

26 February 2014

Companies Announcements Office  
Australian Securities Exchange Limited  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

Please find attached the Company's results for the six months ended 31 December 2013, for immediate release to the market.

Included in this announcement are ASX Appendix 4D and the Condensed Interim Financial Statements for the half year to 31 December 2013 as required by ASX listing rule 4.2A. This information should be read in conjunction with the annual financial statements for the year ended 30 June 2013.

Yours Faithfully



Jaime Pinto  
*Company Secretary*

Att.

**QUICKSTEP HOLDINGS LTD**
**Appendix 4D**
**Half Year Report Period Ended 31 December 2013 (Corresponding Period 31 December 2012)**
**Results for announcement to the Market**

The loss after tax of the consolidated entity for the half-year was \$6,080,541, compared to a loss of \$7,375,879 for the comparative period in 2012.

	<u>Percentage Change</u>		<u>\$'000</u>
Revenue from ordinary activities	106% up	to	\$3,661
Loss from ordinary activities after tax attributable to members	18% down	to	(\$6,081)
Net Loss for the period attributable to members	21% down	to	(\$5,861)

Business activity in the period continued to focus on building production capability at our site in Bankstown. Production of parts under our JSF contract with Northrop Grumman continued in line with our contract. The manufacture of parts for our C130J Transport Plane contract with Lockheed Martin also ramped up with our initial completed part shipped shortly after period end in February. This was ahead of the contracted schedule.

For more details around these activities please refer to the Directors Report which forms part of the Half Year Report also released today.

<b>Dividends</b>	Amount per security	Percentage Franked
<b>Current period:</b>		
Interim Dividend	Nil	N/A
Date the Dividend is Payable:		N/A
Record Date for determining entitlements to the Dividend:		N/A
<b>Prior corresponding period:</b>		
Interim Dividend	Nil	N/A
<b>Net Tangible Assets per Security</b>		
As at 31 December 2013	\$0.020	
As at 31 December 2012	\$0.029	

The accounts have been reviewed by KPMG and contain an emphasis of matter on going concern relating to the need for the company to generate further funds for working capital from debt funding and/or cost control measures. This funding will support the anticipated continued build up of working capital arising from increased production demands as the company completes its transition phase to full production capability over the next twelve months.



**QUICKSTEP HOLDINGS LIMITED**

ACN: 096 268 156

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## **INTERIM FINANCIAL STATEMENTS**

for the six months ended 31st December 2013

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These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly these statements are to be read in conjunction with the annual statements for the year ended 30 June 2013 and any public announcements made by Quickstep Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## DIRECTORS' REPORT

The Directors present their report together with the interim financial statements of the Group, being Quickstep Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group" or "Quickstep"), for the six months ended 31 December 2013 and the auditor's report thereon.

### 1. Directors

The Directors of the Company at any time during or since the end of the interim period are:

Mr Tony Quick	Chairman
Mr Bruce Griffiths	Non-Executive Director
Mr Mark Jenkins	Non-Executive Director
Mr Philippe Odouard	Managing Director
Mr Peter Cook	Non-Executive Director
Mr Errol McCormack AO	Non-Executive Director
Mr David Singleton	Non-Executive Director
Mr Nigel Ampherlaw	Non-Executive Director ( <i>appointed 8 July 2013</i> )
Mr David Wills	Non-Executive Director ( <i>retired 5 July 2013</i> )

Directors were appointed for the whole interim period unless otherwise stated.

### 2. Results

The Group incurred a loss after tax of \$6,080,541 for the six months ended 31 December 2013 (2012: loss of \$7,375,879).

Sales for the first half year have been \$3.66m compared to \$1.78m for the first 6 months of last year. Total revenue including sales and grants for the first half year has been \$6.30m compared to \$3.56m for the first half of last year, a 77% increase over the same period. As mentioned in the second quarter report, cash receipts have been very positive during the period. Cash receipts from operations have been \$12.7m due to receipts of advance payments on different contracts.

