PPB ADVISORY

Hastie Group Limited and specific subsidiaries

Report by Administrators

Pursuant to Section 439A
of the Corporations Act 2001

January 2013

Joint and Several Administrators
Ian Carson   Craig Crosbie   David McEvoy

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Abbreviation Listing

Hastie Group of companies (All Administrators Appointed)

AFA	AFA Air Conditioning Pty Ltd
AIR	Airducter Pty Ltd
B&B	ACN 129 953 733 Pty Ltd (formerly Beavis & Bartels Pty Ltd)
BSS	Border Stainless Steel Pty Ltd
C&C	Cooke & Carrick Pty Ltd
D&EA	D&E Air Conditioning Pty Ltd
D&EM	D&E Mechanical Services Pty Ltd
DESMO	ACN 141 619 196 Pty Ltd (formerly Direct Engineering Marine & Offshore Services Pty Ltd)
DES	ACN 008 700 178 Pty Ltd (formerly Direct Engineering Services Pty Ltd)
GTS	GTS Plumbing (QLD) Pty Ltd
HACT	Hastie Air Conditioning (ACT) Pty Ltd
HAI	Hastie Air Conditioning Pty Ltd
HAU	Hastie Australia Pty Ltd
HDG	Hastie Drafting Group Pty Ltd
HEN	Hastie Engineering Pty Ltd
HFI	Hastie Finco Pty Ltd
HGAS	Hastie Group Admin Services Pty Ltd
HST	Hastie Group Ltd (ASX listed company)
HGS	Hastie Group Services Pty Ltd
HIND	Hastie India Pty Ltd
HEY	ACN 121 276 168 Pty Ltd (formerly Heyday Group Pty Ltd)
ICA	Independent Commission Agents Aust Pty Ltd
LMS	Longley Mechanical Service Pty Ltd
M&H	M&H Air Conditioning Pty Ltd
MED	Medical Gases Pty Ltd
N&D	Nisbet & Durney Pty Ltd
NMH	Norfolk Maintenance Holdings Pty Ltd
OPT	Optimus Pty Ltd
ROA	Rotary Australia Pty Ltd
S&P	Sharp & Pendrey Pty Ltd
WAT	Watters Electrical (Aust) Pty Ltd

Hastie Group of companies (In Liquidation)

HINT	Hastie International Pty Ltd
HSA	Hastie Saudi Arabia Pty Ltd

Hastie Group of companies (All Administrators Appointed) (All Receivers and Managers Appointed)

AIN	Austral International Pty Ltd
ARE	Austral Refrigeration Pty Ltd
ARH	Austral Refrigeration Holdings Pty Ltd
COM	Comcool Refrigeration Pty Ltd
GBI	ACN 118 354 331 Pty Ltd (formerly Gordon Brothers Industries Pty Ltd)
HHO	Hastie Holdings Pty Ltd
HSE	Hastie Services Pty Ltd
LRE	Lawrence Refrigeration Pty Ltd
QAL	QAL Refrigeration (WA) Pty Ltd
SFS	ACN 050 411 179 Pty Ltd (formerly Spectrum Fire & Security Pty Ltd)
TDO	Techni Doors Pty Ltd

Other abbreviations

Act	Corporations Act 2001 (Cth)
Accounts	Hastie Group consolidated financial accounts as prepared by Hastie Group management
Administration	Collectively the external administration of each company within the Hastie Group pursuant to Part 5.3A of the Act
Administrators	Ian Carson, Craig Crosbie and David McEvoy as Joint and Several Administrators
AASB	Australian Accounting Standards Board

APES	Accounting Professional and Ethical Standards
April Report	An internally produced report about Hastie Group's strategic, operational and financial issues which was presented to the Board in April 2012
ARC	Hastie Group's Audit and Risk Management Committee
ASA	Australian Auditing Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
b	Billion
Banking Syndicate	Comprises: • Australia and New Zealand Banking Group Ltd (**ANZ**) • National Australia Bank Ltd (**NAB**) • Commonwealth Bank of Australia Ltd (**CBA**) • HSBC Bank Australia Ltd (**HBA**) • Hong Kong and Shanghai Banking Corporation Ltd (**HSBC**) • Ulster Bank Ireland Ltd (**UBI**) • Ulster Bank Ltd (**UB**) • BOS International (Australia) Corporation Limited (**BOSI**) • Bank of Scotland plc (**BOS**) • Westpac Banking Corporation (**WBC**). collectively owed circa $529.9m by the Hastie Group
Board	The directors and officers of HST
Board Packs	Internally and externally generated information about the Hastie Group presented to the Board
c	Circa (approximately)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Charges	The documents granting the Security Trustee (on behalf of the Banking Syndicate) security interests over the assets of 41 of the Hastie Group companies: • Deed of Charge and Mortgage of Shares between the Security Trustee, HST and other Hastie Group companies dated 1 April 2008 • Deed of Charge and Mortgage of Shares between the Security Trustee, HST and other Hastie Group companies dated 3 November 2009 • Deed of Charge and Mortgage of Shares between the Security Trustee, HST and other Hastie Group

	companies dated 29 June 2010
COC	Committee of Creditors
COI	Committee of Inspection
Court	Federal Court of Australia
DEEWR	Department of Employment, Education and Workplace Relations
d/g	Downgraded
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
EBIT	Earnings Before Interest and Tax
EOI	Expressions of Interest
FY	Financial Year (1 July to 30 June)
GEERS	General Employee Entitlements and Redundancy Scheme
GFC	Global Financial Crisis
Hastie Group	HST and 43 of its subsidiaries in administration
Headroom	The amount of unused credit in a bank facility
HY	Financial half year (1 July to 31 December)
Indemnity Deeds	Directors' Indemnity, Access and Insurance Deed (for individual directors of HST)
ISR	Individual Subsidiary Reports for Hastie Group companies as contained in Appendix P
IPAA	Insolvency Practitioners Association of Australia
JV	Joint venture: A contractual agreement joining two or more parties for completing a particular business undertaking. All parties agree to share profits and losses.
k	Thousands
KPI	Key Performance Indicator
m	Million
MEP	Mechanical, Electrical and Plumbing division of Hastie Group
MGN	McGrathNicol. Messrs Anderson, Hayes, Preston and Caddy of MGN are the Receivers and Managers of 11 Hastie Group companies
NBV	Net Book Value
NPV	The Net Present Value represents an assessed value of a series of cash flows over time (generally the net of incoming less outgoing) to be received in the future. The future net cash flows or series of cash flows are discounted to represent their current value to account for the time value of money, risk and expected returns
NSW	New South Wales
NTA	Net Tangible Assets
NZ	New Zealand

PAYG	Pay As You Go withholding tax
POD	Proof of Debt form
Policy	Directors and officers insurance policy
PPBA	PPB Advisory
PPSA	Personal Property Security Act 2009
PPSR	Personal Property Securities Register (as established by the PPSA)
Prospectus	Prospectus dated 17 June 2011 relating to an offer of new shares in HST
R&M Group	11 Hastie Group companies under the control of the Receivers and Managers
RATA	Report As To Affairs
Receivers & Managers	Messrs Anderson, Hayes, Preston and Caddy of McGrathNicol
Report	The Hastie Group Report prepared by the Administrators in accordance with Section 439A of the Corporations Act 2001 (Cth)
Revolver account	A bank account with a line of credit with no fixed repayment terms that was used by the Hastie Group for working capital purposes
ROI	Republic of Ireland
ROT	Retention of Title
Second Meetings	Second or 'decision' creditor meetings at which the Hastie Group creditors will determine the future of each of Hastie Group company
Security Trustee	ANZ Fiduciary Services Pty Ltd, in its capacity as security trustee of the Hastie Group Security Trust and appointed by the Banking Syndicate
SFA	Syndicated Facility Agreement
TBD	To Be Determined
UAE	United Arab Emirates
UK	United Kingdom
WACC	Weighted Average Cost of Capital
WIP	Work-In-Progress
YTD	Year To Date

1 DISCLAIMER

In reviewing this second report to creditors (**the Report**), readers should note:

- The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading.
- We reserve the right to alter any conclusions reached based on any changed or additional information which may be provided to us between the date of this report and the date of the Second Meetings (except where otherwise stated).
- No members or employees of PPB Advisory, nor we as Administrators, are responsible in any way whatsoever to any person in respect of any errors in this Report arising from incorrect information.
- In considering the options available to creditors and formulating our opinion and recommendation, we have necessarily made forecasts of asset realisations and total creditors' claims based on our best assessment in the circumstances. These forecasts and estimates may change as asset realisations progress and we receive creditor claims and consequently the outcome for creditors might differ from the information provided in this Report.

2 EXECUTIVE SUMMARY

2.1 APPOINTMENTS

We were appointed Administrators of Hastie Group Ltd and 43 of its subsidiaries (collectively '**the Hastie Group**') on 28 May 2012 by the directors pursuant to s436A of the Corporations Act 2001 Cth (**Act**).

On the same day and immediately following our appointment, the Banking Syndicate appointed Receivers & Managers to 11 of the Hastie Group companies. As such, the Receivers & Managers have control of the businesses and assets of those companies.

Due to the interdependent relationship of the entities within the Hastie Group, we have prepared this Report on a consolidated basis. This enables stakeholders to fully appreciate the business, operations, financial affairs and our investigations of the Hastie Group as a whole. A breakdown of individual circumstances and historical financials for each entity within the Hastie Group are provided in Appendix P.

This Report has been prepared in accordance with section 439A of the Act and is based on information obtained from the Hastie Group's books and records, financial systems, in some instances from the directors and key management staff and from our own enquiries and investigations.

Readers should note that this Report is based on our investigations to date. Accordingly, the views formed in this Report are not final and may be subject to change. Any additional material issues that are identified subsequent to this Report may be subject to a further written report and/or tabled at the forthcoming Second Meetings.

2.2 SECOND MEETINGS OF CREDITORS & OPTIONS AVAILABLE

Administrators are required to hold a meeting of creditors within five business days of the end of the statutory convening period ending. The principal purpose of the Second Meetings is for creditors to decide the future of each individual company within the Hastie Group, by choosing one of the following three options **for each company**:

1. The company execute a Deed of Company Arrangement (**DOCA**) (we have not received a DOCA proposal for any Hastie Group company so this option is unavailable for consideration by creditors).
2. The company be wound up.
3. The administration of the company ends (and control of the company reverts to its director(s)).

If we receive a DOCA proposal before the Second Meetings, we will endeavour to provide creditors with the terms and conditions of any such proposal along with our revised recommendation prior to the Second Meetings, if altered.

At the Second Meetings, we will also invite creditors to form Committees of Inspection (**COI**) for each Hastie Group company.

The Second Meetings will be held across Australia at different times and venues. Details of which are included in section 3.6 of this report.

2.3 ADMINISTRATORS' OPINION AND RECOMMENDATION

Our recommendation to creditors, pursuant to section 439A(4)(b) of the Act, is that all Hastie Group companies be wound up (ie placed into liquidation).

In our opinion, in the absence of any DOCA proposal, this is the best option for creditors as:

- all Hastie Group companies are insolvent
- liquidation allows the assets of the Hastie Group companies to be realised and distributed in accordance with the Act
- a liquidator would be able to pursue various claims arising from any breaches of the Act or other legal remedies.

We include a summary of our investigation findings to date in section 2.6 below.

2.4 ESTIMATED RETURN TO CREDITORS

2.4.1 Banking Syndicate

The Banking Syndicate holds registered security interests in relation to virtually all the Hastie Group companies and is entitled to the proceeds of all asset sales in priority to general unsecured creditors, but will rank behind the claims of priority creditors (eg employees) in regard to circulating (formerly known as 'floating charge') assets. Such assets typically include debtors, stock and cash.

As at the date of our appointment the Hastie Group was indebted to the Banking Syndicate for c$529.9m.

The return to the Banking Syndicate from the Hastie Group companies in administration in Australia (ie excluding the 11 companies in receivership) will be approximately $3.7m from assets realised at the date of this report. We expect to make further distributions to the Banking Syndicate of up to $1m.

The return to the Banking Syndicate from the following asset realisations is currently unknown:

- The businesses and assets of the 11 entities in receivership
- The Hastie Group's interests in the United Kingdom (**UK**), New Zealand (**NZ**) and the Middle East.

The Receivers and Managers do not expect to realise sufficient funds from the receiverships to satisfy the Banking Syndicate's debt. Accordingly, we do not expect any surplus funds from the receiverships will be available for distribution to ordinary unsecured creditors.

More details are included in section 4.1.

2.4.2 Priority creditors (employees)

Priority claims comprise amounts owed to employees for unpaid wages, unremitted superannuation, leave and termination entitlements.

The Hastie Group had approximately 7,000 employees and, according to the books and records, owed approximately $47m (excluding redundancy payments), including c$1.7m in superannuation.

To date we have received claims from around 1,750 employees and paid entitlements of approximately $27.4m from funds advanced by the federal government under the General Employee Entitlements and Redundancy Scheme (**GEERS**). We expect to receive another 350 employee claims totalling a further $9m. GEERS has paid all entitlements owing to claimants except for unremitted superannuation.

Importantly, entitlements totalling $34.7m of a further 1,523 employees have been preserved through going concern sales by the Administrators and the Receivers and Managers.

As outlined above, employee claims enjoy priority for payment out of circulating assets secured under the Banking Syndicate's securities. The federal government has a right of subrogation for employee entitlements advanced under GEERS, that is, it will receive the same priority as employees would have from any distribution of circulating asset realisations.

We expect that unpaid employee superannuation will at least be partially paid and GEERS will receive a return of some funds advanced from seven Hastie Group companies (refer section 4.2).

Asset realisations (excluding any potential recoveries from voidable transactions or other claims that may be brought by a liquidator) will be insufficient in the remaining Hastie Group entities to provide a return to the priority creditors.

2.4.3 Ordinary unsecured creditors

Ordinary unsecured creditors are owed c$390m. Any return to ordinary unsecured creditors of the Hastie Group companies will be dependent on successful recoveries by a liquidator from:

- voidable transactions
- other actions which may be brought against parties for compensation e.g. the directors, auditors or advisors

Such recoveries will have to be sufficient to firstly repay the priority creditors in full before any return can be made to ordinary unsecured creditors.

2.5 ADMINISTRATORS' OVERVIEW

We make the following overview comments in relation to our investigations into the business, affairs and financial circumstances of the Hastie Group.

2.5.1 Background

- The Hastie Group undertook a significant acquisition programme after listing on the Australian Securities Exchange (**ASX**) in March 2005.
- Eight acquisitions totalling $278m were made during FY08 to FY10, funded by $154m of equity and $123m of debt.
- The Hastie Group acquired businesses with projects in Australia, NZ, UAE, Saudi Arabia, Qatar, UK, Republic of Ireland (**ROI**), Kazakhstan, Gibraltar and the Caribbean. These companies comprised a variety of industries including mechanical, electrical, plumbing, air conditioning and servicing.
- By FY11 Hastie Group had 7,000 employees, turnover in excess of $1.8b, construction work-in-progress (**WIP**) of $2.9b and assets employed of nearly $1b.
- It is evident that the strategic acquisition program did not reap the results expected as:
    - the pre-acquisition performance of acquired businesses was not maintained, based on a simple addition of the earnings of the businesses acquired without reflecting any possible acquisition synergies
    - a draft report by an external consultant in early 2012 suggested possible cost savings of between $26.8 to $68.1m per annum could be achieved, although there is no evidence of material operational synergies and efficiencies being achieved e.g. a single payroll function or greater buying power.

2.5.2 Financial information

- Whilst the Hastie Group's revenue increased over the five years following its listing on the ASX, gross profit margins, EBIT and overall profitability declined dramatically:
  - A loss of c($258m) was reportedly incurred in the 22 months to 30 April 2012
  - Gross profit margin fell from 17% in FY05 to 10% in FY12
  - Earnings fell from $90.1m in FY09 to a loss of ($169.8m) for the 10 months to 30 April 2012.
- The poor trading performance of the Hastie Group led to the diminution in the goodwill value of acquired businesses. As at April 2012 goodwill had been written down $133m from $424m (FY10) to $291m.
- The Hastie Group's balance sheet discloses that the net asset position at 30 April 2012 remained positive at $219m with assets of c$916m.
- The significant assets disclosed on the balance sheet are goodwill, trade and other receivables and WIP, which all had material write-downs in FY10, FY11 and FY12 (total c$254m). Based on our investigations to date, it appears that, due to poor project management and reporting practices, the Board may not have recognised the write-downs relating to goodwill, debtors and WIP in the appropriate reporting periods.
- In our view, had the write-downs been recognised earlier, the potential effects may have included:
  - Hastie Group breaching its banking covenants earlier / more frequently
  - the quantum of the capital raising in June 2011 being increased
  - the capital raising being carried out earlier
  - administrators being appointed earlier
  - changes to investors' and financiers' decisions regarding investing in or supporting the Hastie Group.
- In addition, we consider that the write-downs reported by the Hastie Group may have been materially understated, resulting in goodwill, debtors and WIP being materially overstated even after the write-downs were applied.
- The carrying value of significant ($48.7m) deferred tax assets are also likely overstated.
- Our investigations indicate revenue / project pipeline had been in decline since FY10 because of the perceived credit risk with customers and suppliers.
- In June 2011 Hastie Group raised equity of c$158m to improve the balance sheet position and repay a significant amount of the Banking Syndicate's debt. Notwithstanding this injection of funds the Hastie Group failed within nine months, indicating the true financial position of the Group prior to the capital raising was significantly worse than stated and the forecasts used in the Prospectus were overstated as a consequence.
- The financial statements (for FY10 and FY11 particularly) may be materially misstated and misleading to users of that information, particularly the investors who relied on the financial statements and forecasts included in the Prospectus.
- A report to the Board in April 2012 noted internal cultural issues concerning inflated reported results and optimistic forecasting, attributing underperformance to:
  - poor project management and oversight
  - disputes around contract variations
  - accounting irregularities (ie recognition of revenue practices)
  - problems with specific construction projects.

- The decline in the Hastie Group's performance subsequent to the various business acquisitions and poor retention of key management/ex owners after they had completed their earn-out periods indicates potential mismanagement, poor strategy implementation and monitoring by the Board (refer sections 7.9.4 and 7.9.5).
- Goodwill from overseas business acquisitions are subject to foreign exchange translation at each reporting date. Due to a strong Australian dollar an additional reduction in goodwill of $42.2m was recorded at 30 June 2011.

2.5.3 Reasons for the Hastie Group's failure

The event that ultimately led to our appointment was the Hastie Group's ASX announcement that it had uncovered c$20m of accounting irregularities (refer section 7.9.1).

However, we consider that Hastie Group failed because of a number of longer-term issues, namely:

- the poorly implemented acquisition strategy (refer section 7.9.2)
- profitable companies subsidising the loss-making Middle East businesses (refer section 7.9.3)
- inadequate operational management processes and increased competition (refer section 7.9.4)
- inadequate management reporting systems, including from subsidiary management to the Board (refer section 7.9.4)
- inadequate Board reporting systems and interrogation of management and financial reports by the Board (refer section 7.9.5)
- inadequate control exercised by the Board over management (refer section 7.9.5).

We have identified serious deficiencies with the overall control of the Hastie Group, including:

- internal systems for project management were inadequate and not to industry standard
- financial reporting from subsidiary level up to HST was not uniform and open to manipulation
- the Board did not appear to adequately challenge divisional/subsidiary results or forecasts
- there was possibly a lack of due diligence around acquisitions
- the forecasts contained within the prospectus for the June 2011 capital raising (**Prospectus**) were not adequately reviewed and challenged
- there appears to have been a general culture of ignoring bad news
- the Audit and Risk Committee (**ARC**) was largely inactive
- compliance with accounting standards appears to be lacking, particularly with reference to provisioning for asset impairment
- the Board, prior to the appointment of the interim CEO Bill Wild, appeared not to have 'an enquiring mind' as to reliability of financial statements and overall reporting.

A timeline summarising the significant events leading up to our appointment is included on page 17.

2.6 INVESTIGATIONS

We note that the investigations into the financial affairs of the Hastie Group have not been finalised and any conclusions drawn are preliminary. A liquidator (if appointed) would undertake further detailed investigations before forming any final opinions on these matters. In light of our comments in section 2.5, it would appear beneficial (subject to funding) that public examinations of the directors and other parties are conducted.

Whilst our investigations are ongoing, we summarise our initial findings below:

- **Breaches of director duties:** We have identified a number of possible breaches of the Act as well as possible breaches of their duties at general law (refer section 7.3).
- **Reasons for failure:** The Hastie Group failed due to poor strategic, operational and financial management and increased competition (refer section 7.9).
- **Books and records:** We have concerns that the books and records of the Hastie Group do not correctly explain the Hastie Group's financial performance and position. The books and records may therefore be deficient and give rise to a presumption of insolvency (refer section 7.10).
- **Auditor duties:** The auditor may not have fulfilled his obligations under relevant Australian Auditing Standards (refer section 7.11).
- **Advisor:** The advisor to the Hastie Group in preparing the Prospectus may have breached its retainer and therefore be liable to pay compensation if it can be demonstrated that the work completed was deficient (refer section 7.12).
- **Insolvent trading:** There are no prima facie indications that the Hastie Group traded whilst insolvent. However, additional investigations by a liquidator will be required before a conclusive view can be formed (refer section 7.13).
- **Voidable transactions:** We have not finalised our investigations into voidable transactions, as these investigations require a determination on whether and, if so, when the Hastie Group was insolvent. A liquidator may identify voidable transactions that warrant further investigation and has the power to pursue those claims (refer section 7.14).

We consider it is possible that claims for compensation for the benefit of creditors may exist against:

- the directors for breach of duties
- the auditor for possible breaches of auditing standards
- the advisor to the Hastie Group in respect of the June 2011 equity raising.

We have reported to ASIC the possible breaches of directors' duties and, where relevant, the failure to provide required statutory reports (see section 9) to the Administrators.

Our preliminary conclusions in regard to potential offences as well as the limitations in respect of investigations undertaken to date are outlined in section 7 of this report. Further investigations are ongoing.

2.7 PROGRESS OF ADMINISTRATION

Following our appointment, we assumed control of the assets of the Hastie Group not under the jurisdiction of the Receivers & Managers, which involved attending 34 sites located across Australia.

To date, we have completed the following tasks:

- ceased all operations due to a lack of funding
- ongoing collection of various debtor books, realising $15.1m to date
- collected $2.1m in performance bonds
- completed going concern sales of various businesses and asset sales realising $6.3m
- oversaw the auction of plant and equipment at multiple sites realising $4.1m
- dealt with approximately 1,000 security interest claims on plant and equipment
- liaised with various federal government departments and trade unions to accelerate the process of paying employee entitlements through GEERS
- processed and paid GEERS claims with a total value of $27.4m
- instructed agents to realise assets and liaised with joint venture partners
- attended to statutory reporting requirements
- launched statutory and financial investigations as reported herein
- liaised with key stakeholders including employees, the Banking Syndicate, trade creditors, Australian Securities and Investments Commission (**ASIC**) and ASX
- convened and held meetings of the Committees of Creditors (**COC**)
- sought various court orders regarding the convening of meetings, entering into agreements and dealing with claims pursuant to the PPSA.

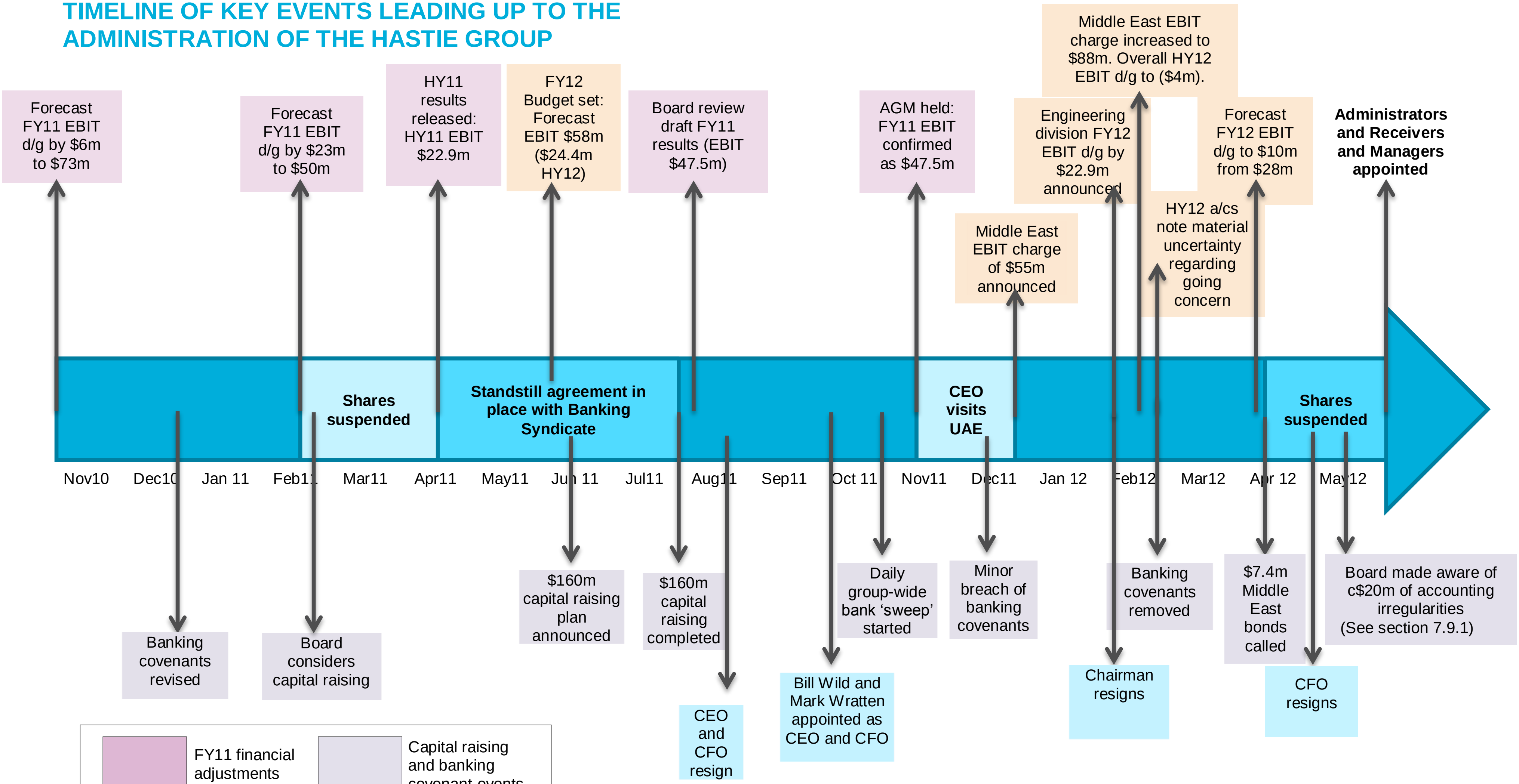
2.8 ENQUIRIES

We ask creditors to submit questions they would like addressed at the Second Meetings by email to hastie@linkmarketservices.com.au no later than **4:00pm on 25 January 2012**. Whilst we will make every effort to address questions submitted, we reserve the right to exclude questions to avoid compromising creditors' interests or due to time constraints.

We will address all material matters that come to our attention after the date of this Report at the Second Meetings. Should any significant information affecting the creditors' decision regarding the future of the Hastie Group come to light, we shall endeavour to advise creditors prior to the Second Meetings by posting such information on our website at www.ppbadvisory.com.

The Executive Summary is designed to give creditors basic information pertaining to the Hastie Group administration. We encourage creditors to read this Report in full.

TIMELINE OF KEY EVENTS LEADING UP TO THE ADMINISTRATION OF THE HASTIE GROUP



FY11 financial adjustments	Capital raising and banking covenant events
FY12 financial adjustments	Key board changes

d/g = downgraded

FY = full year
HY = half year

3 INTRODUCTION

3.1 APPOINTMENTS

On 28 May 2012, we were appointed Joint and Several Administrators of the Hastie Group, under section 436A of the Act.

