

Instead cost overruns and poor budgeting meant that the projects' revised 2013 estimates showed a \$61 million project margin loss for the DPS project and a \$41.7 million project margin loss on the WAPS project. The cost overruns on these two projects lead to the profit downgrade and contributed to the resulting shortage of cash.

Added to that was the discovery of an early payment to the vendors of CTEC Pty Ltd before its performance conditions were met. Further, the payment of bonuses to the previous Managing Director, Peter Hutchinson, of \$375,000 was made for a successful acquisition and integration. These payments are the subject of further investigations by the liquidator.

DPS AND WAPS COSTING AND BUDGETING

In any business the costing and budgeting systems are critical to success. The FGL administrator report for 2013/2014 (year ending January 2014) shows that the:

- Actual work-in-progress income for the period was \$126 million below management forecast.
- Labor costs were \$70 million over budget.
- Material costs were \$55 million over budget.
- Work-in-progress overheads were \$22 million over budget.

FINANCIAL INFORMATION

The financial statements for 2010-2014 are presented in Tables 2-5.

Table 2. Comprehensive Income Statement (in thousands of Australian dollars)

	June 30, 2010	June 30, 2011	June 30, 2012	June 30, 2013	Unaudited January 31, 2014
Revenue	\$246,169	\$421,595	\$774,879	\$1,054,100	\$520,041 (711,430)
Cost of sales					
Changes in inventories of finished goods and WIP	9,696	15,000			
Materials, plant, and contractor costs	(125,171)	(211,000)	(516,867)	(656,334)	
Employee benefits expense	(79,194)	(157,191)	(164,502)	(256,515)	
Depreciation and amortization	(3,218)	(5,159)	(16,292)	(21,361)	
Consulting fees			(582)	(5,380)	
Provision for impairment losses	(1,628)	(304)			
Other expenses	(7,132)	(8,043)	(12,711)	(21,033)	
Other gains and losses	537		257	188	
Expenses					
Results from Operating Activities	\$40,059	\$54,898	\$64,182	\$93,665	
Finance income	1,023	3,079	5,698	6,939	
Finance costs	(716)	(711)	(2,850)	(4,816)	
Net finance income	\$307	\$2,368	\$2,848	\$2,123	
Share of profit/(loss) of associates and jointly controlled entities		(513)	3,052	(5,679)	
Net Profit Before Tax	\$40,366	\$56,753	\$70,082	\$90,109	\$324,162
Income tax expense	(10,915)	(17,920)	(20,780)	(27,190)	(2,301)
Net Profit After Tax	\$29,451	\$38,833	\$49,302	\$62,919	\$326,463
Foreign exchange differences (net of tax)	(346)	(1,946)	(310)	1,826	
Total Comprehensive Income	\$29,105	\$36,887	\$48,992	\$64,745	

Table 3. Balance Sheet (in thousands of Australian dollars)

	June 30, 2010	June 30, 2011	June 30, 2012	June 30, 2013	Unaudited January 31, 2014
Current Assets					
Cash and cash equivalents	\$51,921	\$78,285	\$51,091	\$90,728	\$15,316
Short-term deposits			72,500	2,748	
Trade and other receivables	42,162	49,542	196,884	83,254	103,279
Inventories and WIP	14,621	29,622	11,331	150,491	40,616
Current tax assets				2,535	
Other assets	2,246	1,574	2,487	1,560	(23,415)
Noncurrent assets classified as held for sale	6,900				
Total Current Assets	\$117,850	\$159,023	\$334,293	\$331,316	\$135,796
Noncurrent Assets					
Trade and other receivables			7,051	1,424	73,293
Term deposits			14,260	10,468	
Property, plant, and equipment	26,789	36,577	67,736	71,546	
Deferred tax assets	1,827	2,043	4,273	9,124	
Investments accounted for using equity method			2,545		
Intangibles	15,621	15,637	48,243	40,332	
Other assets					90,467
Total Noncurrent Assets	44,237	54,257	144,108	132,894	163,760
Total Assets	\$162,087	\$213,280	\$478,401	\$464,210	\$299,556
Current Liabilities					
Trade and other payables	52,968	72,845	267,169	219,568	299,909
Borrowings	2,789	3,272	8,734	11,139	
Current tax liabilities	8,644	6,387	8,367		
Provisions	525	755	825	3,970	
Other liabilities					63,731
Total Current Liabilities	\$64,926	\$83,259	\$285,095	\$234,677	\$363,640
Noncurrent Liabilities					
Trade and other payables			9,246		1,517
Borrowings		4,901	17,453	14,547	
Deferred tax liabilities		51	2,793	1,067	
Investments accounted for using the equity method		308	489	493	
Provisions	164	299	489	493	
Other liabilities					50,667
Total Noncurrent Liabilities	\$3,785	\$5,559	\$29,981	\$16,107	\$52,184
Total Liabilities	68,711	88,818	315,076	250,784	415,824
Net Assets	93,376	124,426	163,325	213,426	(116,268)
Equity					
Issued capital	42,839	44,294	45,430	45,430	42,768
Profit reserve				62,919	
Reserves	1,034	(912)	(1,221)	1,471	(159,036)
Retained earnings	49,505	81,080	119,116	103,606	
Total Equity	93,376	124,462	163,325	213,426	(116,268)
Number of shares	70,699,487	81,541,569	86,169,014	86,169,014	86,169,014
Share price	\$2.66	\$5.46	\$4.37	\$4.20	