Quickstep still expects full year revenue (sales plus grants) to reach around \$17m for the financial year 2013/14. Sales will increase substantially for the second half of the year as Quickstep starts delivering C130J flaps as planned. Delivery of the first ship set to Lockheed Martin was achieved on 7 February 2014. Quickstep will also continue ramping up JSF production and sales during the second half of the year and the Quickstep Process sale to a Russian customer ORPE Technologiya as noted below will start generating revenue as it matures towards delivery at the end of calendar 2014.

### 3. Operating Review

#### CONTRACT MANUFACTURING

##### QUICKSTEP SIGNS US\$75 MILLION LOCKHEED MARTIN C-130J MEMORANDUM OF AGREEMENT

In December 2013, Quickstep signed a memorandum of agreement (MOA) with global security and aerospace company, Lockheed Martin, under which Quickstep will manufacture and deliver 120 sets of C130J carbon fibre wing flaps through 2018 at a rate of approximately 24 sets per year. This MOA is subsequent to Quickstep's March 2012 announcement that the company was awarded the tender to manufacture wing flaps for the C130J Super Hercules aircraft.

The MOA is an overarching agreement under which Quickstep will supply carbon-fibre wing flaps for the C-130J Super Hercules aircraft. The value of activities under the agreement, which includes previous purchase orders announced by Quickstep, is US\$75 million.

Subsequently, Quickstep has received a new Purchase Order under this MOA for a further 12 shipsets valued at US\$9.8 million. The shipsets are expected to be delivered during the second half of FY2015. This order follows an initial US\$12 million purchase order for 24 shipsets announced in September 2012.

Delivery of the first C-130J shipsets to Lockheed Martin was delivered on 7 February 2014 and is currently ahead of schedule.

## **DIRECTORS' REPORT**

### **JOINT STRIKE FIGHTER PROGRAM UPDATE**

Quickstep's JSF program is ramping up in line with plan. To the end of December, Quickstep delivered 191 parts since the beginning of the program, doubling the number of delivered parts over the last 6 months. Over the life of the JSF program, Quickstep will manufacture 21 different parts for the JSF program at its Bankstown Airport facility. At JSF peak production rates, the company is expected to generate JSF revenue of approximately \$40 million per annum subject to receipt of ongoing purchase orders.

The F-35 Lightning II program continues to mature operationally and passed the 10,000 flight hours milestone in September 2013. More than half of the total hours were accumulated in just the preceding 11 months.

### **TENDERS**

Quickstep is continuing to submit a number of commercial-in-confidence tenders to aerospace and defence companies regarding potential new contracts.

### **TECHNOLOGY DEVELOPMENT**

#### **QUICKSTEP AWARDED \$1 MILLION AUSTRALIAN GOVERNMENT GRANT TO FUND QUALIFICATION OF QUICKSTEP PROCESS FOR MANUFACTURING JSF SPARS**

The Department of Defence's New Air Combat Capability Support Program awarded Quickstep a \$1 million grant in December 2013. The grant will support qualification of the Quickstep Process for manufacturing F-35 Lightning II JSF vertical tail spars which provide stabilisation for aircraft in flight.

Over the life of the JSF program, Quickstep will contribute to more than 700 JSF shipsets of tails over the next twenty years. Compared to spars made using autoclave systems, Quickstep's patented liquid-based process offers a faster, more cost-effective way to manufacture parts in series. The grant will fund Quickstep's work over three years with the JSF's New Air Combat Capability, BAE Systems and Lockheed Martin Aerospace to develop the case for changing the JSF's spar-making technology from the autoclave to the Quickstep Process, produce demonstration parts including a first part qualification spar, qualify Quickstep's Bankstown Airport facilities to use the production method for JSF spars, and establish the path for production.

