

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

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**Hastie Services Pty Ltd**  
**(Administrators Appointed) (Receivers and Managers Appointed)**  
**(the 'Company')**  
**ACN 096 628 125**

**Status at appointment:** Trading / Dormant / Administrative

**Date acquired by Hastie Group:** 11 February 2005

**Principal activity:** Air conditioning and food services. The Company also provides maintenance for various Hastie products.

**Location of operations:** Numerous locations across all states of 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**

Receivers and Managers of the Company finalised the sale of the business and assets in September 2012 and are in the final stages of paying all trading liabilities. The Receivers are yet to quantify the final return to the Banking Syndicate.

The Administrators have been advised that the majority of employees were transferred to the new operators upon completion of the sale. For the 372 employees who did not transfer, the Receivers have advised that there will be insufficient circulating assets to pay all of these priority creditor claims (i.e. the outstanding employee entitlements). The Receivers will provide details of any circulating assets that do become available once all trading liabilities have been finalised in early 2013.

In the interim, the Administrators are currently working with DEEWR to commence the Fair Entitlements Guarantee process (which replaced GEERS on 5 December 2012) to assist these employees in receiving the majority of their entitlements.

The Receivers consider there to be no prospects of further material recoveries and have confirmed that there will be insufficient funds for any distribution to ordinary unsecured creditors of the Company.

## **2. Reasons for the Company's failure**

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

- 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)**

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The directors have submitted a RATA as at 28 May 2012, the details of which are included in the table below.

## 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	RATA submitted by Directors at 28 May 2012	Administrators' estimate at 28 May 2012
		Book Value \$'000	Realisable Value \$'000	Realisable Value \$'000
<b>Assets</b>	1			
Cash on hand	2	-	3,391	-
Trade receivables		48,557	43,576	Unknown
Inventory		4,925	2,753	Unknown
Work in progress		22,900	10,067	Unknown
Prepayments		18,551	-	Unknown
Plant and machinery		7,092	7,177	Unknown
Software		1,393	-	Unknown
Investments in Subsidiaries		280	15,533	Unknown
Goodwill and Intangibles		14,119	-	Unknown
Current and deferred tax assets		3,322	-	Unknown
		<b>121,139</b>	<b>82,498</b>	<b>-</b>
<b>Liabilities</b>	3			
Secured creditors	4	(36)	(501,000)	(259,900)
Intercompany loans		(46,696)	-	(46,696)
Priority creditors (employees)	5	(8,569)	(11,453)	Unknown
Ordinary unsecured creditors (inc accruals)		(26,185)	(32,469)	(26,185)
		<b>(81,486)</b>	<b>(544,922)</b>	<b>(332,781)</b>
<b>Contingent Liabilities</b>				
Warranties		235	-	235
Bonds/Guarantees	6	-	(6,670)	(270,000)
<b>Surplus / (deficiency)</b>		<b>39,888</b>	<b>(469,094)</b>	<b>(602,546)</b>

The above deficiency does not take account of:

- Administrators' or Liquidators' costs. Total Administrators' costs to 31/12/2012 is \$163k.
- Potential recoveries that are only available to a Liquidator to pursue.

#### Administrators' comments

1. The business and assets of the Company were transferred in the going concern sale of the Company completed by the Receivers and Managers in September 2012. Proceeds received from the sale have not been disclosed to date but will form part of the return to the Banking Syndicate.

Management have advised that some items included on the balance sheet of the Company were found to be unsubstantiated or knowingly overstated resulting in inappropriate management decision making. It is understood that these discoveries led to over \$28m of asset write downs and other write-offs in 2012.

Detailed investigations undertaken by the Company prior to appointment also uncovered alleged fraud of around \$20m. The Administrators are currently investigating avenues with insurers to recover these amounts.

2. 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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3. The Company has entered into a deed of cross guarantee with Hastie Group Ltd pursuant to ASIC Class Order 98/1418.
4. 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.
5. The Receivers have advised that the majority of staff have assumed new roles with the purchaser where their entitlements will continue to accrue.
6. 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		102,934	164,241	251,451	236,865
Expenses: Cost of sales			(73,276)	(117,136)	(192,607)	(185,234)
Gross Profit			29,658	47,105	58,844	51,631
GM%	2		28.8%	28.7%	23.4%	21.8%
Other operating expenses	3		(18,414)	(35,143)	(46,771)	(38,997)
Other Significant items			-	-	-	(7,974)
<b>EBITDA</b>	<b>A</b>		<b>11,244</b>	<b>11,962</b>	<b>12,073</b>	<b>4,660</b>
Net Assets	B		25,414	32,162	39,386	39,888
Working capital	C		18,321	40,014	43,733	50,197
Current Assets / Current Liabilities	4		1.493	1.106	1.253	1.172
Net cash inflow / (outflow)	D		2,235	1,569	52	(67)

\* 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

7. Fluctuations in revenue reflect the different levels of work won in recent years. Management have indicated that there were significant concerns identified in project costing and planning across the Northern region (QLD, NT, WA) with many projects found to be loss making. The Northern region reported regular losses since 2008.
8. Leaving aside the impact of the accounting irregularities previously mentioned, the business still experienced declining profit margins reflecting the impact of competition across the construction industry. Despite this pressure, the Company has maintained stronger profit margins than some other Hastie Group entities. Initiatives were implemented in 2012 to better control the uptake of jobs with lower than expected margins.
9. Relationships with key creditors and clients have also been strained following the Hastie Group trading halt affecting the quality of work contracted.
10. Operating expenses appear reasonably managed in recent periods with the Company not utilising over \$1.4m in contingencies and bonus accruals in FY 2012.
11. Many of these costs were however 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 functions, the costs for which are incorporated in 'Other operating expenses'.
12. 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.