,000
	2012	55,000	-	-	-	50,000	105,000	-	-	-	-	105,000
G E McOrist	2013	96,330	-	-	18,550	8,670	123,550	-	-	-	-	123,550
	2012	96,330	-	-	15,675	8,670	120,675	-	-	-	-	120,675
R W Parris	2013	96,330	-	-	4,225	8,670	109,225	-	-	-	-	109,225
	2012	96,330	-	-	2,560	8,670	107,560	-	-	-	-	107,560
V A Vella	2013	96,330	-	-	11,083	8,670	116,083	-	-	-	-	116,083
	2012	96,330	-	-	13,650	8,670	118,650	-	-	-	-	118,650
T G Young	2013	96,330	-	-	-	8,670	105,000	-	-	-	-	105,000
	2012	96,330	-	-	-	8,670	105,000	-	-	-	-	105,000
P J Ferris AM, KCSG	2013	-	-	-	-	-	-	-	-	-	-	-
(retired 28 October 2011)	2012	35,000	-	-	13,759	-	48,759	-	-	-	-	48,759
Other KMP												
P V Cochrane	2013	375,000	-	-	-	25,000	400,000	-	160,000	-	-	560,000
	2012	384,225	-	-	-	15,775	400,000	-	-	-	-	400,000
V N Grayson	2013	303,000	-	-	-	25,000	328,000	5,992	410,000	-	-	743,992
	2012	360,000	-	-	-	50,000	410,000	6,565	-	-	-	416,565
N Anderson <sup>(1)</sup>	2013	368,530	50,000	-	-	16,470	435,000	-	-	-	-	435,000
	2012	369,225	-	-	-	15,775	385,000	-	-	-	-	385,000
A Brimblecombe	2013	355,000	-	-	-	25,000	380,000	-	-	-	-	380,000
	2012	355,000	-	-	-	25,000	380,000	-	-	-	-	380,000
M Devine <sup>(2)</sup>	2013	259,812	-	-	-	15,098	274,910	-	-	-	-	274,910
	2012	-	-	-	-	-	-	-	-	-	-	-
C Mana <sup>(3)</sup>	2013	307,083	-	-	-	22,917	330,000	-	-	-	-	330,000
	2012	-	-	-	-	-	-	-	-	-	-	-
M Tucker <sup>(4)</sup>	2013	31,357	-	-	-	2,822	34,179	-	-	-	-	34,179
	2012	-	-	-	-	-	-	-	-	-	-	-
T Conway <sup>(5)</sup>	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	300,000	-	-	-	50,000	350,000	-	-	-	-	350,000
S Weightman	2013	-	-	-	-	-	-	-	-	-	-	-
(resigned 3 January 2012)	2012	169,183	-	18,148	-	33,769	221,100	-	-	-	94,716	315,816

\* Long Service leave is classified as part of the executive's remuneration when, under the relevant state legislation, there is a pro-rata entitlement for this to be paid on termination from the Company.

\*\* Retention bonus is classified as part of the executive's total remuneration package when the payment is made. The entitlement is recognised in other payables and provision for employee benefits on a pro-rata basis over the relevant service period.

(1) N Anderson held the position of General Manager: South Australia in addition to his position as General Manager: Victoria from 1 November 2011 to 31 July 2012. He received a short-term incentive payment commensurate with these responsibilities. He ceased employment with the Company on 17 July 2013.

(2) M Devine met the definition of a key management person on his appointment as General Manager: South Australia on 1 August 2012.

(3) C Mana met the definition of a key management person on his appointment as General Manager: Apartments on 1 August 2012.

(4) M Tucker met the definition of a key management person on his appointment as General Manager: Constructions on 6 May 2013.

(5) T Conway ceased to meet the definition of a key management person on 30 June 2012.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2013 \$	2013 %	2013 \$	2013 %	2013 \$	2013 %
<b>Executive director</b>						
D B Keir	800,000	71	-	-	320,000	29
<b>Other KMP</b>						
P V Cochrane	400,000	71	-	-	160,000	29
V N Grayson	333,992	45	-	-	410,000	55
N Anderson <sup>(1)</sup>	385,000	89	50,000	11	-	-
A Brimblecombe	380,000	100	-	-	-	-
M Devine	274,910	100	-	-	-	-
C Mana	330,000	100	-	-	-	-
M Tucker	34,179	100	-	-	-	-

(1) N Anderson held the position of General Manager: South Australia in addition to his position as General Manager: Victoria for the period 1 November 2011 to 31 July 2012.

## 5. Additional statutory disclosures:

### Service agreements

All Senior Executives of the Company are retained under an employment contract. This sets out the terms on which the executive is employed by the Company, key Company policies and procedures to which the executive must adhere and details of the executive's total remuneration package. The total remuneration package includes the fixed remuneration component (base salary, superannuation, motor vehicle or allowance and any fringe benefits), the variable component (short term incentive scheme - cash bonus), long term incentive scheme (issue of share options\*), and a retention bonus\*\*. The retention bonus is not classified as part of the executive's total remuneration package until the relevant period of employment has been served and payment is made. The employment contract with the Managing Director and CEO has no fixed term but may be terminated by either party giving six months' notice. The employment contracts with the Senior Executives have no fixed term but may be terminated by either party giving three months' notice. The remuneration of the Managing Director and CEO and Senior Executives is subject to annual review by the Remuneration and Nomination Committee.

\* It is proposed that the previous LTI scheme, whereby options over the Company's shares were issued to qualifying senior executives and KMP should certain financial targets be met, be replaced by a new LTI scheme that will involve the issue of shares and/or performance rights in Devine Limited. Details of this new LTI scheme will be put to shareholders for their consideration at the Company's 2013 AGM.

\*\* The issue of new entitlements under the retention bonus component of executive remuneration was curtailed during the 2013 financial year with the intention being that the new LTI scheme will provide appropriate long term incentives to the senior executive team. Entitlements to a retention bonus that have been previously awarded will remain in place until the relevant period of employment has been served or the executive leaves the Company's employ.



# DIRECTORS' REPORT

## Continued

Specific details relating to the employment agreements of each KMP are summarised in the following table:

Name	Title	Commencement Date	Current Contract Date	Other Key Contract Terms
D B Keir	Managing Director and CEO	Appointed CEO of Devine Limited on 1 March 2010, and Managing Director on 1 April 2010.	1 March 2010	A retention bonus of 100% of the fixed remuneration component is payable by way of 2 installments being: 40% paid on 1 March 2013 and the remaining 60% to be paid 1 March 2015 provided still employed by the Company at that date.
P V Cochrane	Chief Financial Officer	12 October 2009	12 October 2009	A retention bonus of 100% of the fixed remuneration component is payable by way of 2 installments being: 40% paid 12 October 2012 and the remaining 60% to be paid 12 October 2014 provided still employed by the Company at that date.
V N Grayson	Company Secretary	8 March 1999	2 July 2007	A retention bonus of 100% of the fixed remuneration component was paid 2 July 2012.
N Anderson*	General Manager: Victoria	28 June 2010	1 August 2012	A retention bonus of 80% of the fixed remuneration component is payable by way of 3 installments being: 30% of 80% on 28 December 2013, 30% of 80% on 28 December 2015, and the remaining 40% of 80% on 28 December 2017, provided still employed by the Company at those dates.
A Brimblecombe	General Manager: Queensland	21 June 2010	21 June 2010	A retention bonus of 80% of the fixed remuneration component is payable by way of 3 installments being: 30% of 80% on 21 December 2013, 30% of 80% on 21 December 2015, and the remaining 40% of 80% on 21 December 2017, provided still employed by the Company at those dates.
M Devine	General Manager: South Australia	9 January 2012	1 August 2012	No other key terms.
C Mana	General Manager: Apartments	1 July 2010	1 August 2012	A retention bonus of 80% of the fixed remuneration component is payable by way of 3 installments being: 30% of 80% on 1 July 2014, 30% of 80% on 1 July 2016 and the remaining 40% of 80% on 1 July 2018, provided he is still employed by the Company at those dates.
M Tucker	General Manager: Constructions	6 May 2013	6 May 2013	No other key terms.

\* N Anderson ceased employment with the Company on 17 July 2013.

### Share-based compensation

An Executive Option Plan was approved by shareholders in November 1998 whereby executive Directors and senior executives and managers of the Group were, from time to time, issued with options over the ordinary shares in Devine Limited. The options, issued for nil consideration, were issued in accordance with guidelines established by the Directors. The options were issued for a term of 5 - 10 years and are exercisable beginning on the second anniversary of the date of grant subject to the satisfaction of performance hurdles. The options cannot be transferred and are not quoted on the ASX. At the end of the period, there were 3 KMP participating in the scheme.

It is proposed that the previous Executive Option Plan mentioned above be replaced by a new LTI scheme that will involve the issue of shares and/or performance rights in Devine Limited. Details of this new LTI scheme will be put to shareholders for their consideration at the Company's 2013 AGM.

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	First test date	Expiry date	Exercise price*	Value per option at grant date*
6 September 2006	6 September 2008	6 September 2016	\$3.89	\$0.50
2 July 2007	2 July 2009	2 July 2017	\$5.22	\$1.01
1 July 2008	1 July 2010	1 July 2018	\$3.15	\$0.74
1 July 2010	1 July 2012	1 July 2015	\$0.94	\$0.27
28 October 2011	28 October 2014	28 October 2016	\$0.91	\$0.20

\* Exercise price and value at grant date have been restated to reflect the 4 for 1 share consolidation in November 2011.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in Devine Limited. The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options were granted.

The plan rules do not contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. The Board considers that the opportunity to enter into such arrangements, given the nature of the performance hurdles, is extremely limited.

These performance hurdles are set out below:

Shareholder returns defined as "growth in share price plus dividends" must exceed either:

- (1) the growth in the ASX Small Ordinaries Industrial Accumulation Index; or
- (2) GDP + 6%.

Name	Number of options granted during the year ended 30 June		Number of options lapsed during the year ended 30 June	
	2013	2012*	2013	2012*
<b>Executive Directors of Devine Limited</b>				
D B Keir	-	437,750	-	-
<b>Other KMP of the Group</b>				
V N Grayson	-	-	-	(125,000)

\* Number of options have been restated to reflect the 4 for 1 share consolidation in November 2011.

## Group Performance

The table below shows key total shareholder return (TSR) performance indicators:

	2009 ^	2010 ^	2011 ^	2012	2013
Earnings per share (cents)	19.6	7.2	12.7	(8.1)	(0.4)
Dividends per share (cents)	12.0	4.0	8.0	4.0	0.0
Closing share price (cents)	176.0	94.0	100.0	58.0	67.0

^ Comparatives have been restated to reflect the 4 for 1 share consolidation in November 2011.

## Shares under option

Unissued ordinary shares of Devine Limited under option as at 30 June 2013 are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option *
6 September 2006	6 September 2016	\$3.89	40,250
2 July 2007	2 July 2017	\$5.22	58,250
1 July 2008	1 July 2018	\$3.15	109,750
1 July 2010	1 July 2015	\$0.94	830,000
28 October 2011	28 October 2016	\$0.91	437,750
			1,476,000

\* Number of options has been restated to reflect the 4 for 1 share consolidation in November 2011.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

During the past five years no Executive has achieved a financial reward through the option plan due to the vesting conditions not being met.

# **DIRECTORS' REPORT**

## **Continued**

### **EMPLOYEES**

The Group employed 221 employees as at 30 June 2013 (2012: 225 employees).

### **ROUNDING OF AMOUNTS**

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the Directors of Devine Limited.



