

HASTIE GROUP LIMITED AND SPECIFIC SUBSIDIARIES (ADMINISTRATORS APPOINTED) ('HASTIE GROUP')

AFA Air Conditioning Pty Limited (Administrators Appointed) (the 'Company') ACN 132 180 584

Status at appointment:	Trading / Dormant / Administrative
Date acquired by Hastie Group:	31 July 2008
Principal activity:	Installation of ducted reverse cycle air conditioning for both existing and newly constructed residences
Location of operations:	Adelaide, South Australia

Creditors should consider this Hastie Group company report in conjunction with the body of this report under the following headings:

1. Expected return to creditors
2. Reasons for the Company's failure
3. Offences, voidable transactions and insolvent trading
4. Directors' Report as to Affairs (RATA)
5. Summary of historical financial results

Creditors are also advised to have regard to sections 7 and 8 of the Report for details of directors, registered charges and shareholders, along with the discussion on books and records.

1. Expected return to creditors

Based upon investigations to date, we estimate the return to creditors from the realisation of Company assets (excluding any realisations from claims by a liquidator) as:

Banking syndicate	-
Security interest holder	-
Employees	-
Ordinary unsecured creditors	-

Other than trade receivables the Company owned no material asset. It is expected after costs there will be no funds for distribution from trade receivables. The total of receivables recovered to 31 December 2012 is \$44k.

Subject to the outcome of potential litigation (if pursued), the return to certain creditor classes may increase (refer section 7 of the main report).

All or substantially all employee entitlements (excluding superannuation arrears) have now been paid by DEEWR under the GEERS. These amounts are funded directly by DEEWR and not recoveries generated from Company assets. To the extent any return to employees is available, this will be distributed on a pro-rata basis to DEEWR for funds advanced and the ATO for outstanding superannuation.

2. Reasons for the Company's failure

The Administrators' consider the principal reasons for the Company's failure are:

- Poor pre-contract project risk assessment and poor controls over pricing and project management
- Reticence of management to report underperformance in the relevant reporting period resulting in inappropriate management decision making

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- The cessation of funding from a related company, Hastie Holdings Pty Ltd.

3. Offences, voidable transactions and insolvent trading

The Administrators' preliminary findings are detailed at Section 7 of the body of this report.

4. Directors' Report as to Affairs (RATA)

The directors have not supplied a RATA.

5. Summary of historical financial results

The table below includes the Administrators' estimate of the:

- value of the Company's assets and liabilities
- shortfall to the ordinary unsecured creditors.

	Notes	Company reported at 30 April 2012	Administrators' estimate at 28 May 2012
		Book Value \$'000	Realisable Value \$'000
Assets			
Cash on hand	1	-	-
Trade receivables	2	373	Not disclosed
Inventory	3	13	-
Work in progress	4	(82)	-
Prepayments		(3)	-
Plant and machinery	5	48	8
Current and deferred tax assets		114	-
		463	8
Liabilities	6		
Secured creditors	7	-	(259,900)
Intercompany loans		(925)	(925)
Priority creditors (employees)	8	(18)	(80)
Ordinary unsecured creditors (inc accruals)		(220)	(220)
		(1,163)	(261,125)
Contingent Liabilities			
Warranties		(3)	(3)
Bonds/Guarantees	9	-	(270,000)
Surplus / (deficiency)		(703)	(531,120)

The above deficiency does not take account of:

- Administrators' or Liquidators' costs. Total Administrators' costs to 31/12/2012 are \$145k.
- Potential recoveries that are only available to a Liquidator to pursue.

Administrators' comments

- From November 2011, the Company's cash on hand was 'swept' daily into an account of Hastie Holdings Pty Ltd which performed the treasury function for the Australian trading operations. Given this, the swept balance has been included in the intercompany balance. Upon appointment, the Receivers placed a 'debit freeze' on the account pursuant to its security.
- Some receivables have lodged offsetting claims against the Company. Estimated collections have not been disclosed to avoid compromising negotiations and realisations.
- Likely to be unrecoverable; the majority of inventory being on building sites beyond the Administrators' control.
- Billed in advance and as such recoveries are not expected.

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5. The sale of business program did not yield any acceptable offers. Consequently, plant and machinery was sold at auction. Reported recoveries are net of direct realisation costs arising from collection and auction.
6. The Company has entered into a deed of cross guarantee with Hastie Group Ltd pursuant to ASIC Class Order 98/1418.
7. The Company is a co-guarantor to the Banking Syndicate's facilities of \$260m. This debt is secured by the Company's assets and assets of various related companies.
8. The \$62k increase represents redundancy costs and an adjustment to other entitlements underprovided by the Company.
9. The Company is a co-guarantor to the Banking Syndicate's Performance Guarantee and Financial Guarantee issuance facilities of \$270m secured by the Company's assets and assets of various related companies.

Financial Performance

	Notes	2009 \$'000s	2010 \$'000s	2011 \$'000s	30-Apr-12 \$'000s
Sales	1	5,798	5,384	3,698	2,259
Expenses: Cost of sales		(4,551)	(5,296)	(3,140)	(1,742)
Gross Profit		1,247	88	558	517
GM%	2	21.5%	1.6%	15.1%	22.9%
Other operating expenses	3	(876)	(931)	(693)	(628)
Other Significant items	4	-	-	-	(144)
EBITDA	A	371	(843)	(135)	(255)
Net Assets	B	295	(455)	(459)	(703)
Working capital	C	118	(362)	(145)	84
Current Assets / Current Liabilities	5	0.996	0.718	0.516	0.444
Net cash inflow / (outflow)	D	201	349	(184)	(181)

* Financial results reported above are prior to intra-company consolidation adjustments.

Key

- A. Earnings before interest, depreciation & amortisation and after any significant items.
- B. Surplus / (deficit) of total assets less total liabilities.
- C. The sum of trade receivables and inventories (inclusive of WIP) less any trade payables.
- D. The change in available cash at bank or notional cash over the relevant period.

Administrators' comments

1. The reduction in revenue reflects a reduction in new work 'won' in recent years due to increased competition and other factors.
2. Variances in profit margins indicate a lack of appropriate project management protocols as well as the impact of competition across the construction industry.
3. Many of these costs were replicated within Hastie Holdings Pty Ltd which provided the administration function to the Company and other Hastie Group (operating) companies. The Company also maintained its own administration function, the costs for which are incorporated in 'Other operating expenses'.
4. Other significant items include a goodwill impairment of \$144k which reduced goodwill to nil.
5. A result of less than one indicates that the Company was operating with financial stress. This was however mitigated by funding provided by Hastie Holdings Pty Ltd.