The Quickstep Process involves surrounding raw carbon-fibre and resin with heated liquids which transfer heat 25 times faster than traditional autoclave (or 'oven-heated') methods, enabling composite components to be cured more efficiently and at a much lower cost.

#### **QUICKSTEP PROCESS CONTRACT WITH ORPE TECHNOLOGIYA**

The company has continued to progress its \$6 million contract, signed in July 2013, to supply ORPE Technologiya with Quickstep Process technology. ORPE will use Quickstep's technology to produce large carbon-fibre shielding for satellites during launches. This will confirm the technology's use for manufacturing large carbon-fibre skins and opens the aerospace navigation, telecommunications and weather satellite markets for Quickstep.

The contract will be delivered over 18 months and will involve Quickstep's global organisation. At the reporting date, Quickstep has received a down payment of 40.1%, and subsequent to the reporting date, this has accumulated to 50% of the contract value.

### **RST TECHNOLOGY COMMERCIALISATION**

During the half year Quickstep continued marketing parts using its patented resin spray transfer ("RST") technology to the automotive industry. The marketing program is continuing and Quickstep has provided quotes to automotive manufacturers. Quickstep's RST is the first commercially available technology for carbon-fibre surfaces to provide top quality paint finish and keep quality over time. The RST technology is unique in meeting the three most important automotive manufacturing objectives for carbon-fibre composites: allowing strong vehicle parts to be produced at high speed, low cost and with a "spectacular" finish.

## **CORPORATE**

### **QUICKSTEP SETTLES VCAMM DEBT**

In December 2013 the company issued 3,990,372 Quickstep shares at \$0.2126 to VCAMM Limited (the Victorian Centre for Advanced Materials Manufacturing) as full and final repayment of long-term debts owed. The company now has issued capital of 395,912,480 shares.

## **DIRECTORS' REPORT**

### **SALE OF QUICKPIPES**

During the half year, Quickstep Holdings sold its interest in Quickpipes to London Wall Investments Pty Limited. Mark Jenkins a director of Quickstep Holdings is also a director of this company. No transfer of or access to Quickstep Intellectual Property was included in that sale which only includes the disposal of Quickstep's 20% stake in the company which has no material value.

### **CASH POSITION**

At the end of the half year, the consolidated group cash balance was \$7.1million, which excludes \$4.1 million held in restricted cash deposits.

### **ANNUAL GENERAL MEETING**

The company held its Annual General Meeting on 21 November 2013. All eight ordinary resolutions and one special resolution were passed by an overwhelming majority of votes.

### **VP FINANCE**

During the half year, the VP Finance resigned from his position. He was replaced by Mr Bruce McDonald, an ex PricewaterhouseCoopers partner, as interim CFO pending the recruitment of a permanent CFO.

### **FIRM ORDER BOOK**

Following the second production order for Lockheed Martin C-130J shipsets, Quickstep's firm order book is valued at \$42 million (At the reporting date the company has received \$13.33m in advance payments from customers). The majority of this work is expected to be completed during FY2014 and FY2015.

### **CAPITAL RAISING**

During the half year the company completed a capital raise which resulted in net proceeds of \$12.7m. The capital raise comprised of two institutional placements and share purchase plan which raised net amounts of \$5.7m and \$7.0m respectively.

#### **4. Lead Auditor's Independence Declaration**

The lead auditor's independence declaration as required under Section 307C of the *Corporations Act 2001*, which forms part of this Directors' Report for the six months ended 31 December 2013, is set out on page 17.

Dated at Sydney, New South Wales this 26<sup>th</sup> day of February 2014.