**P J Dransfield**  
Chairman



**D B Keir**  
Managing Director and CEO

Brisbane  
28 August 2013

# AUDITOR'S INDEPENDENCE DECLARATION



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## Auditor's Independence Declaration to the Directors of Devine Limited

In relation to our audit of the financial report of Devine Limited for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Alison de Groot  
Partner  
Brisbane  
28 August 2013

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# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Devine Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Devine Limited on behalf of the shareholders and is accountable to shareholders for the conduct and performance of the Company.

The format of the Corporate Governance Statement reflects the second edition of the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations", issued in 2007 and Guidance Note 9 issued in February 2012. The principles of good corporate governance state that a company should:

- (1) Lay a solid foundation for management and oversight;
- (2) Structure the Board to add value;
- (3) Promote ethical and responsible decision making;
- (4) Safeguard integrity in financial reporting;
- (5) Make timely and balanced disclosure;
- (6) Respect the rights of shareholders;
- (7) Recognise and manage risk; and
- (8) Remunerate fairly and responsibly.

This statement contains specific information in relation to the governance practices adopted by Devine Limited and, where applicable, discloses the extent to which the Company has not followed the recommendations during the period together with the reasons for the departure. The Board continues to review the governance framework to ensure it meets the interests of shareholders and reflects the Company's current business initiatives.

Devine Limited's corporate governance principles were in place throughout the year ended 30 June 2013 and were largely compliant with the Council's Principles and Recommendations. Where the principles and recommendations have not been complied with, an explanation for this has been given under the 'if not why not' approach. Specific comments and further clarification follows in relation to each of the eight principles.

## Principle 1: Foundations for Management and Oversight

As the Board acts on behalf of the Company's shareholders and is accountable to them, the Board seeks to identify the expectations of shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. As set out in the Board's Charter, the Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the Managing Director and CEO, and the Executive Management Team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures necessary to assess the performance of the Managing Director and CEO, and the Executive Management Team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the Audit Committee referred to below, these mechanisms include the following:

- › Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk. The strategic plan is a dynamic document which is updated and reviewed annually and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- › Adoption of Board approved budgets by management and the Board's monitoring of progress against those budgets. This includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes; and
- › The Company's formal "Performance Management Plan" which assesses the performance of the senior executive team and management and staff against agreed goals on a half yearly and annual basis. This evaluation process was completed for the half year ended 31 December 2012 and the full year ended 30 June 2013.

## Principle 2: Structure the board to add value

### Board composition

In determining the composition of the Devine Limited Board, the following key objectives are considered in association with the recommendations and guidelines as set out in Principle 2:

- › The Board should comprise at least six directors and should maintain a majority of independent non-executive Directors;
- › The Chairman must be an independent non-executive Director;
- › The Board should comprise directors of an appropriate range of qualifications and expertise; and

- › The Board shall meet at least monthly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion on all agenda items.

### Directors' independence

The skills, experience and expertise of each Director in office at the date of the annual report is included in the Directors' report. Directors of Devine Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of director independence, "materiality" is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to act in an independent manner.

In accordance with the definition of independence above, and the materiality thresholds set, the following table identifies the independence status of each Director in office at the reporting date and details of the duration of their term as at 30 June 2013.

Name	Company Title	Term	Independence Status
P J Dransfield	Non-executive Director	3 years	Independent
D B Keir	Managing Director and CEO	3 years	Not Independent *
J S Downes	Non-executive Director	1 year	Independent
Hon. T M Mackenroth	Non-executive Director	8 years	Independent
G E McOrist	Non-executive Director	6 years	Not Independent**
R W Parris	Non-executive Director	20 years	Independent
T G Young	Non-executive Director	3 years	Not Independent**
V A Vella	Non-executive Director	6 years	Not Independent**

\* This Director is not considered independent as he is the Managing Director and CEO of the Company.

\*\* These Directors are nominated representatives of a major shareholder and are therefore deemed to be not independent.

The Board consists of eight Directors, four of whom are independent and four are considered to be non independent. Directors believe that as the three Directors who have been appointed to represent the Company's major shareholder are not employees of that shareholder and, in addition, that under the Company's Constitution the Chairman, who is an independent Director, has a casting vote, the composition of the Board is such that the interests of all shareholders are appropriately represented.

To assist the Directors in exercising their responsibilities, there are

procedures in place to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

It is part of the responsibility of the Board to assess whether or not it continues to operate within established guidelines and with the appropriate skill mix. In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the Chairman reviews the performance of all Directors annually and may ask Directors whose performance is considered unsatisfactory to retire.

The performance of the Board and key executives is reviewed against both measurable and qualitative indicators and is aligned with the financial and non-financial objectives of Devine Limited.

Devine has established a Remuneration and Nomination Committee, however it is considered appropriate that any new appointments to the Board should be considered by the Board as a whole. Where a requirement to appoint a new Director occurs, an independent consultant who is not a Director may be used to assist in the selection process if felt appropriate.

# CORPORATE GOVERNANCE STATEMENT

## Continued

### Principle 3: Promote ethical and responsible decision making

#### Code of conduct

The Company has in place a number of policies to assist staff when performing their duties by providing guidance on matters that relate to ethical and responsible decision making. The following are amongst a number of documents that are published on the Company's Policy and Procedures Intranet site:

- › Ethical Code of Conduct;
- › Management Principles and Practices;
- › Confidential Information;
- › Conflicts of Interest;
- › Diversity Policy;
- › Securities Trading Policy; and
- › Procurement Principles and Practices.

These policies are communicated to all new staff via an "Employee Handbook" that extracts key aspects of the policies for review and formal acknowledgement by new staff as part of their induction into the Company.

The current employee handbook identifies a number of areas where staff and management need to be aware of the legal and other obligations of all stakeholders. Significant areas that affect the business include occupational health and safety, environmental considerations surrounding major developments and construction activities, and the interests of shareholders, finance providers, customers and fellow employees. In addition, the Company has put in place five key principles, the "Devine Way", that set out the way that employees are expected to conduct themselves in relation to the conduct of the Company's business and the workplace environment.

#### Securities Trading Policy -

In accordance with the ASX listing rules, the Company has a securities trading policy in place which provides comprehensive guidelines for trading in the Company's shares by Directors, employees and their "connected persons" (collectively defined as relevant persons). The Board approved policy only allows trading in the Company's shares by relevant persons in the period of 42 days (trading window) following an announcement, which is deemed to be price sensitive, being made by the Company to the Australian Securities Exchange. The Board may waive this trading restriction where a relevant person needs to deal in the Company's securities due to exceptional circumstances. Relevant persons must not deal in the Company's securities in connection with a margin lending arrangement. Directors, employees and connected persons are reminded that at all times they must be satisfied that their actions comply with rules relating to insider trading.

#### Diversity Policy -

Devine's Diversity Policy outlines the Company's commitment to a culture that embraces diversity. Devine values diversity and aims to create a vibrant and inclusive workforce which is reflective of the communities in which it operates. In building a more diverse and inclusive workforce, it is recognised that this enables a greater diversity of thought, more informed decision making and ultimately better business outcomes. A copy of the Diversity Policy is available on the Corporate Governance section of the Devine website. Further information on Devine's Diversity Policy and the Measurable Objectives can be found in the Directors' report.

### Principle 4: Safeguard integrity in financial reporting

#### Audit committee

An Audit Committee was established when the Company listed on the ASX in 1993 and has been in continuous operation since that time. It operates under a charter approved by the Board and meets at least quarterly. The current members of the Audit Committee are:

- › G E McOrist (Chairman of the Audit Committee);
- › R W Parris; and
- › J S Downes.

Details of these Directors and their attendance at audit committee meetings are set out in the Directors' report.

Mr G E McOrist was elected Chairman of the Audit Committee in October 2011. As noted under Principle 2 above, Mr McOrist is considered to be a non independent member of the Board. The Board believes however that given his extensive experience in accounting, finance and risk management, Mr McOrist is the best qualified Director to fill the role of Chairman of the Committee.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, as well as the safeguarding of assets, maintenance of proper accounting records, and the reliability of financial information as well as non-finance considerations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the Group to the Audit Committee.

The Audit Committee is responsible for the nomination of the external auditor and for reviewing the adequacy, scope and quality of the annual statutory audit and half-year statutory review. The Committee has considered the issue of independence of the statutory auditor and is satisfied that the appointment and conduct of the statutory auditor and the practices and procedures adopted are appropriate with respect to auditor independence.

The Company's full time internal auditor, the external auditors and the Chief Financial Officer (CFO) attend each meeting of the Committee. In accordance with the Committee's charter, the internal and external auditors are provided with an opportunity to discuss matters with the Committee in the absence of management at each meeting. The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Committee also provides the Board with additional assurance regarding the reliability of financial information, including the financial statements. The Managing Director and CEO and the CFO have made the following certifications to the Board:

- › That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and the Group and are in accordance with relevant accounting standards; and
- › That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control processes are operating efficiently and effectively in all material respects.

## **Principles 5: Make timely and balanced disclosures**

### **Continuous disclosure and shareholder communication**

The Board of Directors aims to ensure that the shareholders, to whom they are accountable, are informed of all information necessary to assess the performance of the Company. Information is communicated to shareholders through:

- › The annual report, which is made available to all shareholders;
- › The half yearly report;
- › The half yearly Shareholders' Bulletin and Results Presentation;
- › The Annual General Meeting and other meetings so called to obtain approval for Board action as appropriate; and
- › Media releases and continuous disclosure announcements made through the ASX and reporting to shareholders from time to time on the performance of the Company. Where possible, the Company arranges for advance notification of significant group briefings (including, but not limited to, results announcements) and makes them as widely accessible as may be practical.

Copies of this information are available on the Company's web site [www.devine.com.au](http://www.devine.com.au) under "Financial Reports".

Given the size and structure of the Company, the Board does not consider that a formal policy and procedure on Continuous Disclosure is necessary. Through the Managing Director and CEO and regular Board meetings and updates, Directors are kept fully informed of any matters that would need to be disclosed to the market in accordance with ASX Listing Rule 3.1 relating to Continuous Disclosure.

## **Principles 6: Respect the Rights of Shareholders**

The Board's responsibility in relation to communicating with shareholders and keeping them informed on the financial and operational performance of the Company is set out in the Board's Charter. Key financial reports including the half yearly shareholders' bulletin and annual reports are made available to shareholders to provide them with information relevant to the operation of the Company. Additional information, including these reports, is maintained on the Company's web site. The Company's external auditor attends all Devine Limited AGM's and, as required by the *Corporations Act 2001*, is available at those meetings to answer any questions put to them by shareholders about the audit.



# CORPORATE GOVERNANCE STATEMENT

## Continued

### Principle 7: Recognise and manage risk

A significant number of activities exist within the building, development and construction industries that require active monitoring and control. Devine continues to update its risk management policies and procedures and is constantly monitoring its exposure to risk. A policy is in place setting out the formal risk reporting processes for Strategic, Health and Safety, and Trading and Operational risk areas. Risk assessments are also carried out on any new projects that are being considered and are included in any proposals that are submitted to the Board. The development of risk management processes within both existing and new business activities will continue to be refined and updated as necessary.

As part of this constant monitoring and review process, the Company has an established program to review and update the potential areas of risk in relation to its Housing and Land, Development and Construction and Corporate segments and this facilitates the preparation and review of its overall risk matrix chart for the Group.

A Risk and Compliance Update Report is prepared by each business unit and division on a monthly basis and the results of this are summarised and reported to the Board each month. A more detailed Risk Review Report is prepared by each Business Unit and Division on a quarterly basis. This review applies a rating to the various risks that have been identified and provides commentary on the actions that are being taken to mitigate those risks. It also covers each project that the Company is undertaking. The results of these review reports are summarised and communicated to the Audit Committee for review at their quarterly meetings.

