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Hastie Group Limited

ACN: 112 803 040

**Financial report for the
half-year ended 31 December 2011**

Hastie Group Limited

Financial report for the half-year ended 31 December 2011

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Directors' report

Your directors submit their report for the half-year ended 31 December 2011.

Directors

The names of the company's directors in office during the half-year and until the date of this report are:

Phillip Anderson	Chairman (from 15 February 2012)
Trevor Bourne	(resigned 15 February 2012)
David Harris	(resigned 7 October 2011)
David Martin	(retired 3 November 2011)
Harry Boon	
John Gaskell	
Chris Woodward	(resigned 25 October 2011)
Lindsay Phillips	(appointed 4 August 2011)
Rick Turchini	(appointed 1 January 2012)

Review of operations

Net loss before tax for the Group was \$159,538,000 in the current period, compared to a net loss before tax of \$95,256,000 for the prior corresponding period, being the half-year ended 31 December 2010. The net loss before tax for the period was after a pre-tax net charge for significant items of \$142,001,000, as detailed in note 3 (2010: \$103,927,000).

The loss after tax was \$149,138,000 compared to a net loss after tax of \$94,319,000 in the prior corresponding period.

Basic earnings per share for the period equate to negative 122.7c, compared to negative 356.8c for the prior corresponding period.

The Group does not propose to pay an interim dividend for the period ended 31 December 2011.

Financial Position

The half year financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Hastie Group ("Hastie") incurred a net loss from continuing operations after tax of \$149,138,000 for the half year ended 31 December 2011.

Pursuant to the terms of its Syndicated Facility Agreement, Hastie is required to comply with certain banking covenants which are assessed at the end of each quarter. As a result of the losses incurred during the period to 31 December 2011, Hastie was not in compliance with certain of the banking covenants for the quarter ended 31 December 2011. As a result of this covenant breach, each financier has the right to demand or accelerate repayment of amounts owed to them and accordingly, the syndicated loan amounting to \$156,772,000 has been reclassified as a current liability. Due to the reclassification as at 31 December 2011, the consolidated entity's current liabilities exceeded its current assets by \$140,446,000. Under the existing Syndicated Facility Agreement, Hastie will breach certain banking covenants subsequent to 31 December 2011.

Hastie approached its Banking Group who have, through the execution of a waiver letter and revised term sheet, agreed in principle to amend the Syndicated Facility Agreement to include the following (subject to certain conditions being met):

- a waiver of the covenant breaches at 31 December 2011 and the forecast covenant breaches at 31 March 2012 and 30 June 2012;

Hastie Group Limited

Directors' report

- new covenants to be determined, which will apply after 1 July 2012, based on Hastie's revised FY13 forecast;
- the first new covenant test date will be 15 November 2012 for the quarter ended 30 September 2012;
- a temporary reduction in performance guarantee and financial guarantee facilities of \$30 million will apply from 1 March 2012 for a period of 6 months;
- other debt financing facility limits were not changed;
- from 1 March 2012 the margin on the facilities will be increased by between 50 and 100 basis points and deferred restructuring fees will be payable on 31 December 2012; and
- no dividends can be paid during the life of the facilities, which mature on 31 July 2014.

The Syndicated Facility Agreement is to be amended and executed to reflect the revised term sheet within 21 days. Current cash flow forecasts indicate that Hastie will be able to operate within the proposed debt finance facility limits given current trading conditions, payment terms and the current business environment.

Should the amendment to the Syndicated Facility Agreement with the Banking Group not be finalised, or if Hastie is not able to meet the revised covenants, or if Hastie exceeds current facilities and is not able to secure additional facilities, otherwise manage cash flows or raise capital then there is significant uncertainty regarding the ability of Hastie to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

No adjustments have been made to the half year financial report relating to the recoverability and classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should Hastie not continue as a going concern.

Auditor's independence declaration

The auditor's independence declaration is included on page 3.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



Phillip Anderson
Chairman

Sydney, 29 February 2012

The Board of Directors
Hastie Group Limited
Level 5, 20 Highgate Street
AUBURN NSW 2144

29 February 2012

Dear Board Members

Hastie Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Hastie Group Limited.