Signed in accordance with a resolution of the Directors:



P M Odouard

*Managing Director*

3.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

	Note	31 December 2013 \$	31 December 2012 \$
Revenue		3,660,949	1,776,923
Cost of sales		<u>(3,140,451)</u>	<u>(1,025,759)</u>
Gross profit		520,498	751,164
Other income		2,642,601	1,791,617
Administration and corporate expenses		(2,858,583)	(2,990,971)
Marketing expenses		(341,033)	(32,199)
Operational expenses		(3,019,307)	(4,372,938)
Research and development expenses		(1,759,658)	(1,854,954)
Other expenses		<u>(36,468)</u>	<u>(71,671)</u>
<b>Loss from operating activities</b>		(4,851,950)	(6,779,952)
Financial income		210,611	53,413
Financial expense		<u>(1,439,202)</u>	<u>(649,340)</u>
Net financing income/(expense)		<u>(1,228,591)</u>	<u>(595,927)</u>
<b>Loss before income tax</b>		(6,080,541)	(7,375,879)
Income tax benefit/(expense)		<u>-</u>	<u>-</u>
<b>Loss for the period</b>		<u>(6,080,541)</u>	<u>(7,375,879)</u>
<b>Other comprehensive income, net of income tax</b>			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation difference for foreign operations		<u>219,146</u>	<u>(7,594)</u>
<b>Other comprehensive income for the period, net of income tax</b>		<u>219,146</u>	<u>(7,594)</u>
<b>Total comprehensive loss for the period</b>		<u><u>(5,861,395)</u></u>	<u><u>(7,383,473)</u></u>
<b>Earnings per share</b>			
Basic loss (cents/share) for Quickstep Holdings Ltd		(1.67)	(2.28)
Diluted loss (cents/share) for Quickstep Holdings Ltd		(1.67)	(2.28)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2013**

	Note	31 December 2013 \$	30 June 2013 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	7,089,579	1,393,320
Trade and other receivables	9	6,506,473	4,564,303
Inventories	10	7,237,314	1,650,674
Other financial assets	8	4,079,400	390,400
Other current assets		493,476	387,430
Assets held for sale	11	2,521,951	1,878,000
<b>TOTAL CURRENT ASSETS</b>		<b>27,928,193</b>	<b>10,264,127</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	13,090,916	13,799,229
Intangible assets		36,088	65,422
<b>TOTAL NON-CURRENT ASSETS</b>		<b>13,127,004</b>	<b>13,864,651</b>
<b>TOTAL ASSETS</b>		<b>41,055,197</b>	<b>24,128,778</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		5,291,285	2,569,237
Deferred income		15,328,084	2,795,014
Loans and borrowings	13	7,102	1,696,785
Employee benefits		353,731	261,289
<b>TOTAL CURRENT LIABILITIES</b>		<b>20,980,202</b>	<b>7,322,325</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables		-	654,118
Deferred income		1,782,627	6,086,391
Loans and borrowings	13	10,109,092	9,773,722
Employee benefits		45,640	26,668
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,937,359</b>	<b>16,540,899</b>
<b>TOTAL LIABILITIES</b>		<b>32,917,561</b>	<b>23,863,224</b>
<b>NET ASSETS</b>		<b>8,137,636</b>	<b>265,554</b>
<b>EQUITY</b>			
Share capital	14	88,265,732	74,754,828
Reserves		3,401,063	2,959,344
Accumulated losses		(83,529,159)	(77,448,618)
<b>TOTAL EQUITY</b>		<b>8,137,636</b>	<b>265,554</b>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

	Note	Share capital	Translation reserve	Share based payments reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$
Balance as at 1 July 2012		74,754,828	(291,257)	2,613,956	(60,462,724)	16,614,803
<b>Total comprehensive income for the period</b>						
Loss for the period		-	-	-	(7,375,879)	(7,375,879)
<b>Other comprehensive income</b>						
Foreign currency translation difference		-	(7,594)	-	-	(7,594)
<b>Total comprehensive income for the period</b>		-	(7,594)	-	(7,375,879)	(7,383,473)
<b>Transactions with owners, recorded directly in equity</b>						
Share based payments	15	-	-	185,449	-	185,449
<b>Total transactions with owners</b>		-	-	185,449	-	185,449
<b>Balance at 31 December 2012</b>		<b>74,754,828</b>	<b>(298,851)</b>	<b>2,799,405</b>	<b>67,838,603</b>	<b>9,416,779</b>