On the same day, and immediately following our appointment, the Hastie Group's Banking Syndicate appointed Receivers and Managers to the 11 Hastie Group companies listed below:

- Austral International Pty Ltd (**AIN**)
- Austral Refrigeration Pty Ltd (**ARE**)
- Austral Refrigeration Holdings Pty Ltd (**ARH**)
- Comcool Refrigeration Pty Ltd (**COM**)
- ACN 118 354 331 Pty Ltd (formerly Gordon Brothers Industries Pty Ltd) (**GBI**)
- Hastie Holdings Pty Ltd (**HHO**)
- Hastie Services Pty Ltd (**HSE**)
- Lawrence Refrigeration Pty Ltd (**LRE**)
- QAL Refrigeration (WA) Pty Ltd (**QAL**)
- ACN 050 411 179 Pty Ltd (formerly Spectrum Fire & Security Pty Ltd) (**SFS**)
- Techni Doors Pty Ltd (**TDO**)

(collectively the '**R&M Group**')

Upon their appointment, the Receivers and Managers took control of the R&M Group's trading activities and all R&M Group assets covered by the Banking Syndicate's securities. Any questions regarding the trading of the R&M Group or realisation of assets should be referred to the Receivers and Managers (www.mcgrathnicol.com).

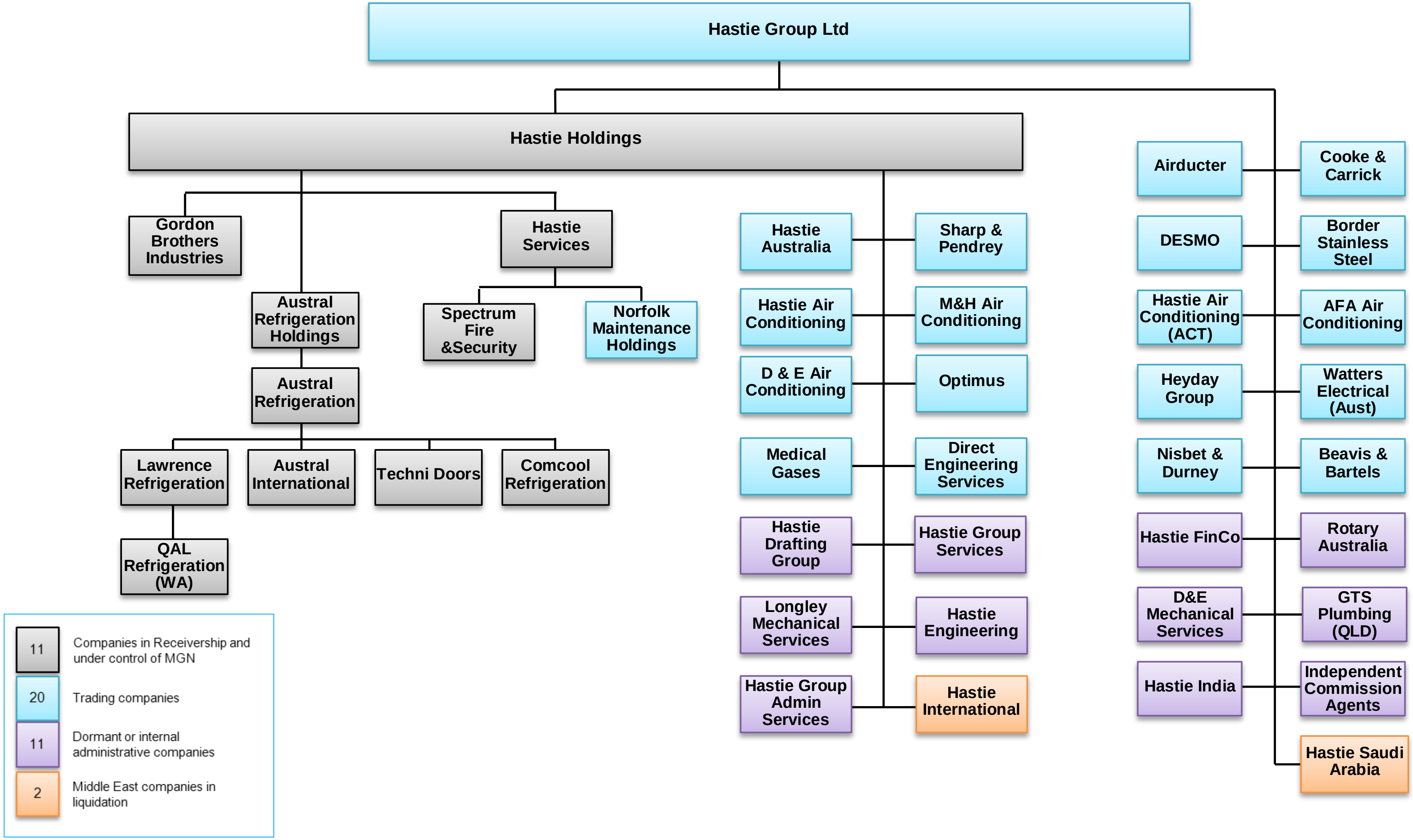
A number of HST subsidiaries incorporated in the UK and NZ were continuing to trade at the time of our appointment and such subsidiaries are financially and operationally independent from the Hastie Group.

Nine UK subsidiaries are subject to external appointments and we are liaising with the appointees of those companies to ensure Hastie Group's interests in these companies are registered. As HST is the ultimate parent company of these subsidiaries, should there be any sale of shares in these companies, the beneficiary of any realisations would be the Banking Syndicate.

A group structure of all the Australian-incorporated companies in Administration as at the date of our appointment is included on the next page. We provide a full schedule of the Hastie Group companies subject to Australian insolvency proceedings, including ACNs, in Appendix F.

THE HASTIE GROUP STRUCTURE

(AUSTRALIAN-INCORPORATED COMPANIES WITH ADMINISTRATORS APPOINTED AS AT 28 MAY 2012)



Note: All companies are Australian registered and 100% owned by Hastie Group Ltd

3.2 PURPOSE OF APPOINTMENT AND REPORT

The primary objective of an administration is to administer the business, property and affairs of a company in a way that:

- maximises the chances of the company, or as much as possible of its business, continuing in existence
- or, if it is not possible for the company or its business to continue in existence, results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

The Act places various reporting requirements upon an administrator. These requirements include:

- preparing a report to creditors, which provides creditors with information regarding the company's business, property, affairs and financial circumstances to assist them in their decision as to the future of the company (pursuant to section 439A of the Act)
- providing a statement within the report, setting out the administrator's opinion and reasoning as to which course of action available is in the best interests of creditors
- specifying whether there are any voidable transactions that may be recoverable by a liquidator.

This Report is based upon our investigations to date. Any additional issues we identify subsequent to this Report may be the subject of a further written report and/or tabled at the Second Meetings.

Our opinion and recommendation regarding the future of each Hastie Group company is set out in section 5 of this Report. In summary, our opinion is that all the Hastie Group companies (except Hastie Saudi Arabia Pty Ltd (**HSA**) and Hastie International Pty Ltd (**HINT**), which are already in liquidation) are insolvent and our recommendation is that they should be wound up at the Second Meetings.

Our investigations have assisted us to formulate our opinion and recommendation. We explain our investigations in more detail in sections 6 and 7 and in the individual subsidiary reports (**ISRs**). The findings included in section 7 broadly apply to HST and the Hastie Group. The findings detailed in each of the ISRs are applicable to the individual company concerned only.

3.3 FIRST MEETINGS OF CREDITORS

The First Meetings of the Hastie Group companies, convened under section 436E of the Act, were held across Australia on 14 and 15 June 2012. We include a full schedule of the First Meetings in Appendix G.

Minutes of the First Meetings of Creditors are obtainable from ASIC's website www.asic.gov.au.

3.4 COMMITTEES OF CREDITORS

At the first meetings of creditors it was resolved that a Committee of Creditors (**COC**) be formed for the following companies:

- Airducter Pty Ltd (**AIR**)
- Austral Refrigeration Pty Ltd (**ARE**)
- Cooke & Carrick Pty Ltd (**C&C**)
- D&E Air Conditioning Pty Ltd (**D&EA**)
- ACN 141 619 196 Pty Ltd (formerly Direct Engineering Marine & Offshore Services Pty Ltd) (**DESMO**)
- Hastie Services Pty Ltd (**HSE**)
- ACN 121 276 168 Pty Ltd (formerly Heyday Group Pty Ltd) (**HEY**)
- Norfolk Maintenance Holdings Pty Ltd (**NMH**)
- Optimus Pty Ltd (**OPT**)
- Sharp & Pendrey Pty Ltd (**S&P**)

- ACN 118 354 331 Pty Ltd (formerly Gordon Brothers Industries Pty Ltd) (**GBI**)
- Hastie Air Conditioning Pty Ltd (**HAI**)
- Hastie Air Conditioning (ACT) Pty Ltd (**HACT**)
- ACN 050 411 179 Pty Ltd (formerly Spectrum Fire & Security Pty Ltd) (**SFS**)
- Watters Electrical (Aust) Pty Ltd (**WAT**)

A full list of COC members by company is available at Appendix H.

Since our appointment we have convened concurrent meetings of the COC for each of the above companies on two occasions. The first meetings were held on 4 October 2012, except for AIR that was without a quorum. At these meetings, we provided a brief update on the progress of the Administrations, including GEERS distributions, asset realisations and other matters as requested by the COC members. The COCs also approved our fees of the respective companies, for the period 28 May 2012 to 31 July 2012.

The second meetings of the COCs were held on 17 December 2012, except for AIR and SFS, which were without a quorum. At these meetings, we provided a general update on the progress of the Administrations, our investigations and other matters as requested by the COC members. The COCs also approved our fees for the period 1 August 2012 to 31 October 2012.

Details of our approved fees are included in section 12.

3.5 EXTENSION OF CONVENING PERIOD

Section 439A of the Act requires an administrator to hold a second meeting of creditors within five business days after the end of the 20 business day convening period, unless the convening period is extended by the Court under section 439A(1) of the Act.

On 19 June 2012, following our application, the Court ordered an extension to the convening period for the Second Meetings of up to 150 business days, from 25 June 2012. We sought the extension of the convening period to allow us to:

- conduct appropriate investigations in accordance with our statutory obligations
- identify potential claims and recoveries for a liquidator
- consider claims from parties asserting an interest in, or ownership of, Hastie Group assets
- assist the Receivers and Managers in their role
- prepare this report, including the attached ISRs.

The above work has enabled us to investigate each of the Hastie Group companies and form our opinion on which of the options available to creditors at the Second Meetings is in their interests.

In addition, the Court also made orders allowing us to:

- notify creditors of the Second Meetings where possible by email
- post the notice of the Second Meetings on the PPB Advisory website www.ppbadvisory.com
- advertise the notice of the Second Meetings in a major Australian newspaper (a notice was published in *The Australian* and various other leading metropolitan newspapers in each state and territory on Monday, 21 January 2013).
- make the Report available on the PPB Advisory website www.ppbadvisory.com
- nominate representatives to chair the Second Meetings on our behalf.

We do not consider that creditors have been, or will be, compromised or disadvantaged by the orders.

3.6 SECOND MEETINGS OF CREDITORS

Pursuant to section 439A of the Act, the Second Meetings for the Hastie Group companies, except HSA and HINT, will be held as follows:

Meeting 1 - 9.30am (local time) on 30 January 2013 at Rydges Melbourne, 186 Exhibition Street, Melbourne VIC 3000

- COOKE & CARRICK PTY LTD ACN 126 114 556
- D & E AIR CONDITIONING PTY LTD ACN 112 124 919
- ACN 118 354 331 PTY LTD (FORMERLY GORDON BROTHERS INDUSTRIES PTY LTD) ACN 118 354 331
- INDEPENDENT COMMISSION AGENTS AUST PTY LTD ACN 152 251 093
- NORFOLK MAINTENANCE HOLDINGS PTY LTD ACN 123 207 312
- SHARP & PENDREY PTY LTD ACN 006 378 123
- WATTERS ELECTRICAL (AUST) PTY LTD ACN 128 370 570

Meeting 2 - 10.00am (local time) on 30 January 2013 at Cliftons, 191 St George Terrace, Perth WA 6000

- ACN 141 619 196 PTY LTD (FORMERLY DIRECT ENGINEERING MARINE & OFFSHORE SERVICES PTY LTD) ACN 141 619 196

Meeting 3 - 11.00am (local time) on 30 January 2013 at Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000

- AUSTRAL INTERNATIONAL PTY LTD ACN 080 469 165
- AUSTRALIAN REFRIGERATION HOLDINGS PTY LTD ACN 100 336 856
- AUSTRAL REFRIGERATION PTY LTD ACN 001 702 594
- HASTIE HOLDINGS PTY LTD ACN 000 533 782
- HASTIE SERVICES PTY LTD ACN 096 628 125
- LAWRENCE REFRIGERATION PTY LTD ACN 005 912 17
- QAL REFRIGERATION (WA) PTY LTD ACN 009 365 137
- ACN 050 411 179 PTY LTD (FORMERLY SPECTRUM FIRE & SECURITY PTY LTD) ACN 050 411 179
- TECHNI DOORS PTY LTD ACN 002 757 735

Meeting 4 - 1.00pm (local time) on 30 January 2013 at Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000

- D & E MECHANICAL SERVICES PTY LTD ACN 133 340 459
- HASTIE AUSTRALIA PTY LTD ACN 072 744 248
- HASTIE DRAFTING GROUP PTY LTD ACN 063 854 759
- HASTIE ENGINEERING PTY LTD ACN 106 000 980
- HASTIE FINCO PTY LTD ACN 131 210 583
- HASTIE GROUP ADMIN SERVICES PTY LTD ACN 063 854 839
- HASTIE GROUP LTD ACN 112 803 040
- HASTIE GROUP SERVICES PTY LTD ACN 098 837 088
- HASTIE INDIA PTY LTD ACN 133 080 949
- ACN 121 276 168 PTY LTD (FORMERLY HEYDAY GROUP PTY LTD) ACN 121 276 168
- LONGLEY MECHANICAL SERVICES PTY LTD ACN 003 186 249
- M & H AIR CONDITIONING PTY LTD ACN 115 325 089
- MEDICAL GASES PTY LTD ACN 121 276 079
- NISBET & DURNEY PTY LTD ACN 131 810 896
- OPTIMUS PTY LTD ACN 001 847 785
- ROTARY AUSTRALIA PTY LTD ACN 133 081 026

Meeting 5 - 4.00pm (local time) on 30 January 2013 at Cliftons, 1/80 King William Street, Adelaide SA 5000

- AFA AIR CONDITIONING PTY LTD ACN 132 180 584
- ACN 008 700 178 PTY LTD (FORMERLY DIRECT ENGINEERING SERVICES PTY LTD) ACN 008 700 178

Meeting 6 - 9.30am (local time) on 31 January 2013 at Cliftons, 2/8-10 Moore Street, Canberra ACT 2601

- BORDER STAINLESS STEEL PTY LTD ACN 130 035 399
- HASTIE AIR CONDITIONING (ACT) PTY LTD ACN 125 173 659

Meeting 7 - 2.00pm (local time) on 31 January 2013 at Mantra Padanas, 43 Knuckey Street, Darwin NT 0814

- AIRDUCTER PTY LTD ACN 130 035 380

Meeting 8 - 4.00pm (local time) on 31 January 2013 at Cliftons, 288 Edward Street, Brisbane QLD 4000

- ACN 129 953 733 PTY LTD (FORMERLY BEAVIS & BARTELS PTY LTD) ACN 129 953 733
- COMCOOL REFRIGERATION PTY LTD ACN 084 470 913
- GTS PLUMBING (QLD) PTY LTD ACN 130 035 406
- HASTIE AIR CONDITIONING PTY LTD ACN 122 613 647

We request that creditors arrive at their relevant Hastie Group company's meeting one hour prior to the advertised start time to enable orderly registration.

As noted above, Second Meetings will not be held for HSA and HINT as these companies were wound up on 16 August 2012 by orders of the Court. Further details regarding the process undertaken to wind up these two companies is included below in section 3.9.

Attached to this Report are the following:

- Notice of meetings (Appendix R)
- Proxy form Form 532 (Appendix S)
- Informal proof of debt form for voting purposes only (Appendix T).

We request that creditors wishing to attend and/or vote at the Second Meetings complete and return the relevant Proxy Form and the Informal Proof of Debt Form as instructed by no later than **4:00pm on 25 January 2013** to enable timely processing.

Creditors unable to attend in person are able to submit questions for consideration at the Second Meetings. Please submit all questions by no later than **4:00pm on 25 January 2013** by email to hastie@linkmarketservices.com.au . Whilst we will make every effort to address questions submitted, we reserve the right to exclude questions to avoid compromising creditors' interests or due to time constraints.

3.7 PURPOSE OF SECOND MEETINGS

The primary purpose of the Second Meetings is to enable creditors to decide the future of the Hastie Group by choosing one of three options for each Hastie Group company, being that:

1. the company execute a Deed of Company Arrangement (we have not received any DOCA proposals, so this option is unavailable for consideration by creditors); or
2. the company be wound up; or
3. the administration comes to an end (and control of the company reverts to its director(s)).

To assist creditors, investors, employees, and shareholders in understanding the administration process better, ASIC has released a package of insolvency information sheets that we include in Appendix A. These documents have the endorsement of the Insolvency Practitioners Association of Australia (**IPAA**).

Creditors can also download these Information sheets as PDF files from the ASIC (www.asic.gov.au) or IPAA (www.ipaa.com.au) websites.

3.8 COMMITTEE OF INSPECTION (COI)

At the Second Meetings, we will also invite creditors to form a COI for each Hastie Group company. A COI is a group of elected creditors (minimum of 2 required) to supervise and assist a company's liquidator. They are particularly beneficial in complex administrations such as the Hastie Group.

It is our recommendation that, at a minimum, a COI is formed for HST in order for creditors to consider potential claims against the directors, officers, auditor and advisors.

Creditors should give consideration as to whether they are in a position to be a COI member, as membership of a COI requires attendance at meetings (telephone facilities will be made available so members do not have to attend in person).

Importantly, for a creditor to be eligible for appointment as a member of a COI, **they must** either:

- be in attendance at the Second Meeting of creditors; or
- appoint a general power of attorney to attend the Second Meeting on their behalf; or
- authorise a person in writing to be a member of the COI on their behalf.

3.9 WINDING UP OF HSA AND HINT

On 16 August 2012, the Court ordered the winding up of both HSA and HINT, following our application to do so because:

- the process of undertaking statutory investigations was onerous and complex given that the assets of HSA and HINT are primarily located in the Middle East
- HSA and HINT's creditors are primarily based in the Middle East and the Australian administrations of HSA and HINT are not legally recognised by local authorities in the Middle East
- the process of convening meetings of creditors for creditors to vote on the future of HSA and HINT would have been onerous
- we have experienced difficulties in obtaining accurate and reliable information about HSA and HINT's assets, debtors, creditors and finances
- we consider that, based on the information we have received, HINT and HSA are insolvent
- there was no prospect of either HSA or HINT reverting to the control of the directors and a DOCA for either company had not been proposed.

Further details regarding the asset realisations and investigations into these two companies are included in section 10.6 and section 7.9.3 respectively.

4 ESTIMATED RETURN TO CREDITORS

4.1 ESTIMATED RETURN TO THE BANKING SYNDICATE

As at the date of this report, we estimate the return to the Banking Syndicate from our administrations (ie excluding the 11 Hastie Group companies in receivership) will be around $3.7m.

The return to the Banking Syndicate from the companies in receivership and the Hastie Group's interests in the UK, New Zealand and the Middle East is currently unknown.

The Hastie Group's indebtedness to the Banking Syndicate totals $529.9m. This debt is not expected to be fully paid.

The Security Trustee (on behalf of the Banking Syndicate) holds security interests over the assets of 41 of the Hastie Group companies pursuant to the following documents:

- Deed of Charge and Mortgage of Shares between the Security Trustee, HST and other Hastie Group companies dated 1 April 2008
- Deed of Charge and Mortgage of Shares between the Security Trustee, HST and other Hastie Group companies dated 3 November 2009
- Deed of Charge and Mortgage of Shares between the Security Trustee, HST and other Hastie Group companies dated 29 June 2010

(collectively, the '**Charges**').

The security interests arising under the terms of the Charges have been registered on the Personal Property Security Register (**PPSR**) against all of the relevant Hastie Group companies. In each case, the collateral is noted as "*all present and after-acquired property - no exceptions*", thus including all assets known as circulating and non-circulating assets.

In essence, this equates to the pre-PPSA concept of an "all assets" charge over all present and future property of a company and includes for example:

- cash
- other capital
- real property
- personal property
- goodwill
- shares and units
- rights to dividends
- contractual rights.

The priority of the Charges in relation to other creditor claims is determined by the PPSA and the Act:

- **Priority creditors:** In the case of non-circulating assets (previously referred to as 'fixed assets') the Banking Syndicate's claims have priority over all other creditors (subject to other security interests under the PPSA (if any) referred to below). In the case of circulating assets (typically debtors, stock and cash), the Banking Syndicate's claims will have priority over general unsecured creditors but will rank behind the claims of priority creditors (eg employees).
- **General unsecured creditors:** The security interests arising under the Charges mean that the claims of the Banking Syndicate against the Hastie Group have priority over the claims of general unsecured creditors.

- **Other creditors:** Under the PPSA, the Charges may be subject to certain other security interests, including (but not limited to):
    - security interests that are registered ahead in time
    - claims of other secured parties having the benefit of a 'purchase money security interest' under the PPSA (e.g. creditors with valid retention of title claims over stock)
    - temporarily perfected security interests, including transitional security interests that are temporarily perfected until 30 January 2014 (that is, 2 years after the PPSA commencement time)
    - a security interest that is perfected by possession or control and is not registered on the PPSR.

DESMO, HSA, and ICA have not granted any security interests to the Security Trustee or the Banking Syndicate. Consequently, any asset realisations from these companies would not be subject to the Charges.

We have calculated the estimated return to the Banking Syndicate with reference to the asset realisations expected in the administrations (but excluding possible recoveries by a liquidator identified herein).

The Receivers and Managers do not expect to realise sufficient funds from the receiverships to satisfy the Banking Syndicate's debt. Accordingly, we do not expect any surplus funds from the receiverships will be available for distribution to ordinary unsecured creditors.

4.2 ESTIMATED RETURN TO PRIORITY CREDITORS

Employee entitlements are at least $47m. Based on circulating asset realisations alone, we anticipate that only priority creditors (employees) of the seven Hastie Group companies listed below will receive a return from their employer company's asset realisations:

Hastie Group company	Estimated funds for distribution $'000	Estimated cents in $ return*
Airducter Pty Ltd	395	54.3
Direct Engineering Services Pty Ltd	1,086	19.8
Heyday Group Pty Ltd	1,195	12.3
M&H Air Conditioning Pty Ltd	306	31.2
Norfolk Maintenance Holdings Pty Ltd	45	22.2
Sharp & Pendrey Pty Ltd	134	9.9
Watters Electrical (Aust) Pty Ltd	2,661	30.5

*subject to change

These returns represent a total potential payment of c$5.8m to priority creditors.

Priority creditors comprise employee claims for unpaid wages, unremitted superannuation, leave and termination entitlements.

The above returns are estimates only and may be subject to change, depending on:

- actual asset realisations
- potential recoveries from voidable transactions and other claims which may be brought by a liquidator which are currently of an indeterminate value
- the final values of verified priority claims. Creditor claim values remain subject to change as a formal proving process has not been conducted and additional claims may be received
- actual administration and liquidation costs which will result from the overall size and complexities of the Hastie Group's structure and operations.

Employee entitlements according to the Hastie Group's records total c$47m, including $1.7m of unpaid superannuation not covered by GEERS.

To date, GEERS has admitted 1,406 employee claims for these seven companies, with payments totalling $21.7m. As the asset realisation and GEERS process is not yet finalised, we are unable to comment on the timing of the return to priority creditors (including payment of unremitted superannuation and reimbursement of GEERS advances).

We have also received 340 priority claims from employees of other Hastie Group companies, against which we have paid out $5.7m of funds provided by GEERS. Any return to these priority creditors, including reimbursement to GEERS, will depend on potential recoveries of voidable transactions and/or from any actions brought against the directors/officers and/or advisors by a liquidator.

Pleasingly, entitlements totalling $34.7m of a further 1,523 employees have been preserved through going concern sales by the Administrators and Receiver and Managers.

Further details of the priority claims against each of the Hastie Group companies are included in the ISRs.

4.3 ESTIMATED RETURN TO ORDINARY UNSECURED CREDITORS

Hastie Group asset realisations alone will be insufficient to produce any return to the ordinary unsecured creditors of the Hastie Group. Unsecured creditor claims total approximately $390m.

The lack of a return to unsecured creditors is principally due to the following:

- Unsecured creditor claims rank behind priority creditors (employees) and secured creditors (the Banking Syndicate).
- We expect around 2,100 former employees to make claims for unpaid entitlements e.g. wages, superannuation, annual leave and termination payments totalling approximately $36.4m. To date, we have received 1,746 claims and paid out $27.4m to employees on behalf of GEERS (schedule at Appendix E). Whilst GEERS has met the majority of these claims, GEERS has submitted a claim to recover these monies from the relevant companies once they are placed in liquidation. GEERS has a statutory right of subrogation, which means it 'stands in the shoes' of employees for amounts advanced and therefore has priority over the unsecured creditors' claims.
- The Banking Syndicate's debt amounts to $529.9m, comprising $270m of bank guarantees and $259.9m of debt. The Banking Syndicate holds security over 41 Hastie Group companies (excluding DESMO, HSA and ICA) and the UK and NZ entities over which we are not appointed. The Receivers and Managers have advised us that the Banking Syndicate expects to suffer a shortfall from the receiverships.
- The assets of the Hastie Group are insufficient to discharge the above debts in full.

As with the estimated return to other creditor classes, the position for each Hastie Group company may change due to:

- actual asset realisations
- potential recoveries from voidable transactions and other claims which may be brought by a liquidator which are currently of an indeterminate value (see section 7)
- the final values of verified creditor claims. Creditor claim values remain subject to change as a formal proving process has not been conducted and additional claims may be received
- actual administration and liquidation costs which will result from the overall size and complexities of the Hastie Group's structure and operations.

Other than intercompany loans, we are not aware of any related party creditor claims that may affect a return to the ordinary unsecured creditors. To date, we have not received any creditor claims from Hastie Group companies outside the scope of our appointment. As there is no prospect of a return to any unsecured creditors at this time, we have not established what effect, if any, the intercompany loans may have on a return to unsecured creditors. We include schedules of the Hastie Group subsidiaries not subject to Australian insolvency proceedings and the Hastie Group's joint venture interests in Appendix N and Appendix O.

5 ADMINISTRATORS' OPINION

At the Second Meetings, creditors will resolve the future of each company within the Hastie Group (except HSA and HINT which are already in liquidation (refer section 3.9)).

We are required to provide our opinion as to which of the following options available under the Act are in each Hastie Group company creditors' best interests:

- the company execute a DOCA (we have not received a DOCA proposal for any Hastie Group company so this option is unavailable for consideration by creditors)
- the company be wound up
- the administration of the company ends (and control of the company reverts to its director(s)).

We have considered the options available on a company-by-company basis and formed our opinion as follows:

5.1 DEED OF COMPANY ARRANGEMENT

We have not received a DOCA proposal for any Hastie Group company. Consequently, this option is not available to creditors.

5.2 WINDING UP (LIQUIDATION)

Each Hastie Group company is insolvent and hence should be wound up. Liquidation would allow the assets of each of the Hastie Group companies to be realised and distributed in accordance with the Act, including the priority provisions in Section 556 of the Act.

A duly appointed liquidator would also be able to:

- conduct more thorough investigations into the Hastie Group's dealings and affairs and actions of the directors
- report their findings to ASIC, pursuant to section 533 of the Act
- pursue various potential recoveries under the Act, such as voidable transactions.

5.3 ADMINISTRATION TO END

Each company in the Hastie Group is insolvent and therefore it is inappropriate for the companies to return to the control of their directors. In any event, many of the directors have resigned and there is no evidence to suggest that any of the companies would benefit from a return of control to the directors.

5.4 ADMINISTRATORS' OPINION AND RECOMMENDATION

Pursuant to section 439A(4)(b) of the Act, it is our opinion that the best course of action for creditors to take would be for each Hastie Group company to be wound up (ie placed into liquidation).

We therefore recommend that the creditors vote to wind up each of the Hastie Group companies at the forthcoming Second Meetings.

We have not received a DOCA proposal and, given that each Hastie Group company is insolvent, it is not in the interests of creditors to end the Administrations and return control of the Hastie Group companies to their directors.

6 HASTIE GROUP FINANCIAL BACKGROUND

The analysis of the Hastie Group's financial background provided in this section has been prepared using the consolidated financial accounts (**Accounts**) of the Hastie Group and therefore broadly relates to the Hastie Group as a whole.