The reporting on risk by management is a standing agenda item at monthly Board meetings.

### Principle 8: Remunerate fairly and responsibly

The Board is responsible for determining and reviewing compensation arrangements for the Directors and the key management personnel (KMP). The Board has established a Remuneration and Nomination Committee to assist it in reviewing the remuneration for the Managing Director and CEO, and other KMP. The charter for this Committee sets out how it will operate on behalf of the Board.

#### Remuneration and Nomination committee

The current members of the Remuneration and Nomination Committee are:

- › P J Dransfield (Chairman of the Remuneration and Nomination Committee);
- › V A Vella;
- › T G Young; and
- › D B Keir (executive remuneration only).

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and senior executives fairly and appropriately and with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of the Managing Director and CEO's and KMP's emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- › To provide satisfactory returns to shareholders;
- › The retention and motivation of key executives;
- › To attract quality management to the Company; and
- › To provide performance incentives which are aligned with the interests of shareholders and allow executives to share in the rewards of success.

Full details of the Company's remuneration philosophy and structure for and payments to Directors and KMP are set out in the Company's Remuneration report in the Directors' report.

When considering the entitlement by key management personnel to the receipt of short term incentive (STI) and long term incentive (LTI) payments and entitlements, discretion is exercised by the Board in relation to the payment of these benefits having regard to the overall performance of the Group and the performance of the relevant operating division. Details of the STI and LTI schemes are set out in the Remuneration report.

# FINANCIAL REPORT

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 30 June 2013**

	Notes	2013 \$'000	2012 \$'000
Revenue	3	311,073	313,865
Cost of properties sold	4	(244,243)	(273,899)
<b>Gross profit</b>		<b>66,830</b>	39,966
Other revenue	3	6,139	8,967
Expenses, excluding finance expenses	4	(70,846)	(66,656)
Finance expenses	4	(6,840)	(7,012)
Share of net profit of joint venture entities accounted for using the equity method		3,919	6,509
<b>(Loss) before income tax</b>		<b>(798)</b>	(18,226)
Income tax benefit	5	239	5,333
<b>(Loss) for the year</b>		<b>(559)</b>	(12,893)
<b>Items that may be reclassified subsequently to profit and loss</b>			
Changes in the fair value of cash flow hedges/reserves, net of tax	28(a)	(83)	(221)
<b>Total comprehensive income for the year</b>		<b>(642)</b>	(13,114)
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic and diluted earnings per share	38	(0.4)	(8.1)

The above Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at 30 June 2013**

	Notes	2013 \$'000	2012 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	20,986	20,143
Receivables	8	41,515	63,676
Inventories	9	133,901	113,878
Current tax receivable		-	307
Prepayments		734	506
<b>Total current assets</b>		<b>197,136</b>	<b>198,510</b>
<b>Non-current assets</b>			
Receivables	10	32,080	20,798
Inventories	14	256,556	282,574
Investments accounted for using the equity method		53,317	62,444
Plant and equipment	15	1,771	1,488
Intangible assets	16	3,316	3,316
Other non-current assets	17	191	231
<b>Total non-current assets</b>		<b>347,231</b>	<b>370,851</b>
<b>Total assets</b>		<b>544,367</b>	<b>569,361</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	19	50,093	64,869
Interest bearing loans	20	26,685	32,163
Provisions		3,232	3,987
Non-interest bearing loans	21	28,783	26,126
<b>Total current liabilities</b>		<b>108,793</b>	<b>127,145</b>
<b>Non-current liabilities</b>			
Advances and other payables	23	14,964	-
Interest bearing loans	24	92,551	100,712
Deferred tax liabilities	26	1,825	2,047
Provisions		1,785	1,448
Non-interest bearing loans	25	6,288	15,793
Derivative financial instruments	22	656	755
<b>Total non-current liabilities</b>		<b>118,069</b>	<b>120,755</b>
<b>Total liabilities</b>		<b>226,862</b>	<b>247,900</b>
<b>Net assets</b>		<b>317,505</b>	<b>321,461</b>
<b>EQUITY</b>			
Contributed equity	27	292,367	292,367
Reserves	28(a)	(347)	(124)
Retained earnings	28(b)	25,485	29,218
<b>Total equity</b>		<b>317,505</b>	<b>321,461</b>

The above Consolidated statement of financial position should be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 30 June 2013**

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
<b>Balance at 1 July 2012</b>		<b>292,367</b>	<b>(124)</b>	<b>29,218</b>	<b>321,461</b>
Loss for the year		-	-	(559)	(559)
Other comprehensive income		-	(83)	-	(83)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>(83)</b>	<b>(559)</b>	<b>(642)</b>
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	6	-	-	(3,174)	(3,174)
Expense / (benefit) pursuant to employee incentive scheme	28	-	(140)	-	(140)
<b>Balance at 30 June 2013</b>		<b>292,367</b>	<b>(347)</b>	<b>25,485</b>	<b>317,505</b>
<b>Balance at 1 July 2011</b>		<b>292,367</b>	<b>(5)</b>	<b>51,635</b>	<b>343,997</b>
Loss for the year		-	-	(12,893)	(12,893)
Other comprehensive income		-	(221)	-	(221)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>(221)</b>	<b>(12,893)</b>	<b>(13,114)</b>
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	6	-	-	(9,524)	(9,524)
Expense / (benefit) pursuant to employee incentive scheme	28	-	102	-	102
<b>Balance at 30 June 2012</b>		<b>292,367</b>	<b>(124)</b>	<b>29,218</b>	<b>321,461</b>

The above Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended 30 June 2013**

	Notes	2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		348,617	363,892
Payments to suppliers and employees (inclusive of goods and services tax)		(316,289)	(331,606)
Profit distributions received from joint ventures		4,045	11,527
Interest received		1,292	1,534
Interest paid		(11,507)	(15,834)
Income taxes received / (paid)		328	(1,969)
<b>Net cash inflow from operating activities</b>	29	<b>26,486</b>	<b>27,544</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(922)	(1,159)
Payments for investments in joint ventures		(9,732)	(21,741)
Payments for investments in land inventory		(17,941)	(12,401)
Loans to joint ventures		(7,903)	(5,314)
Repayments of loans by joint ventures		-	2,327
Equity distributions received from joint ventures		19,773	22,343
Proceeds from sale of property, plant and equipment		-	54
Loans from joint ventures		10,131	-
<b>Net cash (outflow) from investing activities</b>		<b>(6,594)</b>	<b>(15,891)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		124,544	114,875
Repayment of borrowings		(140,419)	(118,417)
Dividends paid to company's shareholders		(3,174)	(9,524)
<b>Net cash (outflow) from financing activities</b>		<b>(19,049)</b>	<b>(13,066)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>843</b>	<b>(1,413)</b>
Cash and cash equivalents at the beginning of the financial year		20,143	21,556
<b>Cash and cash equivalents at end of the financial year</b>	7	<b>20,986</b>	<b>20,143</b>

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated Financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Financial statements are for the consolidated entity consisting of Devine Limited and its subsidiaries.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

### (a) Basis of preparation

These general purpose Financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The consolidated Financial Statements are presented in Australian dollars. All values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

### (i) Statement of compliance

The consolidated Financial statements of Devine Limited comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### (ii) Historical cost convention

These consolidated Financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

### (iii) Critical accounting estimates

The preparation of consolidated Financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial statements are disclosed in Note 2.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated Financial statements incorporate the assets and liabilities of all subsidiaries of Devine Limited ('Company') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Devine Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost in the individual Financial statements of Devine Limited.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. The Financial Statements of the subsidiaries are prepared for the same reporting period as the Company and accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

#### (ii) Joint ventures

##### Joint venture operations

The proportionate interests in the assets, liabilities, revenues and expenses of joint venture operations have been incorporated in the Financial statements under the appropriate headings. The Financial statements of the joint venture operations are prepared for the same reporting period as the Company and accounting policies of joint venture operations have been changed where necessary to ensure consistency with the policies adopted by the Company. Details of the joint venture operations are set out in Note 35(a).

##### Joint venture entities

The interests in joint venture entities are accounted for in the consolidated Financial statements using the equity method. Under the equity method, the share of the profits or losses of the entities are recognised in the Consolidated statement of comprehensive income, and the share of post-acquisition movements in reserves is recognised in reserves in the Consolidated statement of financial position. Details relating to joint venture entities are set out in Note 35(b).

#### **(c) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

##### **(i) Land development and resale**

Revenue on the sale of land is recognised when risks and benefits of ownership transfer to a third party.

##### **(ii) Property development**

Revenue in respect of the Company's property development projects is recognised when risks and benefits of ownership transfer to a third party. Costs in relation to individual settled units are recognised in proportion to the total costs for the project and based on the percentage of revenue.

##### **(iii) Single contract house and land package sales**

Revenue is recognised on house and land package sales that have been sold under one contract when settlement of both the house and land occurs. This treatment contrasts with the recognition of revenue for houses and land sold under separate contracts. In this case, revenue on the land is recognised as per (i) above and revenue on the house component is recognised as per (iv) below.

#### **(iv) Construction contracts**

Revenue and costs on contracts entered into by Devine Constructions for external parties are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a construction contract, the excess of total costs over revenue is recognised as an expense immediately. Where it is probable that the cost will be recovered, revenue is recognised to the extent of the costs incurred.

Where Devine Constructions undertakes a building contract for Devine, revenue and costs are recognised in the consolidated Financial statements when the building is completed and the risk and rewards of ownership have transferred to the end buyer/s.

For fixed price contracts, the percentage of completion is measured by reference to the actual costs incurred to date as a percentage of the total estimated costs for that contract. For cost plus contracts, revenue is recognised by reference to the costs incurred during the reporting period that will be recovered under the contract plus the relevant margin earned.

Where Devine Constructions enters into a construction contract for a joint venture entity in which Devine has an equity interest, only that portion of the revenue generated and costs incurred that relates to the equity interest of Devine's joint venture partner is recognised in the consolidated Financial statements in the period in which the work is carried out. That portion of the revenue and costs that relates to Devine's equity interest in the joint venture is only recognised in the consolidated Financial statements when the construction contract is completed and the risk and rewards of ownership have transferred to the end buyer/s.

#### **(v) Service revenue**

When the outcome of a delivery agreement contract to provide services can be estimated reliably, revenue is recognised by reference to the percentage of the services performed.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the cost will be recovered, revenue is recognised to the extent of costs incurred.

#### **(d) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Managing Director and Chief Executive Officer and the Board.

#### **(e) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **(f) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 1 Summary of significant accounting policies (continued)

#### (g) Inventories

##### (i) Construction work in progress

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

Pre-commitment costs are expensed when incurred and only capitalised from the point at which a project receives both Board approval and development approval (DA) is deemed probable or has been obtained. Advertising and marketing costs are expensed as incurred.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the Group's construction activities in general.

##### (ii) Land held for resale / capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

#### (h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 30). Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

#### (i) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their fair value as at the acquisition date based on the best available evidence of the price at which the instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Company's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

#### **(j) Plant and equipment**

Plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts, net of the residual values, over the estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Plant and equipment	2 - 5 years
Computer equipment	3 - 5 years
Vehicles	3 - 5 years
Leasehold improvements	2 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(m)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

#### **(k) Intangible assets / Brand name**

The initial cost of the brand name was generated by virtue of the business combinations created on the occasion of the listing of Devine Limited on the Australian Securities Exchange. Directors consider it to be an "Indefinite Life" asset as defined by AASB 138 *Intangible Assets* and therefore not subject to future amortisation. It is however, required to be tested for impairment on either an individual basis or the cash generating unit level on at least an annual basis to determine the appropriate carrying value.

