

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

Border Stainless Steel Pty Limited (Administrators Appointed) (the 'Company') ACN 130 035 399

Status at appointment: Trading / Dormant / Administrative

Date acquired by Hastie Group: 3 June 2008

Principal activity: Installation of ducted reverse cycle air conditioning for both existing and newly constructed homes

Location of operations: Queanbeyan, New South Wales

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	0 - 1 cents in the \$
Security interest holder	-
Employees	35 - 45 cents in the \$
Ordinary unsecured creditors	-

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
- Competitive industry conditions resulting in lower margins and generally an inability to secure new work
- The cessation of funding from a related company, Hastie Holdings Pty Ltd.

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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	741	Not disclosed
Inventory	3	230	6
Work in progress	4	612	Not disclosed
Prepayments		17	-
Plant and machinery	5	80	80
Software		39	-
Current and deferred tax assets		229	-
		1,948	85
Liabilities	6		
Secured creditors	7	(22)	(259,922)
Intercompany loans		(5,141)	(5,141)
Priority creditors (employees)	8	(62)	(227)
Ordinary unsecured creditors (inc accruals)		(434)	(434)
		(5,659)	(265,724)
Contingent Liabilities			
Bonds/Guarantees	9	-	(270,000)
Surplus / (deficiency)		(3,711)	(535,638)

The above deficiency does not take account of:

- Administrators' or Liquidators' costs. Total Administrators' costs to 31/12/2012 are \$215k.
- Potential recoveries that are only available to a Liquidator to pursue.

Administrators' comments

1. 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.
2. Found to be approximately \$600k at appointment.
Some receivables have lodged offsetting claims against the Company. The trade receivables realisation to 31/12/2012 is \$407k.
3. Inventory was sold for approximately \$6k (Exc GST) in the sale completed 8 June 2012. Other inventory was unrecoverable being on building sites beyond the Administrators' control.

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4. Estimated value has not been disclosed to avoid compromising negotiations and realisations.
5. A portion of plant and machinery was sold for \$47k with the remaining items being 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 \$165k 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.

	Notes	2009 \$'000s	2010 \$'000s	2011 \$'000s	30-Apr-12 \$'000s
Sales	1	5,543	7,249	5,319	2,791
Expenses: Cost of sales		(3,741)	(5,714)	(3,948)	(2,365)
Gross Profit		1,802	1,535	1,371	426
GM%	2	32.5%	21.2%	25.8%	15.3%
Other operating expenses	3	(1,347)	(1,387)	(1,333)	(1,026)
Other Significant items	4	-	-	-	(3,761)
EBITDA	A	455	148	38	(4,361)
Net Assets	B	501	554	512	(3,711)
Working capital	C	641	874	1,183	1,149
Current Assets / Current Liabilities	5	0.274	0.355	0.298	0.328
Net cash inflow / (outflow)	D	103	(106)	13	18

* 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 costing and 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 \$3.7m which reduced goodwill to nil.
5. A 'Working Capital' ratio 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.