Separate supplementary reports for the individual entities in the Hastie Group are provided in Appendix P.

Based on our preliminary analysis, we suspect there could be material misstatements in the financial statements that may have inflated the financial performance and asset position of the Hastie Group. The areas of potential overstatement include:

- revenue recognition (refer section 6.1.1)
- goodwill (refer section 6.2.1)
- trade receivables (refer section 6.2.2)
- construction WIP (refer section 6.2.3)
- deferred tax assets (refer section 6.2.12)

In addition, we consider that the write-downs that did occur relating to material assets may not have been recognised in the appropriate reporting periods.

We discuss the effects of the potential misstatements, including their possible effect on the solvency of the Hastie Group and preparation of the Prospectus forecasts in further detail in sections 7.13.2, 7.13.3 and 7.13.4.

To quantify the impact on the financial statements and ascertain any potential offences and claims these items would require further investigation by a liquidator.

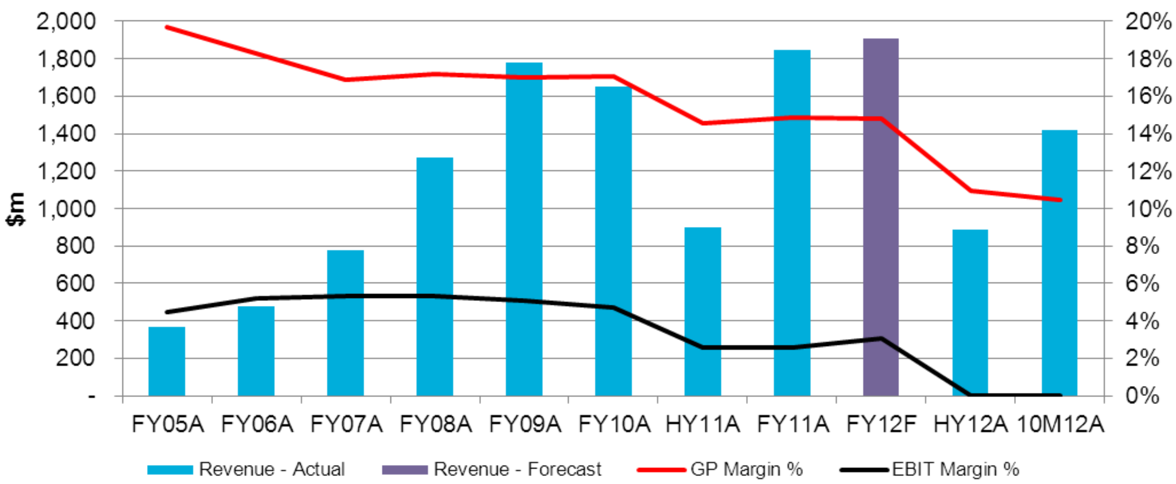
6.1 CONSOLIDATED FINANCIAL PERFORMANCE / PROFIT & LOSS

Whilst the Hastie Group's revenue increased over the five years following its listing on the ASX, gross profit margins, EBIT and overall profitability declined dramatically:

- A loss of c($258m) was reportedly incurred in the 22 months to 30 April 2012
- Gross profit margin fell from 17% in FY05 to 10% in FY12
- EBIT fell from $90.1m in FY09 to a loss of ($169.8m) for the 10 months to 30 April 2012.

Figure 1 is a graphical representation of revenue, gross profit margin and EBIT margin for the seven fiscal years to 30 June 2011, together with forecast results to 30 June 2012 and actuals for the 10 months to 30 April 2012.

Figure 1: Revenue – FY05 to April FY12



$m	FY05	FY06	FY07	FY08	FY09	FY10	HY FY11	FY11	FY12F	HY FY12[1]	YTD to 30/04/2012
Revenue	**369.9**	**479.4**	**778.6**	**1,270.7**	**1,781.0**	**1,651.1**	**900.5**	**1,848.8**	**1,910.6**	**888.0**	**1,420.2**
Gross profit	72.7	87.6	131.2	218.0	303.0	281.4	131.2	274.6	282.6	97.3	148.6
Gross margin	*20%*	*18%*	*17%*	*17%*	*17%*	*17%*	*15%*	*15%*	*15%*	*11%*	*10%*
EBIT before significant items	**16.6**	**25.0**	**41.3**	**67.5**	**90.1**	**77.8**	**22.9**	**47.5**	**58.0**	**(5.3)**	**(22.2)**
Significant items	**(4.0)**	**4.0**	**-**	**-**	**-**	**(5.3)**	**(104.1)**	**(106.6)**	**-**	**(142.0)**	**(147.6)**
EBIT after significant items	**12.6**	**29.0**	**41.3**	**67.5**	**90.1**	**72.5**	**(81.2)**	**(59.0)**	**58.0**	**(147.2)**	**(169.8)**

Note 1. HY FY12 (Restated) reflects adjustments to the HY FY12 (Reviewed) accounts to consistently reflect the treatment of significant items as shown in the FY10 and FY11 audited accounts and YTD to 30/04/2012 management accounts.

We provide a summary of the movements in revenue below.

FY05 to FY08

The strategy for the Hastie Group, articulated at the time of its listing on the ASX in March 2005, was to expand its range of services and geographical coverage through organic growth and acquisitions. Up until 1 July 2008, the Hastie Group was active in its acquisition programme.

FY09

As noted in the 2009 Annual Report, FY09 was a year of consolidation for the Hastie Group as it ‘bedded down’ the investments it had made in previous years and sought to focus on ‘organically’ growing the businesses. The FY09 revenue figure was therefore the first to fully reflect the effect of these preceding acquisitions.

FY10 to FY11

Whilst the GFC had its origins in August 2007, its full effect on entities such as the Hastie Group was delayed because of the time lag associated with large projects. The GFC’s detrimental effects started to emerge in the 2009 financial year, initially in the United Kingdom and Ireland and then in the Middle East and Australasia. These effects included the deferral or cancellation of projects and lengthening of payment terms.

The increase in competition caused by the lower volume of new tenders also put material downward pressure on margins. Many customers also cut back on maintenance spending and the stronger Australian dollar negatively impacted the results of subsidiaries denominated in foreign currency.

This resulted in lower operating performance in FY10 and FY11 – with a fall in revenue in FY10 and lower margins in FY11. The Hastie Group also brought to account significant write-downs (debtors and goodwill) as at 31 December 2010. Consequently, the Hastie Group was at risk of breaching certain financial covenants under its banking facility agreements.

Between February and April 2011, HST voluntarily suspended its shares on the ASX whilst a review of its capital structure was completed. HST also entered into a standstill agreement with the Banking Syndicate from April to July 2011. This corporate activity brought significant pressure to the Hastie Group's terms of trade as it adversely affected the Hastie Group's perceived credit risk with customers and suppliers.

An equity raising in June/July 2011 raised net cash (after share issue costs) of $154m.

FY12

The half year results to 31 December 2011 were announced on 29 February 2012 indicating a loss of c$147m, comprising:

- a normalised EBIT loss of $5m, after adjusting the HY12 results to consistently reflect the treatment of significant items as shown in the FY10 and FY11 audited accounts and management accounts as at 30 April 2012
- doubtful debt and project cost provisions in the Middle East and International divisions of $88m
- goodwill impairment of $32m
- other restructuring costs and asset write-downs.

These events continued to put significant pressure on the commercial operations of the Hastie Group, its ability to win work and maintain trading terms with its suppliers, and resulted in further reductions in the anticipated results for FY12.

Summary of historical financial performance

Figure 2 summarises the Hastie Group's financial performance from July 2008 to 30 April 2012. The last set of audited accounts prepared prior to our appointment was for the financial year ended 30 June 2011.

Creditors should note that the results include all the companies within the Hastie Group, not just the companies in administration, as Hastie Group prepares its accounts on a consolidated basis.

We have restated the published results for the six months to 31 December 2011 to ensure a more consistent presentation of these results. Primarily these restatements are 'normalising' the results for the significant items impacting that period's results.

We comment on the key revenue and expense lines in the following sections.

Figure 2: Summary of financial performance – FY09 to 30 April FY12

Statement of Financial Performance $000's	Refer Section	FY09 (Audited)	FY10 (Audited)	FY11 (Audited)	HY FY12 (Reviewed)	HY FY12 (Restated)[1]	YTD to 30/04/2012 (Unaudited)
Revenue from sale of goods and services	6.1.1	1,781,049	1,651,081	1,848,843	903,540	888,044	1,420,176
Cost of sales		(1,478,037)	(1,369,715)	(1,574,199)	(899,053)	(790,780)	(1,271,576)
Gross profit		303,012	281,366	274,644	4,487	97,264	148,599
Gross margin	6.1.2	*17.0%*	*17.0%*	*14.9%*	*0.5%*	*11.0%*	*10.5%*
Other income	6.1.4	6,094	3,720	3,142	1,196	1,215	2,526
Marketing expenses	6.1.4	(1,904)	(1,737)	(2,374)	(1,055)	(921)	(1,516)
Occupancy expenses	6.1.4	(16,047)	(16,754)	(18,862)	(10,392)	(10,106)	(16,773)
Administration expenses	6.1.4	(188,066)	(175,282)	(193,956)	(99,276)	(85,831)	(143,773)
EBITDA		103,089	91,313	62,594	(105,040)	1,621	(10,937)
Depreciation and amortisation expense	6.1.4	(12,964)	(13,498)	(15,070)	(7,004)	(6,880)	(11,250)
EBIT before significant items		90,125	77,815	47,524	(112,044)	(5,259)	(22,187)
EBIT before significant items margin		*5.1%*	*4.7%*	*2.6%*	*(12.4)%*	*(0.6)%*	*(1.6)%*
Total significant items	6.1.3	-	(5,269)	(106,552)	(35,203)	(141,988)	(147,621)
EBIT		**90,125**	**72,546**	**(59,028)**	**(147,247)**	**(147,247)**	**(169,808)**
Interest income		3,565	1,009	459	445	445	500
Finance costs		(24,802)	(21,646)	(35,601)	(12,736)	(12,736)	(19,277)
Net profit before tax		**68,888**	**51,909**	**(94,170)**	**(159,538)**	**(159,538)**	**(188,585)**
Income tax benefit / (expense)		(10,190)	(11,331)	6,344	10,400	10,400	18,324
Profit/Loss		**58,698**	**40,578**	**(87,826)**	**(149,138)**	**(149,138)**	**(170,261)**

Note 1. HY FY12 (Restated) reflects adjustments to the HY FY12 (Reviewed) accounts to consistently reflect the treatment of significant items as shown in the FY10 and FY11 audited accounts and YTD to 30/04/2012 management accounts.

6.1.1 Revenue from sale of goods and services

Our investigations indicate that more recently the revenue / project pipeline was declining because of the perceived credit risk with customers and suppliers.

A report to the Board in April 2012 noted internal cultural issues concerning inflated reported results and optimistic forecasting, attributing underperformance to:

- poor project management and oversight
- disputes around variations
- accounting irregularities (ie recognition of revenue practices)
- problems with specific projects.

Reported revenue has remained largely constant since FY09, if the FY12 results are extrapolated. The Hastie Group's revenue peaked at $1.85b in FY11 and, based on an extrapolation of the half year results, revenue for FY12 would have declined by c$145m or 8%. However, to maintain this level of revenue it appears that significant reductions in margins occurred since FY10.

We document the revenue by reported segment in **Figure 3**.

Figure 3: Revenue FY09 to 30 April 2012

Revenue from sale of goods and services $000's	FY09 (Audited)	FY10 (Audited)	FY11 (Audited)	HY FY12 (Reviewed)[2]	HY FY12 (Restated)[1,2]	YTD to 30/04/2012 (Unaudited)
Mechanical	528,567	464,800	500,398			381,267
Electrical	298,575	334,246	395,370	477,370	464,559	252,464
Plumbing	85,288	93,452	78,961			67,702
Total	**912,430**	**892,498**	**974,729**	**477,370**	**464,559**	**701,433**
Services	190,596	217,774	305,102	155,747	152,201	248,988
Rotary	372,610	294,264	240,918	125,696	125,696	233,071
Middle East	143,146	97,650	163,299	48,607	49,468	90,998
Refrigeration	162,267	148,895	164,795	96,120	96,120	145,686
Consolidated	**1,781,049**	**1,651,081**	**1,848,843**	**903,540**	**888,044**	**1,420,176**

Notes:
1. HY FY12 (Restated) reflects adjustments to the HY FY12 (Reviewed) accounts to consistently reflect the treatment of significant items as shown in the FY10 and FY11 audited accounts and YTD to 30/04/2012 management accounts.
2. No revenue split has been provided for the HY FY12 Mechanical, Electrical and Plumbing

The accounting policies for revenue recognition are described in the '*Significant accounting policies'* note to the audited financial statements as follows:

- *Sale of goods* - are recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- *Rendering of services* - is recognised in proportion to the stage of completion of the transaction. The stage of completion is determined by reference to work performed.
- *Construction contracts* - are generally recognised on an individual contract basis by reference to the recoverable costs incurred during the financial period plus the percentage of margin earned. Percentage of margin earned is measured by the proportion that costs incurred to date bear to the estimated costs of the contract. Where a loss is expected to occur it is recognised immediately and is made for both work in progress to date and for future work on the contract. Variations in contract work, claims and incentive payments are included to the extent it is probable the customer will approve and accept them.

Whilst these policies appear to be *prima facie* reasonable, we have not reviewed in detail whether the Hastie Group applied them appropriately and we suspect there was a lack of diligence and process regarding the timely review of the profitability of projects and the timely recognition of expected losses. As indicated in section 6.2.2, as at 31 December 2011, significant items of $88m were provided against debtors, projects and the reversal of revenue recognised in the Middle East. We suspect that these adjustments related to periods prior to HY12. We anticipate that a liquidator will investigate these issues further.

6.1.2 Gross Margin

Since 2009, reported margins have been under increased pressure due to intense competition and poor assessment of risk during the tendering process (refer section 7.9.4). Gross margins steadily reduced from 17% in FY09 and FY10 to 10.5% for YTD 30 April 2012.

Gross margin is revenue less the cost of direct labour and materials used on projects and in the fabrication of products sold to customers.

The margin shown in the HY12 accounts of 0.5% has been restated to reflect consistently the treatment of significant items disclosed in the FY10/FY11 audited accounts and, as a result, the adjusted margin for the HY12 accounts is 11%.

6.1.3 Significant items

Figure 4 summarises the significant items affecting the operating results of the Hastie Group.

Figure 4: Significant items FY09 to 30 April 2012

Significant items $000's	FY09 (Audited)	FY10 (Audited)	FY11 (Audited)	HY FY12 (Reviewed)	HY FY12 (Restated)[1]	YTD to 30/04/2012 (Unaudited)
Doubtful debts and project provisions	-	(4,694)	(26,199)	-	(63,671)	(90,559)
Middle-East revenue recognition reversal	-	-	-	-	(24,505)	-
Provisions for prior year overstatements	-	-	(7,251)	-	(9,763)	(10,847)
Restructuring and other closedown costs	-	-	-	-	(6,690)	(10,994)
Trading losses of businesses being exited	-	-	-	-	(2,156)	-
Impairment of goodwill	-	-	(69,129)	(31,202)	(31,202)	(31,396)
Impairment of brand names	-	-	(1,348)	(1,263)	(1,263)	(1,292)
Impairment of land & buildings	-	-	-	(4,812)	(4,812)	(4,841)
Standstill costs	-	-	(2,304)	-	-	-
Writeback of contingent consideration	-	-	-	2,061	2,061	2,061
Gain on acquisition	-	1,579	-	-	-	-
Acquisition related costs	-	(2,154)	(321)	13	13	247
Total significant items	**-**	**(5,269)**	**(106,552)**	**(35,203)**	**(141,988)**	**(147,621)**

Note 1. HY FY12 (Restated) reflects adjustments to the HY FY12 (Reviewed) accounts to consistently reflect the treatment of significant items as shown in the FY10 and FY11 audited accounts and YTD to 30/04/2012 management accounts.

<u>**Doubtful debts and project provisions and provisions for prior year overstatements**</u>

FY10 – A provision of $4.7m was raised for doubtful debts that primarily related to an outstanding debt from a builder who had gone into receivership in the Caribbean. The contract with the builder was to provide mechanical and electrical services for two greenfield hospitals that were delivered on time in the Turks & Caicos Islands. The Hastie Group was in final account negotiations with the builder when the builder was placed in receivership on 7 July 2010. The provision was increased by c$5.1m to a total $9.1m as at 31 December 2012.

FY11 - Due to continued difficult trading conditions, in particular in the Middle East and Republic of Ireland, significant provisions were recognised for aged debts ($26.2m) and prior year overstatements ($7.3m) totalling $33.4m. These provisions were recognised as follows:

- c.$14m – HINT
- c.$13m – Rotary businesses
- c.$3m – Services division
- c.$2m – HAI
- c.$2m – GTS

HY12 - Following a management review of the status of projects by the interim CEO, and reflecting on the continued difficult trading conditions in the Middle East and other international businesses, provisions totalling $97.9m were recognised in the half year FY12 financial statements. These provisions comprised doubtful debts and project provisions ($63.7m), Middle East revenue recognition ($24.5m) and provisions for prior year overstatements ($9.8m).

Given the trading conditions, business practices and relationships with customers, the charge of $24.5m was booked to adopt a change in revenue recognition policy, such that invoiced claims would only be brought to account to the extent that cash had been received. This is despite the HY12 financial statements noting:

> *"The accounting policies and methods of computation adopted are consistent with those adopted in the most recent annual financial report".*

Restructuring and closedown costs

The Hastie Group incurred restructure and closedown costs totalling $6.7m in the six months to 31 December 2011. A further $2.2m was recognised from trading losses of businesses being exited.

Impairment of goodwill

Due to continued difficult trading conditions, and uncertainties around cash flows in the Middle East, a charge of $69.1m for goodwill impairment was taken in the FY11 annual results in respect of Rotary businesses in the Middle East.

As a result of scaling back the ROI operations, the decision to close or sell several non-core Mechanical and Services businesses and due to uncertainties around the cash flows in the ROI, a further charge for goodwill impairment of $31.2m was taken in the results for the six months to 31 December 2011.

We reviewed the goodwill calculations and did not identify any significant arithmetic errors. However, we have concerns regarding some of the assumptions that we discuss further in section 6.2.1.

Impairment of brand names

Due to continued difficult trading conditions and uncertainties around future cash flows in ROI, a charge of $1.3m to write-off the value of the Rotary brand name in respect of ROI was taken in the results for the half year FY12.

Impairment of land & buildings

Following a decision to sell certain properties in the UK, the Hastie Group's freehold properties in the UK were written down by $4.8m to their recoverable amounts in the HY12 accounts.

Standstill costs

On 11 April 2011, the Hastie Group entered into a standstill syndicated facilities agreement with the Banking Syndicate. Costs incurred during the standstill period and directly associated with the standstill syndicated facilities agreement were $2.3m and were predominantly fees for independent accounting services and legal fees.

Write back of contingent consideration

This related to an acquired business which failed to meet its earnings targets resulting in contingent consideration not being payable to the vendors. Hence the liability of $2.1m was written back in the half year FY12.

Acquisition related costs

Once-off acquisition costs of $2.2m in FY12 relating to external professional advisors and state-based taxes (such as stamp duty) were incurred. In prior years these costs were capitalised as part of the acquisition price, however, a change in accounting standards resulted in them being expensed in the year they were incurred.

6.1.4 Other items

Line item	Notes
Other income	Items such as the profit on sale of property, plant & equipment. Other income declined significantly between FY09 and FY11 from $6.1m to $3.1m. However, YTD to 30 April 2012 results are consistent with FY11 results.
Marketing expenses	Outgoings associated with the advertising, promotion and business development activities of the operating divisions. Marketing expenses, with the exception of FY11, have remained consistent since FY09.
Occupancy expenses	Outgoings associated with the occupation of premises, including rent and utilities. These expenses have consistently increased since FY09.
Administration expenses	Other outgoings associated with the administration and management of the Group. It includes general overhead items such as information technology, accounting, legal and compliance costs. These expenses have remained largely consistent since FY09.
Depreciation and amortisation expense	Depreciation is calculated on a straight-line basis so as to write-off the cost of each asset over its estimated useful life. Contractual customer relationships acquired in a business acquisition are amortised over the expected life of the contractual relationship. Amortisation of software is charged on a straight-line basis over the estimated useful lives of five years.

6.2 CONSOLIDATED FINANCIAL POSITION / BALANCE SHEET

The material assets disclosed on the balance sheet are goodwill, trade and other receivables and WIP, which all had material write-downs in FY10, FY11 and FY12. Based on our investigations to date, it appears that, due to poor project management and reporting practices, the Board may not have recognised the write-downs relating to goodwill, debtors and WIP in the appropriate reporting period.

The carrying value of deferred tax assets is likely to be overstated.

In our view, had the write-downs been recognised earlier, the potential effects may have included:

- Hastie Group breaching its banking covenants earlier / more frequently
- The quantum of the capital raising being increased
- The capital raising being carried out earlier
- Administrators being appointed earlier
- Changes to investors' and financiers' decisions regarding investing in or supporting the Hastie Group.

In addition, we consider that the write-downs reported by the Hastie Group may have been materially understated, resulting in goodwill, debtors and WIP being materially overstated even after the write-downs were applied.

Figure 5 summarises Hastie Group's consolidated financial position between 30 June 2009 and 30 April 2012.

Figure 5: Statement of financial position – FY09 to April FY12

Statement of Financial Position $000's	Refer Section	FY09 (Audited)	FY10 (Audited)	FY11 (Audited)	HY FY12 (Reviewed)	30 Apr 12 (Unaudited)
Current assets						
Cash and cash equivalents	6.2.6	89,965	84,051	71,665	52,422	57,023
Trade and other receivables	6.2.2	367,255	406,501	387,898	388,351	426,362
Inventories	6.2.3	28,834	34,450	83,001	31,058	34,089
Current tax asset	6.2.12	877	168	9,026	2,141	1,224
Prepayments	6.2.7	7,733	8,510	6,938	11,151	7,921
Other financial assets	6.2.8	3,088	1,022	-	-	-
Total current assets		**497,752**	**534,702**	**558,528**	**485,123**	**526,619**
Non-current assets						
Property, plant and equipment	6.2.9	56,703	54,967	49,790	42,529	39,850
Deferred tax assets	6.2.12	22,454	23,120	24,851	42,198	48,695
Goodwill	6.2.1	413,763	424,039	320,056	289,292	290,975
Other intangible assets	6.2.10	14,473	14,777	10,232	8,332	8,096
Other financial assets		762	2,324	2,244	2,244	2,244
Total non-current assets		**508,155**	**519,227**	**407,173**	**384,595**	**389,860**
Total assets		**1,005,907**	**1,053,929**	**965,701**	**869,718**	**916,479**
Current liabilities						
Trade and other payables	6.2.4	310,233	322,953	306,894	397,987	363,633
Borrowings	6.2.6	7,847	9,478	34,705	159,423	255,011
Current tax liabilities	6.2.12	4,554	6,443	2,295	3,117	1,954
Provisions	6.2.11	46,371	53,439	58,155	57,986	63,473
Financial instruments	6.2.13	7,706	4,722	3,716	6,621	5,068
Contingent consideration	6.2.14	5,938	1,761	2,597	435	-
Total current liabilities		**382,649**	**398,796**	**408,362**	**625,569**	**689,139**
Non-current liabilities						
Borrowings	6.2.6	253,004	263,033	278,718	6,310	5,651
Provisions	6.2.11	2,402	2,905	3,168	3,118	3,000
Contingent consideration	6.2.14	1,331	1,967	-	-	-
Total non-current liabilities		**256,737**	**267,905**	**281,886**	**9,428**	**8,651**
Total liabilities		**639,386**	**666,701**	**690,248**	**634,997**	**697,790**
Net assets		**366,521**	**387,228**	**275,453**	**234,721**	**218,689**
Equity						
Issued capital	6.2.15	290,093	299,688	340,691	452,084	452,084
Reserves	6.2.16	(1,096)	(6,753)	(60,557)	(63,544)	(58,453)
(Accumulated losses) / retained earnings	6.2.17	76,410	92,734	(4,681)	(153,819)	(174,942)
Parent owners interest		**365,407**	**385,669**	**275,453**	**234,721**	**218,689**
Non-controlling interest		1,114	1,559	-	-	-
Total equity		**366,521**	**387,228**	**275,453**	**234,721**	**218,689**

A high-level review of the balance sheet discloses that while the net asset position had deteriorated by c$168m since FY10, as at 30 April 2012 it remained positive at $219m.

We have focussed our attention on the three key areas, being goodwill, trade and other receivables and inventories. We have included specific comments on the remaining balance sheet items, none of which, at this preliminary stage, display any unreasonable trends.

6.2.1 Goodwill

Our preliminary investigations indicate there has been a significant reduction in the value of the businesses acquired by Hastie Group in recent years due to declining profits. The implications regarding this are three-fold:

- The diminution in value may not be properly reflected in the goodwill carrying value (ie goodwill may be overstated) in the Hastie Group's financial statements at 30 June 2011 and 31 December 2011. Consequently, these financial statements may be materially misstated and misleading to users of that information, particularly the investors who relied on the financial statements and forecasts included in the Prospectus.
- The carrying value of goodwill indirectly affected the Hastie Group's compliance with its banking covenants. Consequently, if the carrying value was overstated, the Hastie Group may have breached its banking covenants at an earlier date and / or on a more frequent basis.
- The decline in the Hastie Group's performance since the business acquisitions and poor retention of key management/ex-owners after they had completed their earn-out periods indicates potential mismanagement and poor strategy implementation and monitoring by the Board (refer sections 7.9.4 and 7.9.5).

Analysis of goodwill by reported segment

Goodwill arose from the purchase of numerous businesses over several years. At the date of our appointment, the goodwill book value represented around 32% of total assets after recognising c$100m of impairments.

Figure 6: Analysis of reported goodwill – FY09 to April FY12

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Mechanical & plumbing (including refrigeration)	161,361	166,024	167,165	151,733	
Electrical	59,947	59,989	59,989	59,989	
Rotary	168,932	168,932	65,483	57,096	
Services	23,523	29,094	27,419	20,474	
Total goodwill[1]	**413,763**	**424,039**	**320,056**	**289,292**	**290,975**

Note 1. No breakdown has been received for 30 April 2012

Impairments of goodwill were recognised as follows:

- $69.1m at 31 December 2010, based on continued difficult trading conditions and uncertainties around future cash flows in the Middle East.
- $31.2m at 31 December 2011, based on the scaling back of ROI operations, the decision to close or sell several non-core Mechanical and Services businesses and uncertainties around the cash flows in ROI.

As we note in section 7.11, given the continued poor performance of the Hastie Group, preparation of the Prospectus and FY11 financial statements, we would expect to have found evidence of the Board conducting further impairment reviews. However, it appears the Board did not conduct any detailed impairment reviews between 31 December 2010 and 31 December 2011.

Goodwill from overseas business acquisitions are subject to foreign exchange translation at each reporting date. Due to a strong Australian dollar in FY11, this resulted in an additional reduction in goodwill of $42.2m at 30 June 2011.

Pro-Forma Predicted EBIT impact of acquisitions vs actual EBIT impact

In **Figure 7**, we have taken the Hastie Group's pre-acquisition EBIT from FY08 and added to it the pre-acquisition EBITs of the businesses purchased in FY08 and FY09, to derive the theoretical enhanced EBIT that we would expect to see achieved in FY09.