As lead audit partner for the review of the financial statements of Hastie Group Limited for the half year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



R G Saayman
Partner
Chartered Accountants

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Independent Auditor's Review Report to the Members of Hastie Group Limited

We have reviewed the accompanying half-year financial report of Hastie Group Limited, which comprises the statement of financial position as at 31 December 2011, the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 23.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Hastie Group Limited's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hastie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hastie Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hastie Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding the ability of the consolidated entity to continue as a going concern

Without modifying our conclusion, we draw attention to note 1 in the financial report regarding the going concern basis of preparation of the financial report and the status of the consolidated entity's financing arrangements. The matters set out in note 1 indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU


Reuben Saayman
Partner
Chartered Accountants
Sydney, 29 February 2012

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Hastie Group Limited

Directors' declaration

The directors declare that in their opinion:

- (a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (b) the attached financial statements and notes are in accordance with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the financial position and performance of the consolidated entity.

The directors draw your attention to Note 1 on page 13 concerning the going concern basis of preparation of the financial report and the status of the consolidated entity's financing arrangements and trading environment.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



Phillip Anderson
Chairman

Sydney, 29 February 2012

Hastie Group Limited

Income statement for the half-year ended 31 December 2011

	Note	Consolidated	
		2011 \$'000	2010 \$'000
Revenue from sale of goods and services		903,540	900,453
Cost of sales		(899,053)	(798,539)
Gross profit		4,487	101,914
Other income		1,196	1,945
Marketing expenses		(1,055)	(1,577)
Occupancy expenses		(10,392)	(9,424)
Administration expenses		(99,276)	(96,039)
Depreciation and amortisation expense		(7,004)	(7,378)
Acquisition-related costs		13	(174)
Impairment of goodwill		(31,202)	(69,129)
Impairment of brand names		(1,263)	(1,348)
Impairment of land and buildings		(4,812)	-
Write back contingent consideration		2,061	-
Loss before interest and tax	3	(147,247)	(81,210)
Interest income	5	445	290
Finance costs	5	(12,736)	(14,336)
Loss before tax		(159,538)	(95,256)
Income tax benefit	4	10,400	937
Loss for the period		(149,138)	(94,319)
Loss is wholly attributable to owners of the parent		(149,138)	(94,319)
		Cents	Cents
Loss per share:	11		
Basic		(114.7)	(356.8)
Diluted		(114.7)	(356.8)

Hastie Group Limited

Statement of comprehensive income for the half-year ended 31 December 2011

	Consolidated	
	2011 \$'000	2010 \$'000
Loss for the period	(149,138)	(94,319)
Other comprehensive income (Loss) / gain on cash flow hedges taken to equity		
Interest rate swaps	(1,684)	2,307
Forward exchange contracts	(1,221)	344
	(2,905)	2,651
Related deferred tax	871	(725)
	(2,034)	1,926
Foreign currency translation	(853)	(48,474)
Other comprehensive expense for the period	(2,887)	(46,548)
Total comprehensive loss for the period	(152,025)	(140,867)
Total comprehensive loss is wholly attributable to owners of the parent	(152,025)	(140,867)

Hastie Group Limited

Statement of financial position as at 31 December 2011

	Note	Consolidated	
		31 Dec 2011 \$'000	30 Jun 2011 \$'000
Current assets			
Cash		52,422	71,665
Trade and other receivables		388,351	387,898
Inventories		31,058	83,001
Current tax assets		2,141	9,026
Prepayments		11,151	6,938
Total current assets		485,123	558,528
Non-current assets			
Investments in associates		2,244	2,244
Property, plant and equipment		42,529	49,790
Deferred tax assets		42,198	24,851
Goodwill	6	289,292	320,056
Other intangible assets		8,332	10,232
Total non-current assets		384,595	407,173
Total assets		869,718	965,701
Current liabilities			
Trade and other payables		397,987	306,894
Financial instruments		6,621	3,716
Borrowings	7	159,423	34,705
Current tax liabilities		3,117	2,295
Provisions		57,986	58,155
Contingent consideration		435	2,597
Total current liabilities		625,569	408,362
Non-current liabilities			
Borrowings	7	6,310	278,718
Provisions		3,118	3,168
Total non-current liabilities		9,428	281,886
Total liabilities		634,997	690,248
Net assets		234,721	275,453
Equity			
Issued capital		452,084	340,691
Reserves		(63,544)	(60,557)
Accumulated losses		(153,819)	(4,681)
Total equity		234,721	275,453

Notes to the financial statements are included on pages 13 to 23

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Statement of cash flows for the half-year ended 31 December 2011