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

	Note	Share capital	Translation reserve	Share based payments reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$
Balance as at 1 July 2013		74,754,828	(129,155)	3,088,499	(77,448,618)	265,554
<b>Total comprehensive income for the period</b>						
Loss for the period		-	-	-	(6,080,541)	(6,080,541)
<b>Other comprehensive income</b>						
Foreign currency translation difference		-	219,146	-	-	219,146
<b>Total comprehensive income for the period</b>		-	219,146	-	(6,080,541)	(5,861,395)
Issue of ordinary share	14	14,176,399	-	-	-	14,176,399
Share raising costs		(665,495)	-	-	-	(665,495)
Share based payments	15	-	-	222,573	-	222,573
<b>Total transactions with owners</b>		13,510,904	-	222,573	-	13,733,477
<b>Balance at 31 December 2013</b>		<b>88,265,732</b>	<b>89,991</b>	<b>3,311,072</b>	<b>(83,529,159)</b>	<b>8,137,636</b>

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

	Note	31 December 2013 \$	31 December 2012 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		12,712,341	1,171,548
Interest received		26,777	55,273
Interest and other finance cost paid		(267,678)	(35,544)
Research and development tax offset rebate and government grants		211,185	718,810
Cash paid to suppliers and employees		(12,721,024)	(8,201,297)
Net cash (used in) operating activities		<u>(38,399)</u>	<u>(6,291,210)</u>
<b>Cash flows from investing activities</b>			
Acquisition and decommissioning costs (in 2013) of plant and equipment		(1,447,523)	(3,057,516)
Proceeds from sale of plant and equipment		3,000	-
Proceeds from/(investments in) term deposits		<u>(3,689,000)</u>	<u>300,000</u>
Net cash (used in) investing activities		<u>(5,133,523)</u>	<u>(2,757,516)</u>
<b>Cash flows from financing activities</b>			
Net proceeds from issues of shares		12,662,551	-
Drawdown of borrowings		-	7,449,313
Repayment of borrowings		(1,750,405)	-
Prepaid borrowing cost		-	(191,579)
Sale of investments		2	-
Finance lease payments		<u>(5,609)</u>	<u>(21,265)</u>
Net cash from financing activities		<u>10,906,539</u>	<u>7,236,469</u>
Net increase/(decrease) in cash and cash equivalents		5,734,617	(1,812,257)
Effects of exchange rate changes on cash held in foreign currencies		(38,358)	(1,624)
Cash and cash equivalents at 1 July		1,393,320	3,000,672
Cash and cash equivalents at 31 December	8	<u>7,089,579</u>	<u>1,186,791</u>

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

### 1. Reporting entity

Quickstep Holdings Limited ("the Company") is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2013 comprises the Company and its subsidiaries (together referred to as the "Group" or "Quickstep"). The Group is primarily involved in the manufacture of composite components for the aerospace industry, and continuing research and development in composite manufacturing processes.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2013 are available upon request from the Company's registered office at Level 2, 160 Pitt Street, Sydney, New South Wales, or may be viewed on the Company's website, [www.quickstep.com.au](http://www.quickstep.com.au).

### 2. Statement of compliance

The consolidated interim financial statements are general purpose financial statements which have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2013.

The consolidated interim financial statements were approved by the Board of Directors on 26 February 2014.

### 3. Significant accounting policies

The accounting policies and method of computation applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2013. From 1 July 2013 the Group has adopted all new and amended Australian Accounting Standards and Australian Accounting Standards Board (AASB) interpretations that are mandatory for the current reporting period and relevant to the Group.