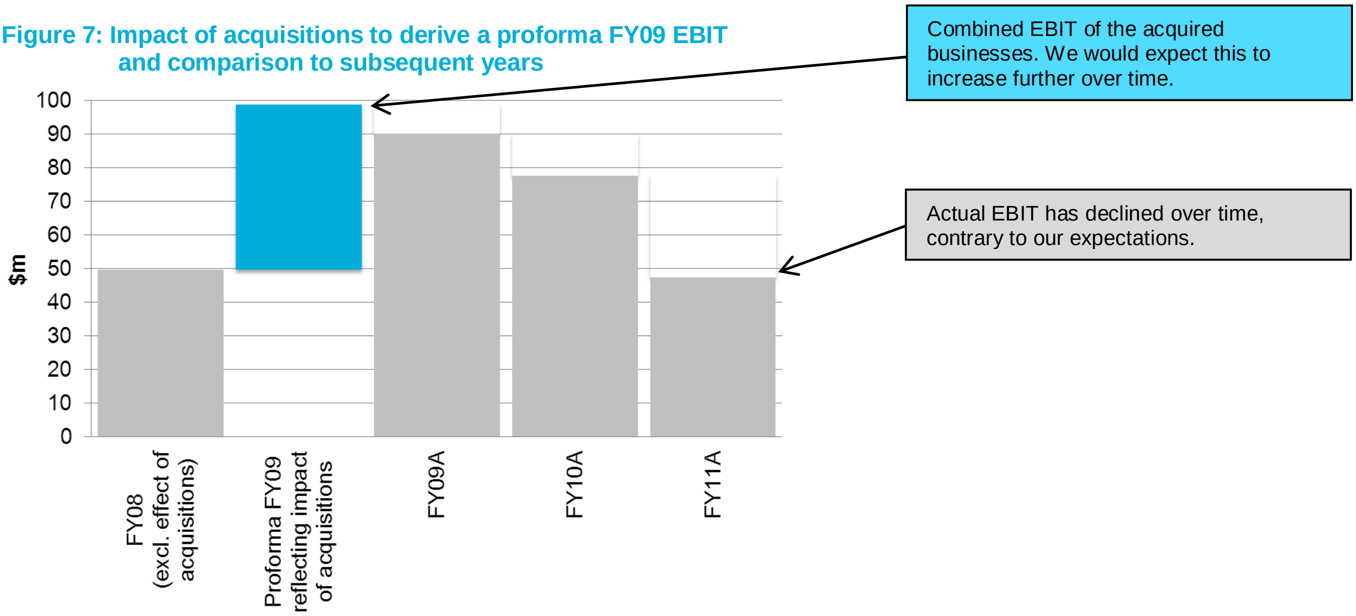
We would expect the Hastie Group's EBIT to be enhanced because of the synergies and cost savings achievable through integration and centralisation. We have then compared this Pro-Forma Predicted EBIT to actual EBIT results for FY09, FY10 and FY11.

It is clear from **Figure 7** that actual EBIT in FY09, FY10 and FY11 fails to achieve our predicted EBIT and, in fact, the results instead show a significant decline in performance.

Successful companies completing a strategic acquisition program would normally be expected to generate results greater than those of the combined businesses because of operational synergies and efficiencies; e.g. a single payroll function or greater buying power. A draft report by an external consultant commissioned by Hastie Group in early 2012, suggested possible cost savings of between $26.8 to $68.1m per annum could be achieved

Whilst many factors affect the results in each year, the significant deterioration in results over time strongly indicates that pre-acquisition performance of the acquired businesses was not maintained. This suggests a potential diminution in the goodwill value of the acquired businesses, reinforced by the impairments the Hastie Group recognised for some of these businesses in FY11 and FY12

Figure 7: Impact of acquisitions to derive a proforma FY09 EBIT and comparison to subsequent years



Review of goodwill impairment testing assumptions

We reviewed the assumptions used in the impairment testing of goodwill, as disclosed in the financial statements, for recent reporting periods. Our review found that the assumed rate of EBIT growth in the FY11 and HY12 calculations increased substantially, despite the actual earnings of each business unit reducing significantly. This effectively assumed a significant rebound in earnings in future periods and had the effect of supporting the goodwill carrying values at those dates.

We also reviewed the reports from the auditor to the ARC regarding the financial statements at 30 June 2011. The auditor commented on the impairment testing of goodwill and challenged the assumed WACC and growth rates used by the Hastie Group. The auditor's calculations suggested significantly lower headroom in the goodwill calculation – $34m rather than $189m calculated by the Hastie Group.

The auditor also noted that the calculations for the Rotary and Services businesses (about ⅓ of the total of goodwill) were highly sensitive to movements in key assumptions and that a significant (27%) increase in revenues was forecast for the Rotary business.

Substantiation of goodwill balance

The auditor also indicated in his reports to the ARC that the growth factors used in the Hastie Group's calculation of goodwill were higher than those expected by the market.

The auditor reached this conclusion by comparing the implied enterprise value of the Hastie Group and the carrying amount of the assets on a value-in-use basis as at 30 June and 31 December 2011, which indicated a potential shortfall in the enterprise value versus the carrying value of assets of $123m and $110m respectively.

We note that the auditor did not take account of the $50m–$70m of cash at bank in determining these enterprise values, which would have reduced the enterprise value further, possibly on the basis that this cash would be utilised for working capital purposes.

Ultimately, the auditor did not recommend any further impairment of goodwill at 30 June 2011 or 31 December 2011, even though there was significant concern raised by him as to the validity of the assumptions used on the assessment of goodwill.

Initial valuation of goodwill

We have reviewed the calculations used by the Hastie Group to value the goodwill element of the various acquired businesses. However, we have not carried out detailed investigations into the reasonableness of the individual transactions. A liquidator is likely to review the goodwill element of the various acquisitions to determine whether the Hastie Group and/or its advisors overvalued the goodwill of the acquired businesses.

6.2.2 Trade and other receivables

We have concerns that trade and other receivables may have been overstated in the FY10 and FY11 reporting periods, primarily because of the timing of write-offs.

Consequently, the financial statements for FY10 and FY11 may be materially misstated and misleading to users of that information, particularly the investors who relied on the financial statements and forecasts included in the Prospectus.

We recommend that a liquidator conduct further investigations into this matter.

Figure 8: Trade and other receivables – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Trade receivables	363,414	405,036	408,042	427,513	461,896
Allowance for doubtful debts	(5,260)	(10,574)	(36,164)	(33,032)	(50,012)
	358,154	**394,462**	**371,878**	**394,481**	**411,884**
Other receivables	9,101	12,039	16,020	(6,130)	14,478
Total trade and other receivables	**367,255**	**406,501**	**387,898**	**388,351**	**426,362**

Trade receivables

Trade Receivables relate to billings for contracts and other services. Given that Hastie Group's accounting policy for revenue recognition on large construction projects was predominately based on the percentage completion method, the timing of these billings may differ significantly from the recognition of revenue in the income statement.

Significant provisions ($26m) were recognised as at 31 December 2010. There was no further evidence of a Board-level review until HY12. During the second quarter of FY12, the newly appointed interim CEO completed a detailed review of projects in the Middle East. As a result, significant provisions for estimated losses to completion and non-recoverable receivables totalling $88.2m were booked at 31 December 2011.

These provisions reflected:

- the continued difficult trading conditions in the Middle East and other international businesses
- the write-off of construction WIP (which is reported under 'inventories' or 'trade and other payables').
- a reversal of previously recognised income of $24.5m because of the adoption of a different revenue recognition policy for the Middle East and international divisions, such that claims would only be brought to account once cash was received.

We suspect that these provisions should have been recognised in prior reporting periods. In addition, given divisional management and the Board's apparent lack of understanding and control of the Middle East, we suspect that the provisions reported in FY11 and in HY12 may not have been adequate. This is evidenced by limited meaningful information being available to deal with the Middle East assets post our appointment.

We consider that further investigations may be required should a liquidator be appointed.

Allowance for doubtful debts

There have been significant provisions for doubtful debts.

The Hastie Group generally regarded trade receivables as past due if the invoices were unpaid greater than 90 days after the end of the month raised. At 30 June 2011 and 2010, there was $44.2m and $83.3m of trade receivables, respectively, which were classified as past due but not considered impaired by management. On average, these receivables were 38 days past due at 30 June 2011.

A report presented to the Board in April 2012 (**the April Report**) indicated that project managers did not communicate contract variations to clients in line with contract requirements and thus it was difficult for the Hastie Group to pursue valid claims against debtors. The April Report also identified a culture of misreporting and hiding losses. This culture seems to have had an adverse effect on debtor recoverability.

At 31 December 2010, the Hastie Group made a provision of $33.5m due to continued difficult trading conditions, particularly in the Middle East and ROI. A further provision of $17m was recognised in respect of the Middle East during the four months ending 30 April 2012.

It is not clear whether any of these charges related to prior accounting periods.

Other receivables

Other receivables increased significantly from FY09. The majority of this increase related to HSE, which increased from $1.7m at 30 June 2009 to $12m at 30 April 2012. Of this c$7.2m related to the Hastie Services North accounting irregularities and was subsequently written-off (see section 7.9.1).

6.2.3 Inventories

Our review of construction WIP levels and Board Packs indicating poor management processes gives us reason to suspect that the construction WIP element of inventories may have been materially overstated for a number of years.

Consequently, the financial statements covering these periods may be materially misstated and misleading to users of that information, particularly the investors who relied on the financial statements and forecasts included in the Prospectus.

We recommend that a liquidator conduct further investigations into this matter.

Figure 9: Inventories – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Raw materials [2]	15,191	18,354	18,914	17,171	25,404
Work in progress - services	10,804	15,851	8,582	7,306	8,685
Work in progress - construction	-	-	54,106	-	-
Finished goods [2]	2,839	245	1,399	6,581	-
Total inventories	**28,834**	**34,450**	**83,001**	**31,058**	**34,089**
Construction work in progress	2,111,055	2,130,874	2,913,506		
Progress billings and advances received [1]	(2,129,471)	(2,134,047)	(2,859,400)		
Total construction contracts	**(18,416)**	**(3,173)**	**54,106**		

[1] The net construction w ork in progress amount for 2011 is included in inventories (refer above). For 2010 and 2009 the net construction w ork in progress amount is included in trade and other payables.
[2] Raw materials contains provision for obsolescence. No split betw een raw materials and finished goods has been identified at 30 April 2012.

<u>Inventories</u>

Inventories are stated at the lower of cost and net realisable value. The cost includes a fixed and variable overhead component that has been allocated to inventory. Net realisable value is the estimated sale price, less estimated completion costs and selling expenses.

Creditors should note that of the Hastie Services North accounting over-statements of $20.5m advised to the ASX on 25 May 2012, approximately $8.7m was inventory-related and subsequently written-off. Given the Hastie Group's management structure and apparent lack of adequate oversight, we suspect that this type of misstatement may also have occurred in other Hastie Group businesses.

<u>Construction WIP</u>

Construction WIP represents the total of costs incurred-to-date, plus recognised profits less recognised losses and progress billings. Where the net balance is negative, ie the total billings exceed the total costs incurred plus profit margin, the net amount is presented under 'trade and other payables'. AASB 111 requires that if forecast costs to complete a project exceeds total project revenue then the loss needs to be recognised immediately.

The April Report presented to the Board pointed to concerns surrounding the proper monitoring and valuation of construction WIP. In particular, it noted:

- the Hastie Group had a history of poor project management
- there was an absence of project governance frameworks
- contract variations (even on the largest contracts) were not communicated to clients
- valid claims were not fully pursued

- a lack of honesty in the financial reporting
- a culture that may have led to hiding margin write-backs and losses
- contract finalisation in the Middle East may have been deliberately avoided so that losses did not have to be taken to account.

All the above factors suggest that construction WIP was potentially over-stated.

Over $2.9b of construction WIP existed at 30 June 2011, against c$2.85b of progress billings and advances received. This is a significant amount given the turnover of the Hastie Group and represents 18 – 19 months revenue. By comparison, other organisations in this industry average 7 - 8 months revenue. This indicates inadequate processes for the review and timely close-out of projects and the recognition of their true profitability.

As previously indicated, following a review of the status of projects in the Middle East and other international businesses, significant provisions for estimated losses to completion and non-recoverable receivables totalling $88.2m were booked at 31 December 2011. It is likely some of this write-off would have been against construction WIP. The April Report also indicated that further reversals of capitalised costs could still emerge.

We consider that further investigation into this area by a liquidator is necessary.

6.2.4 Trade and other payables

Trade and other payables
Accounts Payable are summarised in the table below.

Figure 10: Accounts payable – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Trade payables	252,550	269,227	247,459	246,589	231,328
Amounts due to customers under construction contracts	18,416	3,173	-	83,137	51,005
Goods and services tax payable	4,818	9,006	9,968	13,607	10,997
Accruals and other payables	34,449	41,547	49,467	54,654	70,305
Total trade and other payables	**310,233**	**322,953**	**306,894**	**397,987**	**363,635**

Payables and accruals

The majority of trade payable balances relate to project creditors and have remained relatively consistent over the period FY09 to 30 April 2012, as have GST payables.

The April 2012 Board papers indicated that credit limits extended to the Group were being reduced and some suppliers were demanding cash in advance. Additionally, the level of credit insurance available to the Group had diminished. These factors are consistent with a company in distress.

Accruals and other payables relate to general accruals, accrued wages and salaries and other indirect taxes. These increased from $34.4m in FY09 to $70.3m at 30 April 2012. Most of this increase related to the Middle East that had accruals of $34.9m at 30 April 2012, although we understand $12.5m of this was reversed in May and June 2012.

Amounts due to customers under construction contracts

These amounts represent the amount of 'progress billings and advances received' over and above 'construction WIP' balances at each reporting date. In FY11, this amount is reported in inventories as 'construction WIP' exceeded 'progress billings and advances received'.

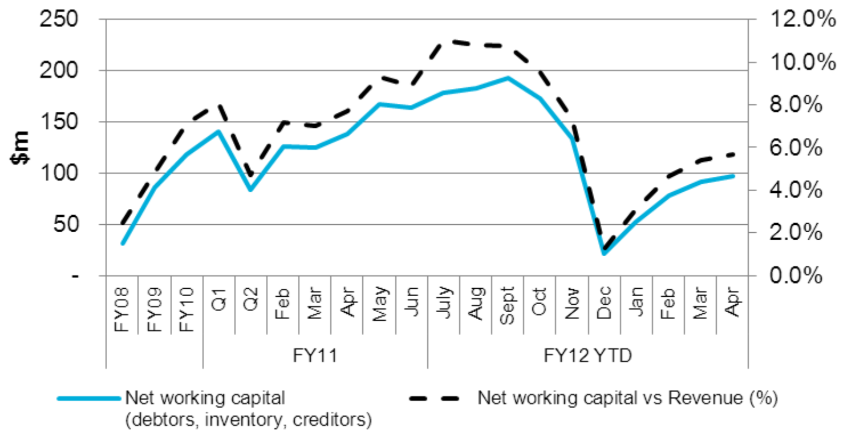
6.2.5 Net working capital

Figure 11: Working capital summary – FY08 to 30 April 2012

	FY08 $'000	FY09 $'000	FY10 $'000	FY11 $'000	HY HY12 $'000	30 Apr 12 $'000
Trade and other receivables	384,505	367,255	406,501	387,898	388,351	426,362
Inventories	23,997	28,834	34,450	83,001	31,058	34,089
Trade and other payables	(377,240)	(310,233)	(322,953)	(306,894)	(397,987)	(363,635)
Net working capital	**31,262**	**85,856**	**117,998**	**164,005**	**21,422**	**96,816**

Net working capital, both in dollar terms and as a percentage of revenue, has fluctuated significantly over time. **Figure 12** illustrates these fluctuations.

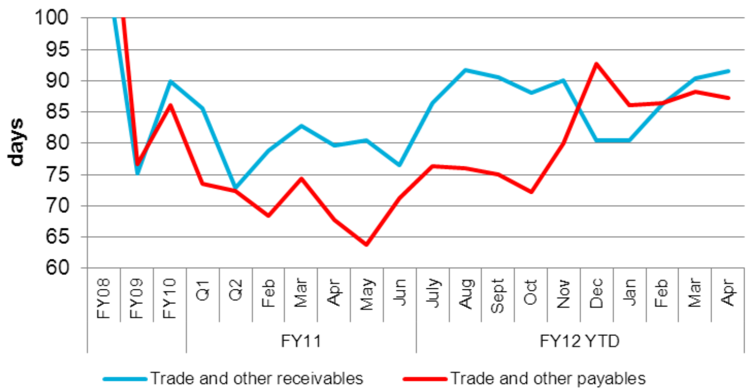
Figure 12: Net working capital – FY08 to 30 April 2012



The balance reduced at 31 December 2010 due to a significant provision for doubtful debts. At 31 December 2011, further provisioning for losses and management of the working capital position (presumably to present a stronger cash position to the Banking Syndicate, as discussed in section 7.13.2) resulted in another significant fluctuation.

Figure 13 charts debtor and creditor days over time, indicating the deterioration in debtors ageing during the first part of FY12 and the significant push on debtors collections and delay in payment of creditors leading up to 31 December 2011.

Figure 13: Debtors and creditor days – FY08 to 30 April 2012



6.2.6 Net debt

Figure 14: Net debt – FY08 to 30 April 2012

	2008 $'000	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	1 Jan 12 to 30 Apr 12 $'000
Cash and cash equivalents	125,619	89,965	84,051	71,665	52,422	57,023
Borrowings - total current	(30,347)	(7,847)	(9,478)	(34,705)	(159,423)	(255,011)
Borrowings - total non-current	(287,694)	(251,475)	(263,033)	(278,718)	(6,310)	(5,651)
Net debt	**(192,422)**	**(169,357)**	**(188,460)**	**(241,758)**	**(113,311)**	**(203,639)**
Change in net debt	***(125,556)***	***23,065***	***(19,103)***	***(53,298)***	***128,447***	***(90,328)***
Net proceeds from share issues	**79,536**	**73,983**	**(114)**	**40,012**	**109,337**	**-**

Cash and cash equivalents relates to cash on hand and in banks. Foreign currency amounts were translated into Australian dollars.

In November 2011, a central treasury role was established, with cash funds for each Australian business swept daily into a central account. This cash that was swept was then used to reduce the Revolver account. It also supported the ability to pay Australian creditors centrally and transfer funds from cash generating units to regions/businesses that required cash funding (e.g. the Middle East).

In **Figure 15** below, we detail the movements in borrowings over the past four years.

Figure 15: Analysis of gross debt and guarantee facilities – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Secured					
Current					
Bank overdrafts (i)	2,366	3,216	9,571	-	-
Bank loans (i)	2,188	3,266	22,729	157,381	253,323
Hire purchase contracts (ii)	1,975	1,566	1,348	1,080	815
Finance lease liabilities (iii)	1,318	1,430	1,057	962	873
Total current borrowings (iv)	**7,847**	**9,478**	**34,705**	**159,423**	**255,011**
Non-current					
Bank loans (i)	245,755	258,827	275,389	3,897	3,465
Hire purchase contracts (ii)	2,967	2,144	1,354	962	783
Finance lease liabilities (iii)	2,753	2,062	1,975	1,451	1,403
Total secured non-current borrowings (iv)	**251,475**	**263,033**	**278,718**	**6,310**	**5,651**
Unsecured					
Non-current					
Loan from other related party (v)	1,529	-	-	-	-
Total non-current borrowings	**253,004**	**263,033**	**278,718**	**6,310**	**5,651**
Total borrowings	**260,851**	**272,511**	**313,423**	**165,733**	**260,662**
Guarantees issued to various clients					
Issued	181,862	184,719	230,927	262,029	242,745
Unused facility	76,021	190,459	-	37,971	27,255

(i) Secured by a fixed and floating charge over all tangible assets of the w holly ow ned subsidiaries of the Group, the current market value of w hich exceeds the value of the loans.

(ii) Secured by the assets financed, the current market value of w hich exceeds the value of the liability.

(iii) Secured by the assets leased, the current market value of w hich exceeds the value of the liability.

(iv) All borrow ings are show n at amortised cost.

The Hastie Group completed a number of acquisitions between FY07 and FY11, including more than $250m of acquisitions in FY08 and FY09. These were funded through net equity of c$154m and the remainder via debt.

When the Hastie Group breached its covenants in FY11, the capital structure was reorganised through the issue of more than $150m of equity. This equity was used to pay-down and restructure the syndicated debt facilities, with a new term facility of $146m and a Revolver account of $114m (which was initially drawn to c$50m) coming into effect on 18 July 2011. The term facility had ⅔ maturity in July 2013 and ⅓ in July 2014. Guarantee facilities reduced to $300m.

As we outline in section 7.13.2, the Revolver account was almost fully paid down at 31 December 2011 due to:

- significant advanced project payment receipts
- a push on debtor collections
- deferment of payments to trade payables.

Because the Hastie Group breached its loan covenants at 31 December 2011, the bank loan facilities were reclassified from non-current to current.

During the period from 31 December 2011 to our appointment, the Revolver account was fully redrawn due to significant cash being used to bring trade payables into terms and fund significant project losses, mostly in the Middle East. Following our appointment, we assumed control of the Hastie Group bank accounts, other than those where the Receivers and Managers were appointed. Due to the daily cash sweeping (see section 7.13.2) the only cash at bank of c$17.5m was held in HHO and consequently was controlled by the Receivers and Managers.

6.2.7 Prepayments

Figure 16: Prepayments – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Total prepayments	**7,733**	**8,510**	**6,938**	**11,151**	**7,921**

Prepayments mainly relate to prepaid rent, insurance, bonds and other miscellaneous expenses. Prepayments for the Hastie Group as at 30 April 2012 totalled $7.9m. Approximately $2.2m related to the accounting irregularities in Hastie Services North and was subsequently written-off (see section 7.9.1).

6.2.8 Other financial assets

Figure 17: Other financial assets – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Current					
Foreign currency forward contracts	3,088	1,022	-	-	-
Non-current					
Shares in non-controlled entities at cost	378	604	604	604	604
Non-interest bearing advance to a related but non-controlled entity	384	1,720	1,640	1,640	1,640
Total non-current other financial assets	**762**	**2,324**	**2,244**	**2,244**	**2,244**

Foreign currency forward contracts

The Hastie Group uses derivative financial instruments such as forward foreign exchange contracts and interest rate swaps to hedge its exposure to interest rate and foreign exchange rate risk. The mark-to-market value of these is included in 'other financial assets'.

Shares in non-controlled entities

These relate to investments (minority interests) in companies held by subsidiaries of the Hastie Group, being D&E and N&D.

Non-interest bearing advance

This advance is to a related company and the balance has not changed materially since FY10.

6.2.9 Property, plant and equipment

Figure 18: Movements in property, plant and equipment – FY09 to 30 April 2012

Movement in net book value	Land and buildings $'000	Leasehold Improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Office furniture & equipment $'000	Total $'000
Balance at 1 July 2008	15,169	6,364	10,476	12,470	7,105	51,584
Additions from business acquisitions	-	13	715	823	143	1,694
Other additions	-	2,830	5,212	3,443	3,930	15,415
Disposals	-	-	(106)	(812)	(196)	(1,114)
Depreciation & amortisation expense	(269)	(1,215)	(2,821)	(4,130)	(2,539)	(10,974)
Foreign currency translation	(122)	49	(32)	112	91	98
Balance at 1 July 2009	**14,778**	**8,041**	**13,444**	**11,906**	**8,534**	**56,703**
Reallocation to intangibles	-	-	-	-	(1,053)	(1,053)
Additions from business acquisitions	-	823	876	993	544	3,236
Other additions	-	1,540	3,566	1,930	4,228	11,264
Disposals	-	(327)	(450)	(727)	(54)	(1,558)
Depreciation & amortisation expense	(238)	(1,479)	(2,803)	(3,498)	(3,048)	(11,066)
Foreign currency translation	(2,054)	(146)	(19)	(181)	(159)	(2,559)
Balance at 30 June 2010	**12,486**	**8,452**	**14,614**	**10,423**	**8,992**	**54,967**
Additions from business acquisitions	-	-	-	281	39	320
Other additions	-	2,397	3,141	2,668	2,133	10,339
Disposals	-	(19)	(161)	(672)	(10)	(862)
Depreciation & amortisation expense	(201)	(1,677)	(3,079)	(3,795)	(3,655)	(12,407)
Foreign currency translation	(1,861)	(188)	(179)	(196)	(143)	(2,567)
Balance at 30 June 2011	**10,424**	**8,965**	**14,336**	**8,709**	**7,356**	**49,790**
Balance at 31 December 2011	**5,642**	**9,067**	**13,824**	**7,232**	**6,764**	**42,529**
Balance at 30 April 2012	**5,818**	**7,984**	**13,458**	**6,404**	**6,186**	**39,850**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight-line basis so to write off the cost of each asset over its estimated useful life as follows:

Asset	Useful Life
Buildings	50 years
Leasehold improvements	Term of lease
Plant and equipment	4 - 15 years
Motor vehicles	4 - 5 years
Office furniture and equipment	5 - 15 years

It is the Hastie Group's policy to review the estimated useful lives, residual values and depreciation method at each financial year-end.

6.2.10 Other intangible assets

Figure 19: Analysis of other intangibles – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Software	5,667	6,176	5,604	4,962	4,659
Brand names	7,662	7,662	4,202	3,143	3,245
Customer contracts	1,144	939	426	227	192
Total intangibles	**14,473**	**14,777**	**10,232**	**8,332**	**8,096**

The Hastie Group has recognised intangible assets for software, brand names and customer contracts:

- Software relates mostly to the Hastie Group's investment in enterprise resource planning (ERP) systems.
- Brand names acquired in a business acquisition are identified and recognised separately from goodwill. Brand names are treated as having indefinite lives and are therefore not amortised. Instead, Hastie Group tests these assets for impairment at least annually, or more frequently if circumstances arise that will affect an asset's value.
- Customer contractual relationships acquired in a business acquisition are also identified and recognised separately from goodwill. The fair value is determined by way of an excess earnings approach and amortised over the expected life of the contractual relationship.

Given the circumstances of the Hastie Group, these intangibles are unlikely to have material realisable value. Goodwill relating to acquisitions has been review in sections 7.9.2 and 6.2.1.

6.2.11 Provisions

Figure 20: Analysis of provisions – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Current					
Employee benefits	36,255	42,895	45,943	46,992	44,169
Warranty	9,136	8,372	8,252	7,582	5,860
Other	980	2,172	3,960	3,412	13,444
Total current provisions	**46,371**	**53,439**	**58,155**	**57,986**	**63,473**
Non-current					
Employee benefits	2,402	2,905	3,168	3,118	3,000
Total provisions	**48,773**	**56,344**	**61,323**	**61,104**	**66,473**

Employee benefits

Employee benefits provisions relate to accrued wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being reliably measured. Amounts expected to be settled within a year are classified as current and the balance measured at the expected present value of the liability.

Provision for warranty and other

Other provisions increased from $980k in FY09 to $13.4m at 30 April 2012, with the major movement in FY12 providing for losses on projects in the Middle East.

Warranty and other provisions are recognised when the Hastie Group:

- has a present obligation because of a past event
- it is probable that the Hastie Group will be required to settle the obligation
- the liability can be reliably estimated.

The amount recognised is based on a best estimate of the obligation at the reporting date.

6.2.12 Current / deferred tax assets

Figure 21: Income tax assets and liabilities – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Current tax asset	**877**	**168**	**9,026**	**2,141**	**1,224**
Deferrred tax asset	**22,454**	**23,120**	**24,851**	**42,198**	**48,695**
Current tax liability	**4,554**	**6,443**	**2,295**	**3,117**	**1,954**

Tax assets and liabilities reflect timing differences between when income tax on earnings is incurred and when that tax is payable or refundable. Tax assets include carried forward tax losses (c$6.3m in FY11) which may be offset against future taxable income. The balances will have taken into account jurisdictional tax rates and laws applicable at each reporting date and any adjustment from prior years.

Under the relevant accounting standards, deferred tax assets should only be recognised when it is probable the Hastie Group will generate future taxable earnings to utilise these deferred tax assets. It is unlikely the current and non-current tax assets of the Hastie Group will be recoverable and therefore minimal value is likely to be derived from these assets. It is likely such assets should have been at least partially provided for (expensed) in earlier periods.

The significant increase in the deferred tax assets since FY11 is likely to be due to losses incurred.

6.2.13 Financial instruments

Figure 22: Financial instruments – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Interest rate swaps	7,706	4,722	3,689		
Forward exchange contracts	-	-	27		
Financial instruments[1]	**7,706**	**4,722**	**3,716**	**6,621**	**5,068**

Note 1. No breakdown has been received for HY12 and 30 April 2012 balances

This relates to interest rate swaps and forward exchange contracts entered into by the Hastie Group to manage its exposure to interest rate and foreign currency risk.

6.2.14 Contingent consideration

Figure 23: Contingent consideration – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Current contingent consideration	5,938	1,761	2,597	435	-
Non-current contingent consideration	1,331	1,967	-	-	-
Total contingent consideration	**7,269**	**3,728**	**2,597**	**435**	**-**

Contingent consideration relates to earn-outs on business acquisitions. We note the Hastie Group wrote back approximately $2m of contingent consideration in FY12 as this was no longer payable (refer section 6.1.3).