#### **(l) Investments and other financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

#### **(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

#### **(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance date which are classified as non-current assets. Loans and receivables are included in receivables (Notes 8 and 10) in the Consolidated statement of financial position.

#### **(iii) Held-to-maturity investments**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 1 Summary of significant accounting policies (continued)

#### (iv) Available-for-sale financial assets

Purchases and sales of investments are recognised on the date that the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group’s right to receive payments is established.

#### (m) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

#### (n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

#### (i) Vendor funding

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

#### (ii) Advances

These amounts represent funds advanced to the Group under contractual arrangements with settlement on deferred terms. Where payment is not due within 12 months from the reporting date, the amounts are presented as non-current liabilities and recognised at the present value of outstanding monies discounted at prevailing commercial borrowing rates.

#### (o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### (p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group, at balance date, has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### (q) Capitalisation of borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

## **(r) Employee benefits**

### **(i) Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and provisions for employee benefits in respect of employee's services up to the end of the reporting period. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the rates paid or payable.

### **(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### **(iii) Share-based payments**

Share-based compensation benefits are provided to employees via the Devine Limited Executive Option Plan. Information relating to this scheme is set out in Note 31.

The fair value of options granted under the Executive Option Plan is recognised as an employee benefit expense with a corresponding increase in share based payment reserve in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Monte Carlo simulation that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital.

## **(s) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 22. Movements in the hedging reserve in shareholder's equity are shown in Note 28. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

### **Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 1 Summary of significant accounting policies (continued)

#### (t) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### Tax consolidation legislation

Devine Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, Devine Limited, as the head entity in the tax consolidated group, recognises current tax amounts relating to transactions, events and balances of the wholly owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances.

#### (u) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

#### (v) Earnings per share

##### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

##### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### (w) Contributed equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

**(y) New accounting standards and interpretations**

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 have been adopted by the Group. The adoption of these standards had no material financial impact on the current period or any prior period and is not likely to affect future periods.

- › AASB 2010-8 *Amendments to Australian Accounting Standards-Deferred Tax: Recovery of Underlying Assets* [AASB 112]
- › AASB 2011-9 *Amendments to Australian Accounting Standards-Presentation of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods and have not yet been applied in the consolidated Financial statements. These are:

- › AASB 10 *Consolidated Financial Statements* effective 1 January 2013
- › AASB 11 *Joint Arrangements* effective 1 January 2013
- › AASB 12 *Disclosure of Interests in Other Entities* effective 1 January 2013
- › AASB 13 *Fair Value Measurement* effective 1 January 2013
- › AASB 119 *Employee Benefits* effective 1 January 2013
- › AASB 2012-2 *Amendments to Australian Accounting Standards-Disclosures - Offsetting Financial Assets and Financial Liabilities* effective 1 January 2013
- › AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* effective 1 January 2013

- › AASB 2012-9 *Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039* effective 1 January 2013
- › AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* [AASB 124] effective 1 July 2013
- › AASB 1053 *Application of Tiers of Australian Accounting Standards* effective 1 July 2013
- › AASB 2012-3 *Amendments to Australian Accounting Standards-Offsetting Financial Assets and Financial Liabilities* effective 1 January 2014
- › Interpretation 21 *Levies* effective 1 January 2014
- › AASB 9 *Financial Instruments* effective 1 January 2015

The Directors believe that the application of these new or amended accounting standards and interpretations would not have any material financial effect on the consolidated Financial statements presented.

**(z) Parent entity financial information**

The financial information for the Parent entity, Devine Limited, disclosed in Note 13 has been prepared on the same basis as the consolidated Financial statements, except as set out below.

**(i) Investments in subsidiaries, associates and joint venture entities**

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the Financial statements of Devine Limited. Dividends received from associates are recognised in the Parent entity's profit or loss when its right to receive the dividend is established.

**(ii) Tax consolidation legislation**

Devine Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Devine Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Devine Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Devine Limited for any current tax payable assumed and are compensated by Devine Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Devine Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' Financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 1 Summary of significant accounting policies (continued)

#### (ii) Tax consolidation legislation continued

The amounts receivable / payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

#### (iii) Financial guarantees

Where the Parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

#### (aa) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

#### (ab) Changes in accounting estimates

The preparation of the consolidated Financial statements requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

### 2 Critical accounting estimates and judgements

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimates and judgements relating to current and likely future operational activities are necessarily made from time to time. They are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed, at the time, to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the reported revenues and expenses and/or the carrying amounts of assets and liabilities within the next financial year are:

- › Assessment of projects on a percentage of completion basis, in particular with regard to accounting for claims and variations, the timing of profit recognition and the amount of profit recognised;
- › The Group has recognised deferred tax assets relating to carried forward tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Utilisation of the tax losses also depends on the ability of the Group to satisfy certain tests, primarily relating to continuity of certain ownership interests in the Group, at the time the losses are recouped. It is not expected changes in ownership significant enough to impact the Group's ability to satisfy these tests will occur. Failure to satisfy these tests, or other indications to suggest the Group will not realise the benefit of these losses, may require derecognition of deferred tax assets to the value of \$1.02m (refer Note 18); and
- › In assessing the carrying value of property development projects and land held for sale, assumptions of future sales prices and sales rates are made based on the current state and future expectation of markets in which the Group operates. Management makes assessments on a project by project basis and where appropriate will adjust the carrying value of inventory to the lower of cost and net realisable value, as detailed in Note 1(g)(ii).

### 3 Revenue

	2013 \$'000	2012 \$'000
<b>Revenue</b>		
Revenue from sale of properties	250,571	194,587
Revenue from construction activities for related joint ventures	52,997	112,095
Revenue from related joint ventures	7,505	7,183
	<b>311,073</b>	<b>313,865</b>
<b>Other revenue</b>		
Rent received	400	332
Interest received	3,390	3,994
Sundry income including sale of 50% interest in subsidiary (Note 11)	2,349	4,641
	<b>6,139</b>	<b>8,967</b>
	<b>317,212</b>	<b>322,832</b>

### 4 Cost of properties sold and expenses

	2013 \$'000	2012 \$'000
<b>Expenses, excluding finance expenses, included in the statement of comprehensive income classified by function:</b>		
Cost of properties sold	244,243	273,899
Other expenses	70,846	66,656
	<b>315,089</b>	<b>340,555</b>
<b>Classification of these expenses by function:</b>		
Cost of properties sold	244,243	273,899
<b>Other expenses from ordinary activities:</b>		
Marketing and selling costs	31,151	29,070
Occupancy	3,239	2,500
Administration	24,544	24,201
Other	5,145	5,510
Land holding expenses	6,767	5,375
	<b>315,089</b>	<b>340,555</b>

#### Profit / (loss) before income tax includes the following specific expenses:

<b>Inventory write-downs and impairment expenses of:</b>		
Write-down included in cost of properties sold	10,000	28,300
Write-down of inventory in joint venture entity	-	6,000
Total	<b>10,000</b>	<b>34,300</b>
<b>Depreciation</b>		
Plant and equipment	475	416
Display homes	462	194
Total depreciation	<b>937</b>	<b>610</b>
Employee benefit expenses	28,825	31,055
Finance expenses	6,840	7,012
Operating lease rental	496	628
Provision for bad debts	4	48



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 5 Income tax expense

#### (a) Income tax expense

	2013 \$'000	2012 \$'000
Deferred tax	(196)	(5,318)
Adjustments for current tax of prior periods	(22)	(43)
Adjustments in respect of deferred tax of prior years	(21)	28
	(239)	(5,333)

#### (b) Numerical reconciliation of income tax expense to prima facie tax payable

	2013 \$'000	2012 \$'000
(Loss) from continuing operations before income tax expense	(798)	(18,226)
Tax at the Australian tax rate of 30.0% (2012 - 30.0%)	(239)	(5,468)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Entertainment	64	70
Options issued to employees	(42)	31
Other	22	49
Under / (over) provisions from prior year	(44)	(15)
Income tax expense / (benefit)	(239)	(5,333)

#### (c) Amounts recognised directly in equity

	2013 \$'000	2012 \$'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Net deferred tax - debited / (credited) directly to equity	(5)	(140)

## 6 Dividends

### (a) Ordinary shares

	30 June 2013 \$'000	30 June 2012 \$'000
Previous year final dividend paid in cash		
Fully franked based on tax paid @ 30% - 2 cents (2011: 4 cents) per share	3,174	6,349
Interim dividend paid in cash		
Fully franked based on tax paid @ 30% - 0 cents (2012: 2 cents) per share	-	3,175
Total dividends provided for or paid	3,174	9,524

### (b) Dividends not recognised at the end of the reporting period

	30 June 2013 \$'000	30 June 2012 \$'000
Since the end of the financial year Directors have not recommended the payment of a final dividend (2012: 2 cents).		
The amount of the dividend proposed but not recognised as a liability at the end of the financial year is:	-	3,175

### (c) Franked dividends

	30 June 2013 \$'000	30 June 2012 \$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2012 - 30.0%)	9,514	11,162

## 7 Current assets - Cash and cash equivalents

	30 June 2013 \$'000	30 June 2012 \$'000
Cash and cash equivalents	20,986	20,143

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 8 Current assets – Receivables

	30 June 2013 \$'000	30 June 2012 \$'000
Trade receivables	13,724	63,327
Provision for doubtful receivables	(43)	(46)
	13,681	63,281
Other receivables	27,204	133
Deposits	630	262
	27,834	395
	41,515	63,676

#### (a) Past due but not impaired

As of 30 June 2013 trade receivables of \$5,937,000 (2012: \$4,584,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2013 \$'000	30 June 2012 \$'000
Less than 30 days	5,023	3,140
30 - 60 days	379	1,272
60 - 90 days	263	67
Greater than 90 days	272	105
	5,937	4,584

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

#### (b) Other receivables

These amounts indirectly arise from the activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months and an agreement has been negotiated. Collateral is not normally obtained.

#### (c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of each class of receivables mentioned above. The fair value of security held for certain trade receivables is insignificant as is the fair value of any collateral sold or repledged. Refer to Note 40 for more information on the risk management policy of the Group and the credit quality of the entity's trade and other receivables.

## 9 Current assets – Inventories

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Work in progress</b>		
Work in progress	17,735	10,272
<b>Land held for sale</b>		
Acquisition	38,885	44,160
Development costs capitalised	73,139	56,766
	<b>112,024</b>	<b>100,926</b>
<b>Display homes</b>		
Display homes	4,142	2,680
<b>Total inventories</b>	<b>133,901</b>	<b>113,878</b>

## 10 Non-current assets – Receivables

	30 June 2013 \$'000	30 June 2012 \$'000
Trade and other receivables	32,080	20,798

### (a) Past due but not impaired

As of 30 June 2013, non-current trade receivables of \$4.5m (2012: Nil) were past due (less than 30 days) but not impaired. These relate to a joint venture partner with whom the underlying terms and conditions have been renegotiated subsequent to year end and the Group expects that these receivables will be recovered in full. The presentation of these amounts as non-current receivables reflects the renegotiated terms. Other receivables do not contain impaired assets and are not past due.

### (b) Fair values

The fair value of non-current trade and other receivables is equal to their carrying values. The fair values are based on cash flows discounted using the current lending rate.

