

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

D & E Air Conditioning Pty Limited (Administrators Appointed) (the 'Company') ACN 126 114 556

Status at appointment: Trading / Dormant / Administrative

Date acquired by Hastie Group: 4 May 2005

Principal activity: Plumbing and draining

Location of operations: Rowville, Victoria

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	-
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).

2. Reasons for the Company's failure

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

- Poor performance of the "light commercial" department due to lack of financial control and experience.
- The cessation of funding from a related company, Hastie Holdings Pty Ltd.

3. Offences, voidable transactions and insolvent trading

The Administrators' preliminary investigations 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.

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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	11,512	Not disclosed
Inventory	3	63	-
Work in progress	4	(2,954)	-
Prepayments		301	-
Plant and machinery	5	1,499	Not disclosed
Software		62	-
Investments in Subsidiaries		2,189	-
Goodwill and Intangibles		20,113	-
Current and deferred tax assets		(74)	-
		32,711	-
Liabilities	6		
Secured creditors	7	-	(259,900)
Intercompany loans		(1,332)	(1,332)
Priority creditors (employees)	8	(1,919)	(5,694)
Ordinary unsecured creditors (inc accruals)		(9,828)	(9,828)
		(13,079)	(276,754)
Contingent Liabilities			
Warranties		(13)	(13)
Bonds/Guarantees	9	-	(270,000)
Surplus / (deficiency)		19,619	(546,767)

The above deficiency does not take account of:

- Administrators' or Liquidators' costs. Total Administrators' costs to 31/12/2012 are \$414k.
- Potential recoveries which 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 \$5.7m at appointment.
Receivables were sold as part of the going concern sale completed 5 June 2012.
The amount was agreed following a review of receivables and the offsetting claims likely to be lodged against the Company. Details of the transaction have been withheld from this report as the terms are confidential.
3. Likely to be unrecoverable; the majority of inventory being on building sites beyond the Administrators' control.
4. Billed in advance and as such recoveries are not expected.

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5. As part of the sale, plant and machinery was also sold. The result achieved was higher than the forced sale estimates obtained from valuers.
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 \$3.8m increase represents an adjustment to entitlements underprovided by the Company. The transfer of entitlement obligations was agreed with the sale.
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	92,544	75,944	65,474	67,617
Expenses: Cost of sales		(80,394)	(65,475)	(58,124)	(59,671)
Gross Profit		12,150	10,469	7,350	7,946
GM%	2	13.1%	13.8%	11.2%	11.8%
Other operating expenses	3	(6,552)	(7,439)	(5,261)	(5,257)
Other Significant items		-	-	-	-
EBITDA	A	5,598	3,030	2,089	2,689
Net Assets	B	15,190	16,952	18,013	19,619
Working capital	C	(2,465)	132	2,793	(1,207)
Current Assets / Current Liabilities	4	0.672	0.586	0.666	0.765
Net cash inflow / (outflow)	D	6,158	(5,151)	444	3,504

* 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. Fluctuations in revenue indicate changes in the quantum of projects. Large projects supporting revenue in FY12 include the '700 Bourke St' project and the 'Victorian Desalination Plant' project.
2. Consistent gross margins reflect the high quality of projects adopted by the business as well as the better project management protocols in place at this business compared with other Hastie Group entities.
3. Operating costs were well controlled by management. However 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. 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.