6.2.15 Issued capital

Figure 24: Issued capital – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	YTD to 30 Apr 12 $'000
Opening balance	**208,035**	**290,093**	**299,688**	**340,691**	**340,691**
Shares issued for cash	76,914	-	43,504	114,093	114,093
Shares issued pursuant to dividend reinvestment plans	5,933	9,045	-	-	-
Shares issued pursuant to deferred consideration	1,050	-	-	-	-
Shares issued pursuant to exercise of rights	213	630	123	450	450
Share issue costs	(2,931)	(114)	(3,492)	(4,756)	(4,756)
Related income tax	879	34	868	1,606	1,606
Closing balance	**290,093**	**299,688**	**340,691**	**452,084**	**452,084**

The Hastie Group made a number of share placements and rights issues over the last few years. We discuss the use of these capital raisings in our review of net debt in section 6.2.6.

On 14 June 2011, Hastie Group announced its last equity issue to raise c$160m through:

- a conditional placement ($42.8m)
- an institutional entitlement offer ($40.8m)
- a retail entitlement offer ($69.2m).

The purpose of the capital raising was to improve the balance sheet position and repay a significant amount of the Banking Syndicate's debt. The Hastie Group raised a total of $157.6m in new equity – with $43.5m received in June 2011 and the balance received in July 2011.

At the Hastie Group's Annual General Meeting on 3 November 2011, shareholders also approved a share consolidation whereby every 10 shares were consolidated into 1 share.

6.2.16 Reserves

Figure 25: Reserves – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	30 Apr 12 $'000
Equity reserve	(1,337)	(1,337)	(5,158)	(5,158)	(5,158)
Foreign currency translation reserve	1,463	(2,597)	(53,782)	(54,635)	(50,865)
Deferred consideration equity reserve	1,050	-	-	-	-
Pension reserve	(936)	(1,368)	(936)	(936)	(936)
Employee equity-settled benefits reserve	1,897	1,715	1,920	1,820	2,054
Hedging reserve	(3,233)	(3,166)	(2,601)	(4,635)	(3,548)
Total reserves	**(1,096)**	**(6,753)**	**(60,557)**	**(63,544)**	**(58,453)**

Equity reserve

This arises from changes in the ownership interests of the Hastie Group subsidiaries.

Foreign currency translation reserve

This arises from changes in exchange rates between reporting dates on the translation of the Hastie Group's foreign subsidiaries (which operate in foreign currencies) into Australian dollars. The large balance from FY11 onwards arose from the strong Australian dollar.

Pension reserve

This represents the change in fair value of the assets of a UK-based defined benefit pension scheme for some of the employees of a business acquired in 2008. The scheme is closed to new members. We note this would normally be recognised as a liability rather than in the equity section, however the amount is not significant in the context of the Hastie Group.

Employee equity-settled benefits reserve

This represents the fair value at award date of performance rights granted to managers of the Hastie Group and brought to account over the vesting period. Amounts are transferred out of the reserve when rights vest.

Hedging reserve

This reserve represents hedging gains and losses recognised on the effective portion of cash-flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss.

6.2.17 Retained earnings / dividends

Figure 26: Retained earnings/dividends paid – FY09 to 30 April 2012

	2009 $'000	2010 $'000	2011 $'000	HY12 $'000	YTD to 30 Apr 12 $'000
Opening balance	**44,311**	**76,410**	**92,734**	**(4,681)**	**(4,681)**
(Loss) / profit attributable to owners of the parent	58,344	39,835	(87,826)	(149,138)	(170,261)
Dividends paid	(26,245)	(23,511)	(9,589)	-	-
Closing balance	**76,410**	**92,734**	**(4,681)**	**(153,819)**	**(174,942)**

Dividends from ordinary shares

HST paid dividends in FY09, FY10 and FY11. The dividend paid in FY11 related to the FY10 final dividend which was paid on 18 October 2010. No dividends have been declared since FY10.

Total retained earnings

This reflects the accumulated profits/losses of the Hastie Group since inception.

6.3 CONSOLIDATED CASH FLOW AND ANALYSIS

Figure 27 sets out a summary of the Hastie Group's cash flow statements from FY08 to 30 April 2012.

Figure 27: Statement of cash flows – FY08 to April FY12

Statement of Cash Flows $000's	YTD to 30/04/2012 (Unaudited)	HY FY12 (Reviewed)	FY11 (Audited)	FY10 (Audited)	FY09 (Audited)	FY08 (Audited)
Cash flows from operating activities:						
Receipts from customers	1,509,897	975,370	2,036,831	1,796,977	1,974,575	1,365,898
Payments to suppliers and employees	(1,561,352)	(942,710)	(2,056,579)	(1,737,251)	(1,928,008)	(1,269,650)
Cash from operations	**(51,455)**	**32,660**	**(19,748)**	**59,726**	**46,567**	**96,248**
Income taxes (paid)/received	3,994	2,994	(7,438)	(8,117)	(11,540)	(15,862)
Net cash (used)/generated by operating activities	**(47,461)**	**35,654**	**(27,186)**	**51,609**	**35,027**	**80,386**
Cash flows from investing activities:						
Payments for business acquisitions						
- current year acquisitions	-	-	(3,311)	(17,730)	(21,241)	(215,317)
- acquisition of minority interest	-	-	(4,887)	-	-	-
- prior year acquisitions	-	-	(153)	(107)	(70)	(608)
Payment of contingent consideration for businesses	(435)	-	(4,069)	(5,845)	(7,701)	(8,609)
Payment for property, plant and equipment	(5,356)	(4,105)	(9,201)	(10,837)	(13,688)	(11,725)
Payment for intangible assets (Software)	(975)	(544)	(1,923)	(1,711)	(4,002)	(1,962)
Proceeds from sale of property, plant and equipment	1,963	1,081	976	1,833	1,354	971
Advances to related parties	-	-	80	(1,336)	(116)	(41)
Payment to buy out minority interests in subsidiary	-	-	-	-	-	(1,763)
Proceeds from sale of investments	-	-	-	-	-	90
Net cash provided by / (used in) investing activities	**(4,803)**	**(3,568)**	**(22,488)**	**(35,733)**	**(45,464)**	**(238,964)**
Cash flows from financing activities:						
Proceeds from issue of shares	114,093	114,093	43,504	-	76,914	84,183
Payment for share issue costs	(4,756)	(4,756)	(3,492)	(114)	(2,931)	(4,647)
Proceeds from borrowings	359,553	264,471	108,173	24,396	37,828	352,503
Repayment of borrowings	(405,226)	(403,643)	(68,363)	(9,387)	(75,166)	(187,196)
Interest received	500	445	459	1,009	3,565	1,583
Interest and other costs of finance paid	(17,457)	(12,966)	(33,975)	(21,083)	(23,495)	(20,527)
Dividends paid to						
- owners of the parent company	-	-	(9,589)	(14,467)	(20,312)	(11,401)
- non-controlling interests	-	-	-	(298)	(219)	(129)
Net cash provided by financing activities	**46,707**	**(42,356)**	**36,717**	**(19,944)**	**(3,816)**	**214,369**
Net increase / (decrease) in cash held	**(5,557)**	**(10,270)**	**(12,957)**	**(4,068)**	**(14,253)**	**55,791**
Cash at bank - beginning of year	62,094	62,094	80,835	87,599	100,874	47,502
F/X adjustment from cash held in foreign currencies	486	598	(5,784)	(2,696)	978	(2,419)
Cash at bank - end of year	**57,023**	**52,422**	**62,094**	**80,835**	**87,599**	**100,874**
Reconciliation of cash at bank						
Cash	57,023	52,422	71,665	84,051	89,965	125,619
Bank overdraft	-	-	(9,571)	(3,216)	(2,366)	(24,745)
Cash at bank - end of year	**57,023**	**52,422**	**62,094**	**80,835**	**87,599**	**100,874**

We make the following high-level observations in relation to the key cash flow categories:

- The Hastie Group's net operating activities for the period FY08 to 30 April 2012 resulted in a net cash inflow of $92m. Operating activities generated negative cash flows in FY11 and YTD to 30 April 2012 of $27m and $47m respectively. The positive cash flow generated from operations for the 6 months to 31 December 2012 appears to be because of material receipts in advance on projects and the management of the working capital situation – given net working capital was $164m at 30 June 2011 and reduced to $21m at 31 December 2012.
- The Hastie Group's net investing activities over the same period resulted in a net cash outflow totalling $347m. This was largely the result of business acquisitions ($290m), which mostly occurred in FY08 and FY09, and property, plant and equipment purchases ($51m).
- Financing activities generated a net $274m inflow between FY08 and 30 April 2012. Net cash (after share issue costs) of $303m was raised via equity issues – $154m in FY08/FY09 and $149m in June/July 2011. The FY08/FY09 equity issues (as well as borrowings) primarily funded business acquisitions and the equity issue in 2011 was used to pay down and restructure funding facilities.

7 INVESTIGATIONS

An administrator's investigations need to identify matters that a liquidator, if appointed, may seek to pursue by:

- undertaking more detailed investigations
- recovering voidable transactions
- seeking compensation for breaches/contraventions by the directors/officers and/or other parties.

Funds recovered by a liquidator would be available for distribution to creditors of the relevant company subject to the Act's priority provisions.

Certain recoveries, e.g. from voidable transactions, are claims that can only be pursued by a liquidator. Potential recoveries available to a liquidator would not be available to a deed administrator should creditors vote to accept any DOCA proposal. As at the date of this Report, we have not received any DOCA proposals.

As Administrators, we have conducted investigations to the extent possible in the available time and will continue to review all the issues identified, should creditors vote to wind up the Hastie Group (ie place the Hastie Group into liquidation). As noted above, a liquidator has greater powers to pursue recoveries than an administrator or deed administrator.

As the Hastie Group prepared its accounts on a consolidated basis, the body of this Report includes our preliminary findings from our investigations into the Hastie Group as a whole.

The ISRs contain any conclusions we may have drawn that are specific to a particular Hastie Group company.

7.1 LIMITATION ON INVESTIGATIONS

We have conducted investigations into the business, affairs and financial circumstances of the Hastie Group, as well as the conduct of its directors and officers.

Our investigations to date have been limited for the following reasons:

- We have had a relatively limited timeframe in which to undertake investigations and report to creditors, given the size and complexity of the trading operations and volume of Hastie Group books and records to review.
- A number of key management staff and directors resigned prior to our appointment and were either not available or unwilling to assist us in our investigations.
- We have concerns that the Hastie Group's financial information and books and records may be deficient and unreliable.
- We are aware of potential manipulation of financial data in at least one Hastie Group subsidiary.
- Access to relevant Hastie Group staff, particularly of the Middle East businesses, has been restricted.
- At this stage, we have not conducted examinations of the directors and officers of the Hastie Group or other persons of interest.
- The majority of the directors of the Hastie Group have not provided their director's questionnaires or RATAs. The directors' failure to provide the requested RATAs is an offence under the Act and we have reported these offences to ASIC.

We based our investigations and opinions on information obtained from:

- Hastie Group's:
  - books and records, including management reports and board reports
  - electronic financial systems
  - accounting and database information systems used by the Hastie Group
  - directors, officers, management and key staff members (where available)
- external professional reports, including audit reports
- publicly available information e.g. ASIC, ASX.

7.2 SUMMARY OF KEY FINDINGS

Whilst our investigations are ongoing, we summarise our initial findings below:

- **Breaches of director duties:** We have identified a number of possible breaches of the Act (refer section 7.3).
- **Reasons for failure:** The Hastie Group failed due to poor strategic, operational and financial management and increased competition (refer section 7.9).
- **Books and records:** We have concerns that the books and records of the Hastie Group do not correctly explain the Hastie Group's financial performance and position. The books and records may therefore be deficient and give rise to a presumption of insolvency (refer section 7.10).
- **Auditor duties:** The auditor may not have fulfilled his obligations under relevant Australian Auditing Standards (refer section 7.11).
- **Advisor:** The advisor to the Prospectus may have breached its retainer and therefore be liable to pay compensation if it can be demonstrated that the work completed was deficient (refer section 7.12).
- **Insolvent trading:** There are no prima facie indications that the Hastie Group traded whilst insolvent. However, additional investigations by a liquidator will be required before a conclusive view can be formed (refer section 7.13).
- **Voidable transactions:** We have not finalised our investigations into voidable transactions, as these investigations require a determination on whether and, if so, when the Hastie Group was insolvent. A liquidator may identify voidable transactions that warrant further investigation and has the power to pursue those claims (refer section 7.14).

7.3 POSSIBLE BREACHES OF DIRECTOR DUTIES

We summarise the potential breaches of the Act that we have identified from our preliminary investigations, including the parties against whom potential actions may be brought by a liquidator:

Summary of potential breaches of the Act

Section	Description	Parties to the breach	Penalty*
180	Failure to exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise in the same circumstances	All directors during the period July 2010 (but possibly earlier) to date of our appointment	Civil: Pecuniary penalty order, payment of compensation for losses suffered by the relevant company and disqualification order.
181	Failure to exercise their powers and discharge their duties in good faith in the best interests of the corporation or for a proper purpose.	As above	Civil: Pecuniary penalty order, payment of compensation for losses suffered by the relevant company and disqualification order.
286	Failure to maintain books and records which correctly explain the company's financial position and performance	As above	Criminal: Fine or imprisonment or both Civil: Pecuniary penalty order, payment of compensation or losses suffered by the relevant company, and disqualification order.
296	Failure to ensure the financial reports comply with accounting standards and any further requirements in the regulations	As above	Civil: Pecuniary penalty order, payment of compensation for losses suffered by the relevant company and disqualification order.
297	Failure to ensure the financial statements give a true and fair view of the financial position and performance of the company and consolidated group	As above	Civil: Pecuniary penalty order, payment of compensation or losses suffered by the relevant company, and disqualification order.
344(1)	Failure to take reasonable steps to comply with provisions of Part 2M.2 or 2M.3 relating to financial records and reporting	As above	Civil: Pecuniary order, payment of compensation for losses suffered by the relevant company or disqualification order.
728(1)	Offering securities where the disclosure documents contains misleading or deceptive statements	All directors at the time the Prospectus was signed	Criminal: Fine or imprisonment or both (if the misstatement or omission is 'materially adverse' from an investor's point of view). If a breach of s728 is established an investor may claim compensation pursuant to s729 of the Act.

* Whilst a director can be personally liable for the above civil breaches of the Act, any liability for compensation will be limited to the time the director was in office.

Additional potential breaches may be identified with further investigations by a liquidator.
We have identified the possible statutory breaches listed above based on our observations that:

- internal systems for project management were inadequate and not to industry standard
- financial reporting from subsidiary level up to HST was not uniform and open to manipulation
- the Board did not appear to adequately challenge divisional/subsidiary results or forecasts
- there was a possible lack of due diligence around acquisitions
- the 2011 prospectus was not adequately reviewed and challenged with regard to the financial forecasts
- there appears to have been a general culture of ignoring bad news
- the ARC was largely inactive
- compliance with accounting standards appears to be lacking, particularly with reference to provisioning for asset impairment
- the Board, prior to the appointment of the interim CEO Bill Wild, appeared not to have 'an enquiring mind' as to reliability of financial statements and overall reporting.

7.3.1. Financial records and reporting obligations

The examples outlined above may constitute breaches of the Act pertaining to financial records and reporting obligations:

1. a company's financial reports must comply with accounting standards and the financial statements and their notes must give a true and fair view of the financial position and performance of the company (or the consolidated entity if consolidation is required) (s296-297 of the Act)
2. director's must declare whether, in their opinion, the financial statements and notes of the entity are in accordance with the Act (including the accounting standards) and with the requirement that the financial statements and notes give a true and fair view of the entity's financial position (s295(4) the Act)
3. before the directors of a listed/ disclosing entity must make a declaration under s295(4) the Act, the CEO and CFO must each make a declaration that:
    a) the financial records of the entity for the financial year have been properly maintained in accordance with s286 the Act;
    b) the financial statements and notes of the financial year comply with the accounting standards; and
    c) the financial statements and notes for the financial year give a true and fair view of the entity's financial position (s295A the Act).

Failing to comply with the above provisions will result in a contravention of s 344(1) of the Act, by failing to take all reasonable steps to comply with, or secure compliance with Pt. 2M.2 (dealing with financial records) or Pt. 2M.3 (dealing with financial reports).

Section 344 of the Act is a civil penalty provision (s1317E of the Act) and accordingly, a breach may result in a director being liable to compensate an entity for damage that it has suffered as a consequence of the contravention (s1317H of the Act).

Factors to be considered in assessing breaches of director's duties, particularly those of due care, diligence and compliance of financial reporting, include:

1. a director is expected to take a diligent and intelligent interest in the information available to him or her, to understand that information and apply an inquiring mind to the responsibilities placed upon him or her. Such a responsibility arises in adopting and approving financial statements
2. due to the nature and importance of financial statements, the directors must understand and focus upon the content of financial statements, and if necessary, make further enquiries if matters revealed in those financial statements call for such enquiries
3. the scrutiny by the directors of the financial statements involves understanding their content and directors should bring the information known or available to him or her in the normal discharge of the director's responsibilities when adopting and approving financial statements
4. directors cannot substitute reliance upon the advice of management for their own attention and examination of an important matter that falls specifically within the Board's responsibilities ie financial reporting obligations. Each member of the Board has the responsibility of attending to and focusing on these accounts and, under the circumstances, could not delegate or abdicate that responsibility to others
5. a director is expected to be capable of understanding the company's affairs to the extent of actually reaching a reasonably informed opinion of its financial capacity
6. what constitutes the proper performance of the duties of a director of a particular company will be dictated by a host of circumstances, including, the type of company, the size and nature of its entities, the provisions of its articles of association, the composition of its board and the distribution of its work between the board and other officers
7. the assessment of a company's circumstances requires consideration of the type of company, the size and nature of its business, the provisions of its constitution, the composition of the board and the distribution of the work between the board and other officers, whether the company was listed or unlisted, in the case of a parent company, to have regard to the size and nature of the business of its subsidiaries and if they are under the parent's general supervision
8. the statutory duty incorporates a minimum standard of diligence, which at least requires every director or officer, to become familiar with the fundamentals of the business or businesses of the company, to keep informed about the company's activities, to monitor, generally, the company's affairs, to maintain familiarity with the company's financial status by appropriate means including (in the case of a director) review of the company's financial statements and board papers, and make further inquiries into matters revealed by those documents where it is appropriate to do so, and in the case of a director, to have a reasonable informed opinion of the company's financial capacity.

Based on the minutes of the Board meetings, there is little evidence of the interrogation of the financial data and accounts presented for consideration by the Board.

This summary is only preliminary. We consider that the Hastie Group's directors may also have potentially breached their general law fiduciary duties and we recommend a liquidator should carry out further investigations (see Section 7.4 following).

7.4 EXAMINATION OF OFFICERS OF HST & OTHERS

Should creditors vote to wind up the Hastie Group, the liquidator will consider the public examination of directors, officers and other persons of interest.

We have not conducted examinations as:

- to date our investigations have not been sufficiently advanced
- the administrations are without funds to meet the costs of such examinations

We consider there may be merit in conducting public examinations around a number of areas of interest including, but not limited to, the preparation and review of financial statements, the possibility of insolvent trading, preparation of the Prospectus and management/general corporate governance of the Hastie Group.

The provisions of Div. 1 of Part 5.9 of the Act provide that an 'eligible applicant' such as a liquidator may examine officers of a company about its 'examinable affairs' and any other person who may be able to provide information relating to such affairs. 'Examinable affairs' is a comprehensive term of wide ranging application and includes:

- the promotion, formation, management, administration or winding up of the corporation
- and other affairs of the corporation
- the business affairs of a connected company of the corporation insofar as they appear to be relevant to the corporation or its affairs.

If the Court is satisfied that a summons for examination should be issued, the examinee is usually required to produce at the examination any specified books that are in the person's possession and relate to the corporation.

7.5 REPORTING OF OFFENCES TO ASIC

We have lodged a report with ASIC in accordance with section 438D of the Act which covers the issues raised in section 7.3 and 9 of this Report.

Administrators are required to complete and lodge a report with ASIC pursuant to section 438D of the Act where it appears:

- a past or present officer of a company may have committed an offence
- money or property has been misapplied or retained
- a party is guilty of negligence, default, breach of duty or breach of trust in relation to a company.

A liquidator is required to lodge a report of his findings with ASIC, pursuant to s533 of the Act.

Creditors should also be aware that any report lodged pursuant to section 438D (or an investigative report lodged by a liquidator pursuant to section 533 of the Act) is not available to the public.

Since our appointment, we have had several discussions with ASIC representatives and are continuing to liaise with them on all relevant Hastie Group matters.

7.6 DIRECTORS' INSURANCE AND INDEMNITY DEEDS

At the date of our appointment, HST held a Directors and Officers Insurance policy (**the Policy**). To avoid prejudicing any claims, we are not disclosing the terms of the Policy.

The Policy will be subject to further investigation should the creditors elect to place the Hastie Group into liquidation at the Second Meetings, in particular the conditions, limits and period of cover.

We understand the directors also hold Indemnity Deeds that purport to indemnify them against any liability incurred by the directors from any proceedings brought against them. We are considering whether any indemnity may be enforceable pursuant to Part 2D.2 of the Act. A liquidator will review the Indemnity Deeds in considering the commercial merits of any claims.

7.7 DIRECTORS' PERSONAL FINANCIAL POSITION

When a liquidator assesses the commercial merit of pursuing a claim, a key consideration is the capacity of the party defending the claim to satisfy the claim.

We wrote to the directors of the Hastie Group requesting that they provide a statement of their personal financial position. The purpose of these statements is to assist us in assessing the likely recovery from directors in the event a liquidator brings a successful action against them. The directors are yet to provide us with any statements.

In addition, we have completed an initial search of publicly available records for assets held in the directors' names. At this time, we do not intend to disclose the details of these searches however we understand that certain directors do own assets against which recoveries could be made.

Should creditors resolve to place the Hastie Group into liquidation at the upcoming Second Meetings, a liquidator would continue investigating the directors' personal financial positions.

7.8 DIRECTORS' EXPLANATION FOR THE HASTIE GROUP'S DIFFICULTIES

Despite requests, the directors of HST at the date of our appointment have not provided an explanation for the company's failure, or that of the Hastie Group as a whole.

7.9 REASONS FOR THE HASTIE GROUP'S FAILURE

The event that ultimately led to our appointment was the Hastie Group's ASX announcement that it had uncovered c$20m of accounting irregularities (refer section 7.9.1).

However, we consider that Hastie Group failed because of a number of longer-term issues, namely:

- the poorly implemented acquisition strategy (refer section 7.9.2)
- profitable companies subsidising the loss-making Middle East businesses (refer section 7.9.3)
- inadequate operational management processes and increased competition (refer section 7.9.4)
- inadequate management reporting systems, including from subsidiary management to the Board (refer section 7.9.4)
- inadequate Board reporting systems and interrogation of management and financial reports by the Board (refer section 7.9.5)
- inadequate control exercised by the Board over management (refer section 7.9.5).

We provide further detail on these matters in the following sections.

7.9.1 Accounting irregularities

During April and May 2012, the Hastie Group was negotiating with the Banking Syndicate for an urgent recapitalisation plan.

On 16 May 2012, an employee within the Hastie Services North business (operated by HSE) notified Hastie Group management of accounting irregularities that overstated historic results (profitability) by c$20m.

The Hastie Group announced these irregularities to the ASX on 25 May 2012. On 28 May 2012, the directors of the Hastie Group appointed us as Administrators of 44 group companies and the Security Trustee, on behalf of the Banking Syndicate, appointed Receivers and Managers in relation to 11 of the same companies. Without funding, the Hastie Group was unable to continue trading under the control of the Administrators.

7.9.2 Acquisition strategy

The acquisition and management strategy pursued by the Hastie Group Board resulted in:

- high levels of debt funding and associated costs
- subsidisation of losses in the Middle East by other profitable businesses
- poor post-acquisition performance of acquired businesses
- duplication of overhead costs
- inaccurate and inadequate financial reporting and consequently poor decision making by the Board.

Debt funding

The level of debt funding utilised by the Hastie Group to finance acquisitions was such that, as its financial performance deteriorated, it was unable to maintain or service that debt.

The Hastie Group undertook a significant acquisition programme after listing on the ASX in March 2005, including eight acquisitions for $277m during FY08 to FY10, funded by $154m of equity and $123m of debt. The resultant debt load, relative to equity and cash flow generation, was significantly higher than that of other ASX-listed contracting companies.

Poor post-acquisition performance of businesses and reduced margins due to increased competition affected the Hastie Group's cash flow and consequently it was unable to meet its debt funding obligations.

Risk assessment

The Hastie Group's failure to assess adequately the risks of expansion into foreign jurisdictions significantly affected cash flow.

The Hastie Group acquired businesses with projects in Australia, New Zealand, UAE, Saudi Arabia, Qatar, UK, Ireland, Kazakhstan, Gibraltar and the Caribbean. These companies comprised a variety of industries including mechanical, electrical, plumbing, air conditioning and servicing.

Operating in a range of jurisdictions exposed the Hastie Group to considerable risk, particularly in the Middle East. It appears the Board did not carry out an adequate risk assessment of conducting business in the Middle East, particularly of project management, the recovery of receivables and options for dispute resolution.

Ultimately, this led to the Hastie Group:

- being unable to recover debts from customers
- advancing c$53m of funds over a seven month period between September 2011 and March 2012 from profitable operations to fund the losses incurred in the Middle East
- being unable to prevent significant bank guarantees being called, as detailed in the timeline on page 16.

Post-acquisition integration

We consider that a lack of integration, performance management and appropriate oversight from the Board affected Hastie Group's performance.

As we document in detail in section 6.2.1, the earnings of the Hastie Group fell short of theoretical post-acquisition earnings in FY09 and declined significantly in FY10, FY11 and FY12. This indicates the Hastie Group was unable to maintain or grow the level of earnings previously achieved by the acquired businesses.

As we detail in section 7.9.5, the Board failed to act in a timely manner to reverse this decline in performance.

A draft report by an external consultant in early 2012 suggested possible cost savings of between $26.8m and $68.1m per annum could be achieved through material operational synergies and efficiencies being implemented, such as a single payroll function or centralised procurement function to enhance buying power. Reports submitted to the Board also identify duplication of overhead functions that reduced margins and cash flow further.

In addition, we found a lack of uniformity in financial reporting and project costing methods across the various companies and divisions. The Board's failure to implement standardised costing and reporting methods is likely to have resulted in increased opportunities for error and misreporting, as well as making proper assessment of financial performance difficult.

The interim-CEO appointed in October 2011 introduced improvements to management and reporting practices, including formal quarterly performance reviews of each division's projects and business result and significant rationalisation of the Hastie Group's management structure. However, as we note in section 7.9.5, we consider that the reporting structure was still inadequate for a business of this size and complexity and the rationalisation of the Hastie Group should have commenced much earlier.

7.9.3 Middle East

In addition to the Board's poor risk assessment around conducting business in the Middle East (as noted in section 7.9.2), we consider that the following operational issues contributed to the scale of losses in the Middle East:

- Middle East management's poor project management and communication with customers
- A lack of support for Middle East management from the Board
- Poor control and oversight from the Board.

Based on our preliminary investigations, the Middle East business appears to have reached a position where it had insufficient funding to complete its projects. Relationships appeared to have broken down with customers, indicated by them issuing default and termination notices to the Hastie Group. Non-payment of claims resulted, with customers engaging alternative labour directly (on a contra basis at inflated rates) in an attempt to complete projects. Suppliers also appear to have not received payment for long periods.

Despite these issues, Middle East management continued to report profitable, on-budget results to the Board, which the Board accepted as an accurate reflection of the position in the Middle East.

The Board did not start to identify the issues in the Middle East until late 2011, after which time significant funds (in excess of $53m) were transferred to the Middle East between September 2011 and March 2012, adversely affecting the level of funds available to the rest of the Hastie Group.

7.9.4 Operational management processes

We consider that the inadequate operational management processes, as well as increased external competition, contributed to:

- preparation of inaccurate financial results and forecasts and consequently poor decision making by management and the Board
- poor project tendering and project management practices
- the reduction in Hastie Group's margins
- reduced cash flow.

Tendering process and risk assessment

Our preliminary investigations indicate that in many cases, management undertook inadequate risk assessment within its tendering process. There appears to have been a lack of understanding of project scope and requirements or, alternatively, standard industry practices were abandoned to secure contracts. Tender prices appear to be based on what was deemed necessary to 'win the work' in an increasingly competitive market, rather than the appropriate margin for the assumed risk. This resulted in the Hastie Group undertaking marginal or loss-making projects that also negatively impacted cash flow.