### (c) Credit risk

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. The Group holds relevant security in relation to receivables. Further information about the Group and the Parent entity's exposure to credit risk, foreign exchange and interest rate risk is provided in Note 40.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 11 Subsidiaries

#### Significant investments in subsidiaries

Name of entity	Country of incorporation / domicile	Class of shares	Equity holding **	
			2013 %	2012 %
Devine Homes Pty Ltd *	Australia	Ordinary	100	100
Devine Constructions Pty Ltd *	Australia	Ordinary	100	100
Talcliff Pty Ltd *	Australia	Ordinary	100	100
DMB Pty Ltd *	Australia	Ordinary	100	100
Pioneer Homes Australia Pty Ltd *	Australia	Ordinary	100	100
Devine Funds Pty Ltd *	Australia	Ordinary	100	100
Devine Funds Unit Trust	Australia	Units	100	100
Devine Springwood No 1 Pty Ltd *	Australia	Ordinary	100	100
Moorookyle Devine Pty Ltd *	Australia	Ordinary	100	100
111 Margaret Street Pty Ltd	Australia	Ordinary	100	100
Devine Springwood No 2 Pty Ltd *	Australia	Ordinary	100	100
Devine Bacchus Marsh Pty Ltd *	Australia	Ordinary	100	100
Devine Management Services Pty Ltd *	Australia	Ordinary	100	100
Devine Queensland No 10 Pty Ltd	Australia	Ordinary	100	100
Devine Land Pty Ltd *	Australia	Ordinary	100	100
Riverstone Rise Gladstone Pty Ltd *	Australia	Ordinary	100	100
Riverstone Rise Gladstone Unit Trust	Australia	Units	100	100
DoubleOne 3 Pty Ltd *	Australia	Ordinary	100	100
DoubleOne 3 Unit Trust ***	Australia	Units	-	100
Victoria Point Docklands Pty Ltd	Australia	Ordinary	100	100
Devine Springwood No 3 Pty Ltd *	Australia	Ordinary	100	-

\* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. For further information refer Note 12.

\*\* The proportion of ownership interest is equal to the proportion of voting power held.

\*\*\* A 50% interest in DoubleOne 3 Unit Trust was sold on 25 June 2013 to an independent third party and at 30 June 2013 it is jointly controlled. For further information refer Note 35(b).



## 12 Deed of cross guarantee

Devine Limited and the subsidiary companies specifically referenced in Note 11 are parties to a Deed of Cross Guarantee under which each Company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a Financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

### (a) Consolidated income statement and summary of movements in consolidated retained earnings

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Devine Limited, they also represent the 'Extended Closed Group'.

Set out below is a Consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2013 for the Closed Group.

	2013 \$'000	2012 \$'000
<b>Consolidated income statement</b>		
Revenue from continuing operations	262,746	313,865
Other income	13,214	8,956
Share of net profits of joint venture entities accounted for using the equity method	3,919	6,309
Expenses from ordinary activities, excluding finance expenses	(278,338)	(359,396)
Finance expenses	(6,620)	(7,012)
<b>(Loss) before income tax</b>	<b>(5,079)</b>	<b>(37,278)</b>
Income tax benefit	2,070	922
<b>(Loss) for the year</b>	<b>(3,009)</b>	<b>(36,356)</b>
<b>Summary of movements in consolidated retained earnings</b>		
<b>Retained earnings at the beginning of the financial year</b>	<b>5,780</b>	<b>52,020</b>
(Loss) for the year	(3,009)	(36,356)
Changes in membership of the Closed Group	-	(360)
Dividends provided for or paid	(3,174)	(9,524)
<b>Retained earnings at the end of the financial year</b>	<b>(403)</b>	<b>5,780</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 12 Deed of cross guarantee (continued)

#### (b) Consolidated statement of financial position

Set out below is a Consolidated statement of financial position as at 30 June 2013 for the Closed Group.

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Current assets</b>		
Cash and cash equivalents	20,985	20,143
Receivables	43,872	68,197
Inventories	111,853	115,445
Current tax receivables	-	307
Prepayments	734	506
<b>Total current assets</b>	<b>177,444</b>	<b>204,598</b>
<b>Non-current assets</b>		
Receivables	32,080	21,106
Inventories	211,130	224,761
Investments accounted for using the equity method	53,317	62,444
Plant and equipment	1,335	958
Deferred tax assets	-	77
Intangible assets	3,316	3,316
Other non-current assets	191	231
<b>Total non-current assets</b>	<b>301,369</b>	<b>312,893</b>
<b>Total assets</b>	<b>478,813</b>	<b>517,491</b>
<b>Current liabilities</b>		
Payables	45,908	61,152
Interest bearing loans	26,685	11,561
Provisions	3,183	3,968
Non-interest bearing loans	28,783	23,655
<b>Total current liabilities</b>	<b>104,559</b>	<b>100,336</b>
<b>Non-current liabilities</b>		
Interest bearing loans	72,012	104,019
Deferred tax liabilities	1,896	-
Provisions	1,785	1,448
Non-interest bearing loans	6,288	12,910
Derivative financial instruments	656	755
<b>Total non-current liabilities</b>	<b>82,637</b>	<b>119,132</b>
<b>Total liabilities</b>	<b>187,196</b>	<b>219,468</b>
<b>Net assets</b>	<b>291,617</b>	<b>298,023</b>
<b>Equity</b>		
Contributed equity	292,367	292,367
Reserves	(347)	(124)
Retained earnings	(403)	5,780
<b>Total equity</b>	<b>291,617</b>	<b>298,023</b>

## 13 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the Parent entity show the following aggregate amounts:

	30 June 2013 \$'000	30 June 2012 \$'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>Assets</b>		
Current assets	251,102	250,336
Non-current assets	164,954	185,980
<b>Total assets</b>	<b>416,056</b>	<b>436,316</b>
<b>Liabilities</b>		
Current liabilities	63,757	73,239
Non-current liabilities	39,968	58,009
<b>Total liabilities</b>	<b>103,725</b>	<b>131,248</b>
<b>Net assets</b>	<b>312,331</b>	<b>305,068</b>
<b>Equity</b>		
Contributed equity	292,367	292,367
Reserves	(347)	(228)
Retained earnings	20,311	12,929
<b>Total equity</b>	<b>312,331</b>	<b>305,068</b>
<b>Profit for the year</b>	<b>7,739</b>	<b>7,340</b>
<b>Total comprehensive income</b>	<b>7,760</b>	<b>7,014</b>

### (b) Guarantees entered into by the Parent entity

Devine Limited and controlled entities have provided bank guarantees and surety bonds totalling \$36.0m at 30 June 2013 (2012: \$40.9m) relating to individual land developments and other aspects of the Company's operations. The guarantees and bonds are secured by charges over the assets of the respective entities or indemnities. No liabilities are expected to arise.

Devine Limited together with its joint venture partner has provided financiers with performance guarantees in relation to leasing of a commercial property for a project. No liabilities are expected to arise.

Devine Limited and its joint venture partners have provided guarantees for the performance of the joint ventures for debt totalling \$40.1m at 30 June 2013 (2012: \$28.2m). The debt is secured against assets of the joint ventures with a recorded value of \$105.9m and is to be repaid from the land sales of the joint ventures. No liabilities are expected to arise.

Devine Limited also provides performance and financial guarantees for land acquisitions, construction and developments in the normal course of its business operations. No liabilities are expected to arise.

Devine Limited has guaranteed, under the terms of Class Order 98/1418, issued by the Australian Securities and Investments Commission, to pay any deficiency in the event of winding up of the controlled entities within the Group. The controlled entities have also given a similar guarantee in the event that Devine Limited is wound up. No liabilities are expected to arise. For further information refer to Note 12.

### (c) Contingent liabilities of the Parent entity

For further information about contingencies refer to Note 36.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 14 Non-current assets - Inventories

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Work in progress</b>		
Work in progress	-	47,563
	-	47,563
<b>Land held for sale</b>		
Acquisition	157,036	180,415
Development costs capitalised	99,520	54,596
	256,556	235,011
<b>Total</b>	<b>256,556</b>	<b>282,574</b>

### 15 Non-current assets - Plant and equipment

	Display home furniture and equipment \$'000	Plant and equipment \$'000	Total \$'000
<b>Year ended 30 June 2013</b>			
Opening net book amount	718	770	1,488
Additions	420	803	1,223
Disposals	(262)	(25)	(287)
Depreciation charge	(462)	(475)	(937)
Depreciation write back on disposals	262	22	284
<b>Closing net book amount</b>	<b>676</b>	<b>1,095</b>	<b>1,771</b>
<b>At 30 June 2013</b>			
Cost	1,457	5,727	7,184
Accumulated depreciation	(781)	(4,632)	(5,413)
<b>Net book amount</b>	<b>676</b>	<b>1,095</b>	<b>1,771</b>

	Display home furniture and equipment \$'000	Plant and equipment \$'000	Total \$'000
<b>Year ended 30 June 2012</b>			
Opening net book amount	130	846	976
Additions	782	377	1,159
Disposals	-	(54)	(54)
Depreciation charge	(194)	(416)	(610)
Depreciation write back on disposals	-	17	17
<b>Closing net book amount</b>	<b>718</b>	<b>770</b>	<b>1,488</b>
<b>At 30 June 2012</b>			
Cost	1,299	4,948	6,247
Accumulated depreciation	(581)	(4,178)	(4,759)
<b>Net book amount</b>	<b>718</b>	<b>770</b>	<b>1,488</b>

## 16 Non-current assets - Intangible assets

	Brand name \$'000	Total \$'000
<b>At 30 June 2013</b>		
Cost	3,316	3,316
<b>Net book amount</b>	<b>3,316</b>	<b>3,316</b>
	Brand name \$'000	Total \$'000
<b>At 30 June 2012</b>		
Cost	3,316	3,316
<b>Net book amount</b>	<b>3,316</b>	<b>3,316</b>

### Impairment tests for intangibles with indefinite useful lives

The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a two-year period. Cash flows beyond the two-year period are extrapolated using estimated growth rates consistent with CPI which does not exceed the long-term average growth rate for the business in which the CGU operates.

Discount rates reflect management's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole.

## 17 Non-current assets - Other non-current assets

	30 June 2013 \$'000	30 June 2012 \$'000
Retention funds	191	231

## 18 Non-current assets - Deferred tax assets

	30 June 2013 \$'000	30 June 2012 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Tax losses	1,023	15,026
Employee benefits	1,485	1,739
Doubtful debts	13	14
Provisions	112	334
Establishment fees	251	512
Fair value adjustment on debtors	49	304
Investment in associates	2,959	2,556
Accrued expenses	437	415
Mark-to-market adjustments on derivative financial instruments	197	226
Other	4	2
	<b>6,530</b>	21,128
Set-off of deferred tax liabilities pursuant to set-off provisions	<b>(6,530)</b>	(21,128)
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>
<b>Movements:</b>		
Opening balance	21,128	8,468
Credited / (charged) to the statement of comprehensive income	(14,625)	12,548
Charges directly to equity	5	140
Prior year adjustments	22	(28)
Set-off	<b>(6,530)</b>	(21,128)
<b>Closing balance</b>	<b>-</b>	<b>-</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 19 Current liabilities - Trade and other payables

	30 June 2013 \$'000	30 June 2012 \$'000
Trade payables	43,746	46,483
Other payables	6,347	18,386
	<b>50,093</b>	<b>64,869</b>

### 20 Current liabilities - Interest bearing liabilities

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Secured</b>		
Bank loans	26,685	32,163

Information relating to assets pledged as security is set out in Note 24(b).

### 21 Current liabilities - Non-interest bearing liabilities

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Secured</b>		
Vendor funding	28,783	26,126

Vendor funding on land developments has been provided to the Group from time to time subject to commercial negotiations.

### 22 Derivative financial instruments

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Non-current liabilities</b>		
Interest rate - cash flow hedges	656	755

### 23 Non-current liabilities - Advances and other payables

	30 June 2013 \$'000	30 June 2012 \$'000
Advances and other payables	14,964	-

The fair value of non-current advances and other payables is equal to their carrying values. The fair values are based on discounted cash flows using the current lending rate.

