

ASX release

3 November 2017

2017 ANNUAL GENERAL MEETING MANAGING DIRECTOR'S ADDRESS

Good morning ladies and gentlemen,

I am pleased to present to you the Group's 30th annual consolidated performance for the financial year. You may not be aware that Desane Group Holdings Limited was first listed on the Second Board of the Hobart Stock Exchange in September 1987. One month later the global stock market crash conjured fears of a deep recession. What interesting times they were. Since then it has been a great pleasure to share the journey of our Company's growth with many of you our long term shareholders. It has also been an honour to have led this company together with our recently Queens Birthday honoured Chairman, John Sheehan AM and with John Bartholomew our current non-executive Director. **I would also like to acknowledge, in our 30th anniversary year, our inaugural Chairman, the late John Evans, who shared with us his high moral and ethical standards, which are an integral part of our Company's DNA.**

In recent years, our Board has been strengthened by the appointment of Rick Montrone as a Director and Jack Sciara as Company Secretary. Whilst we have seen many highs and lows in the property market and economy we stand proud to say that we have withstood all that has come before us.

At the 2016 Annual General Meeting, I announced to shareholders that the Group would strive to achieve three key objectives for the 2017 financial year.

Thornton

The first objective was the acquisition of suitably located assets in the Sydney metropolitan area that would allow Desane the opportunity to rezone, develop or add value in a highly competitive property market.

In December 2016, Desane achieved this objective by purchasing **1.2 hectares** of developable land in the Sydney suburb of Penrith. The property, located on Thornton Drive, offers a unique and direct exposure to the new master-planned residential estate completed at Thornton by UrbanGrowth NSW, a precinct which will ultimately provide over 1,000 new residential dwellings and approximately 15,000m² of retail, commercial and bulky goods floor space.

In view of the NSW Government's strategic plan for increased densification in Sydney's west, Desane engaged the services of leading planners and urban designers Urbis and Architectus, to prepare a planning proposal for the rezoning of the Thornton property to a mixed use site. Initial discussions with Penrith City Council have been positive and the planning proposal is expected to be lodged in 2018. **The site could yield a mixed use development incorporating 1,800m² of commercial space and approximately 250+ residential apartments**, subject to final urban design and architectural details.

The planning proposal is expected to be in line with other mixed use developments already underway in the Thornton precinct, including the 600-apartment "*Thornton Central*" project, the 200-apartment "*Sheffield*" project, as well as the proposed 580-apartment "*Thornton Signature Tower*" currently in the early planning approval stages. Our property is located only a few hundred metres from these projects in a Local Government Area that has a NSW Government endorsed master plan strategy of delivering 6,600 new dwellings within 5 years and more than 25,000 new dwellings within 15 years. The property is ideally located within a catchment of existing services such as public transport and shops and is only 400 metres from Penrith Railway Station and 600 metres from the 7th largest Westfield in NSW.

The investment by Desane at Thornton supports the strong confidence the Desane Board has in the Sydney property market and the ability of its management to take advantage of strategic growth "cities" such as Penrith.

Lane Cove Asset

Our second objective was to realise some of the value locked into the Group's balance sheet from its existing investment portfolio in a maturing property cycle. I believe we have met this objective with the completion and sale of the 7-9 Orion Road, Lane Cove asset for **\$18.2 million at a 5.5% yield on a fully leased basis**.

Desane acquired this asset from Tower Life Insurance in 2003 for \$7.8 million after deliberately seeking a well located metropolitan asset which required work on its tenancy mix. The completion of the sale of this property, **being an increase of 133% on its purchase price** is a demonstration of Desane management's track record of identifying, upgrading and realising well located properties at the appropriate time in the property market cycle.

Rozelle

The third objective that I outlined for the 2017 financial year was for our Company to negotiate a satisfactory outcome with the NSW Government on the proposed compulsory acquisition of our 68-72 Lilyfield Road, Rozelle property.

Our objective to rezone the Rozelle property is well known and shareholders have been informed of this objective as far back as 2012. Desane's management and Board are committed to rezoning the property, as the current planning framework and built form confirm the property has reached the end of its economic life.

The management of Desane and its team of expert consultants have spent a great deal of time and resources in key stakeholder engagements including with the local Council, the NSW Department of Planning and Urban Growth NSW – the agency delivering the Bays Precinct Urban Transformation Plan. On the back of these positive stakeholder engagements, and the fact that the Rozelle planning proposal was and continues to be consistent with State Government sub regional planning for housing and employment, Desane lodged its proposed amendment to the Regional Environmental Plan (“**SREP26**”) with the NSW Department of Planning in June 2015.