Management processes around project management

Project forecasting processes and cost-to-complete capabilities in many parts of the business appeared to be ineffective. Management systems either seemed to be absent, inappropriate or ignored. We also note the interim CEO's observations of a culture of misreporting and withholding 'bad news'. We consider that all of these factors may have contributed to materially inaccurate financial statements being prepared.

Closing out of projects

There appears to have been systemic failure by the Board to enforce the proper identification and recording of valuation, contractual and extension-of-time claims during projects, resulting in cost overruns at the end of projects with inadequate basis for recovery. In some cases there appears to have been long periods without contact with the customer.

This left the Hastie Group in a position where it had already funded significant additional costs that it was unable to recoup, as evidenced by the significant write-down of WIP and reversal of progress claims at 31 December 2010 and 2011 (refer section 6.2.3).

As indicated in section 6.2.3, Hastie Group's accounts disclosed $2.9bn of WIP assets and c$2.85bn of progress billings at 30 June 2011. This is a significant sum, given the Hastie Group's size and when compared with competitors' levels of WIP. This high level of WIP and progress billings indicates poor close-out project management, the result of which would be inaccurate actual and forecast performance and cash flow positions.

7.9.5 Governance and financial reporting

In our opinion, the Board failed to:

- regularly request and obtain a comprehensive set of performance reports
- properly interrogate the reports presented to it
- exercise an adequate level of control over the Hastie Group operations
- take action over declining performance in a timely manner, particularly in relation to the MEP and Middle East divisions.

Had the Board undertaken the above, the Hastie Group's financial and operational issues may have been identified earlier, allowing remedial action to be taken and losses to be minimised or prevented.

Inadequate information requested

Our investigations indicate a lack of adequate information for a business of this size and complexity, specifically:

- KPIs and margin reporting
- Profit & loss detail
- Full year cash flow projections
- working capital detail
- balance sheet detail
- regular impairment reviews.

Interrogation of financial information

The Board does not appear to have adequately challenged the financial information provided to it. This is demonstrated by the variation in actual EBIT to forecast and budgeted EBIT in FY12, which we review in detail in section 7.13.4. In summary, at 30 April 2012 actual EBIT was ($22.2m), compared to a budgeted EBIT of $48.8m. We suspect the issues giving rise to this decline in financial performance were present when the forecasts and budgets were prepared, if not earlier. If the Board had properly challenged the financial information presented to it, this decline in performance may have become known earlier and more accurate forecasts and budgets prepared.

In addition, the Board made certain significant adjustments totalling $134m in the 11 months to 30 April 2012 ie after the Prospectus and FY11 financial statements were prepared. We consider that the circumstances giving rise to these adjustments were in existence at the time the FY11 financial statements and Prospectus were prepared, if not earlier. We provide further detail on these adjustments in section 7.13.3. In our opinion, had the Board robustly interrogated the FY10 and FY11 financial information, the adjustments may have been reported earlier.

This is particularly important as it means the Prospectus and FY11 financial statements were possibly materially misstated. Consequently, the Banking Syndicate, investors and other stakeholders may have been misled by the information contained in the Prospectus and FY11 financial statements.

Control of operations

The Board appears to have exercised inadequate control over the Hastie Group's operations. We have documented evidence of this in detail in section:

- 7.9.2: the decline in performance of acquired businesses
- 7.9.3: losses incurred in the Middle East
- 7.9.4: poor project management
- 7.9.4: reduced margins.

Recovery plan

Whilst the interim CEO proposed a recovery plan in November 2011, we consider that a recovery plan should have been put in place by previous management much earlier. Our review of the Board Packs found that the Board was advised of issues within the Hastie Group by various external and internal parties, particularly regarding the Middle East and MEP divisions, but were slow to act.

7.10 BOOKS AND RECORDS

Whilst the Hastie Group maintained books and records to record its transactions, they are likely to be deficient in that they do not accurately explain the Hastie Group's financial position and performance. This deficiency may give rise to a presumption of insolvency that a liquidator may rely on.

Pursuant to section 286 of the Act, a company must keep written financial records that correctly record and explain its transactions, financial position and performance, and enable true and fair financial statements to be prepared and audited. The company must keep these records for seven years after the transactions covered by the records are completed.

This is relevant as we currently have not finalised our opinion as to whether the Hastie Group traded whilst insolvent. Failure by a company to maintain adequate books and records may give rise to a presumption of insolvency, pursuant to section 588E of the Act. A liquidator may rely on this presumption in an application for compensation for insolvent trading and other actions for recoveries pursuant to Part 5.7B of the Act.

We conducted a review of the Hastie Group's books and records and electronic accounting system and note as follows:

- the majority of Hastie Group used the 'Pronto' computer based accounting package
- the various ledgers appear to have been adequately maintained (assets, debtors, creditors etc.)
- formal audited accounts were prepared at six monthly intervals
- the last set of formal accounts were prepared as at 31 December 2011
- management reports at a subsidiary level were prepared on a monthly basis
- monthly Board Packs and divisional reports were prepared.

Whilst the existence of the above records indicates that the Hastie Group's books and records were adequate, we have concerns regarding the accuracy of these records. We have identified a number of deficiencies in the records which give us reason to suspect the records do not accurately explain the Hastie Group's financial position and performance. Examples of these deficiencies are set out below:

- High construction WIP balances that do not appear to have been regularly reconciled and cleared down (refer section 6.2.3)
- Identified accounting irregularities of c$20m (refer section 7.9.1)
- Material write-downs of trade receivables, goodwill and revenue reversals of $88m at HY12 (refer section 6)
- Asset values (such as deferred tax) which appear to be overstated

Crucially, the fact that source materials have been kept from which true and fair financial statements could be drawn up does not satisfy the statutory requirement – nor does the creation of such financial statements after the company has gone into liquidation.

The directors bear the primary responsibility for ensuring that the legal requirements concerning keeping adequate financial records are complied with.

We note our investigations into the preparation of the audited accounts and Prospectus are ongoing (refer sections 7.11 and 7.12).

7.11 AUDITOR DUTIES

Based on our initial investigations, it appears the Hastie Group's auditor may not have fully complied with a number of his obligations under the Australian Auditing Standards (ASA). We are concerned that the auditor may not have:

- notified the Board of the underlying control and management issues within the Hastie Group
- made appropriate recommendations regarding the write down of certain asset values.

Had the Board been aware of the Hastie Group's true financial position:

- the 2011 recapitalisation plan may not have progressed, as funders and investors would have been better informed and may not have continued to support the Hastie Group
- the underlying issues could have been addressed earlier and remedial action taken to stem the losses ultimately incurred.

A liquidator would review these matters in more detail before considering bringing a claim for damages against the auditor.

If a claim by a liquidator against the auditor was successful and a financial recovery made, a distribution to creditors may eventuate. Any payment to creditors would be after payment of the costs of pursuing the claim and subject to priorities established in the Act. Given the Banking Syndicate's security, any recoveries from an auditor claim would likely be for the benefit of the Banking Syndicate in the first instance.

7.11.1 Overview

Given the apparent lack of detailed impairment reviews, we have concerns that the figures and estimates used by the auditors to review the valuation of assets, particularly at 30 June 2011, may have been deficient. These estimates relate to project profitability, revenue and debtor recognition, impairment of intangibles and future cash flow performance, as discussed in detail in section 6.

We provide below a brief summary of the potential auditor breaches of duty we have identified to date, along with some of the relevant ASA:

- **ASA 315** – Identifying and assessing the risks of material misstatement through understanding the entity and its environment
- **ASA 330** – Auditor's response to assessing risks
- **ASA 540** – Auditing accounting estimates, including fair value accounting estimates and related disclosures
- **ASA 265** – Communicating deficiencies in internal controls to those charged with governance and management.

7.11.2 December 2010 financial statements

As we discuss in detail in section 6, the Hastie Group recognised significant write-downs (goodwill $69.1m and trade receivables $26.0m) in the financial statements prepared as at 31 December 2010. This suggests internal accounting control deficiencies were evident in the lead up to those statements being prepared.

However, in the report to the ARC following the review of the 31 December 2010 financial statements, the auditor did not identify any significant issues with the Hastie Group's accounting records or internal controls.

7.11.3 June 2011 financial statements

During the period from 31 December 2010 to 30 June 2011, we have found no evidence that that the Board carried out any further detailed project and impairment reviews. This is surprising given:

- the significant write-downs that occurred at 31 December 2010
- a prospectus was prepared for a $160m capital raising in June/July 2011 (which included forecast earnings)
- the preparation of financial year end accounts at 30 June 2011

As we note in 6.2.1, in the report to the ARC on the June 2011 financial statements, the auditor challenged the goodwill assumptions. However, the auditor's proposed revised weighted average cost of capital (WACC) and growth rates still indicated that no goodwill impairment was required. We consider that the goodwill value at this stage ought to have been written down because of the ongoing poor performance of the Hastie Group (refer section 6. 1).

In addition, we have not found any indication that the auditor challenged the valuation of receivables or WIP. Our initial review indicates these assets may have been significantly overstated. We discuss these matters further in sections 6.2.2 and 6.2.3.

7.11.4 December 2011 financial statements

Internal reviews by management between December 2011 and February 2012 found:

- significant revisions (c$88m) to the amount of revenue recognised on a number of projects (including recoverability of WIP, cost to complete and contract value after variations)
- further impairment of goodwill that was reflected in the financial statements at 31 December 2011 (refer section 6.2.1).

An independent external report received by the Board in October 2011 also highlighted weaknesses with the project management and forecasting systems.

However, in the report to the ARC concerning the 31 December 2011 financial statements, the auditor maintained that he:

> *"…did not note any significant issues with Hastie Group's corporate accounting records that warranted reporting..."*
>
> *"…had not identified any significant deficiencies in internal controls relating to the prevention and detection of fraud or error…".*

Whilst the auditor drew attention to the material uncertainty of Hastie Group's ability to continue as a going concern, he still concluded that:

> *"….we have not become aware of any matter that makes us believe that the half-year financial report of Hastie Group Limited is not in accordance with the Corporations Act 2001, including giving a true and fair view of the consolidated entity's financial position…"*

We consider that the auditor should have identified the underlying management and control issues giving rise to these significant write-downs and communicated them to the Board in a timely manner.

7.11.5 Potential claim against the auditor

Subject to availability of funds, it is recommended a liquidator conduct further investigations as to the existence of a viable auditor claim. This would likely be a lengthy process and involve:

- obtaining independent audit expert and legal opinions as to the auditor's possible failures, including negligence, false and misleading conduct and breach of contract
- public examination of the auditor and his staff as to their audit processes, key audit issues and to obtain copies of the auditor's files
- assessing and quantifying losses incurred as a result of any failure of the auditor to perform his duties
- obtaining and compiling information to prove any auditor claim
- assessing the recoverability of an auditor claim
- estimating the costs of pursuing an auditor claim
- obtaining funding to meet the costs of running any auditor claim
- obtaining creditor approvals for any funding agreements as necessary
- assessing priority of entitlement to any auditor claim recovery.

A liquidator will likely consider a range of funding options including from secured creditors, unsecured creditors, investors and litigation funders.

If a commercially viable auditor claim is established, along with the necessary funding to run the audit claim, a liquidator would potentially begin formal legal proceedings in Court.

Formal legal proceedings are subject to significant uncertainty that is not within the control of a liquidator. We also note a potential conclusion to any auditor claim may take between three and five years or possibly longer.

If an auditor claim is ultimately successful and a financial recovery is made, a payment to creditors may eventuate after costs of running the auditor claim are met. Any payment to creditors will be subject to priorities established in the Act. As a result, the Banking Syndicate is likely to enjoy the benefit of any recovery up to the value of the unpaid secured debt, before any funds are available to unsecured or priority creditors.

7.12 ADVISOR TO PROSPECTUS

The Board engaged a corporate advisor to conduct a limited assurance engagement on the forecast income statements for FY11 and FY12, per Section 5.5 of the Prospectus. These forecasts were based on the reported results in the audited accounts. The opinion of the corporate advisor was included in the Prospectus:

> *"Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that, in all material respects:*
> - *the Directors' best estimate assumptions, as set out in Section 5.6 of the Prospectus, do not provide reasonable grounds for the preparation of the Forecasts*
> - *the Forecasts are not properly prepared on the basis of the Directors' best estimate assumptions, consistent with the accounting policies adopted and used by the Company and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards*
> - *the Forecasts themselves are unreasonable."*

In section 7.13.4, we clearly illustrate the shortfall between the forecast EBIT ($58m) and actual EBIT (loss of $22.2m) in **Figure 33.**

The advisor may have breached its retainer if it can be demonstrated that the work completed was deficient and consequently the advisor may be liable to pay compensation. If there has been a contravention of s728 of the Act, which refers to misleading or deceptive statement or omission in a disclosure document, an investor may seek to recover damages from the directors or relevant advisors (s729 of the Act).

We recommend that a liquidator conduct further investigations in this regard, as well as into the role of other advisors who were engaged to assist HST issue the Prospectus.

7.13 INSOLVENT TRADING

There is no *prima facie* evidence of the Hastie Group having traded whilst insolvent. However, we are yet to form a conclusive view in this regard.

We have concerns that the books and records of the Hastie Group do not correctly explain the Hastie Group's financial performance and position. The books and records may therefore be deficient and give rise to a presumption of insolvency that a liquidator can rely upon.

We consider that a liquidator should conduct further investigations.

If a liquidator was to bring a successful insolvent trading action against the directors of Hastie Group, any recoveries may result in additional funds being made available for distribution to priority and unsecured creditors.

The primary methods of testing solvency are the *Cashflow Test* and the *Balance Sheet Test*. Neither of these tests identified *prima facie* evidence of insolvency between FY08 and the appointment date. This is primarily due to the Hastie Group reporting to have sufficient working capital and undrawn facility amounts or cash at bank during this period and that in general creditors had been paid within terms.

However, we have concerns that the Hastie Group did not maintain proper books and records to the standard required by the Act and hence those books and records may not reflect the true financial position. In turn, this may entitle a liquidator to presume the Haste Group's insolvency.

In particular, our preliminary investigations have found that certain key asset values in the Hastie Group's FY11 financial statements may have been materially overstated. If that is the case, the Hastie Group may well have been insolvent on a balance sheet basis in the period prior to our appointment. We document our findings regarding these issues in further detail in sections 7.13.3 and 6. However, the mere fact that a company's liabilities exceed its assets does not necessarily establish insolvency.

As we have not concluded our investigations, further work will have to be carried out by a liquidator (including possible public examinations refer Section 7.4) to determine when the Hastie Group became insolvent, and to quantify the estimated loss, if any, from insolvent trading.

7.13.1Determining insolvency

Section 95A of the Act provides the following definition of 'solvency' and 'insolvency':

(1) a person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable; and
(2) a person who is not solvent is insolvent.

Whilst we are required to consider the solvency of each of the companies within the Hastie Group, as the Hastie Group companies were reliant on the provision of funds from HHO, we have considered the solvency of the Hastie Group as a whole as a first step.

As outlined above, the primary methods of testing solvency are the *Cashflow Test* and the *Balance Sheet Test*, both of which are examined below.

7.13.2 Cashflow Test

The *Cashflow Test* is about whether a company can pay its debts from available resources as and when they fall due.

The available books and records indicate that the Hastie Group:

- was generally able to pay its debts as and when they fell due during the period under review
- was forecasting to have sufficient cash available up to and beyond the date of administration.

We have found indications of liquidity and cashflow issues (refer this section) and we suspect that the Hastie Group's financial reports may have been materially misstated (refer section 6.5.3).

If the financial reports had reflected the Hastie Group's true position, the Banking Syndicate and investors may not have continued to provide financial support and the Hastie Group may have failed at a much earlier date.

Working capital and net current assets

Our preliminary analysis of the Hastie Group's records relating to working capital and net current assets did not disclose immediate liquidity issues, as the Hastie Group reported:

- Positive net working capital balances since FY08 (even after large write-offs / provisions were recognised in December 2010 and December 2011) – **Figure 28**
- Surplus current assets over current liabilities since FY08 (after adjusting for long term liabilities which had become current due to banking covenant breaches) – **Figure 29**.

Figure 28: Net working capital – FY08 to April FY12

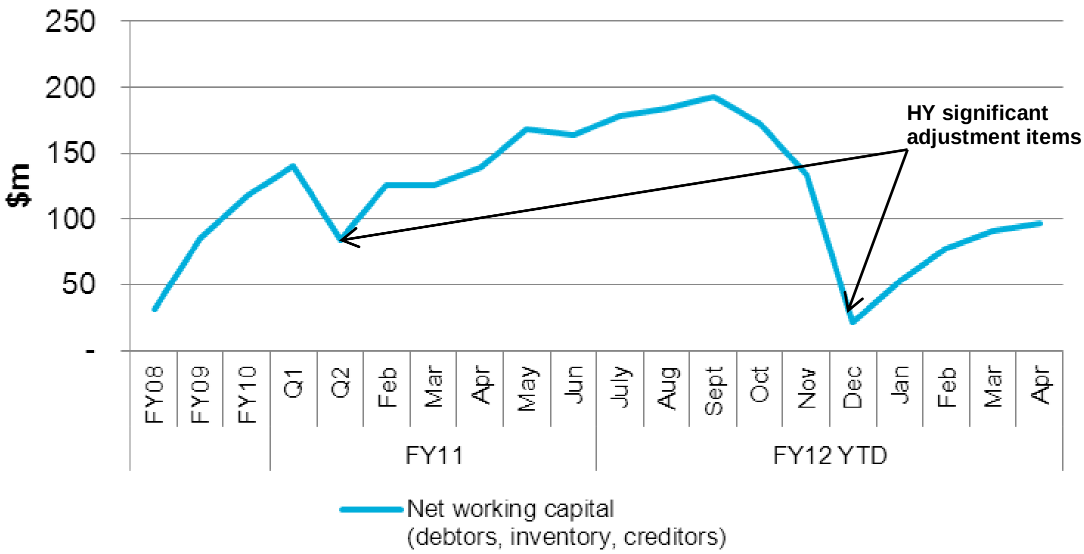
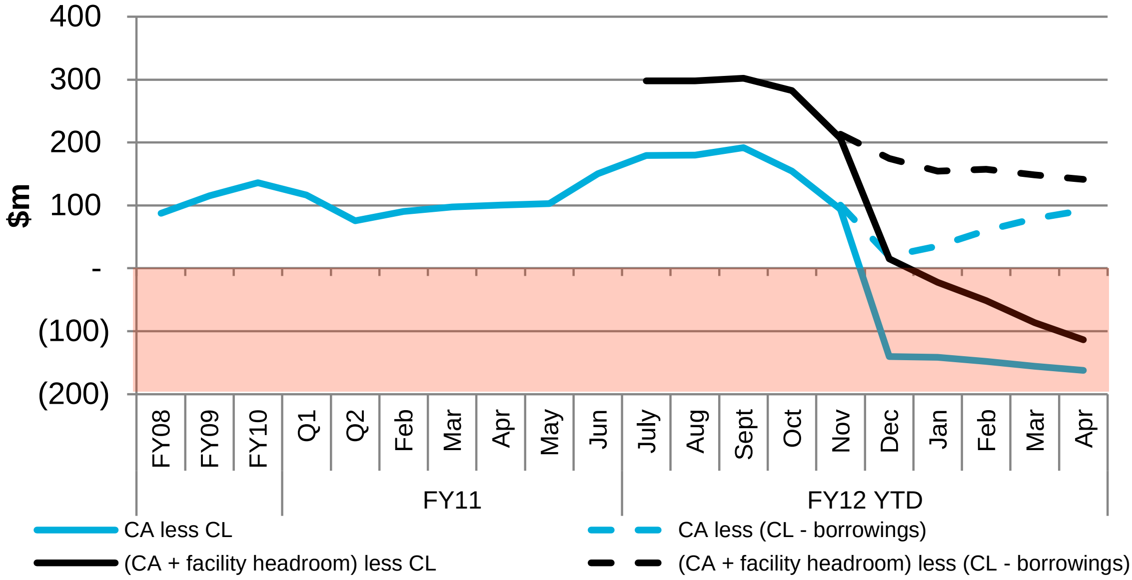


Figure 29: Current assets less current liabilities – FY08 to April FY12



However, we suspect that both trade receivables and inventory are overstated (refer sections 6.2.2 and 6.2.3). We consider the reported HY adjustments, as indicated in **Figure 28**, should be recognised earlier and additional adjustments made. Consequently, the Hastie Group may have been in a negative net working capital and net asset position for some, if not all, of the period under review.

All explanations for the variations in the level of net working capital and net current assets are included in the notes for **Figure 30** and **Figure 31** on the following pages.

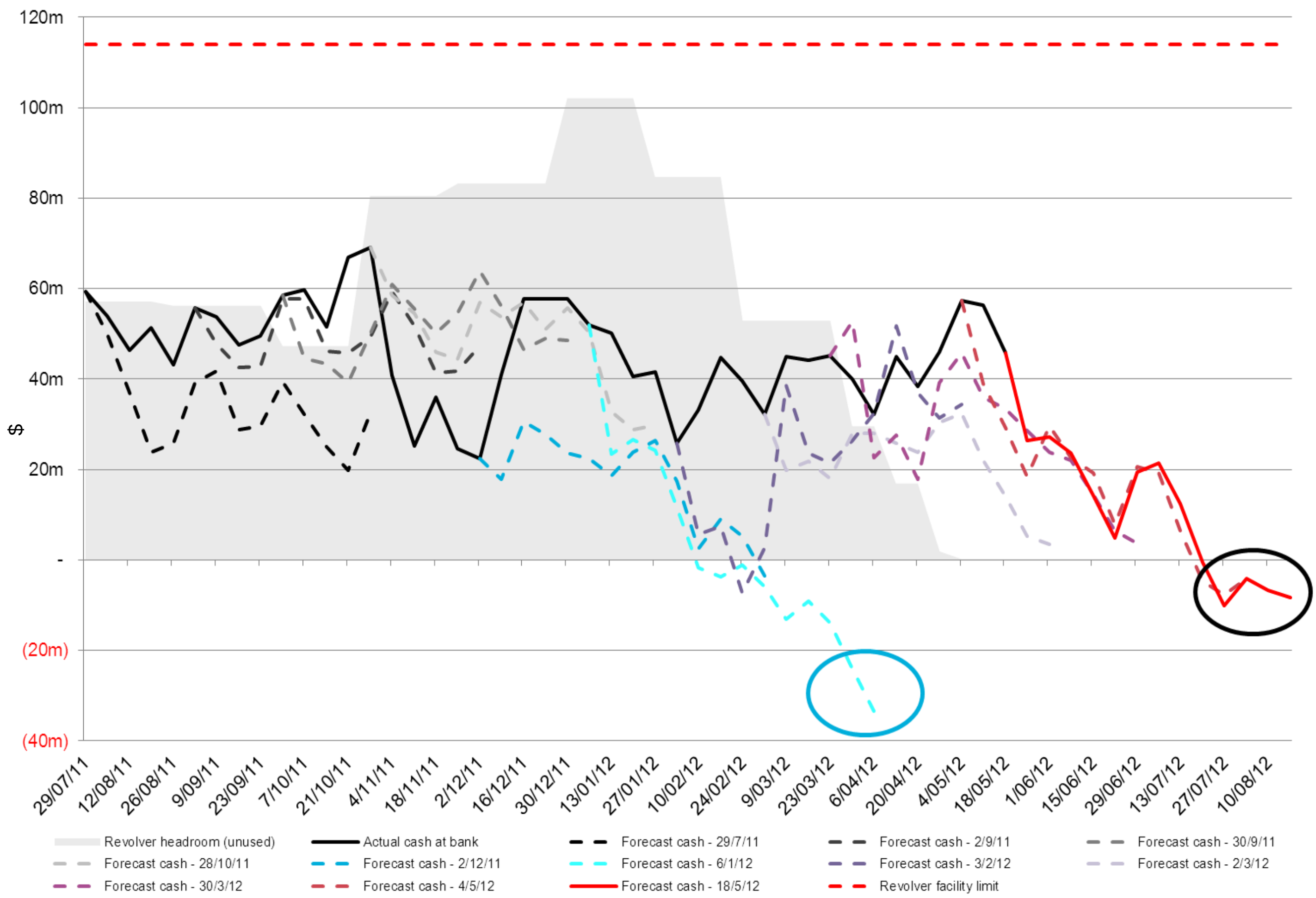
Short term cash flow forecasting

Our review of the Hastie Group's short-term cashflow forecasts indicates that forecasts received by the Board predicted that the Hastie Group would have sufficient cash available until early July 2012.

This is illustrated by **Figure 30** that we produced by overlaying the short-term FY12 cashflow forecasts prepared by the Hastie Group at the start of each month. In **Figure 30**:

- the actual cashflow balances are shown as an unbroken black line and indicate cash holdings were consistently in excess of $20m since July 2011
- each 12-week forecast is represented by a different coloured dashed line
- the final forecast prepared prior to the date of appointment is shown as an unbroken red line
- Hastie Group prepared the 12 week projected forecasts on a weekly basis by consolidating the forecasts produced by the divisions and HST.

Figure 30: Review of short term cash flow forecasts for FY12



In reviewing **Figure 30** and considering our comments above, creditors should be aware that:

- The 12 week forecasts were only prepared from June 2011 onwards.
- The cashflow forecasts tended to be conservative. After the eighth week in a forecast, management tended to under-estimate the actual cash position and typically showed a significant reduction in available funding that did not normally eventuate (in the order of $10m to $20m). We understand this was because forecasting staff were conservative and able to predict cash outgoings more accurately than cash receipts, especially in the last four weeks of the forecasts.
- The significant cash inflows (c$157m) resulting from the capital raising in June and July 2011 occurred prior to the period shown in Figure 30.
- During the period 28 October to 11 November 2011, cash at bank reduced and the headroom in the Revolver account increased by a similar amount. The Revolver account was a line of credit with no fixed repayment terms that was used by the Hastie Group for working capital purposes. ‘Headroom’ refers to the amount of credit unused by the Hastie Group and therefore still available to it. This reduction in cash and increase in headroom was due to the introduction of a daily sweeping of cash from all Australian Hastie Group business bank accounts into a central treasury account. The swept funds were then used to repay the Revolver account, thereby increasing the credit available to the Hastie Group.

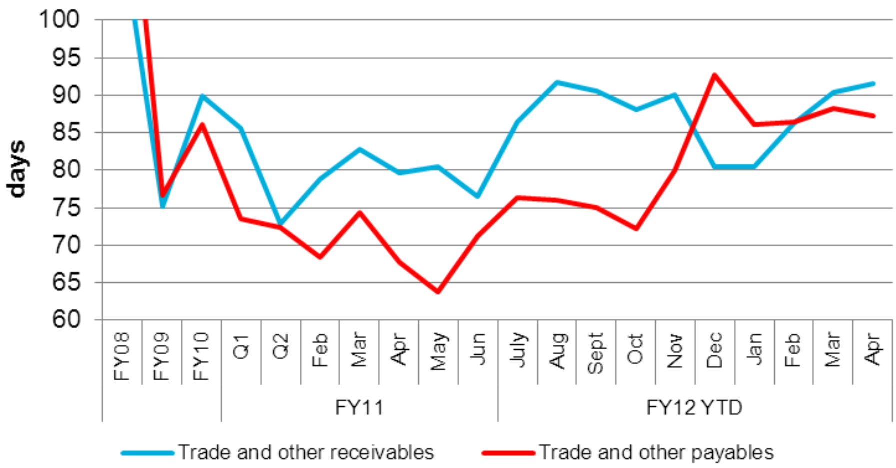
- 30 December 2011 saw the working capital facility paid down to c$12m (undrawn amount c$102m) as a result of a strong push on debtor collections, apparent deferral of creditors over the half year-end period and a prepayment of over $12m negotiated for the Adelaide Hospital project. It appears that the position at 31 December 2011 may have been ‘managed’ to present as strong a position as possible in terms of cash and undrawn facilities.
- The 6 January 2012 forecast shows a significant negative cash flow because it does not reflect any anticipated drawdown of the Revolver account (refer light blue dashed line and blue circle). The next forecast on 3 February 2012 (purple dashed line) indicates a return to a surplus cash position due to a change in the preparation of the forecast to include drawdowns from the Revolver account (which totalled $67.5m).
- The 4 May 2012 and 18 May 2012 forecasts show a projected cash deficiency of $4.2m and $8.3m respectively and no available undrawn amounts in the working capital facility. However, as indicated earlier, we understand the later portion of the cash flow forecasts were generally conservative by $10m to $20m and therefore it appears the Hastie Group was forecasting to be solvent up to the date of appointment.