Consolidated

Note	2011 \$'000	2010 \$'000
Cash flows from operating activities		
Receipts from customers	975,370	1,026,617
Payments to suppliers and employees	(942,710)	(1,005,979)
Income tax refund / (paid)	2,994	(3,622)
Net cash generated by operating activities	<u>35,654</u>	<u>17,016</u>
Cash flows from investing activities		
Payment for property, plant and equipment	(4,105)	(5,875)
Payment for intangible assets (Software)	(544)	(1,137)
Proceeds from sale of property, plant and equipment	1,081	906
Acquisition of minority interest	-	(4,887)
Payment for business acquisitions	-	(3,409)
Payments of contingent consideration for businesses	-	(2,000)
Advances from related parties	-	51
Net cash used in investing activities	<u>(3,568)</u>	<u>(16,351)</u>
Cash flows from financing activities		
Proceeds from issues of shares	114,093	-
Payment for share issue costs	(4,756)	-
Proceeds from borrowings	264,471	73,111
Repayment of borrowings	(403,643)	(56,268)
Interest received	445	290
Interest and other costs of finance paid	(12,966)	(13,299)
Dividends paid to owners of the parent	-	(9,589)
Net cash used in financing activities	<u>(42,356)</u>	<u>(5,755)</u>
Net decrease in cash	(10,270)	(5,090)
Cash at the beginning of the period		
Effect of exchange rate changes on cash held in foreign currencies	62,094	80,835
	598	(5,065)
Cash at the end of the period	<u>52,422</u>	<u>70,680</u>

Hastie Group Limited

Statement of changes in equity for the half-year ended 31 December 2011

Consolidated

	2011 \$'000	2010 \$'000
Total comprehensive loss for the period		
Attributable to owners of the parent	(152,025)	(140,867)
Transactions with owners in their capacity as owners		
Shares issued for cash	114,093	-
Shares issue costs	(4,756)	-
Related income tax	1,606	-
Share based payment	(100)	284
Other shares issued	450	-
Acquisition of minority interest	-	(4,887)
Shares purchased	-	(2)
Dividends paid		
- owners of the parent	-	(9,589)
- non-controlling interest	-	(488)
Net change in total equity	(40,732)	(155,549)
Equity at the beginning of the period	275,453	387,228
Equity at the end of the period	234,721	231,679
Reconciliation of changes in equity by components:		
Issued capital		
Opening balance	340,691	299,688
Shares issued for cash (iii)	114,093	-
Shares issued for exercise of rights	-	123
Other shares issued (iii)	450	-
Shares issue costs (iii)	(4,756)	-
Related income tax (iii)	1,606	-
Closing balance	452,084	299,811
Equity reserve		
Opening balance	(5,158)	(1,337)
Acquisition of minority interest (iii)	-	(3,816)
Closing balance	(5,158)	(5,153)
Foreign currency translation reserve		
Opening balance	(53,782)	(2,597)
Translation of foreign operations (ii)	(853)	(48,474)
Closing balance	(54,635)	(51,071)
Pension reserve		
Opening balance	(936)	(1,368)
Decline in value of pension plan assets (ii)	-	-
Closing balance	(936)	(1,368)

Notes to the financial statements are included on pages 13 to 23

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Statement of changes in equity for the half-year ended 31 December 2011

	Consolidated	
	2011 \$'000	2010 \$'000
Reconciliation of changes in equity by components (continued):		
Employee equity-settled benefits reserve		
Opening balance	1,920	1,715
Share based payment (iii)	(100)	284
Transfer to share capital	-	(123)
Shares purchased (iii)	-	(2)
Closing balance	<u>1,820</u>	<u>1,874</u>
Hedging reserve		
Opening balance	(2,601)	(3,166)
(Loss) / gain on cash flow hedges		
Forward exchange contracts (ii)	(1,221)	344
Interest rate swaps (ii)	(1,684)	2,307
Related deferred tax (ii)	871	(725)
Closing balance	<u>(4,635)</u>	<u>(1,240)</u>
(Accumulated losses) / Retained earnings		
Opening balance	(4,681)	92,734
Loss attributable to owners of the parent (i)	(149,138)	(94,319)
Dividends paid	-	(9,589)
Closing balance	<u>(153,819)</u>	<u>(11,174)</u>
Non-controlling interest		
Opening balance	-	1,559
Dividends paid (iii)	-	(488)
Retained earnings attributable to owners on acquisition of minority interest (iii)	-	(1,071)
Closing balance	<u>-</u>	<u>-</u>
Total equity at the end of the period	<u>234,721</u>	<u>231,679</u>

(i) From Income statement

(ii) From Other comprehensive income

(iii) From Transactions with owners in their capacity as owners

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

1. Basis of preparation and accounting policies

These general purpose condensed financial statements for the half year ended 31 December 2011 have been prepared in accordance with AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

The half-year financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the most recent annual financial report.