### 24 Non-current liabilities - Interest bearing liabilities

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Secured</b>		
Bank loans	92,551	100,712

#### (a) Total secured liabilities

Total secured liabilities are:

Bank loans (current and non-current)	119,236	132,875
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**(b) Assets pledged as security**

Bank loans are secured by mortgages over the consolidated entity's inventories including developed and undeveloped land. A fixed and floating charge over all the assets of the consolidated entity is also held by the consolidated entity's principal bankers.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Current</b>		
Cash and cash equivalents	20,986	20,143
Receivables	41,515	63,676
Inventories	133,901	113,878
Current tax receivables	-	307
Prepayments	734	506
Total current assets pledged as security	197,136	198,510
<b>Non-current</b>		
Receivables	32,080	20,798
Inventories	256,556	282,574
Investments accounted for using the equity method	53,317	62,444
Plant and equipment	1,771	1,488
Intangible assets	3,316	3,316
Other non-current assets	191	231
Total non-current assets pledged as security	347,231	370,851
<b>Total assets pledged as security</b>	<b>544,367</b>	<b>569,361</b>

**(c) Financing arrangements (current and non-current)**

At balance date, the following financing facilities had been negotiated and were available:

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Bank loans</b>		
Total facilities available	188,548	192,315
Used at balance date	119,236	132,875
Unused at balance date *	69,312	59,440

\* Subject to security asset values at the time of utilisation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 25 Non-current liabilities – Non-interest bearing liabilities

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Secured</b>		
Vendor funding	6,288	15,793

Vendor funding on land developments has been provided to the Group from time to time subject to commercial negotiations.

### 26 Non-current liabilities – Deferred tax liabilities

	30 June 2013 \$'000	30 June 2012 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Inventories	7,969	22,789
Income received in advance	386	386
	8,355	23,175
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 18)	(6,530)	(21,128)
Net deferred tax liabilities	1,825	2,047
<b>Movements:</b>		
Opening balance	23,175	15,944
Charged / (credited) to other comprehensive income	(14,820)	7,231
Set off of deferred tax assets	(6,530)	(21,128)
Closing balance	1,825	2,047

### 27 Contributed equity

#### (a) Share capital

	30 June 2013 Shares	30 June 2012 Shares	30 June 2013 \$'000	30 June 2012 \$'000
Ordinary shares - fully paid	158,730,556	158,730,556	292,367	292,367

#### (b) Movements in ordinary share capital

Date	Details	Number of shares	\$'000
1 July 2012	Opening balance	158,730,556	292,367
30 June 2013	Closing balance	158,730,556	292,367

### (c) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide attractive returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group and the Parent Entity monitor capital adequacy on the basis of the overall gearing of the Group and the unused facilities available to it.

The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

	30 June 2013 \$'000	30 June 2012 \$'000
Interest and non-interest bearing loans and borrowings	154,307	174,794
Less: cash and cash equivalents	(20,986)	(20,143)
Net debt	133,321	154,651
Total assets	544,367	569,361
Less: cash and cash equivalents	(20,986)	(20,143)
Assets	523,381	549,218
<b>Gearing ratio</b>	<b>25%</b>	<b>28%</b>

## 28 Reserves and retained earnings

### (a) Reserves

	30 June 2013 \$'000	30 June 2012 \$'000
Hedging reserve - cash flow hedges	(519)	(436)
Share based payment reserve	172	312
	(347)	(124)
<b>Movements:</b>		
<b>Hedging reserve - cash flow hedges</b>		
Balance 1 July	(436)	(215)
Revaluation - gross	(88)	(361)
Deferred tax	5	140
Balance 30 June	(519)	(436)
<b>Share-based payments reserve</b>		
Balance 1 July	312	210
Option expense / (benefit)	(140)	102
Balance 30 June	172	312

### Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Note 1(s). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 28 Reserves and retained earnings (continued)

#### (b) Retained earnings

Movements in retained earnings were as follows:

	30 June 2013 \$'000	30 June 2012 \$'000
Balance 1 July	29,218	51,635
Net (loss) for the year	(559)	(12,893)
Dividends	(3,174)	(9,524)
Balance 30 June	25,485	29,218

### 29 Reconciliation of profit / (loss) after income tax to net cash inflow from operating activities

	30 June 2013 \$'000	30 June 2012 \$'000
(Loss) for the year	(559)	(12,893)
<b>Non-cash items:</b>		
Interest capitalised	(4,665)	(8,822)
(Profits) / losses from joint ventures & sale of subsidiaries not received as cash	(3,054)	4,190
Depreciation and amortisation	937	610
Non-cash employee benefits expense - share-based payments	(140)	103
Fair value (gains) / losses on financial assets at fair value through profit or loss	(83)	(63)
Provision for doubtful debts	4	47
Provision for employee benefits	829	3,181
Provision for repossessions	35	368
Provision for warranties	(205)	17
<b>Change in operating assets and liabilities:</b>		
(Increase) / decrease in trade and sundry debtors	10,879	(1,576)
(Increase) / decrease in inventories	26,565	35,931
(Increase) / decrease in prepayments	1,300	2,618
(Decrease) / increase in trade creditors and accruals	(5,399)	11,274
(Decrease) / increase in income taxes payable	307	(2,012)
(Decrease) / increase in deferred income tax	(221)	(5,429)
(Decrease) / increase in other provisions	(44)	-
Net cash inflow / (outflow) from operating activities	26,486	27,544

### 30 Commitments

#### Non-cancellable operating leases

	30 June 2013 \$'000	30 June 2012 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	3,563	2,172
Later than one year but not later than five years	9,693	1,288
Later than five years	4,491	29
	17,747	3,489

Operating leases have an average remaining term of 6.5 years (2012: 1.9 years). Assets that are the subject of operating leases include motor vehicles, equipment and office premises.



### 31 Share-based payments

#### (a) Executive share option scheme

An executive share option scheme was established in 1998 whereby executive Directors and senior executives and managers of the consolidated entity are, from time to time, issued with options over the ordinary shares of Devine Limited.

The options, issued for nil consideration, are issued in accordance with guidelines established by the Directors of Devine Limited. The options are issued for a term of between 5 and 10 years and are exercisable beginning on the second anniversary of the date of grant, subject to meeting performance hurdles which can be tested at any time after the relevant anniversary. The options cannot be transferred and are not quoted on the ASX. At 30 June 2013 there were 5 senior executives and managers participating in the scheme.

When exercised, each option is converted into one ordinary share in Devine Limited. The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted.

Information with respect to the number of options granted under the executive share option scheme is as follows:

#### 2013

Grant date	Expiry date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
06/09/2006	06/09/2016	40,250	-	-	-	40,250	40,250
02/07/2007	02/07/2017	58,250	-	-	-	58,250	58,250
01/07/2008	01/07/2018	109,750	-	-	-	109,750	109,750
01/07/2010	01/07/2015	830,000	-	-	-	830,000	-
28/10/2011	28/10/2016	437,750	-	-	-	437,750	-
		1,476,000	-	-	-	1,476,000	208,250
Weighted average exercise price *		\$1.35	-	-	-	\$1.35	\$3.87

#### 2012

Grant date	Expiry date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
06/03/2002	06/03/2012	125,000	-	-	(125,000)	-	-
06/09/2006	06/09/2016	40,250	-	-	-	40,250	40,250
02/07/2007	02/07/2017	58,250	-	-	-	58,250	58,250
01/07/2008	01/07/2018	109,750	-	-	-	109,750	109,750
01/07/2010	01/07/2015	830,000	-	-	-	830,000	-
28/10/2011	28/10/2016	-	437,750	-	-	437,750	-
		1,163,250	437,750	-	(125,000)	1,476,000	208,250
Weighted average exercise price *		\$1.56	\$0.91	-	\$1.85	\$1.35	\$3.87

\* Number of options on issue and weighted average exercise price have been restated to reflect the 4 for 1 consolidation in November 2011.

#### Performance hurdles

The plan rules do not contain a restriction on removing the "at risk" aspect of the instruments granted to executives. The Board considers that the opportunity to enter into such arrangements, given the nature of the performance hurdles, is extremely limited.

These performance hurdles are set out below:

Shareholder returns defined as "growth in share price plus dividends" must exceed either:

- (i) the growth in the ASX Small Ordinaries Industrial Accumulation Index; or
- (ii) GDP + 6%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 31 Share-based payments (continued)

#### (b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	30 June 2013 \$'000	30 June 2012 \$'000
Expense / (benefit) arising from options	(140)	103

### 32 Key management personnel disclosures

The persons who were directors of Devine Limited during the financial year are listed in the Directors' report. Other key management personnel are listed in the Remuneration report.

#### (a) Key management personnel compensation

	2013 \$	2012 \$
Short-term employee benefits	3,607,140	3,569,187
Post-employment benefits	240,106	424,398
Long-term benefits	895,992	-
Share-based payments	-	88,601
	4,743,238	4,082,186

Detailed remuneration disclosures are provided in the Remuneration report in the Directors' report.

#### (b) Equity instrument disclosures relating to key management personnel

##### (i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Devine Limited and other key management personnel of the Group, including their related parties, are set out below:

2013							
Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of Devine Limited</b>							
D B Keir	787,750	-	-	-	787,750	-	787,750
<b>Other key management personnel of the Group</b>							
P V Cochrane	190,000	-	-	-	190,000	-	190,000
V Grayson	330,000	-	-	-	330,000	130,000	200,000
T Conway	78,250	-	-	(78,250) **	-	-	-

2012							
Name	Balance at start of the year*	Granted as compensation*	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of Devine Limited</b>							
D B Keir	350,000	437,750	-	-	787,750	-	787,750
<b>Other key management personnel of the Group</b>							
P V Cochrane	190,000	-	-	-	190,000	-	190,000
V Grayson	455,000	-	-	(125,000)	330,000	130,000	200,000
T Conway	78,250	-	-	-	78,250	78,250	-

\* Option holdings have been restated to reflect the 4 for 1 share consolidation in November 2011.

\*\* This represents option holdings of the director or key management personnel and related parties at the date of retirement or cessation of position which are required to be excluded.

**(ii) Share holdings**

The numbers of shares in the Company held during the financial year by each Director of Devine Limited and other key management personnel of the Group, including their related parties, are set out below. There were no shares granted during the reporting period as compensation.

**2013**

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<b>Directors of Devine Limited</b>				
<b>Ordinary shares</b>				
P J Dransfield	100,000	-	-	<b>100,000</b>
D B Keir	17,500	-	-	<b>17,500</b>
D J Ridley (retired 31/12/12)	123,016	-	(123,016)*	-
J S Downes	-	-	-	-
Hon. T M Mackenroth	52,353	-	-	<b>52,353</b>
G E McOrist	60,402	-	-	<b>60,402</b>
R W Parris	121,476	-	-	<b>121,476</b>
V A Vella	184,750	-	-	<b>184,750</b>
T G Young	363,125	-	-	<b>363,125</b>
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
V Grayson	250,000	-	-	<b>250,000</b>
A Brimblecombe	25,000	-	-	<b>25,000</b>
T Conway	4,200	-	(4,200)*	-
C Mana	-	-	50,000	<b>50,000</b>

**2012**

Name	Balance at the start of the year**	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<b>Directors of Devine Limited</b>				
<b>Ordinary shares</b>				
P J Dransfield	-	-	100,000	100,000
D B Keir	17,500	-	-	17,500
D J Ridley	123,016	-	-	123,016
Hon. T M Mackenroth	52,353	-	-	52,353
G E McOrist	60,402	-	-	60,402
R W Parris	121,476	-	-	121,476
V A Vella	184,750	-	-	184,750
T G Young	263,125	-	100,000	363,125
P J Ferris AM, KCSG (retired 28/10/11)	112,500	-	(112,500)*	-
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
V Grayson	250,000	-	-	250,000
A Brimblecombe	10,000	-	15,000	25,000
T Conway	4,200	-	-	4,200

\* This represents shareholdings of the director or key management personnel and related parties at the date of the retirement or cessation of position which are required to be excluded.