Government Planning

The formation of the Greater Sydney Commission and the recent announcements of “*A Plan for Growing Sydney*”, as well as the concept of District Plans incorporating the vision of a metropolis of “*Three Cities*” only reinforces the need to overcome the difficulty of a city struggling with chronic undersupply and shortage in housing. This is very much a legacy of poor planning and strategy left by previous NSW Governments.

In fact, the current NSW Premier has made housing supply and housing affordability a key priority for her Government, with a raft of announcements including changes to NSW planning legislation, new urban revitalisation corridors, increased growth areas and priority precincts, as well as a range of other transport infrastructure projects, such as the Sydney Metro Train project, aimed towards a master plan strategy of increased densification and rezoning of infill suburbs, including inner city suburbs such as Rozelle.

Recently the NSW Minister for Planning determined that the urban renewal of land within The Bays Precinct (including the Rozelle property) was a matter of State planning significance, and agreed to investigate the area as a State Significant Precinct. These Government policies and strategies confirm, as far as Desane’s Board is concerned, that the planning path taken by its management in 2015 was absolutely correct.

The Desane planning proposal is a well thought out concept achieving both broad strategic merit as well as site specific merit. It is a proposal that imposes no constraints on the existing neighbourhood, modernises the mix of employment uses whilst retaining employee numbers, and exceeds both SEPP 65 and Apartment Design Guide (ADG) compliance. The planning proposal, as lodged, is a worthy proposal for consideration by the NSW Department of Planning.

The development potential and value of this property is no doubt considerable, particularly given the scarcity of supply and continued demand for inner Sydney sites. Recent sales of comparable properties in Glebe, Ultimo, Pyrmont, Leichhardt, and Balmain, as well as sales revenues achieved at the recently completed Desane Easton Rozelle residential development, all confirm the growing desire of Sydney residents to live within a short distance of the CBD. It is not unreasonable to consider that our Rozelle property is capable of achieving a significant mixed use development in line with the plans we have shared with you over the past several years.

Legal Action

It is with this in mind that the Board formed its view that the offer of \$18.4 million made by the Roads & Maritime Services (“RMS”) to acquire the Rozelle development property was totally unacceptable and out of line with the market and as a consequence would need to be contested.

The subsequent intransigence of the RMS, their inability to engage in meaningful negotiations, as well as the incredible uncertainty around the genuine need for the Rozelle property for the WestConnex M4-M5 Link Project, forced Desane to challenge the legality of the Proposed Acquisition Notice (“PAN”) in the NSW Supreme Court.

As a Board, we have a duty and obligation to fully safeguard your Company’s assets to ensure we achieve the highest and best possible outcome for you.

Whilst mindful of the uncertainty as well as the cost of taking legal action, your Board and the management of Desane are entirely confident this decision will not detract from us getting on with delivering continued value to you as shareholders.

We will keep you updated as we approach the matter being heard in the NSW Supreme Court in late February 2018 with a decision expected by the end of March.

Share Price

Desane’s share price has increased by approximately 62% to \$1.26 since the last AGM and notably, the Australian Financial Review in September 2017 reported that the share price performance was a vote of confidence from the Company’s shareholders and investors.

During the past financial year, Desane’s shareholders have been rewarded by the distribution of a full year **4.5 cent ordinary fully franked dividend**. In October 2017, shareholders were further rewarded with a **10 cent fully franked special dividend**. Shareholders can look forward to continuing to be rewarded, by receiving fully franked dividend distributions in the 2018 financial year.

2018 Financial Year

In regards to Desane’s 2018 financial year, your management team is focused on ensuring that the value of the assets of the Group continues to improve by focussing on four main operational tasks, namely:

1. Successfully resolving the proposed acquisition of our property at 68-72 Lilyfield Road, Rozelle to ensure the asset is fully safeguarded;
2. Progressing the rezoning of the 1.2 hectare property located at Thornton Drive, Penrith to allow for its full development potential;

3. Reinvesting surplus cash from the successful Easton Rozelle residential project and sale of the 7-9 Orion Road, Lane Cove asset, in the short to medium term, by acquiring Sydney metropolitan assets with add value opportunity; and
4. Improving and strengthening revenue's from the Group's existing and future assets.

The Board and management's collective knowledge of the Australian property market and financial expertise has resulted in the Group achieving an excellent result in the 2017 financial year. This will ensure Desane is ready to take advantage of property opportunities, as they become available, to further enhance scale and shareholder returns in 2018 and the years beyond.

We look forward to your continued support during the course of the upcoming financial year.

I will now present to you the highlights of the Group's 2017 financial result.

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