The accounting policies and methods of computation adopted are consistent with those adopted in the most recent annual financial report.

All amounts are presented in Australian dollars.

The amounts in the directors' report and the half-year financial report have been rounded to the nearest \$1,000 (unless otherwise stated), under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Going concern

The half year financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Hastie Group ("Hastie") incurred a net loss from continuing operations after tax of \$149,138,000 for the half year ended 31 December 2011.

Pursuant to the terms of its Syndicated Facility Agreement, Hastie is required to comply with certain banking covenants which are assessed at the end of each quarter. As a result of the losses incurred during the period to 31 December 2011, Hastie was not in compliance with certain of the banking covenants for the quarter ended 31 December 2011. As a result of this covenant breach, each financier has the right to demand or accelerate repayment of amounts owed to them and accordingly, the syndicated loan amounting to \$156,772,000 has been reclassified as a current liability. Due to the reclassification as at 31 December 2011, the consolidated entity's current liabilities exceeded its current assets by \$140,446,000. Under the existing Syndicated Facility Agreement, Hastie will breach certain banking covenants subsequent to 31 December 2011.

Hastie approached its Banking Group who have, through the execution of a waiver letter and revised term sheet, agreed in principle to amend the Syndicated Facility Agreement to include the following (subject to certain conditions being met):

- a waiver of the covenant breaches at 31 December 2011 and the forecast covenant breaches at 31 March 2012 and 30 June 2012;
- new covenants to be determined, which will apply after 1 July 2012, based on Hastie's revised FY13 forecast;
- the first new covenant test date will be 15 November 2012 for the quarter ended 30 September 2012;
- a temporary reduction in performance guarantee and financial guarantee facilities of \$30 million will apply from 1 March 2012 for a period of 6 months;
- other debt financing facility limits were not changed;
- from 1 March 2012 the margin on the facilities will be increased by between 50 and 100 basis points and deferred restructuring fees will be payable on 31 December 2012; and
- no dividends can be paid during the life of the facilities, which mature on 31 July 2014.

The Syndicated Facility Agreement is to be amended and executed to reflect the revised term sheet within 21 days. Current cash flow forecasts indicate that Hastie will be able to operate within the proposed debt finance facility limits given current trading conditions, payment terms and the current business environment.

Should the amendment to the Syndicated Facility Agreement with the Banking Group not be finalised, or if Hastie is not able to meet the revised covenants, or if Hastie exceeds current facilities and is not able to secure additional facilities, otherwise manage cash flows or raise capital then there is significant uncertainty regarding the ability of Hastie to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

No adjustments have been made to the half year financial report relating to the recoverability and classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should Hastie not continue as a going concern.

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Notes to the financial statements for the half-year ended 31 December 2011

2. Segment information

The principal products and services of each of Hastie's segments are :

- Mechanical, Electrical & Plumbing
Design, engineering, assembly and installation of:
- commercial and industrial air conditioning
- electrical, communications and data services
- fire protection systems
- commercial plumbing and drainage systems
Principally in Australasia
- Services
Preventative maintenance and breakdown repair services for commercial and industrial air conditioning and related systems, and fire and electronic security services.
Solely in Australasia
- Rotary
Design, engineering, assembly and installation of commercial and industrial air conditioning, electrical, and plumbing products and systems in UK, Ireland, and selected overseas markets.
- Middle East
Design, engineering, assembly and installation of commercial and industrial air conditioning, electrical, and plumbing products and systems in the Middle East region, including Dubai, Abu Dhabi, Oman and Qatar.
- Refrigeration
Design, engineering, assembly and installation of commercial and industrial refrigeration
Solely in Australia

Following an operational/management restructure, from 1 July 2011 the Refrigeration operations, previously reported in the Mechanical, Electrical & Plumbing segment, are now shown as a separate segment. The comparatives below have been adjusted to reflect this.

The chief operating decision maker assesses performance of the operating segments based on the operations of the segment, without allocation of interest receivable and other central income. Segment results represent the results of each segment after allocating central costs, based on a measure of segment revenue and operations, without allocation of net finance costs, and income tax expense.