\*\* Share holdings have been restated to reflect the 4 for 1 share consolidation in November 2011.

**(c) Loans to key management personnel**

No loans were secured or made during the year ended 30 June 2013 (2012: Nil).

**(d) Other transactions with key management personnel**

Other than as disclosed in Note 34 there have been no transactions with key management personnel or their related parties for the year ending 30 June 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 33 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Devine Limited, its related practices and non-related audit firms:

	30 June 2013 \$	30 June 2012 \$
<b>Ernst &amp; Young</b>		
<b>Audit and other assurance services</b>		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	283,250	283,250
Other assurance and technical accounting services	76,119	21,000
Total remuneration for audit and other assurance services	359,369	304,250
<b>Taxation services</b>		
Tax compliance and advisory services	26,348	22,754
Total remuneration for taxation services	26,348	22,754
<b>Total remuneration of Ernst &amp; Young</b>	<b>385,717</b>	<b>327,004</b>

### 34 Related party transactions

#### (a) Parent entities

The ultimate Australian parent entity is HOCHTIEF Australia Holdings Limited and the ultimate parent entity is Actividades de Construcción y Servicios SA, incorporated in Spain.

#### (b) Directors

Mr R W Parris is a Director of Queensland Property Consultants Pty Ltd. Fees totalling \$16,780 (2012: \$11,760) were paid or payable to Queensland Property Consultants Pty Ltd during the year in respect of property advisory services provided to Devine Limited and its controlled entities. These fees were determined under normal commercial terms and conditions.

#### (c) Transactions with Joint Ventures

Fees of Nil (2012: \$511,681) were paid in respect of performance guarantees provided by a related party for certain joint venture construction activities.

Lease rental of \$506,357 (2012: Nil) has been paid to a joint venture in respect of a property lease. The lease term and rental were determined under normal commercial conditions.

#### (d) Revenue from related parties

	30 June 2013 \$ '000	30 June 2012 \$ '000
<b>Sales of goods and services</b>		
Interest received from related parties	848	862
Revenue from related joint ventures	7,505	6,322
Construction revenue from related joint ventures	52,997	112,095
	<b>61,350</b>	<b>119,279</b>

#### (e) Amounts owed by related parties

	30 June 2013 \$ '000	30 June 2012 \$ '000
Trade receivables owing by joint ventures	5,273	6,751
Loans advanced to joint ventures	18,113	23,212
	<b>23,386</b>	<b>29,963</b>

#### (f) Amounts owed to related parties

	30 June 2013 \$ '000	30 June 2012 \$ '000
Trade payables owing to joint ventures	19	8,929
Loans advanced by joint ventures	9,256	-
	<b>9,275</b>	<b>8,929</b>

### (g) Guarantees

Devine Limited together with its joint venture partner has provided financiers with performance guarantees in relation to leasing of a commercial property. No liabilities are expected to arise.

Devine Limited and its joint venture partners have provided guarantees for the performance of the joint ventures for debt totalling \$40.1m at 30 June 2013 (2012: \$28.2m). The debt is secured against assets of the joint ventures with a recorded value of \$105.9m and is to be repaid from the land sales of the joint ventures. No liabilities are expected to arise.

### (h) Terms and conditions

Transactions with related parties are made on normal commercial terms and conditions and at market rates.

## 35 Interests in joint ventures

### (a) Joint venture operations

At balance date, the Group had interests in a number of joint venture operations and these are listed below. Each joint venture is a resident in Australia and their principal activity is property development.

	Percentage interest held	
	2013	2012
Bacchus Marsh Joint Venture	50	50
Deer Park Joint Venture	50	50
Casey Fields Joint Venture	55	55
Henry Road Pakenham Joint Venture	50	50
Halletts Road Joint Venture *	-	50
Turramurra Joint Venture	50	-

\* Halletts Road Joint Venture was deregistered during the year ended 30 June 2013.

The Group's interests in the joint venture operations are included in the Consolidated statement of financial position in accordance with accounting policies described in Note 1 under the following classifications:

	30 June 2013 \$'000	30 June 2012 \$'000
Current assets	9,790	12,025
Non-current assets	33,394	31,852
<b>Total assets</b>	<b>43,184</b>	<b>43,877</b>
Current liabilities	9,417	32,868
Non-current liabilities	31,890	11,098
<b>Total liabilities</b>	<b>41,307</b>	<b>43,966</b>
<b>Net assets</b>	<b>1,877</b>	<b>(89)</b>

### (b) Joint venture entities

At balance date, the Group had equity interests in a number of joint venture entities and these are listed below. Each joint venture is a resident in Australia and their principal activity is property development.

	Ownership interest %	
	2013	2012
Hamilton Harbour Unit Trust	50	50
Townsville City Project Trust	50	50
Riverina Estate Development Trust	50	50
VR Pakenham Trust	50	50
Kurunjang Development Trust	50	50
Wallan Project Trust	50	50
DoubleOne 3 Unit Trust**	50	-
Fallingwater Trust	15	15
Deep Blue Consortium Pty Ltd ***	-	45

\*\* 50% of ownership of a previously wholly owned subsidiary, DoubleOne3 Unit Trust was sold to an external party on 25 June 2013. Devine's ownership of the unit trust was accounted as an equity accounted joint venture as at 30 June 2013.

\*\*\* Deep Blue Consortium Pty Ltd was deregistered during the year ended 30 June 2013.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 35 Interests in joint ventures (continued)

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Carrying value of investments accounted for using the equity method</b>	<b>53,317</b>	62,444
<b>Share of the joint venture entities' Statement of financial position</b>		
Current assets	56,388	71,768
Non-current assets	48,809	39,882
Total assets	105,197	111,650
Current liabilities	29,398	33,880
Non-current liabilities	19,822	10,837
Total liabilities	49,220	44,717
<b>Net assets</b>	<b>55,977</b>	66,933
<b>Share of joint venture entities' revenue, expenses and results</b>		
Revenue	50,243	104,114
Expenses	(46,324)	(97,605)
<b>Profit / (loss) before income tax</b>	<b>3,919</b>	6,509

#### (c) Contributions to joint ventures

As part of its business arrangements Devine enters into joint ventures with other parties. Current trading conditions have resulted in the renegotiation of some terms and conditions of these arrangements. No losses are anticipated from these renegotiations.

### 36 Contingencies

#### Contingent liabilities

The Group had contingent liabilities at 30 June 2013 in respect of:

##### (i) Guarantees

The Group has provided the following guarantees:

The Group and controlled entities have provided bank guarantees and surety bonds totalling \$36.0m at 30 June 2013 (2012: \$40.9m) relating to individual land developments and other aspects of the Company's operations. The guarantees and bonds are secured by charges over the assets of the respective entities or indemnities. No liabilities are expected to arise.

The Group, together with its joint venture partner has provided financiers with performance guarantees in relation to leasing of a commercial property for a project. No liabilities are expected to arise.

The Group and its joint venture partners have provided guarantees for the performance of the joint ventures for debt totalling \$40.1m at 30 June 2013 (2012: \$28.2m). The debt is secured against assets of the joint ventures with a recorded value of \$105.9m and is to be repaid from the land sales of the joint ventures. No liabilities are expected to arise.

The Group also provides performance and financial guarantees for land acquisitions, construction and developments in the normal course of its business operations. No liabilities are expected to arise.

##### (ii) Litigation

There are a small number of matters that are the subject of litigation or potential litigation with different parties. It is expected that these matters will be resolved with no material cost being incurred by the Company.

### 37 Segment information

#### (a) Description of segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Managing Director and CEO and the Board.

**(b) Operating segments**

	Housing and Land \$'000	Development and Construction \$'000	Corporate and Other \$'000	Consolidated Total Continuing Operations \$'000
<b>2013</b>				
Total sales revenue	237,962	73,111	-	311,073
Interest revenue	618	999	1,773	3,390
Other revenue	174	2,572	3	2,749
<b>Total segment revenue *</b>	<b>238,754</b>	<b>76,682</b>	<b>1,776</b>	<b>317,212</b>
Operating segment result before write-down	3,822	8,303	(2,923)	9,202
Write-down of inventory (Note 4)	-	(10,000)	-	(10,000)
<b>Segment result</b>	<b>3,822</b>	<b>(1,697)</b>	<b>(2,923)</b>	<b>(798)</b>
Profit / (loss) before income tax	-	-	-	(798)
Income tax benefit / (expense)	-	-	-	239
<b>Profit / (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(559)</b>
<b>Segment assets</b>	<b>437,524</b>	<b>81,876</b>	<b>24,967</b>	<b>544,367</b>
<b>Segment liabilities **</b>	<b>100,318</b>	<b>28,817</b>	<b>97,727</b>	<b>226,862</b>
<b>Other segment information</b>				
Investments in joint venture entities	15,773	37,544	-	53,317
Share of net profits of joint venture entities	1,051	2,868	-	3,919
Depreciation and amortisation expense	454	238	245	937
Write-down of inventory	-	10,000	-	10,000
<b>2012</b>				
Total sales revenue	196,618	117,247	-	313,865
Interest revenue	440	1,798	1,756	3,994
Other revenue	903	4,056	14	4,973
<b>Total segment revenue *</b>	<b>197,961</b>	<b>123,101</b>	<b>1,770</b>	<b>322,832</b>
Operating segment result before write-down	(1,039)	21,876	(4,763)	16,074
Write-down of inventory (Note 4)	(15,300)	(19,000)	-	(34,300)
<b>Segment result</b>	<b>(16,339)</b>	<b>2,876</b>	<b>(4,763)</b>	<b>(18,226)</b>
Profit / (loss) before income tax	-	-	-	(18,226)
Income tax benefit / (expense)	-	-	-	5,333
<b>Profit / (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,893)</b>
<b>Segment assets</b>	<b>407,877</b>	<b>130,840</b>	<b>30,644</b>	<b>569,361</b>
<b>Segment liabilities **</b>	<b>74,167</b>	<b>66,007</b>	<b>107,726</b>	<b>247,900</b>
<b>Other segment information</b>				
Investments in joint venture entities	12,064	50,380	-	62,444
Share of net profits of joint venture entities	31	6,478	-	6,509
Depreciation and amortisation expense	365	48	197	610
Write-down of inventory	15,300	13,000	-	28,300
Write-down of inventory in joint venture entity	-	6,000	-	6,000
<b>Total</b>	<b>15,300</b>	<b>19,000</b>	<b>-</b>	<b>34,300</b>

\* Revenue of \$45.8m (2012: \$99.2m) representing Devine's share from the settlement of apartments at the Hamilton Harbour project is not included in this figure. This revenue is recognised directly within the Hamilton Harbour joint venture entity and accounted for by Devine on a net basis through the share of profits of equity accounted joint ventures. Revenues of \$53.0m (2012: \$112.1m) have been included in revenue as derived from the construction of the Hamilton Harbour project. These revenues are attributable to the Development and Construction segment.

\*\* Corporate liabilities reflect borrowing by the Group which is made available to operating divisions as required to fund operations (excluding specific project funding).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 37 Segment information (continued)

#### (c) Segment information provided to the senior executive management team

The Company operates in only one geographic segment, Australia.

