

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

Direct Engineering Services Pty Limited (Administrators Appointed)(the 'Company') ACN 008 700 178

Status at appointment:	Trading / Dormant / Administrative
Date acquired by Hastie Group:	1 June 1994
Principal activity:	Design, implementation and maintenance services to the Australian and International oil and gas industry through the 'Direct Engineering Marine and Offshore Services' division. Other divisions specialised in air conditioning and mechanical services for commercial and industrial projects.
Area of operations:	Malaga, Western Australia Bunbury, Western Australia Welland, South Australia

Creditors should consider the results of our investigations in conjunction with the 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 concerning the 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 \$
Registered Security interest holder	-
Employees	10 - 20 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 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

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- Reticence of management to report underperformance in the relevant reporting period resulting in inappropriate management decision making
- 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 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	14,823	Not disclosed
Inventory	3	220	184
Work in progress	4	(15,695)	-
Prepayments		35	-
Plant and machinery	5	2,737	944
Software		35	-
Goodwill and Intangibles		3,119	28
Current and deferred tax assets		1,305	-
		6,579	1,156
Liabilities	6		
Secured creditors	7	-	(259,900)
Intercompany loans		42,139	42,139
Priority creditors (employees)	8	(2,773)	(5,497)
Ordinary unsecured creditors (inc accruals)		(9,701)	(9,701)
		29,665	(232,959)
Contingent Liabilities			
Warranties		(2,704)	(2,704)
Bonds/Guarantees	9	-	(270,000)
Surplus / (deficiency)		33,540	(504,507)

The above deficiency does not take account of:

- Administrators' or Liquidators' costs. Total Administrators' costs to 31/12/2012 are \$1.03m.
- Potential recoveries which are only available to a Liquidator to pursue.

Administrators' comments

The Administrator's notes regarding the above results are as follows:

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.

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2. Receivables were found to be approximately \$5.5m at appointment.
 Certain receivables relating to the Bunbury operation have been sold for \$662k. The agreement includes scope for a reduction of the amount where costs to complete the respective contracts exceed budget.
 Some other receivables have lodged offsetting claims against the Company. The total of realisations as at 31/12/2012 is \$2.36m.
3. Inventory at the Welland, Bunbury and Malaga sites was sold for a total \$184k. Some inventory was unrecoverable as it was on building sites beyond the Administrators' control.
4. Billed in advance and may result in further unsecured claims being made.
5. Plant and machinery was sold for a total of \$944k. This amount includes better than anticipated recoveries from the auction of 'Frigrite' equipment and 'Direct Engineering Marine and Offshore' equipment held in South Australia and at the Hastie Group head office in New South Wales. 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 \$2.7m 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	115,281	97,207	101,610	88,178
Expenses: Cost of sales		(99,189)	(76,746)	(84,094)	(75,650)
Gross Profit		16,092	20,461	17,516	12,528
GM%	2	14.0%	21.0%	17.2%	14.2%
Other operating expenses	3	(9,303)	(9,807)	(7,077)	(7,291)
Other Significant items		-	-	-	-
EBITDA	A	6,789	10,654	10,439	5,237
Net Assets	B	16,266	23,140	30,164	33,540
Working capital	C	4,640	(2,881)	(630)	(10,353)
Current Assets / Current Liabilities	4	1.556	1.679	2.059	2.822
Net cash inflow / (outflow)	D	2,265	1,736	(2,927)	14,097

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

Key

- A. Earnings before interest, depreciation & amortisation, 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 in FY12 reflects a reduction in new work won due to increased competition and other factors.

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2. Lower profit margins in recent periods are reflective of the increased competition in the construction industry and the consequent pressure to tender lower margins. Reported margins are however still strong compared with other entities within the Hastie Group.
Margin in FY12 was effected by the write off of losses realised on the "Royal Children's Hospital" project.
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'.
Operating expenses for the year to appointment were however less than half that incurred in FY11 following the containment of remuneration overheads and the implementation of LPG fuel to run the motor vehicle fleet.
4. 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.