Consolidated

	Revenue		Results	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Mechanical, Electrical & Plumbing	477,370	458,651	(40,000)	6,306
Services	155,747	153,927	(10,748)	1,490
Rotary	125,696	122,093	(26,156)	(20,390)
Middle East	48,607	82,766	(75,861)	(71,204)
Refrigeration	96,120	83,016	5,518	2,588
Segment results	903,540	900,453	(147,247)	(81,210)
Net finance costs			(12,291)	(14,046)
Loss before tax			(159,538)	(95,256)

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Notes to the financial statements for the half-year ended 31 December 2011

2. Segment information (continued)

The amounts provided to the chief operating decision maker with respect to assets are measured based on the operations of the segment and the physical location of the asset, without allocation of those assets maintained centrally and tax assets.

	Consolidated	
	31 Dec 2011 \$'000	30 Jun 2011 \$'000
Segment assets		
Mechanical, Electrical & Plumbing	371,296	441,616
Services	109,528	132,881
Rotary	171,217	187,252
Middle East	70,355	77,899
Refrigeration	65,568	84,096
Total segment assets	787,964	923,744
Unallocated assets	81,754	41,957
Total assets	869,718	965,701

Consolidated	
2011 \$'000	2010 \$'000

3. Significant Items

Loss before interest and tax includes a number of significant items.

Doubtful debt and project provisions (Middle East & International) ⁽¹⁾	(88,176)	(26,199)
Other provisions ⁽²⁾	(9,763)	(7,251)
Restructuring and closedown costs ⁽³⁾	(8,846)	-
Goodwill impairment ⁽⁴⁾	(31,202)	(69,129)
Impairment of Rotary brand name ⁽⁵⁾	(1,263)	(1,348)
Impairment of land and buildings ⁽⁶⁾	(4,812)	-
Write back of contingent consideration ⁽⁷⁾	2,061	-
	(142,001)	(103,927)

⁽¹⁾ Following a review of the status of projects, and reflecting on the continued difficult trading conditions in the Middle East and other International businesses, significant provisions for estimated losses to completion and non recoverable receivables totaling \$88,176,000 have been provided (2010: \$26,199,000). This amount includes a charge of \$24,505,000 to adopt a revenue recognition policy, such that claims will only be brought to account to the extent that cash has been received given the current trading conditions, business practices and relationships with customers.

⁽²⁾ As a result of the passage of time and following a review of the balance sheet and the recoverability of certain assets carried forward from prior periods was performed and significant provisions for non recoverable amounts totaling \$9,763,000 have been provided (2010: \$7,251,000).

⁽³⁾ The Group has incurred restructure and closedown costs of \$8,846,000 for the six months to 31 December 2011. Included in the significant items are the trading losses of \$2,156,000 of businesses being exited.

⁽⁴⁾ Resulting from a scaling back of our Republic of Ireland operations and the decision to close or sell several non-core Mechanical and Services businesses and due to uncertainties around the cash flows in the Republic of Ireland, a charge for goodwill impairment of \$31,202,000 has been taken in the results for the six months to 31 December 2011 (2010: \$69,129,000 in respect of Middle East operations).

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Notes to the financial statements for the half-year ended 31 December 2011

3. Significant Items (continued)

- (5) Due to continued difficult trading conditions and uncertainties around future cash flows in the Republic of Ireland, a charge of \$1,263,000, to write off the value of the Rotary brand name in respect of the Republic of Ireland has been taken in the results for the six months to 31 December 2011 (2010: \$1,348,000 in respect of Middle East operations).
- (6) Following a decision to sell certain properties in the UK, the Group's freehold properties in the UK have been written down by \$4,812,000 to their recoverable amounts.
- (7) In respect of a business acquired in recent years, the failure to meet or exceed earnings targets means that the contingent consideration is no longer due to the vendors and the liability of \$2,061,000 has been written back in the results for the six months to 31 December 2011.

	Consolidated	
	2011 \$'000	2010 \$'000
Significant items identified above are included in the Income Statement, as follows.		
Revenue	15,496	-
Cost of sales	(108,273)	(29,312)
Other income	(19)	-
Marketing expenses	(134)	-
Occupancy expenses	(286)	-
Administration expenses	(13,445)	(4,138)
Depreciation and amortisation expense	(124)	-
Impairment of goodwill	(31,202)	(69,129)
Impairment of brand names	(1,263)	(1,348)
Impairment of land and buildings	(4,812)	-
Write back of contingent consideration	2,061	-
	(142,001)	(103,927)

Significant items identified above are included in the following segments.