Table 4. Statement of Cash Flows (in thousands of Australian dollars)

	2010	2011	2012	2013
Cash Flows from Operating Activities				
Receipts from customers	245,418	431,399	744,720	1,176,226
Payments to suppliers and employees	(215,240)	(373,464)	(631,924)	(1,113,073)
Other revenue	943	638		
Income taxes paid	(670)	(20,390)	(21,537)	(45,231)
Net cash flows provided by operating activities	\$30,451	\$38,183	\$91,259	\$17,922
Cash Flows from Investing Activities				
Payments for property, plant, and equipment	(8,371)	(11,257)	(39,737)	(19,521)
Proceeds from disposal of property, plant, and equipment	224	6,485	500	869
Interest received	1,023	3,079	5,649	7,379
Term deposits matured/expired			(86,760)	73,545
Amount received from joint ventures				130
Acquisition of investments or associates		(205)	(3,439)	
Payment of deferred consideration				(19,798)
Net cash flows provided by/used in financing activities	(7,124)	(1,898)	(123,787)	\$42,604
Cash Flows from Financing Activities				
Proceeds from issue of share capital	18,907	1,458	1,136	
Proceeds from borrowings			23,011	9,152
Repayment of borrowings	(4,131)	(3,464)	(4,698)	(9,654)
Interest paid	(271)	(658)	(2,850)	(4,877)
Dividends paid	(3,419)	(7,257)	(11,265)	(15,510)
Net cash provided by/used in financing activities	\$11,086	\$(9,921)	\$5,334	\$(20,889)
Net increase/decrease in cash and equivalents	34,413	26,364	(27,194)	39,637
Cash and equivalents at beginning of year	17,440	51,921	78,285	51,091
Effect of exchange rate changes	67			
Cash and equivalents at end of year	\$57,920	\$78,285	\$51,091	\$90,728

Table 5. Reconciliation (in thousands of Australian dollars)

	2010	2011	2012	2013
Profit for the year after tax	\$29,450	\$38,832	\$49,302	\$62,919
Depreciation and amortization	3,217	5,159	16,292	21,361
Other noncash differences	907	(1,815)	(43,488)	28,409
Decrease/Increase in trade debtors and receivables	(25,202)	(7,380)	(154,393)	119,258
Decrease/Increase in inventories and WIP	(9,696)	(15,000)	18,291	(139,160)
Decrease/Increase in other current assets	(104)	671	(913)	927
Increase in deferred tax assets	(779)	(215)	(2,231)	(4,851)
Decrease/Increase in trade and payables	21,881	19,877	203,417	(37,123)
Decrease/Increase in current tax liabilities	10,649	(2,311)	1,980	(10,903)
Decrease/Increase in deferred tax liabilities	64		2,742	(1,727)
Increase in other provisions	64	365	260	86
Net cash inflow from operating activities	\$30,451	\$38,183	\$91,259	\$17,922