New accounting standards

- AASB10 Consolidated Financial Statements;
- AASB 11 Joint Arrangements;
- AASB 12 Disclosure of Interests in Other Entities;
- AASB 13 Fair Value Measurement; and
- AASB 119 Employee Benefits revised.

Adoption of these standards and interpretations has not resulted in any material changes to the Group's half year financial report.

### 4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2013.

### 5. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 30 June 2013.

### 6. Going concern

The Group has incurred a loss after tax for the six months to 31 December 2013 of \$6,080,541 (2012: loss \$7,375,879). The Group has a surplus of current assets compared to current liabilities at 31 December 2013 of \$6,947,991 (30 June 2013: surplus \$2,941,802).

The loss for the period reflects the impact of the organisation coming to the end of the establishment phase for both its significant contracts. Having completed relocation from Western Australia the company has focussed on getting to production capability across the entire Sydney site. Shipping of parts continued for the Joint Strike Fighter (JSF) contract during 2013 with production steadily increasing and the first shipment for the Lockheed Martin C130J contract (C130) was achieved ahead of schedule after balance date in February 2014.

In achieving these milestones from a funding perspective the Group has relied upon utilising the funds raised in the successful capital raising (\$12.7 million net of transaction costs) in August 2013 together with advance payments received from customers consistent with normal contract conditions in the aerospace industry. This is evidenced by the \$17,110,711 of Deferred Income included in the Balance Sheet at 31 December 2013.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013 (cont'd)

Sales Orders continue to be received from both existing and new customers. At 31 December 2013 the Group's firm order book stood at \$42 million.

The financial report has been prepared on the basis of going concern. This basis assumes that funds will be available to continue to fund the working capital needs of the business as it completes its transition phase to full production capability over the next 12 months and settle all liabilities when they fall due in the normal course of business.

The continued build up of working capital arising from increased production demands will require further funding until the group becomes cash flow positive which as previously reported is expected to occur during the financial year ending 2015. Until then the ability of the group to continue as a going concern in the ordinary course of business and to continue to achieve its business growth strategies and objectives is dependent upon the Group sourcing additional funds from a combination of:

- raising working capital funding
- reducing cash outflows through cost control measures

The Directors are of the view that the Group will be able to meet its commitments through the measures noted above and accordingly have prepared this financial report on a going concern basis. However should the Group not be successful in the matters noted above there is some uncertainty as to whether the Group would be able to continue as a going concern.

### 7. Operating segments

#### Information about reportable segments for the six months ended 31 December 2013

	Manufacturing		Quickstep Systems		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Sales	3,618,277	1,500,247	42,672	276,675	3,660,949	1,776,922
Other Income	1,955,218	948,958	687,382	842,659	2,642,601	1,791,617
Reportable segment loss before income tax	(954,963)	(2,795,454)	(1,379,007)	(1,811,934)	(2,333,970)	(4,607,388)
	31/12/2013	30/6/2013	31/12/2013	30/6/2013	31/12/2013	30/6/2013
Reportable segment assets	24,003,586	18,330,081	7,625,655	4,148,832	31,629,241	22,478,912
Reportable segment liabilities	29,185,961	20,913,124	2,797,438	1,177,744	31,983,399	20,090,868

The following summary describes the operations in each of the Group's reportable segments:

- **Manufacturing** - Targeting manufacturing contracts utilising a range of manufacturing solutions including traditional manufacturing technologies such as autoclaves and 'next generation' technologies such as the patented "Quickstep Process".
- **Quickstep Systems** - Licensing our "Quickstep Process" technology to Original Equipment Manufacturers (OEM's) and their suppliers, and providing them with Quickstep machines and support services.