	Consolidated			
	Revenue		Results	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Mechanical, Electrical & Plumbing Services	12,811	-	(21,641)	(3,693)
Rotary	3,546	-	(14,524)	(3,288)
Middle East	(861)	-	(29,856)	(23,515)
Refrigeration	-	-	(76,112)	(73,431)
	-	-	132	-
	15,496	-	(142,001)	(103,927)

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

4. Income tax

	Consolidated	
	2011 \$'000	2010 \$'000
The prima facie income tax benefit on the loss before tax reconciles to the income tax benefit as follows:		
Loss before tax	(159,538)	(95,256)
Prima facie tax thereon using the Australian corporate tax rate of 30%	(47,861)	(28,577)
Adjusted for :		
- Non-deductible expenses	10,721	21,613
- Tax exempt loss	13,971	6,019
- Overseas tax rate differential	13,052	2,508
- Research & development allowance	-	(1,009)
Over provisions in prior years		
- Research & development allowance	-	(1,352)
- Other	(283)	(139)
Income tax benefit	(10,400)	(937)

5. Net finance costs

Loan interest and fees	7,935	10,169
Interest on contingent consideration	(100)	186
Bank and guarantee fees	5,218	3,191
Net foreign exchange (gain) / loss	(317)	790
	12,736	14,336
Less : Interest income	(445)	(290)
	12,291	14,046

6. Goodwill

Net carrying amount

	Consolidated As at	
	31 Dec 2011 \$'000	30 Jun 2011 \$'000
Opening balance	320,056	424,039
Impairment of goodwill	(31,202)	(69,129)
Additional amounts recognised from business acquisitions	-	7,306
Foreign currency translation	438	(42,160)
Closing balance	289,292	320,056

During the half-year, the carrying value of goodwill was reduced by an impairment charge of \$31,202,000 (2010: \$69,129,000), resulting from a scaling back of our Republic of Ireland operations and the decision to close or sell several non-core Mechanical and Services businesses and due to uncertainties around the cash flows in the Republic of Ireland.

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

6. Goodwill (continued)

Following an operational/management restructure, from 1 July 2011 Refrigeration operations, previously reported in the Mechanical & Plumbing cash-generating unit, have been identified as a separate cash generating unit. The 30 June 2011 comparatives below have been adjusted to reflect this.

	Consolidated	
	2011 \$'000	2010 \$'000
Allocation of goodwill to cash-generating units		
For impairment testing purposes the allocation is:		
Mechanical & Plumbing	133,602	149,806
Electrical	59,989	59,989
Rotary	57,096	65,483
Services	20,474	27,419
Refrigeration	18,131	17,359
	<u>289,292</u>	<u>320,056</u>

Key assumptions

The key assumptions used in the value in use calculations are as follows:

EBITDA	<p>Forecast normalised EBITDA has been based on full year 2011/2012 expectations in light of past experience, short-term and long-term growth factors and expected efficiency improvements, which are consistent with the Group's plans for focusing business operations within each identified cash-generating unit. The Group expects forecast growth factors and efficiency improvements to be reasonably achievable over the value in use assessment period.</p> <p>There is nil adjustment for depreciation/amortisation, as replacement capital expenditure is broadly in line with depreciation over the long-term.</p> <p>Rotary forecast normalised EBITDA has been converted at a foreign exchange rate applicable at balance date of A\$1 equals GBP 0.66 and A\$1 equals Euro 0.78 over the value in use assessment period, as required by accounting standards.</p> <p>Middle East forecast normalised EBITDA has been converted at a foreign exchange rate applicable at balance date of A\$1 equals AED 3.73 over the value in use assessment period, as required by accounting standards.</p>
Long-term growth rate	<p>Five years of plan data has been used for the Group's value in use calculations. A long-term growth rate into perpetuity has been determined by reference to the nominal GDP rates and the long-term compound annual growth rate in EBITDA.</p>

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

6. Goodwill (continued)

Discount factor The discount rate applied to the cash flows of the Group's operations is based on the risk free rate for ten year bonds issued by the government in the respective market, where possible adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific Group's operations. In making this adjustment, inputs required are the equity market risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the Group's operations relative to the market as a whole.

In determining the discount factor, the Group has applied an adjustment for systematic risk to the Group's operations determined by reference to average betas determined as appropriate for the Group's specific industries, territories and market risk profile by independent economists. The Group has used a forward looking risk premium that takes into consideration the average equity market risk premium.

Sensitivity to changes in assumptions

31 December 2011

The estimated recoverable amount of the Group's operations exceeded their carrying value in each identified cash-generating unit by approximately \$78,977,000 aggregate.