Indications of liquidity and cashflow issues

Whilst the cashflow test has not proved that the Hastie Group was insolvent in the period prior to our appointment, we have noted other indicators of liquidity and cashflow distress within the Hastie Group:

- It is evident from the Board Packs that prior to the capital raising in June 2011, the Hastie Group had some concerns surrounding its future liquidity. However, the Board saw the capital raising as a solution to this problem. There are also issues about the accuracy of the forecasts relied on for the capital raising, which we document in detail in section 7.13.4.
- Figure 31 shows that ageing of payables was increasing, with days trending upwards from May 2011.

Figure 31: Debtor and creditor days outstanding – FY08 to April FY12



- In early November 2011, head contractors in the Middle East began cancelling contracts due to alleged non-performance by the Hastie Group. This matter is covered in further detail in section 7.9.3.
- The Hastie Group breached its lending covenants as at 31 December 2011 and approached the Banking Syndicate requesting facility amendments. This latest covenant breach resulted in borrowings being reclassified as a current liability as at 31 December 2011 under the terms of the Syndicated Facility Agreement (SFA). Following further discussions and negotiations, the Hastie Group announced the provision of a waiver letter by the Banking Syndicate on 29 February 2012. An amended SFA was finalised and announced to the market on 11 April 2012.

- We suspect that, in order to present a favourable cash position to the Banking Syndicate and other stakeholders, the Hastie Group managed cash balances and the headroom in the Revolver facility in the run up to the HY12 reporting date (31 December 2011) (refer **Figure 30**). Once this date had passed, the Hastie Group recommenced drawing on the Revolver account in order to:
  - bring various trade payables back towards terms (refer **Figure 31**)
  - fund the Adelaide Hospital project (which had previously been pre-funded by the client)
  - meet significant cash calls from the Middle East operations (which drew in excess of $53m over the period from September 2011 to March 2012).
- Board papers from April 2012 (subsequent to the revision of the SFA), strongly urged a priority recapitalisation of the Hastie Group. The paper indicated that the forecast cash position of the Hastie Group was deteriorating at a rate of $4m per week. This deterioration is reflected in the declining forecast cash balance in Figure 30.
- In late April 2012, a major contractor in the Middle East made a call of $7.4m on bank guarantees, due to alleged non-performance of contracts by the Hastie Group.

A liquidator will investigate these matters further, should the creditors vote to wind-up the Hastie Group at the forthcoming Second Meetings.

7.13.3 Balance Sheet test

The *Balance Sheet Test* assesses the solvency of a company with reference to that company's net asset position (ie the level of total assets in excess of total liabilities).

Our review of the financial records has found that Hastie Group's reported net asset position was positive throughout the period under review. Nevertheless, certain key asset values may have been materially overstated as commented upon in this report. If that is established, the Hastie Group may have been balance sheet insolvent in the period prior to our appointment.

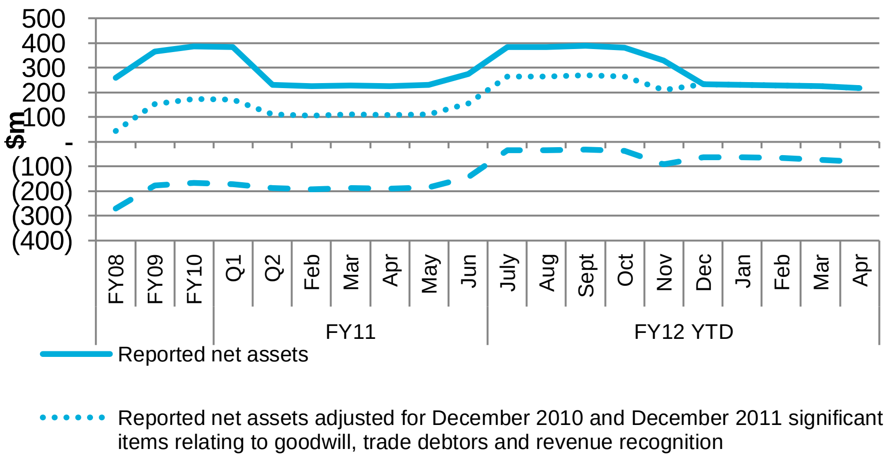
The mere fact that a company's liabilities exceed its assets does not necessarily establish insolvency.

A liquidator will investigate these matters further, should the creditors vote to wind up the Hastie Group at the forthcoming Second Meetings.

Review of reported net asset and net tangible asset position

We outline the reported net asset position of the Hastie Group at various points between FY08 and 30 April 2012 in **Figure 32** (solid blue line).

Figure 32: Review of net assets – FY08 to 30 April 2012



As can been seen from **Figure 32**, the Hastie Group had reported total assets in excess of total liabilities of c$200m–$400m at all intervals (solid blue line). *Prima facie* this would indicate the Hastie Group was Balance Sheet solvent throughout the period.

However, we believe that the net asset position may be overstated. We have therefore included two further scenarios:

- Blue dotted line: This reflects what the net asset position would be if the significant item adjustments for goodwill, trade receivables and Middle East revenue recognition reversal at HY11 and HY12 were recognised earlier. As we note in section 7.13.4 and section 6, we suspect the circumstances giving rise to these adjustments were present during previous reporting periods and consequently the adjustments should have been made earlier.
- Blue dashed line: This reflects what the net tangible asset position would be if goodwill and other intangibles are excluded and the significant item adjustments for trade receivables and Middle East revenue recognition reversal at HY11 and HY12 were recognised earlier. As we note in section 6.2.1 however, we have concerns that goodwill was materially overstated and consider that the write-downs made in HY11 and HY12 may not have been adequate.

In addition, we consider that the net asset position should be adjusted for construction WIP write-downs, because we suspect that this asset value was also overstated, for the reasons we document in section 6.2.3.

Accordingly, we suspect the Hastie Group may have been insolvent on a balance sheet basis in the period prior to our appointment. However, at this stage in our investigations we are unable to determine exactly when the Hastie Group possibly became balance sheet insolvent.

7.13.4 Financial forecasts review

Our preliminary investigations indicate that the asset values on which the Prospectus forecasts were based may have been materially overstated (refer this section and section 6).

Consequently, funders and investors relying on the financial forecasts may have been misled about the Hastie Group's current and likely future financial position. We consider that this matter warrants further investigation by a liquidator.

Comparison of forecast FY12 EBIT vs actual FY12 EBIT

Figure 33: Comparison of cumulative Hastie Group EBIT results against budget for FY12

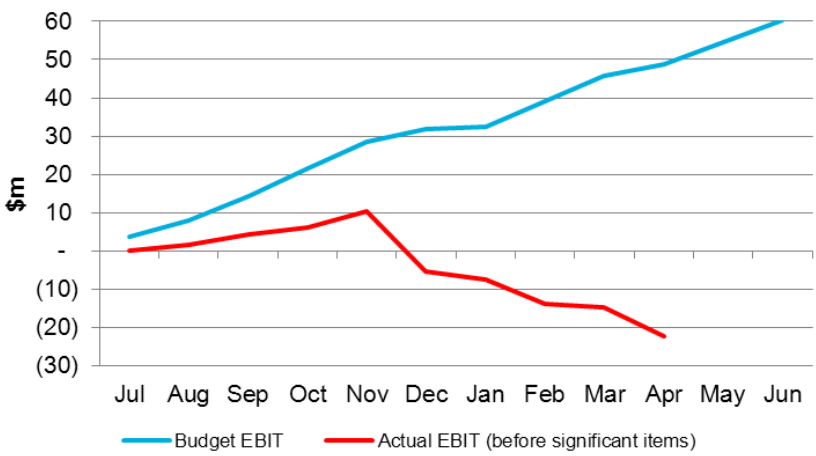


Figure 33 sets out the significant underperformance of actual EBIT against the budget for FY12. The FY12 budget was based on the forecasts included in the Prospectus, which in turn were based on asset values from the FY11 financial information. The budget for FY12 was an EBIT of $60.1m (versus a Prospectus forecast of $58.9m), however at 30 April 2012 the Hastie Group had recorded negative EBIT before significant items of ($22.2m).

We suspect the asset values that the FY12 budget and Prospectus forecast were based upon were materially overstated. We consider that the adjustments made in the HY12 financial statements in relation to goodwill, trade receivables and construction WIP should have been reported in the FY10 or HY11 financial statements; the FY10 and HY11 financial statements being the likely basis for the FY12 budget and Prospectus forecasts.

We consider the asset values may be overstated as we suspect that the circumstances ultimately giving rise to the write-downs (as detailed in the timeline in section 2.5) were already in existence at 30 June 2011 and hence the adjustments should have been recognised earlier. However, due to the Board's poor control and management, particularly of the Middle East division, the Board did not appear to be aware of these adjustments until the interim CEO conducted a review in November 2011. We discuss the Board's management, financial reporting and governance issues further in section 7.9.

If the write-downs had been reported in the FY10 or HY11 financial statements, the Banking Syndicate and investors may not have continued to support the Hastie Group and it may have failed much earlier.

<u>Background on preparation of financial forecasts</u>

Our review of the Board Packs indicates the Hastie Group had established processes to prepare and present annual budgets and forecasts to the Board, albeit at a high level. Given the decentralised management structure within the Hastie Group, divisional management would prepare forecasts and submit them to head office which would then consolidate them, adding the head office components and presenting the overall position.

However, we have found no evidence that the Board reviewed the annual forecasts and compared them with actual results on a regular ongoing basis. The Board Packs indicate the Board compared actual revenue and EBIT to forecasts, but did not review any further detail. We would expect for an organisation of this size that the Board would have:

- required more detailed actual to forecast information
- made regular monthly reviews of the actual to forecast performance
- recast budgets and forecasts where actual performance indicated revision was necessary.

We discuss the Board's apparent lack of detailed financial review and interrogation further in section 7.9.5.
In addition to the annual process, from time to time the Hastie Group also needed to prepare forecasts for specific additional purposes for example, equity raisings or debt financings.

During June 2011, Hastie Group undertook a debt restructuring and extension and capital raising. The Prospectus contained forecast financial information to 30 June 2011 and 30 June 2012. This prospective financial information also formed the basis of the FY12 annual budget and was materially consistent.

Figure 34: Snapshot of Prospectus forecast

(A$m)	FY10 Audited	FY11F (6A + 6F) Management	FY12F Prospectus
Revenue	**1,651.1**	**1,905.6**	**1,910.6**
Gross profit	281.4	261.0	282.6
GM%	*17.0%*	*13.7%*	*14.8%*
Operating EBIT before significant items	**73.1**	**47.5**	**58.0**
Significant items	(0.6)	(106.4)	-
EBIT	**72.5**	**(58.9)**	**58.0**
NPAT	**40.6**	**(87.4)**	**29.7**

The forecast financial information for FY11 comprises actual financial performance for the first half of FY11 and forecast financial performance for the second half. The forecast financial information for FY11 and FY12 was to be read in conjunction with the risk factors set out in Section 9 and the Report on Directors' Forecasts set out in Section 7 of the Prospectus.

The Board engaged an external corporate advisory firm to conduct a limited assurance engagement on the forecast income statements for FY11 and FY12, per Section 5.5 of the Prospectus. The opinion of the advisory firm regarding the Prospectus was that they had found nothing to indicate the forecasts were unreasonable (refer section 7.12). It appears the Board, and in turn the corporate advisor, made assumptions about the quality of divisional reporting and the proper statement of asset values, particularly regarding the Middle East. Subsequent poor trading performance, write-downs of goodwill, trade receivables and projects and reversal of revenue as at 31 December 2011 strongly indicate the base data for the Prospectus forecast appears to be flawed.

In section 6, we document our findings regarding why key asset values at 30 June 2011 may have been materially misstated and consequently why the FY12 forecast and budget, based as they were on these values, were fundamentally flawed.

7.13.5 Holding company's liability for insolvent trading of a subsidiary

HST as the Hastie Group parent company may be liable for the insolvent trading of any subsidiary. The liquidator of a subsidiary company can bring an insolvent trading claim against the holding company where there are reasonable grounds for suspecting that the holding company or its directors knew of the subsidiary's insolvency.

Given the extent of HST and HHO's financial control over the subsidiaries, the general commonality of directors and the fact that financial accounts were reported on a consolidated basis, there are reasonable grounds to believe that HST and its directors had full knowledge of the finances of the Hastie Group's subsidiaries.

Section 588W of the Act deals with the recovery of compensation for loss resulting from any insolvent trading claim, noting that a company's liquidator may recover from the holding company an amount equal to the amount of the loss or damage.

In considering the merits of pursuing an insolvent trading claim against HST and HHO as the holding companies, a liquidator will evaluate the commerciality of any such claim, taking into account the insolvency of HST and HHO and therefore the uncertainty of any recoveries.

7.13.6 Directors' liability for insolvent trading

As our conclusions regarding insolvent trading are preliminary and may change because of further investigations or new information coming to light, creditors should also be aware that a director can be personally liable for debts incurred when:

- a company is insolvent
- it becomes insolvent as a result of incurring a debt
- there are reasonable grounds to believe that the company would become insolvent by incurring the debt.

If a liquidator is successful in bringing an action against a director, this may result in the Court awarding a civil penalty against the director(s) and/or compensation equal to the amount of that loss or damage. Any funds recovered would then be potentially available for distribution to creditors in accordance with the priorities set out in the Act.

Section 588G of the Act provides that a company's director(s) has a duty to prevent insolvent trading by not incurring debt when there are reasonable grounds for suspecting that the company is or will be unable to pay its debts as and when they fall due.

In deciding whether there are reasonable grounds to suspect insolvency, courts will apply an objective approach and judge directors based on whether, in the same situation and position, an ordinary person would have reasonably suspected that the company was unable to pay its debts.

Courts rely upon the meaning of 'suspicion of insolvency'. In order for a suspicion to exist there must be more than merely an idle wondering, there must be a positive feeling of actual fear or misgiving. Furthermore, a 'reason to suspect' that a fact exists involves more than a reason to consider the possibility of its existence. Rather, the phrase envisages that a reasonable director would have a concern that the company was unable to pay its debts.

The objective test or standard of measure in the suspected breach of conduct above is the reasonableness of the actions taken by directors and requiring the directors to demonstrate that their actions are to the same degree and level that would be required of an ordinary reasonable person holding a similar position and responsibility in the same circumstances.

A director who fails to prevent a company from incurring a debt at a time when the director is aware that there are reasonable grounds for suspecting that the company is insolvent, or will become insolvent by incurring that debt is in contravention of section 588G of the Act.

Creditors should note that only a liquidator or an individual creditor with the liquidator's permission can bring an action against directors for breach of section 588G. An administrator or deed administrator may not pursue directors for recoveries for contravention of section 588G of the Act.

Defences available to directors under section 588H of the Act are that:

- the director had reasonable grounds to expect, and did expect, that the company was solvent at that time and would continue to be solvent if it incurred the debt
- the director had reasonable grounds to believe that a competent and reliable person was responsible for providing adequate information about whether the company was solvent and that person was fulfilling the responsibility and it was expected, that on the basis of the information provided, that the company was solvent and would continue to be solvent when the debt was incurred
- at the time the debt was incurred, the director, due to illness or other good reason, did not take part in the management of the company at that time
- the director took all reasonable steps to prevent the company from incurring the debt.

Our investigations regarding whether any directors of the Hastie Group have breached their statutory obligations or general law fiduciary duties are continuing, as discussed in section 7.3.

7.14 VOIDABLE TRANSACTIONS

Based on our preliminary investigations, we have not identified any voidable transactions that would result in a material recovery for the benefit of creditors.

As noted below, the identification of certain voidable transactions is dependent on establishing whether the Hastie Group was insolvent and, if so, when it became insolvent. As our investigations into whether the Hastie Group traded whilst insolvent are ongoing, we are unable to state definitively whether there are any voidable transactions.

A liquidator will be able to conduct more thorough investigations, e.g. by way of examinations, to identify any potential voidable transactions.

We are required by the Act to comment on this issue because it is relevant to creditors if they are being asked to choose between a DOCA and liquidation, given that voidable transactions can only be recovered in a liquidation scenario.

As at the date of this Report, we have not received a DOCA proposal for any Hastie Group company.

7.14.1 Voidable transactions where insolvency must be proved

For preferences (s588FA of the Act) and uncommercial transactions (s588FB of the Act) to be voidable, the Hastie Group company entering into the transaction must have been insolvent at the time of, or because of, the transaction.

As noted in section 7.13, we have not yet finalised our opinion as to whether the Hastie Group traded whilst insolvent. Because of this, we have not carried out any specific testing for preference payments or uncommercial transactions. However, we have documented any indicators of preference payments or uncommercial transactions in the individual summary reports.

7.14.2 Voidable transactions where insolvency is not required to be proved

The following transactions do not require the relevant Hastie Group company to have been insolvent at the time of, or because of, the transaction in order for them to voidable:

- Unfair loans (s588FD)
- Unreasonable director related transactions (s588FDA)
- Circulating security interest created within six months of the relation back day (s588FJ)
- Arrangements to avoid employee entitlements (s596AB).

To date, we have not identified any of the above voidable transactions.

We attach at Appendix C, an IPA creditor information sheet 'Offences, Recoverable transactions and Insolvent Trading' that provides further detail on each of the voidable transactions listed above.

Should creditors vote to wind up the Hastie Group, the liquidator will conduct further investigations into these matters.

8 HASTIE GROUP BACKGROUND

The Hastie Group was a leading international designer, installer and maintainer of technical services to the building and infrastructure sectors, with established operations in Australasia, the UK and the Middle East.

Over a period of around 40 years, Hastie Group had grown from a Sydney based air conditioning business into a provider of a wide range of services.

The Hastie Group operated under a variety of brands that were well recognised in their own local markets. The customer base included many of the largest construction companies, developers, shopping malls and industrial corporations.

The wholly-owned Australian Hastie Group operations were established in 1994. Following from that date, the group embarked upon an acquisition and expansion program as summarised below:

Period	Acquisition and expansion milestones
2001	**>** Entered the design and construction market through partnership with RMB, a private equity firm
2001 - 2003	**>** Expanded its air conditioning installation and maintenance operations through a nationwide acquisition program, which included the purchase of Optimus, Direct Engineering Services and Frigrite Air Conditioning
2004	**>** Acquired several businesses, including Austral Refrigeration and QAL Refrigeration, to expand into the refrigeration industry
2005	**>** Bought D&E Air Conditioning, **>** First listing on the Australian Stock Exchange **>** Gained admittance to the S&P ASX300
2006	**>** Operations initiated in the United Arab Emirates (**UAE**) **>** Electrical division established through acquisition of the Heyday Group **>** Expansion into industrial refrigeration through acquisition of Gordon Brothers Industries
2007	**>** Purchased CDC Plumbing to enter commercial plumbing and drainage sector (hydraulics) **>** Acquired Watters Electrical to grow electrical division **>** Acquired Cooke & Carrick to further expand hydraulics division
2008	**>** Hydraulics operations expanded through acquisition of Beavis and Bartels, GTS Plumbing and Nisbet & Durney **>** Acquired Rotary Group, providing mechanical and electrical services to the building industry in the UK, Republic of Ireland and UAE
2009	**>** Admitted to the S&P ASX200
2010	**>** Acquired Spectrum Fire & Security

The main Hastie Group head office was located at Level 5, 20 Highgate Street, Auburn, NSW. A full schedule of the various Hastie Group subsidiary head offices and branches across Australia is included at Appendix **I**.

At the time of Administration, the Hastie Group employed around 7,000 people.

8.1 GROUP STRUCTURE

The Hastie Group companies were classified across four broad divisions:

- Mechanical, electrical and plumbing (MEP)
- Services
- Rotary
- Middle East.

A diagram of the Hastie Group structure at the date of our appointment is included in section 3.1.

8.2 HASTIE GROUP PURPOSE AND ACTIVITIES

The Hastie Group comprises HST, the ultimate parent company, and at least 64 subsidiaries. Of these 64-plus subsidiaries, we are appointed over 43 of the Australian-incorporated companies. All references to HST and its subsidiaries only apply to these specific subsidiaries unless otherwise stated.

The main body of this Report primarily focuses on the actions and consolidated financial statements of HST as the parent company. The specific activities and summary financial statements of the individual Hastie Group subsidiaries are included in the ISRs at Appendix Q.

HST was registered as a company on 4 February 2005 and operated from the head office at Auburn, NSW. HST is the ASX-listed company of the Hastie Group and acts as a holding company for the various Hastie Group subsidiaries. HST's main activities were:

- funding the Hastie Group's operations via equity and debt
- identification and acquisition of new businesses
- strategic decision making and management
- group financial reporting.

8.3 STATUTORY INFORMATION

The past and present directors and officers of HST are set out below:

Director/Officer name	Role	Date appointed	Date resigned
John Bernard Gaskell	Director	15/05/2008	28/05/2012
Phillip John Anderson	Director	09/02/2005	28/05/2012
Lindsay John Phillips	Director	04/08/2011	25/05/2012
Harry Boon	Director	09/02/2005	25/05/2012
Richard Peter Turchini	Director	01/01/2012	02/05/2012
Trevor Bourne	Director	04/02/2005	15/02/2012
David William Martin	Director	04/02/2005	03/11/2011
Christopher Thomas Woodward	Director	01/06/2007	25/10/2011
David Harris	Director	01/06/2007	07/10/2011
Jeremy Charles Roy Maycock	Director	04/02/2005	02/02/2007
Anne Teresa Greigg	Secretary	05/02/2007	31/05/2012
Kevin Saul Kalinko	Secretary	04/02/2005	05/02/2007

Statutory information for each Hastie Group subsidiary is included at the following appendices:

Appendix J - schedule of directors and officers

Appendix K – schedule of registered charges.

8.4 SHAREHOLDERS OF HST

HST became a publically listed company on the ASX on 29 March 2005. At the date of our appointment, HST had on issue 137,353,504 fully paid ordinary shares, with a total value of $578,810,385. The last public trading halt of HST shares was called on 13 April 2012 by the directors and was in effect at our appointment.

As at the date of our appointment, the share registry database discloses HST's top 20 shareholders to be:

Shareholder	Shareholding
CWA COFA Pty Ltd (Lazard)	11.20%
CWC COFB Pty Ltd (Lazard)	11.20%
Citicorp Nominees Pty Ltd	10.78%
UBS Nominees Pty Ltd	7.88%
JP Morgan Nominees Australia	7.35%
National Nominees Ltd	5.77%
HSBC Custody Nominees	4.61%
CWC Investors Pty Ltd	2.49%
Cogent Nominees Pty Ltd	2.23%
Masfen Securities Ltd	2.14%
Hire IQ Pty Ltd	0.69%
Bond Street Custodians Ltd	0.45%
Mr Paul Cozzi	0.44%
Mr Gabriel Berger	0.40%
Vardy Superannuation Pty Ltd	0.36%
Flagstaff Wild Pty Ltd	0.32%
Apollo Holdings Ltd	0.32%
Mr Hir Lin Teo	0.31%
Mr Choeu Huot Taing	0.30%
Avenue 8 Pty Ltd	0.29%

We note that Lindsay John Phillips, a former director of HST, is the Managing Director of Lazard Australia Private Equity Pty Ltd, an entity related to the two major shareholders of HST. We further note that Bill Wild, the CEO of HST, is also the chairman and managing director of Flagstaff Wild Pty Ltd, one of the top 20 shareholders in HST.

8.4.1 Directors' personal share interests in HST

We have reviewed the HST share registry and note that certain directors held personal share interests in HST at the date of Administration.

Director	No shares held
Trevor Bourne	67,769
John Bernard Gaskell	19,250
Harry Boon	15,225
Phillip John Anderson	13,977
David Harris	10,000
Anne Teresa Griegg	3,500
Christopher Thomas Woodward	3,200
David William Martin	754

9 DIRECTORS' REPORT AS TO AFFAIRS (RATA)

To date, we have received the following RATAs from the directors of the Hastie Group:

Director	Number of RATAs returned	Date returned	Summary of RATAs returned
Wayne Douglas Anderson	6 of 7	27/08/2012	AIN, ARH, ARE, CRE, LRE, TEC
Roger Malcolm Jowett	5 of 6	19/05/2012	HGS, HSE, LMS, NMH, SFS
Phillip John Anderson	1 of 1	27/08/2012	HST
Harry Boon	1 of 1	30/08/2012	HST
John Bernard Gaskell	1 of 1	04/09/2012	HST
David Anthony Hammond	0 of 29	N/a	None returned
Jerry Patrick Collins	0 of 1	N/a	None returned
Mark Rodney Mitchell	0 of 1	N/a	None returned

Section 438B of the Act requires the directors of a company in administration to provide the administrator with a statement about the company's business, property, affairs and financial circumstances.

The directors must provide this statement in a prescribed format called a RATA. The RATA outlines the financial position of the company, including net book values and estimated realisable values for all known assets together with details of known liabilities. We have reported any non-compliance to ASIC.

9.1 HST RATAS

We have received RATAs for HST from Mr Phillip Anderson, Mr Harry Boon and Mr John Gaskell. We make the following comments regarding these:

- All figures for assets and liabilities are stated as 'unknown' in all three RATAs
- Mr Philip Anderson and Mr Harry Boon's responses in their director's questionnaires regarding the reasons for the failure of the company state the reasons as being 'noted in the board minutes'.

We also requested RATAs from Mr Jerry Collins and Mr Mark Mitchell. Mr Collins and Mr Mitchell were both directors of HSA and informed us that as there were no assets or liabilities in this company, they would not be submitting a RATA.

We requested a RATA from Mr Lindsay Phillips. However, since he resigned shortly prior to our appointment, there is no statutory obligation for Mr Phillips to lodge a RATA and he has not done so.

9.2 HST SUBSIDIARIES RATAs

The directors have failed to provide RATAs for 32 out of the 43 subsidiary companies.

Where the directors have provided a RATA for a HST subsidiary company, a summary is included on the relevant ISR. Copies of the full HST subsidiary RATA's which we have received from the directors are included at Appendix L. We understand that Mr David Hammond provided a RATA to the Receivers and Managers in respect to HHO however we were not provided with a copy before first issuing this Report. Mr Hammond advised us that he has not submitted his RATAs because he requires access to the records of the various subsidiaries to enable him to prepare the RATAs.

We have included in each ISR our best estimate of each company's assets and liabilities as at the date of our appointment. Creditors should be aware that:

- asset values are based on the estimated realisable value and certain sensitive asset values have been excluded (such as debtors)
- the values ascribed to each company's liabilities are based on the company records and creditor claims received to date

- creditor claims have not been verified as no formal proving process has been undertaken and consequently these values are estimates only and may be subject to change.

10 SALE OF BUSINESSES AND ASSETS

10.1 BUSINESS AND ASSET SALES SUMMARY

Our first priorities upon appointment were the preservation of asset values and employee jobs.

On the date of our appointment, we attended the various Hastie Group sites (excluding those under the control of the Receivers & Managers) to secure assets and obtain the financial information we required in order to form a view of the viability of the various Hastie Group companies.

Given the financial situation of the Hastie Group, there was no available option but to suspend operations of companies under our control until further notice whilst we assessed their viability. Thereafter, we undertook an urgent assessment of the financial position of the Hastie Group, the outcome of which was not to recommence trading.

We conducted a sale of the following businesses and assets, that to date has realised a total of c$6.3m:

Hastie Group company	Sale completed	Business and assets	Assets only
Cooke and Carrick Pty Ltd	04-Jun-12	✓	
D & E Air Conditioning Pty Ltd	04-Jun-12	✓	
Border Stainless Steel Pty Ltd	08-Jun-12		✓
M & H Air Conditioning Pty Ltd	19-Jun-12		✓
Norfolk Maintenance Holdings Pty Ltd	20-Jun-12	✓	
Airducter Pty Ltd	21-Jun-12	✓	
Watters Electrical Pty Ltd	22-Jun-12		✓
Sharp & Pendrey Pty Ltd	18-Jul-12		✓
ACN 121 276 168 Pty Ltd (formerly Heyday Group Pty Ltd)	19-Jul-12		✓
ACN 008 700 178 Pty Ltd (formerly Direct Engineering Services Pty Ltd) (Asset sale)	30-Jul-12		✓
ACN 008 700 178 Pty Ltd (formerly Direct Engineering Services Pty Ltd) (Intellectual property sale)	13-Aug-12		✓
ACN 129 953 733 Pty Ltd (formerly Beavis & Bartels Pty Ltd)	24-Aug-12		✓
Optimus Pty Ltd (Intellectual property sale)	10-Dec-12		✓
M&H Air Conditioning Pty Ltd (sale of business name/trademark)	10-Jan-13		✓
Hastie Air Conditioning Pty Ltd (sale of business name)	10-Jan-13		✓

Specific sale values for each company are detailed on the relevant ISR included at Appendix Q. The proceeds of these sales largely relate to non-circulating (fixed) assets and are therefore subject to the Banking Syndicate's securities.