31 December 2013	31 December 2012
\$	\$

#### Reconciliation of reportable segment loss

Total loss for reportable segment	(2,333,970)	(4,607,388)
Unallocated amounts: other corporate expenses (excluding net financing income)	(2,517,980)	(2,172,564)
Net financing income	(1,228,591)	(595,927)
Consolidated loss before income tax	<u>(6,080,541)</u>	<u>(7,375,879)</u>

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013 (cont'd)**
**8. Cash and other financial assets**

	<b>31 December 2013</b>	<b>30 June 2013</b>
	<b>\$</b>	<b>\$</b>
Total Cash and cash equivalents	7,089,579	1,393,320
Restricted cash deposits	3,964,400	390,400
Term deposits	115,000	-
Total other financial assets	4,079,400	390,400

Restricted cash deposits as at 31 December 2013 include an amount of \$3.3 million deposited with ANZ Banking Group the company's bankers as guarantee for an advance payment pending delivery of goods related to the ORPE Contract. This contract is for the construction and delivery of a "Quickstep Process" machine. Completion of this contract is planned for April 2015.

**9. Trade and other receivables**

	<b>31 December 2013</b>	<b>30 June 2013</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	318,080	1,087,096
R&D tax incentive receivable	5,684,491	3,395,130
Other receivables	503,902	82,077
Total trade and other receivables	6,506,473	4,564,303

**10. Inventories**

	<b>31 December 2013</b>	<b>30 June 2013</b>
	<b>\$</b>	<b>\$</b>
Raw materials and consumables	5,476,177	1,404,184
Work in progress	1,761,137	246,490
Total inventories	7,237,314	1,650,674

This inventory figure as at 31 December 2013 includes stock of \$3m purchased from Boeing Aerospace (Boeing). This stock was acquired as part of the overall negotiation process for Quickstep to assume the production commitments of Boeing for the Lockheed Martin C130-J project. The stock will be paid over 12 equal instalments consistent with the company's expected use of the stock.

**11. Assets held for sale**

At 30 June 2013 the company was holding assets for resale of \$1,878,000 which were deemed at that time to be surplus to immediate needs and written down to their fair value less costs to sell. Since that date the company has concluded negotiations with a third party to purchase these assets at a value in excess of the carrying cost. These negotiations have culminated in a signed agreement. Settlement of this agreement is anticipated in the short term. As a consequence of the agreed selling price, the assets have been written up \$2,521,951 at 31 December 2013, which represents their fair value less costs to sell at that date.

**12. Property, plant and equipment**
**Acquisitions and disposals**

During the six months ended 31 December 2013 the Group acquired assets principally relating to the Group's Bankstown facility with a cost of \$636,489 (six months ended 31 December 2012: \$2,825,413)

**Capital commitments**

At 31 December the Group's capital commitments are \$223,328 (31 December 2012: \$4,500).

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013 (cont'd)**
**13. Loans and Borrowings**
**Secured Bank Loan**

On 1 November 2011 Quickstep Technologies Pty Ltd, a subsidiary company of the Group executed an Export Finance Facility Agreement with Australian and New Zealand Banking Group Limited (ANZ) (Financier) and Export Finance and Insurance Corporation (EFIC)(Guarantor) to fund capital expenditure. The Agreement provides for a loan facility of up to \$10,000,000 plus capitalised interest of up to \$3,333,333.

Interest is to be capitalised for the first four years of the facility after which it is payable half yearly in arrears. Loan repayments commence in the fifth year of the facility, with the final repayment due in year 10.

The interest rate on the facility comprises a variable base rate, a fixed margin payable to the Financier and a fixed guarantee fee payable to the Guarantor. Unused limit fees are payable to both parties on the undrawn principle balance. The subsidiary company has purchased an interest rate cap which limits the maximum rate applicable to the base rate for the duration of the capitalisation period. This cap ensures that the interest accruing on the facility remains within the capitalised interest limit. The cost of the cap (\$680,400) is recognised in the profit and loss through the effective interest rate method.

EFIC has agreed to guarantee certain of the subsidiary's obligations under the facility. The subsidiary has provided EFIC with a fixed and floating charge over its assets and undertakings.