The table below shows the key assumptions used in the value in use calculation:

	Mechanical & Plumbing	Electrical	Rotary	Services	Refrigeration
Recoverable amount exceeding carrying value (\$'000)	2,516	22,623	1,259	23,589	28,990
Discount factor	11.0%	11.0%	11.1%	11.0%	11.0%
Long-term growth rate	2.8%	2.8%	2.3%	2.8%	2.8%
Budgeted EBIT ⁽¹⁾	23.1%	(4.3)%	2.7%	3.7%	2.0%

The amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value is shown in the table below:

	Mechanical & Plumbing pps ⁽²⁾	Electrical pps ⁽²⁾	Rotary pps ⁽²⁾	Services pps ⁽²⁾	Refrigeration pps ⁽²⁾
Discount factor	0.1	2.8	0.1	3.0	6.5
Long-term growth rate	(0.2)	(3.7)	(0.1)	(6.4)	(15.6)
Budgeted EBIT ⁽¹⁾	(0.5)	(5.8)	(0.4)	(5.9)	(10.9)

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

6. Goodwill (continued)

30 June 2011

The estimated recoverable amount of the Group's operations exceeded their carrying value in each identified cash-generating unit by approximately \$186,868,000 in aggregate.

The table below shows the key assumptions used in the value in use calculation:

	Mechanical & Plumbing	Electrical	Rotary	Services	Refrigeration
Recoverable amount exceeding carrying value (\$'000)	20,181	53,874	13,405	47,065	52,343
Discount factor	9.9%	9.9%	10.7%	9.9%	9.9%
Long-term growth rate	3.5%	3.5%	2.5%	3.5%	3.5%
Budgeted EBIT ⁽¹⁾	29.9%	(1.1)%	12.0%	8.1%	8.2%

The amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value is shown in the table below:

	Mechanical & Plumbing pps ⁽²⁾	Electrical pps ⁽²⁾	Rotary pps ⁽²⁾	Services pps ⁽²⁾	Refrigeration pps ⁽²⁾
Discount factor	0.7	4.7	0.9	3.1	7.1
Long-term growth rate	(0.9)	(7.0)	(0.9)	(4.3)	(11.6)
Budgeted EBIT ⁽¹⁾	(2.8)	(10.5)	(2.5)	(8.3)	(15.4)

⁽¹⁾ Budgeted EBIT is expressed as the compound annual growth rates in the initial five years for all cash generating units of the plans used for impairment testing

⁽²⁾ The percentage points movement to the key assumption

	Consolidated As at	
	31 Dec 2011 \$'000	30 Jun 2011 \$'000
7. Borrowings		
(a) Borrowings		
Current		
Bank overdrafts	-	9,571
Bank loans ⁽¹⁾	157,381	22,729
Hire purchase contracts	1,080	1,348
Finance lease liabilities	962	1,057
	159,423	34,705
Non-current		
Bank loans ⁽¹⁾	3,897	275,389
Hire purchase contracts	962	1,354
Finance lease liabilities	1,451	1,975
	6,310	278,718

⁽¹⁾ As a result of a covenant breach, each financier has the right to demand or accelerate repayment of amounts owed to them and the syndicated loan amounting to \$156,772,000 has been reclassified as a current liability. Refer note 1, Going Concern.

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

	Consolidated	
	As at	
	31 Dec 2011 \$'000	30 Jun 2011 \$'000
7. Borrowings (continued)		
(b) Maturity of bank loans principal		
Less than 1 year ⁽¹⁾	157,381	22,729
1 to 2 years	583	275,389
2 to 3 years	624	-
3 to 4 years	668	-
4 to 5 years	715	-
Later than 5 years	1,307	-
	161,278	298,118

⁽¹⁾ As a result of a covenant breach, each financier has the right to demand or accelerate repayment of amounts owed to them and the syndicated loan amounting to \$156,772,000 has been reclassified as a current liability. Refer note 1, Going Concern.

(c) Bank loans repayments and drawdowns

During the period, following the completion of the rights issue and the consequent change in banking facilities \$293,389,000 was repaid under the previous banking facility and \$236,318,000 was simultaneously drawn down under the new syndicated debt facilities. These amounts are included in the Statement of Cash Flows in the Repayment of Borrowings and Proceeds of Borrowings lines respectively.