The Receivers and Managers have continued to trade the R&M Group whilst conducting sale campaigns for the various businesses. The Receivers and Managers have confirmed that of the R&M Group businesses the following business and assets have been sold:

- Hastie Services Pty Ltd (**HSE)**
- Spectrum Fire & Security (**SFS)**
- Gordon Brothers Industries (**GBI)**

The Receivers and Managers are in the final stages of completing the sale of the Austral businesses (comprising ARE, ARH, LRE, AIN, TDO, COM and QAL). As part of that sale, HST has agreed to transfer a domain name registered to it that is used by the Austral businesses.

As we note in section 4.1, the Receivers and Managers have advised us that they do not expect these sales to generate any surplus funds for the benefit of the priority or ordinary unsecured creditors.

10.2 CONDITIONS AFFECTING SALES OF BUSINESS AND ASSETS

There were a number of commercial issues which impacted the realisation of the Hastie Group's various businesses and assets, including goodwill:

Funding of operations: The Hastie Group was unable to continue operating as it was without funds.

Employees: Upon our appointment, it was necessary to stand down all staff and cease operations as the Hastie Group was without funds to continue trading. Without continuity of operations, the value of goodwill rapidly eroded.

Cancellation of contracts: Upon our appointment, most head contractors terminated their contracts with the Hastie Group based upon insolvency clauses in their contracts. In addition, the construction industry was already aware that the Hastie Group was experiencing difficulties - head contractors had negotiated with other subcontractors to take over should this occur.

Landlords: The Hastie Group operated from leased premises. We had a limited time period within which to deal with the considerable volume of plant and machinery and leased assets (see 10.4 below) before the Administrators would become liable for landlord expenses. Without funds to meet landlord expenses, we were obliged to conduct a short term sales program.

Leased assets: the PPSR disclosed around 1,000 security interests against the Hastie Group. We appointed auctioneers (Grays) to identify and value the Hastie Group assets. In many instances, the collateral asset descriptions on the PPSR were deficient. We sought orders from the Court to assist in dealing with the various security interests that had been registered on the PPSR.

Purchasers' knowledge of the businesses: most parties were not able to complete a due diligence in a compressed sale timeframe. Successful purchasers were generally those parties with prior knowledge of the businesses.

10.3 BUSINESS AND ASSET SALES

Given the rapid decline of the value of goodwill, as outlined in section 10.2 above, it was essential to conclude any business and asset sales rapidly.

The level of media coverage and publicity surrounding the administration of the Hastie Group had already generated considerable interest amongst potential purchasers. In addition, prior to our appointment, the Hastie Group had already started the process to divest several businesses e.g. M&H. Because of this, there were already interested parties with knowledge of the businesses for sale and able to move quickly on submitting offers.

We engaged a firm of auctioneers (Grays) to value the assets of the relevant companies and when offers were received from interested parties, these were compared against similar offers and Grays' asset valuations. Subject to obtaining the Banking Syndicate's consent (where required), we accepted the highest offer providing it was materially consistent with Grays' valuation.

10.4 ASSET ONLY SALES

Whilst pursuing the business and asset sales we also made arrangements for 'asset only' sales, where a sale of the business as a whole was not possible.

With the co-operation of the landlords, we worked with Grays to collate the plant and machinery at 12 main sites to minimise the costs of moving and storing the assets. We were able to store the assets at sites rent-free for an extended period, thereby reducing costs further.

Assets were listed on Grays' website and on-site inspections were organised for prospective purchasers. All auctions of the on-site assets were completed by 31 August 2012. The auction of the Group's plant and equipment raised net proceeds of $3.3m (gross proceeds $4.1m).

In the lead up to the various auctions conducted, the Administrators undertook a number of steps in an attempt to identify and isolate third party assets including:

- reviewing the Hastie Group's books and records
- searching the PPSR
- correspondence with creditors of the Hastie Group
- calling for claims against the plant and equipment via advertisements in local and national newspapers in addition to the web sites of PPB Advisory and Grays.

Notwithstanding the above work, considerable uncertainty remained as to the ownership of many assets. Accordingly, we sought and were granted directions by the Court stating that the Administrators were justified in selling the Hastie Group's unclaimed plant and equipment by public online auction subject to certain conditions, including that the proceeds of auction be applied:

- towards the Administrators' costs incurred in connection with realising the plant and equipment
- towards any claim in respect of the plant and equipment which, in the opinion of the Administrators, was a valid claim
- after a period of three months, distributing the balance of the proceeds of sale in the ordinary course of the administration of the companies.

In addition to selling the plant and machinery, we also placed an advertisement in *The Australian Financial Review* inviting expressions of interest for the intellectual property eg business names, logos, etc. The advertisement generated enquiries from a number of parties and to date we have sold business names including Cool-it (owned by M&H and HAI), Frigrite (owned by DES) and Optimus (owned by OPT)).

Asset recoveries for each subsidiary are summarised in the table on the below.

Hastie Group company	Non-circulating assets ($'000)	Circulating assets ($'000)	Total ($'000)
Watters Electrical (Aust) Pty Ltd	2,539	4,086	6,626
M & H Air Conditioning Pty Ltd	110	368	478
Heyday Group Pty Ltd	465	2,231	2,696
Direct Engineering Services Pty Ltd	1,050	2,432	3,482
Hastie Australia Pty Ltd	190	322	511
Optimus Pty Ltd	47	186	233
Beavis & Bartels Pty Ltd	252	130	382
Nisbet & Durney Pty Ltd	186	52	238
Hastie Air Conditioning Pty Ltd	531	97	628
Norfolk Maintenance Holdings Pty Ltd	100	355	455
Border Stainless Steel Pty Ltd	89	414	503
Airducter Pty Ltd	317	742	1,059
Hastie Air Conditioning (ACT) Pty Ltd	115	182	296
Medical Gases Pty Ltd	24	104	128
D & E Air Conditioning Pty Ltd	481	1,801	2,282
AFA Air Conditioning Pty Ltd	16	44	60
Cooke & Carrick Pty Ltd	300	1,543	1,843
Sharp & Pendrey Pty Ltd	85	369	454
Hastie Group Pty Ltd	0	152	152
Total	**6,896**	**15,610**	**22,506**

10.5 TRADE RECEIVABLES, BONDS AND WORK-IN-PROGRESS

Upon appointment, we took possession of the Hastie Group's records concerning trade receivables and WIP. At our appointment date, the Hastie Group was owed or had outstanding:

- c$147.0m of trade receivables (including $30.4m of uncollectable intercompany receivables)
- c$113.2m of performance bonds
- c$112.0m of uninvoiced WIP.

Trade receivables

To date, we have recovered a total of $15.1m in trade receivables, recoveries for each subsidiary are summarised in the table below.

Hastie Group company	Debtor realisations ($'000)
Watters Electrical (Aust) Pty Ltd	3,929
M & H Air Conditioning Pty Ltd	357
Heyday Group Pty Ltd	2,210
Direct Engineering Services Pty Ltd	2,355
Hastie Australia Pty Ltd	321
Optimus Pty Ltd	186
Beavis & Bartels Pty Ltd	129
Nisbet & Durney Pty Ltd	52
Hastie Air Conditioning Pty Ltd	72
Norfolk Maintenance Holdings Pty Ltd	334
Border Stainless Steel Pty Ltd	407
Airducter Pty Ltd	736
Hastie Air Conditioning (ACT) Pty Ltd	181
Medical Gases Pty Ltd	104
D & E Air Conditioning Pty Ltd	1,777
AFA Air Conditioning Pty Ltd	44
Cooke & Carrick Pty Ltd	1,520
Sharp & Pendrey Pty Ltd	359
Hastie Group Pty Ltd	26
Total	**15,101**

We retained certain key Hastie Group staff to assist us with the collection of trade receivables and instructed them to issue invoices for all works already completed and certified up to the date of administration.

We monitored the collection of trade receivables and within the first two months following appointment (ie June 2012 and July 2012) we recovered c$11.7m. In order to manage the debt collection more effectively, we subsequently instructed various debtor collection agencies to pursue the outstanding debts of certain ledgers on our behalf. We continue to liaise with, and pursue, major debtors across the various ledgers.

Following the outsourcing of certain debtor ledgers, a further $3.4m has been collected.

Performance bonds

To date, we have recovered a total of $2.1m in performance bonds relating to the MEP entities.

The Hastie Group provided bonds to contractors in the event that Hastie Group was unable to complete contracted works.

We set up a dedicated team to assess the level of bonds in issue and liaise with the various head contractors regarding the recovery of these. Negotiating the return of performance bonds has been problematic due to the difficulties associated with attempting to assign contracts, either individually or via a trade and asset sale. The majority of contracts were terminated following the insolvency of the Hastie Group and consequently the head contractors called on the bonds and engaged alternative parties to complete the projects.

Work-in-progress (WIP)

We immediately undertook a review of the WIP held in each Hastie Group company. Where it was feasible and justified, we raised invoices that converted the WIP into trade receivables for collection.

However, whilst the Hastie Group applied a substantial value to WIP, our investigations have found that the book values did not reflect the true value of the WIP and it appears to have been materially overstated. We are aware of circumstances where the Hastie Group over-invoiced for the value of works undertaken or completed variations to projects that were not approved by the head contractors. Consequently, WIP values were incorrectly stated in the Hastie Group's balance sheet. For further details on our investigations into inventories and construction WIP, please refer to section 6.2.3.

In addition, head contractors have issued substantial counter claims against each of the individual Hastie Group companies where contracts were not finished, or made defects claims for projects that have been completed. Because of this, a substantial amount of the Group's performance bonds have been called to either replace the Hastie Group company with a new contractor or pay for the alleged defect works to be rectified.

10.6 ASSETS REMAINING TO BE REALISED

As noted in section 3.8, on 16 August 2012 HSA and HINT were wound up by order of the Court.

10.6.1 Hastie International Pty Ltd (Abu Dhabi, Dubai)

HINT operated two branches in the UAE (Dubai and Abu Dhabi) and has shareholdings in Hastie International LLC (**Hastie Oman**) and Hastie International Qatar LLC (**HIQ**).

The Liquidators engaged a local advisory firm, Hill International (**Hill**), on a success fee basis, to manage the recovery of debtors, letters of credit and bonds in the UAE. Hill has subsequently provided details of expected recoveries on debtors (book value AU$43m) and bonds, but for commercial reasons this information has been excluded from this report.

Outstanding bonds on appointment were AU$89.1m of which AU$17.1m have been called and AU$72m remain current.

10.6.2 Hastie International LLC (Hastie Oman)

A local Liquidator has been appointed to wind up the operations of Hastie Oman in accordance with local laws. No return is expected from the winding up.

10.6.3 Hastie International Qatar LLC (HIQ)

The Liquidators of HINT have accepted an offer for the 49% shareholding in HIQ. Under the terms of the sale there is no consideration payable, although the purchaser has undertaken to complete the Banking Syndicate's bonded projects and assist in negotiating the return of the bonds on completion of the projects.

Negotiations and settlement of the share sale agreement have been protracted for a number of reasons. We expect to execute the sale agreement before 31 January 2013. In the interim, the purchaser has sought to enter into a management agreement (effectively taking immediate control of the company) to facilitate an injection of working capital required to continue operations.

We have formed the view the shares held in HIQ had negligible value as HIQ had insufficient working capital to fund ongoing operations. Further, HIQ owed c$1.8m to HINT which we concluded would have no value in the winding up of HIQ.

The Liquidators of HINT made an application pursuant to section 477(2A) of the Act to the Court for approval to compromise the debt owed by HIQ. The Court granted the orders on 21 December 2012.

10.6.4 Hastie Saudi Arabia Pty Ltd (HSA)

HSA holds a 50% shareholding in Hastie Saudi Arabia LLC.

The Liquidators have accepted an offer for the shares for US$850k plus replacement of the Banking Syndicate's bonds ($14.5m less costs).

Settlement of the share sale agreement and processing of the share transfer has been protracted for a number of reasons, including acquiring various local statutory authority approvals, the cancellation and reissuing of licences and national and religious holidays in Saudi Arabia.

We are awaiting final confirmation by the purchaser that the proposed share sale agreement is acceptable. Settlement will be determined by final authorisation of the share transfer by local authorities. The timing of the approvals from the various government ministries is uncertain.

As at the date of this report we have not identified any creditors of HSA, other than likely intercompany loans. To the extent possible, surplus funds will be distributed to the shareholder. HST ultimately owns the shares in HSA, and as such, any return on the shareholding would fall under the Banking Syndicate's security.

10.6.5 Potential tax refunds

We have engaged Ernst & Young on a success fee basis to review the tax affairs of the Hastie Group and identify any potential tax refunds. Ernst & Young are still investigating the Hastie Group's tax structure and records and therefore it is too earlier to quantify the level of potential returns or determine which Hastie Group companies would receive such returns. However, as any potential refunds are likely to be returned at group level (i.e. to HST), the priority creditors of HST will be the beneficiaries in the first instance.

11 INDEPENDENCE, RELATIONSHIPS AND INDEMNITY

In accordance with section 436DA of the Act and the IPAA *Code of Professional Practice*, a DIRRI is provided at Appendix D.

The DIRRI contained in Appendix D is provided as an update to the DIRRI that was tabled at the First Meetings, and includes certain updates to the DIRRI that was circulated with the first report to creditors.

12 REMUNERATION REPORT

12.1 ADMINISTRATORS' REMUNERATION

The administrator of a company is entitled to receive such remuneration as is determined:

- by agreement with the committee of creditors (if any)
- by resolution of the company's creditors
- if there is no such agreement or resolution – by the Court.

At the Second Meetings, we will be seeking creditors' resolutions for:

- the approval of remuneration for the work undertaken by us, our partners and staff to 31 December 2012, at the hourly rates set out in Appendix Q as summarised herein; and
- the approval of remuneration for work completed from 1 January 2013 to the Second Meetings.

12.2 COMPANIES WITHOUT A COMMITTEE OF CREDITORS APPOINTED

For those Hastie Group companies without a COC appointed at the first meeting of creditors, we will be seeking approval of remuneration for the period 28 May 2012 to the date of the Second Meetings as set out below.

Hastie Group company	Actual 28 May 2012 to 31 Dec 2012	Provision 1 Jan 2013 to date of the second meeting	Total ($)
AFA Air Conditioning Pty Ltd	143,621.02	12,800.00	156,421.02
Austral International Pty Ltd	8,912.36	8,000.00	16,912.36
Austral Refrigeration Holdings Pty Ltd	9,334.34	8,000.00	17,334.34
ACN 129 953 733 Pty Ltd (formerly Beavis & Bartels Pty Ltd)	273,227.32	12,800.00	286,027.32
Border Stainless Steel Pty Ltd	209,979.75	12,800.00	222,779.75
Comcool Refrigeration Pty Ltd	9,865.19	8,000.00	17,865.19
D & E Mechanical Services Pty Ltd	22,603.49	8,000.00	30,603.49
ACN 008 700 178 Pty Ltd (formerly Direct Engineering Services Pty Ltd)	959,811.74	23,200.00	983,011.74
GTS Plumbing (QLD) Pty Ltd	26,406.81	8,000.00	34,406.81
Hastie Australia Pty Ltd	269,467.67	12,800.00	282,267.67
Hastie Drafting Group Pty Ltd	17,794.90	8,000.00	25,794.90
Hastie Engineering Pty Ltd	26,806.21	8,000.00	34,806.21
Hastie Finco Pty Ltd	16,710.77	8,000.00	24,710.77
Hastie Group Admin Services Pty Ltd	25,351.73	8,000.00	33,351.73
Hastie Group Ltd	1,322,406.39	53,600.00	1,376,006.39
Hastie Group Services Pty Ltd	23,334.70	8,000.00	31,334.70
Hastie Holdings Pty Ltd	43,061.40	8,000.00	51,061.40
Hastie India Pty Ltd	16,923.76	8,000.00	24,923.76
Independent Commissioning Agents Aust Pty Ltd	21,165.89	8,000.00	29,165.89
Lawrence Refrigeration Pty Ltd	7,803.10	8,000.00	15,803.10
Longley Mechanical Services Pty Ltd	16,046.95	8,000.00	24,046.95
M & H Air Conditioning Pty Ltd	132,880.68	12,800.00	145,680.68

Hastie Group company	Actual 28 May 2012 to 31 Dec 2012	Provision 1 Jan 2013 to date of the second meeting	Total ($)
Medical Gases Pty Ltd	141,888.65	12,800.00	154,688.65
Nisbet & Durney Pty Ltd	139,121.32	12,800.00	151,921.32
QAL Refrigeration (WA) Pty Ltd	11,036.44	8,000.00	19,036.44
Rotary Australia Pty Ltd	12,266.61	8,000.00	20,266.61
Techni Doors Pty Ltd	8,477.79	8,000.00	16,477.79

12.3 COMPANIES WITH A COMMITTEE APPOINTED

Meetings were held on 4 October 2012 and 17 December 2012 for 13 of the 15 COCs formed at the first meeting of creditors. At these meetings, our remuneration for the period 28 May 2012 to 31 October 2012 was fixed by resolution of the COC members of each respective company.

For those Hastie Group companies whose COCs have already fixed our remuneration for the period 28 May 2012 to 31 October 2012, we will only be seeking approval of our remuneration for the period 1 November 2012 to the date of the second meeting of creditors.

Hastie Group company	Fixed by Committee 28 May 2012 to 31 Oct 2012	Actual 1 Nov 2012 to 31 Dec 2012	Provision 1 Jan 2013 to date of the second meeting	Total ($)
Austral Refrigeration Pty Ltd	25,179.48	7,895.23	8,000.00	41,074.71
Cooke & Carrick Pty Ltd	329,367.17	19,964.02	12,800.00	362,131.19
D & E Air Conditioning Pty Ltd	376,448.76	31,689.45	23,200.00	431,338.21
ACN 141 619 196 Pty Ltd (formerly Direct Engineering Marine & Offshore Services Pty Ltd)	38,079.07	10,554.46	8,000.00	56,633.53
ACN 118 354 331 Pty Ltd (formerly Gordon Brothers Industries Pty Ltd)	33,757.91	5,879.54	8,000.00	47,637.45
Hastie Air Conditioning (ACT) Pty Ltd	103,658.03	9,409.08	12,800.00	125,867.11
Hastie Air Conditioning Pty Ltd	288,216.13	24,907.48	23,200.00	336,323.61
Hastie Services Pty Ltd	144,715.13	14,544.61	8,000.00	167,259.74
ACN 121 276 168 Pty Ltd (formerly Heyday Group Pty Ltd)	548,891.36	51,723.41	23,200.00	623,814.77
Norfolk Maintenance Holdings Pty Ltd	128,724.37	12,649.83	12,800.00	154,174.20
Optimus Pty Ltd	149,072.63	18,201.19	12,800.00	180,073.82
Sharp & Pendrey Pty Ltd	140,878.17	18,396.77	12,800.00	172,074.94
Watters Electrical (Aust) Pty Ltd	926,094.66	109,638.82	23,200.00	1,058,933.48

ACN 050 411 179 Pty Ltd (formerly Spectrum Fire & Security Pty Ltd) (SFS)
Remuneration for the period 28 May 2012 to 31 July 2012 was approved at a COC meeting of SFS held on 4 October 2012. A second COC meeting was scheduled for 17 December 2012 however, a quorum was not sufficiently constituted and the meeting did not proceed. Accordingly, we will be seeking approval of our remuneration for the period 1 August 2012 to the date of the Second Meetings as set out below.

Hastie Group company	Fixed by Committee 28 May 2012 to 31 Jul 2012	Actual 1 Aug 2012 to 31 Dec 2012	Provision 1 Jan 2013 to date of the second meeting	Total ($)
ACN 050 411 179 Pty Ltd (formerly Spectrum Fire & Security Pty Ltd)	8,277.05	15,875.10	8,000.00	32,152.15

Airducter Pty Ltd (AIR)
COC meetings of AIR were scheduled for 4 October 2012 and 17 December 2012 however, a quorum was not sufficiently constituted on either occasion and the meetings did not proceed. Accordingly, we will be seeking approval of our remuneration for the period 28 May 2012 to the date of the Second Meetings as set out below.

Hastie Group company	Actual 28 May 2012 to 31 Dec 2012	Provision 1 Jan 2013 to date of the second meeting	Total ($)
Airducter Pty Ltd	222,623.46	12,800.00	235,423.46

12.4 WORK UNDERTAKEN AND ADDITIONAL INFORMATION FOR CREDITORS

The key activities undertaken by us, our partners and staff for the period 28 May 2012 to 31 December 2012 and the tasks we anticipate undertaking from 1 January 2013 to the date of the Second Meetings for each Hastie Group company are summarised at Appendix Q.

To assist creditors further in evaluating the work we have undertaken, an ASIC information sheet entitled "Approving Fees: A Guide for Creditors" is attached at Appendix B.

Full details of work undertaken in the administrations will be available for review by creditors on request. Creditors that wish to attend our office to inspect the full particulars of the work undertaken should contact Mr Derek Keir on (03) 9269 4000 to arrange a suitable time.

12.5 METHODS OF REMUNERATION

Four basic methods can be used to calculate the remuneration charged by an insolvency Practitioner. They are:

- **Time based / hourly rates:** This is the most common method. The total fee charged is based on the hourly rate charged for each person who carried out the work multiplied by the number of hours spent by each person on each of the tasks performed.
- **Fixed Fee:** The total fee charged is normally quoted at the commencement of the administration and is the total cost for the administration. Sometimes a Practitioner will finalise an administration for a fixed fee.
- **Percentage:** The total fee charged is based on a percentage of a particular variable, such as the gross proceeds of assets realisations.
- **Contingency:** The practitioner's fee is structured to be contingent on a particular outcome being achieved.

Method chosen
Given the nature of this administration and complexity of the Hastie Group structure, we propose that our

remuneration for each Hastie Group company be calculated on **time based / hourly rates**. This is because:

- It ensures that creditors of each Hastie Group company are only charged for work that is performed. Our time is recorded and charged in six minute units.
- We are required to perform a number of tasks which do not relate to the realisation of assets, for example:
    - responding to creditor enquiries
    - reporting to the ASIC
    - distributing funds in accordance with the provisions of the Corporations Act 2001.
- We are unable to estimate with certainty the total amount of fees necessary to complete all tasks required in the administrations of each Hastie Group company.

12.6 ADMINISTRATORS' DISBURSEMENTS

The individual remuneration reports prepared for each Hastie Group company (Appendix Q) summarise our disbursements for the period 28 May 2012 to 31 December 2012.

Disbursements are divided into three types: A, B1, B2:

- **A** disbursements are all externally provided professional services and are recovered at cost. An example of an A type disbursement is legal fees.
- **B1** disbursements are externally provided non-professional costs such as travel, accommodation and search fees. B1 type disbursements are recovered at cost.
- **B2** disbursements are internally provided non-professional costs such as photocopying and document storage. B2 type disbursements are charged at cost except for photocopying, printing and telephone calls which are charged at a rate which is intended to recoup both variable and fixed costs.

12.7 SUMMARY OF RECEIPTS AND PAYMENTS

The individual remuneration reports prepared for each Hastie Group company (Appendix Q) summarise our receipts and payments for the period 28 May 2012 to 31 December 2012.

12.8 LIQUIDATORS' REMUNERATION & ROLE OF COMMITTEE OF INSPECTION

Pursuant to s473(3) of the Act, a liquidator is entitled to receive such remuneration as is determined:

a) if there is a committee of inspection – by agreement between the liquidator and the committee of inspection; or
b) if there is no committee of inspection or the liquidator and the committee of inspection fail to agree:
    i. by resolution of the creditors; or
    ii. if no such resolution is passed – by the Court.

In the event that the Hastie Group is wound up, we would recommend that a COI is formed for each company. In addition to being able to approve remuneration, a COI has a number of other statutory powers as well as being a valuable resource for the liquidator to liaise and consult with through the liquidation (refer Section 3.8).

Similar to the resolutions concerning our remuneration as Administrators, where companies within the Hastie Group are wound up and a COI is not formed, resolutions will be sought that the liquidators' anticipated future remuneration for those companies be calculated using the same method as for the Administrators, being time based / hourly rates, but subject to a cap, as follows:

Hastie Group company	Provision Liquidation Period ($)
AFA Air Conditioning Pty Limited	50,000.00
Airducter Pty Limited	50,000.00
Austral International Pty Limited	50,000.00
Austral Refrigeration Holdings Pty Limited	50,000.00
Austral Refrigeration Pty Limited	50,000.00
ACN 129 953 733 Pty Ltd (formerly Beavis & Bartels Pty Limited)	50,000.00
Border Stainless Steel Pty Limited	50,000.00
Comcool Refrigeration Pty Limited	50,000.00
Cooke & Carrick Pty Limited	50,000.00
D & E Air Conditioning Pty Limited	100,000.00
D & E Mechanical Services Pty Limited	10,000.00
ACN 141 619 196 Pty Limited (formerly Direct Engineering Marine & Offshore Services Pty Limited)	10,000.00
ACN 008 700 178 Pty Limited (formerly Direct Engineering Services Pty Limited)	100,000.00
ACN 118 354 331 Pty Ltd (formerly Gordon Brothers Industries Pty Limited)	50,000.00
GTS Plumbing (QLD) Pty Limited	10,000.00
Hastie Air Conditioning (ACT) Pty Limited	50,000.00
Hastie Air Conditioning Pty Limited	100,000.00
Hastie Australia Pty Limited	50,000.00
Hastie Drafting Group Pty Limited	10,000.00
Hastie Engineering Pty Limited	10,000.00
Hastie Finco Pty Limited	10,000.00
Hastie Group Admin Services Pty Limited	10,000.00
Hastie Group Limited	500,000.00
Hastie Group Services Pty Limited	10,000.00
Hastie Holdings Pty Limited	180,000.00
Hastie India Pty Limited	10,000.00
Hastie Services Pty Limited	100,000.00
ACN 121 276 168 Pty Ltd (formerly Heyday Group Pty Limited)	100,000.00
Independent Commission Agents Aust Pty Limited	10,000.00
Lawrence Refrigeration Pty Limited	50,000.00
Longley Mechanical Services Pty Limited	10,000.00
M & H Air Conditioning Pty Limited	50,000.00
Medical Gases Pty Limited	50,000.00
Nisbet & Durney Pty Limited	50,000.00
Norfolk Maintenance Holdings Pty Limited	50,000.00
Optimus Pty Limited	50,000.00
QAL Refrigeration (WA) Pty Limited	50,000.00

Hastie Group company	Provision Liquidation Period ($)
Rotary Australia Pty Limited	10,000.00
Sharp & Pendrey Pty Limited	50,000.00
ACN 050 411 179 Pty Ltd (formerly Spectrum Fire & Security Pty Limited)	50,000.00
Techni Doors Pty Limited	50,000.00
Watters Electrical (Aust) Pty Limited	100,000.00

The key activities expected to be undertaken by the liquidator from the Second Meetings to the finalisation of the liquidation are summarised at Appendix Q.

Should actual costs exceed the above estimates, the liquidators will advise creditors and seek further approval at future meetings of creditors.

13 ENQUIRIES

We request that creditors with questions they would like addressed at the Second Meetings, submit these by email to hastie@linkmarketservices.com.au no later than **4:00pm on 25 January 2013**. Whilst we will make every effort to address questions submitted, we reserve the right to exclude questions to avoid compromising creditors' interests or due to time constraints.

We will address all material matters that come to our attention after the date of this Report at the Second Meetings. Should any significant information affecting the creditors' decision regarding the future of the Hastie Group come to light, we shall endeavour to advise creditors prior to the Second Meetings by posting such information on our website at www.ppbadvisory.com.

DATED 21 January 2013

IAN M CARSON, CRAIG D CROSBIE AND DAVID MCEVOY
JOINT & SEVERAL ADMINISTRATORS