

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

---

### Watters Electrical (Aust) Pty Limited (Administrators Appointed) (the 'Company') ACN 128 370 570

|                                       |  |
|---------------------------------------|--|
| <b>Status at appointment:</b>         | Trading / Dormant / Administrative   |
| <b>Date acquired by Hastie Group:</b> | 8 November 2007  |
| <b>Principal activity:</b>            | Electrical, data and fire prevention services including design, installation and maintenance services. |
| <b>Area of operations:</b>            | Melbourne and Regional Victoria<br>Adelaide, South Adelaide<br>Albury, 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                    | 20 - 30 cents in the \$ |
| Ordinary unsecured creditors | -                       |

Subject to the outcome of potential litigation (if pursued), the return to certain creditor classes may increase (refer to 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

## HASTIE GROUP LIMITED AND SPECIFIC SUBSIDIARIES

### (ADMINISTRATORS APPOINTED) ('HASTIE GROUP')

- Increased competition in the industry limiting the Company's ability to win new work
- 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<br>at 30 April 2012 | Administrators' estimate<br>at 28 May 2012 |
|---|-------|--------------------------------------|--|
|   |       | Book Value<br>\$'000                 | Realisable Value<br>\$'000                 |
| <b>Assets</b>                               |       |                                      |  |
| Cash on hand                                | 1     | -                                    | -  |
| Trade receivables                           | 2     | 22,296                               | Not disclosed                              |
| Inventory                                   | 3     | 1,550                                | 71   |
| Work in progress                            | 4     | (4,283)                              | -  |
| Prepayments                                 |       | 529                                  | -  |
| Plant and machinery                         | 5     | 2,712                                | 2,352                                      |
| Software                                    |       | 353                                  | -  |
| Goodwill and Intangibles                    |       | 24,811                               | -  |
| Current and deferred tax assets             |       | 2,722                                | -  |
|   |       | <b>50,690</b>                        | <b>2,423</b>                               |
| <b>Liabilities</b>                          | 6     |                                      |  |
| Secured creditors                           | 7     | (721)                                | (260,621)                                  |
| Intercompany loans                          |       | 10,647                               | 10,647                                     |
| Priority creditors (employees)              | 8     | (3,803)                              | (8,729)                                    |
| Ordinary unsecured creditors (inc accruals) |       | (13,295)                             | (13,295)                                   |
|   |       | <b>(7,172)</b>                       | <b>(271,998)</b>                           |
| <b>Contingent Liabilities</b>               |       |                                      |  |
| Bonds/Guarantees                            | 9     | -                                    | (270,000)                                  |
| <b>Surplus / (deficiency)</b>               |       | <b>43,518</b>                        | <b>(539,576)</b>                           |

The above deficiency does not take account of:

- Administrators' or Liquidators' costs. Total Administrators' costs to 31/12/2012 are \$1.06m.
- 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.

## HASTIE GROUP LIMITED AND SPECIFIC SUBSIDIARIES

### (ADMINISTRATORS APPOINTED) ('HASTIE GROUP')

#### 2. Found to be approximately \$21.1m at appointment

The majority of receivables have lodged offsetting claims against the Company. Estimated collections have not been disclosed to avoid compromising negotiations and realisations. The total of receivable recovered to 31/12/2012 is \$3.9m.

3. Inventory from sites at Eildon, Shepparton and Cobram, Victoria, was sold for approximately \$71k (Exc GST) in the sale completed 22 June 2012. Other inventory was unrecoverable being on building sites beyond the Administrators' control.
4. Billed in advance and as such recoveries are not expected.
5. A portion of plant and machinery was also sold for approximately \$750k (Exc GST) in the sale identified at note 3.

Plant and machinery from the remaining sites across Victoria, South Australia and New South Wales 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 c\$4.9m 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<br>\$'000s | 2010<br>\$'000s | 2011<br>\$'000s | 30-Apr-12<br>\$'000s |
|--------------------------------------|----------|-----------------|-----------------|-----------------|----------------------|
| Sales                                | 1        | 109,839         | 130,160         | 135,799         | 109,379              |
| Expenses: Cost of sales              |          | (89,048)        | (109,800)       | (109,567)       | (102,455)            |
| Gross Profit                         |          | 20,791          | 20,360          | 26,232          | 6,924                |
| GM%                                  | 2        | 18.9%           | 15.6%           | 19.3%           | 6.3%                 |
| Other operating expenses             | 3        | (14,586)        | (13,929)        | (22,159)        | (10,012)             |
| Other Significant items              |          | -               | -               | -               | -                    |
| <b>EBITDA</b>                        | <b>A</b> | <b>6,205</b>    | <b>6,431</b>    | <b>4,073</b>    | <b>(3,088)</b>       |
| Net Assets                           | <b>B</b> | 17,207          | 20,504          | 22,042          | 43,518               |
| Working capital                      | <b>C</b> | 2,768           | 6,209           | 12,197          | 6,268                |
| Current Assets / Current Liabilities | 4        | 1.659           | 1.594           | 1.805           | 1.957                |
| Net cash inflow / (outflow)          | <b>D</b> | 6,093           | 272             | (4,108)         | (510)                |

\* 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. Increased revenue over the review period reflected increased volume of projects. Significant delays have affected major projects including the Airport Carpark and Rundle Place Retail projects.

## HASTIE GROUP LIMITED AND SPECIFIC SUBSIDIARIES

### (ADMINISTRATORS APPOINTED) ('HASTIE GROUP')

---

2. Gross margins were significantly lower in FY12 reflecting the impact of competition across the construction industry. Margins were further affected by the write off realised on two major contracts.
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 made inroads to reduce this cost in FY12 shifting certain administrative functions to the shared offices of Cooke and Carrick Pty Ltd (Administrator Appointed), another 100% owned subsidiary of the Hastie Group.
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.