8. Financing facilities

Secured bank overdraft facility, reviewed annually and payable at call:		
amount used	-	-
amount unused	-	18,510
	-	18,510
Secured bank loan facilities with various maturity dates through to 2018 and which may be extended by mutual agreement:		
amount used ⁽¹⁾	161,278	298,118
amount unused ⁽¹⁾	103,128	-
	264,406	298,118

⁽¹⁾ As a result of a covenant breach, each financier has the right to demand or accelerate repayment of amounts owed to them and withdraw the available facilities. Refer note 1, Going Concern.

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

	Cents per share	Total \$'000
9. Dividends		
Recognised amounts:		
Final dividend year ended 30 June 2010	4.0	9,589
Final dividend year ended 30 June 2011	-	-

The dividend was fully franked at 30% tax rate.

Unrecognised amounts:

The company has not declared a dividend since the period end. Under the revised term sheet to the Syndicated Facility Agreement, no dividends can be paid during the life of the facilities, which mature on 31 July 2014. Refer note 1, Going Concern.

	Consolidated As at	
	31 Dec 2011 \$'000	30 Jun 2011 \$'000
10. Contingent liabilities		
Guarantees established in favour of the ANZ Banking Group Limited, ANZ National Bank, Bank of Scotland International, Commonwealth Bank of Australia, HSBC Australia, HSBC Middle East, National Australia Bank, Ulster Bank, and Westpac Banking Corporation, and for Guarantees issued to various clients for satisfactory contract performance, secured by cross guarantees from group members.	262,029	230,927
Facility limit in respect of Performance guarantees / Advance payment guarantees / Letters of Credit ⁽¹⁾	300,000	230,927

⁽¹⁾ As a result of a covenant breach, each financier has the right to demand or accelerate repayment of amounts owed to them and withdraw the available facilities. Refer note 1, Going Concern.

During the normal course of business, entities within the Group incur normal contractors and product liability in relation to contracts which may include claims or litigation by or against the entities. Where the outcome is probable and can be reasonably quantified provision is made in these financial statements.

Hastie has received a claim in respect of the share ownership of Rotary Humm (M&E) Services Limited, which holds an investment in Rotary Humm (M&E) Services UAE LLC, incorporated in Dubai. The directors do not consider that the claim is valid.

11. Earnings Per Share

As required by AASB 133 "Earnings per Share", to reflect the effect of the shares issues during the six months:

- the earnings per share for 2011 would have been negative 117.4 cents based on a simple weighted average number of shares, and
- the earnings per share for 2010 have been restated from the negative 393 cents in the 2010 half year Financial Report.

As a result of the share consolidation approved at the Annual General Meeting on 3 November 2011, every 10 issued shares were consolidated into 1 share. The earnings per share for 2010 have been restated to be on a comparable basis.

Hastie Group Limited

Notes to the financial statements for the half-year ended 31 December 2011

12. Post Balance Date Events

Pursuant to the terms of its Syndicated Facility Agreement, Hastie is required to comply with certain banking covenants which are assessed at the end of each quarter. As a result of the losses incurred during the period to 31 December 2011, Hastie was not in compliance with certain of the banking covenants for the quarter ended 31 December 2011. As a result of this covenant breach, each financier has the right to demand or accelerate repayment of amounts owed to them and accordingly, the syndicated loan amounting to \$156,772,000 has been reclassified as a current liability. Due to the reclassification as at 31 December 2011, the consolidated entity's current liabilities exceeded its current assets by \$140,446,000. Under the existing Syndicated Facility Agreement, Hastie will breach certain banking covenants subsequent to 31 December 2011.

Hastie approached its Banking Group who have, through the execution of a waiver letter and revised term sheet, agreed in principle to amend the Syndicated Facility Agreement to include the following (subject to certain conditions being met):

- a waiver of the covenant breaches at 31 December 2011 and the forecast covenant breaches at 31 March 2012 and 30 June 2012;
- new covenants to be determined, which will apply after 1 July 2012, based on Hastie's revised FY13 forecast;
- the first new covenant test date will be 15 November 2012 for the quarter ended 30 September 2012;
- a temporary reduction in performance guarantee and financial guarantee facilities of \$30 million will apply from 1 March 2012 for a period of 6 months;
- other debt financing facility limits were not changed;
- from 1 March 2012 the margin on the facilities will be increased by between 50 and 100 basis points and deferred restructuring fees will be payable on 31 December 2012; and
- no dividends can be paid during the life of the facilities, which mature on 31 July 2014.

The Syndicated Facility Agreement is to be amended and executed to reflect the revised term sheet within 21 days.

Since 31 December 2011, Hastie has continued to draw funds under the Syndicated Facility Agreement.

Refer note 1, Going Concern for further information.