### 38 Earnings per share

#### (a) Basic and diluted earnings per share

	2013 Cents	2012 Cents
Total basic and diluted earnings per share attributable to the ordinary equity holders of the Company	(0.4)	(8.1)

#### (b) Reconciliation of earnings used in calculating earnings per share

	2013 \$'000	2012 \$'000
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(559)	(12,893)

#### (c) Weighted average number of shares used as denominator

	2013 Number	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	158,730,556	158,730,556
Adjustments for calculation of diluted earnings per share:		
Options	-	-
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	158,730,556	158,730,556

Options granted to employees are only included in the determination of diluted earnings per share to the extent they are considered potentially dilutive.

#### Conversions, calls, subscriptions or issues since the reporting date

There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

### 39 Events occurring after the reporting period

There have been no significant events which have occurred post 30 June 2013.

### 40 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes and not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and aging analysis for credit risk.

The Board provides oversight of the overall risk management framework and liquidity risk, as well as policies covering specific areas of interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

**(a) Market risk**

**Cash flow and fair value interest rate risk**

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain at least 50% of its borrowings at fixed rate using interest rate derivatives to achieve this when necessary. During 2013 and 2012, the Group's borrowings at variable rate were denominated in Australian Dollars.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest bearing positions. Based on the simulations performed, the table below details the impact on profit or loss of a 100 basis point shift. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the Board.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate and other derivatives. Such interest rate derivatives have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate derivatives, the Group agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

Index	Impact on post-tax profit		Impact on other components of equity	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
+1% (100 basis points)	(640)	(586)	727	542
-1% (100 basis points)	577	750	(800)	(677)

As at the end of the reporting period, the Group had the following variable rate borrowings outstanding:

	30 June 2013		30 June 2012	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	5.8%	119,236	7.1%	132,875
Value of variable rate borrowings effectively hedged		(100,000)		(125,000)
Net exposure to cash flow interest rate risk		19,236		7,875

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Continued

### 40 Financial risk management (continued)

#### (b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions to be accepted, they must be Australian registered banks or institutions recognised by the Australian Prudential Regulation Authority (APRA) as Authorised Deposit - taking Institutions (ADIs) and have an independent external rating of at least the equivalent of Standard & Poor's (S&P) BBB. The Group's activities are centred around the development and sale of real estate (housing, residential land, residential units and retail/commercial office developments) and title does not transfer until settlement has occurred. Sales to individual customers are settled predominantly with financial institutions at the time the properties are settled. The Group from time to time, enters into arrangements with business and joint venture partners. Credit risk further arises in relation to financial guarantees, vendor funding, and other receivables with business and joint venture partners, which if material, either individually or in aggregate to a single party, are subject to board approval.

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Trade receivables</b>		
Trade receivables	45,761	84,079
Other receivables	27,834	395
	<b>73,595</b>	<b>84,474</b>
<b>Cash at bank and short-term bank deposits</b>		
AA-	5,476	20,143
A-	5,488	-
BBB+	5,018	-
BBB	5,004	-
	<b>20,986</b>	<b>20,143</b>
<b>Retentions</b>		
Not rated	191	231

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

#### Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2013 \$'000	2012 \$'000
<b>Floating rate</b>		
Expiring beyond one year (bank loans) *	69,312	59,440

\* Subject to security asset values at the time of utilisation.

#### Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.



## Contractual maturities of financial liabilities

	Less than 6 months \$'000	6 - 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
<b>At 30 June 2013</b>						
<b>Non-derivatives</b>						
Trade payables	49,545	548	6,659	9,180	-	<b>65,932</b>
Interest bearing	27,046	4,446	4,398	93,895	-	<b>129,785</b>
Non-interest bearing	17,983	10,800	6,600	-	-	<b>35,383</b>
<b>Total non-derivatives</b>	<b>94,574</b>	<b>15,794</b>	<b>17,657</b>	<b>103,075</b>	<b>-</b>	<b>231,100</b>

	Less than 6 months \$'000	6 - 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
<b>At 30 June 2012</b>						
<b>Non-derivatives</b>						
Trade payables	53,852	11,017	-	-	-	64,869
Interest bearing	14,813	26,648	20,207	93,062	-	154,730
Non-interest bearing	22,226	3,900	10,555	6,600	-	43,281
<b>Total non-derivatives</b>	<b>90,891</b>	<b>41,565</b>	<b>30,762</b>	<b>99,662</b>	<b>-</b>	<b>262,880</b>

These amounts represent the contractual values, not the carrying amounts or fair values.

### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The only financial assets and liabilities measured at fair value are derivatives used for hedging. All other financial assets and liabilities are measured at their carrying values which are considered to approximate fair value.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's assets and liabilities required to be measured at fair value at 30 June 2013 and 30 June 2012:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2013</b>				
<b>Liabilities</b>				
Derivatives used for hedging	-	656	-	<b>656</b>
<b>Total liabilities</b>	<b>-</b>	<b>656</b>	<b>-</b>	<b>656</b>
<b>30 June 2012</b>				
<b>Liabilities</b>				
Derivatives used for hedging	-	755	-	755
<b>Total liabilities</b>	<b>-</b>	<b>755</b>	<b>-</b>	<b>755</b>

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps and caps is calculated as the present value of the estimated future cash flows.

# DIRECTORS' DECLARATION

**30 June 2013**

In the Directors' opinion:

- (a) the Financial statements and notes of Devine Limited for the financial year ended 30 June 2013 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 11 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 12.

Note 1(a) confirms that the Financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.



**P J Dransfield**  
Chairman



**D B Keir**  
Managing Director and CEO

Brisbane  
28 August 2013

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

30 June 2013



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## Independent auditor's report to the members of Devine Limited

### Report on the financial report

We have audited the accompanying financial report of Devine Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

**30 June 2013**  
**Continued**



## Opinion

In our opinion:

- a. the financial report of Devine Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Devine Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Alison de Groot  
Partner  
Brisbane  
28 August 2013

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# SHAREHOLDER INFORMATION

**Shareholder Information set out below  
was applicable as at 19 August 2013**

## A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity security			
	Ordinary shares		Executive options	
	Holders	No of shares	Holders	No of options
1 - 1,000	959	367,725	-	-
1,001 - 5,000	1,407	3,554,802	-	-
5,001 - 10,000	544	4,070,103	-	-
10,001 - 100,000	764	20,156,014	2	168,250
100,001 and over	82	130,581,912	3	1,307,750
	3,756	158,730,556	5	1,476,000

There were 689 holders of less than a marketable parcel of ordinary shares (\$500).

## B. Equity security holders

### Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Leighton Residential Investments Pty Ltd	80,368,643	50.63
Brazil Farming Pty Ltd	10,115,995	6.37
HSBC Custody Nominees (Australia) Limited	6,616,243	4.17
Citicorp Nominees Pty Limited	4,896,081	3.08
RBC Investor Services Australia Nominees Pty Limited	4,505,162	2.84
UBS Nominees Pty Ltd	2,576,207	1.62
National Nominees Limited	1,140,480	0.72
Wilmar Enterprises Pty Ltd	975,000	0.61
Contemplator Pty Ltd	900,000	0.57
QIC Limited	893,467	0.56
Hugh Green Foundation	860,000	0.54
Luton Pty Ltd	816,273	0.51
Ruminator Pty Ltd	621,021	0.39
Corry Lyn Pty Ltd	600,000	0.38
Di Iulio Homes Pty Limited	580,000	0.37
South Seas Holdings Limited	546,750	0.34
J P Morgan Nominees Australia Limited	476,930	0.30
Invia Custodian Pty Limited	437,500	0.28
Mr Steven Fahey + Mrs Lynette Fahey	435,716	0.27
Golden Venture Pty Ltd	430,000	0.27
	118,791,468	74.82

## C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage of issued shares
<b>Ordinary shares</b>		
Leighton Residential Investments Pty Ltd	80,368,643	50.63%
Brazil Farming Pty Ltd	10,115,995	6.37%
	90,484,638	57.00%

## D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## FIVE YEAR FINANCIAL SUMMARY

	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Revenues from ordinary activities	427,734	570,865	425,173	313,865	311,073
Profit / (loss) from ordinary activities before Interest & Tax	36,961	29,969	42,500	(11,214)	6,042
Profit / (loss) from ordinary activities before Tax	20,630	11,507	29,052	(18,226)	(798)
Profit / (loss) from discontinued operations before Tax	928	125	-	-	-
Profit / (loss) after Tax	16,699	8,158	20,188	(12,893)	(559)
Net profit / (loss) attributable to members of Devine Ltd	16,699	8,158	20,188	(12,893)	(559)
Dividends declared, paid or provided for	20,250	-	12,698	9,524	3,174
Retained earnings	35,987	44,145	51,635	29,218	25,485
Total assets	673,184	559,682	588,012	569,361	544,367
Net assets / shareholders equity	265,283	336,407	343,997	321,461	317,505
Net tangible assets	248,229	333,091	340,681	318,145	314,189
Number of ordinary shares on issue ('000)	78,872*	158,730*	158,730*	158,730	158,730
Net tangible assets per ordinary share (cents)	314.7	209.8	214.6	200.4	197.9
Earnings per ordinary share (cents)	19.6	7.2	12.7	(8.1)	(0.4)
Dividends per ordinary share (cents)					
Interim	12.0	-	4.0	2.0	-
Final	-	4.0	4.0	2.0	-
Total	12.0	4.0	8.0	4.0	-
Closing share price (cents)	176.0*	94.0*	100.0*	58.0	67.0
Return on shareholders equity (%)	6.3	2.7**	5.9	(3.9)	(0.2)
Dividend yield % (before grossed up effect of franking credits)	6.8	4.3	8.0	6.9	-
Price / earnings ratio (times)	9.0	13.1	7.9	N/A	N/A

\* Comparatives have been restated to reflect 4 for 1 share consolidation at November 2011.

\*\* NTA and EPS have been affected by issue of shares for Rights Issue and Institutional Placement in March 2010.  
Current and comparative year EPS and diluted EPS has been restated in accordance with AASB 133 Earnings per Share.



# **CORPORATE DIRECTORY**

## **Directors**

P J Dransfield (Chairman)  
D B Keir (Managing Director and CEO)  
D J Ridley (retired 31 December 2012)  
J S Downes (appointed 1 January 2013)  
Hon. T M Mackenroth  
G E McOrist  
R W Parris  
V A Vella  
T G Young

## **Chief Financial Officer**

P V Cochrane

## **Company Secretary**

V N Grayson

## **Notice of Annual General Meeting**

The annual general meeting of Devine Limited will be held at  
Customs House, 399 Queen Street, Brisbane  
Time: 10:30am  
Date: Friday 1 November 2013

## **Principal Registered Office in Australia**

Level 1, KSD1, 485 Kingsford Smith Drive, Hamilton Queensland 4007  
07 3608 6300

## **Share Registrar**

Computershare Investor Services Pty Limited  
117 Victoria Street, West End Queensland 4101  
1300 787 474

## **Auditor**

Ernst & Young  
Level 51, 111 Eagle Street, Brisbane Queensland 4000

## **Solicitors**

McCullough Robertson  
Level 11, 66 Eagle Street, Brisbane Queensland 4000

## **Principal Bankers**

Australia and New Zealand Banking Group Limited  
Level 20, 111 Eagle Street, Brisbane Queensland 4000

## **Securities Exchange Listings**

Devine Limited shares are listed on the Australian Securities Exchange (ASX Code: DVN)

## **Website**

[www.devine.com.au](http://www.devine.com.au)



**Devine**  
GROUP

**Devine Limited**

ABN 51 010 769 365

Level 1, KSD1,  
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# THE 2013/14 BUDGET