At 31 December 2013 the facility is fully drawn to the total loan facility of \$10,000,000. The face value as at 31<sup>st</sup> December 2013 is \$10,828,100 which includes a capitalised interest component of \$828,100.

**Short-term Facility Agreement**

On 29 October 2012 Quickstep Holdings Ltd, executed a Facility Agreement which provides for a loan facility of up to \$4,450,000 and is secured against the Australian Taxation Office R&D Tax Offset receivable and certain assets of the Australian group.

During the period the entire balance of \$1,750,405 was repaid in full.

**Short Term Loans and Borrowings**

	<b>31 December 2013 \$</b>	<b>30 June 2013 \$</b>
Short term facility agreement	-	1,750,405
Finance lease liability	7,102	6,821
Prepaid borrowing cost	-	(60,441)
	<u>7,102</u>	<u>1,696,785</u>

**Long Term Loans and Borrowings**

	<b>31 December 2013 \$</b>	<b>30 June 2013 \$</b>
Secured bank loan	10,000,000	10,000,000
Capitalised interest	828,100	600,156
Prepaid borrowing cost	(731,492)	(842,540)
Finance lease liability	12,484	16,106
	<u>10,109,092</u>	<u>9,773,722</u>
Total current and non-current loans and borrowings	<u>10,116,194</u>	<u>11,470,507</u>

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013 (cont'd)

### 14. Share capital

#### Issuances

During the six months to 31 December 2013,

- 659,535 shares were issued to senior managers upon exercise of rights which had vested as a result of loyalty bonuses based on years of service and included in existing executive service agreements. The shares were issued at \$nil consideration. The market value of the rights exercised was \$174,178.
- 471,048 shares were issued to senior management as compensation for long term bonuses relating to the 2012/2013 year performance in accordance with executive service agreements. The market value of the rights issued was \$102,217.
- During the period 306,480 shares previously granted were vested by senior management under the Quickstep Employee Incentive Plan. The market value of these shares was \$66,506.
- At 30 June 2013 Quickstep Holdings Limited (QHL) and Quickstep Technologies Pty Ltd (QTPL) had an agreement with VCAMM (Victorian Centre for Advanced Materials Manufacturing). This agreement had been in place since 2005. The agreement identified the value for future royalties to be attributed to services provided to the Group by VCAMM and the mechanism for paying those royalties. The balance owing at 30 June 2013 was \$1,043,749.

In December VCAMM agreed to a full and final settlement of all outstanding amounts by way of shares in QHL. A total of 3,990,372 shares were issued at a value of \$848,353 (\$0.2126/share).

- During August and September 2013 QHL raised a total of \$12,662,551 in additional capital (after costs of \$665,495). The transactions involved raised a total of \$5,724,652 across 2 institutional placements and \$6,937,899 from the Share Purchase Plan.

During the six months to 31 December 2012,

- 769,131 shares were issued to senior managers upon exercise of rights which had vested as a result of loyalty bonuses based on years of service and included in existing executive service agreements. The shares were issued at \$nil consideration. The market value of the rights exercised was \$129,214; and
- 327,285 shares were issued to senior management as compensation for long term bonuses relating to the 2012/13 year performance in accordance with executive service agreements. The market value of the rights issued was \$54,984.

### 15. Share based payments

#### Employee Incentive Plan (equity-settled)

The Company has previously established the Quickstep Employee Incentive Plan (EIP). Under the EIP, the Board may grant options to selected Quickstep employees on such terms as it determines appropriate. Participation in the EIP is open to all employees of the Group, with the Board determining those employees eligible to participate in each grant under the EIP. Further details of the terms and conditions of the EIP are disclosed in the consolidated financial statements as at and for the year ended 30 June 2013.

During the six months ended 31 December 2013, 306,480 shares previously granted were vested by senior management under the Quickstep Employee Incentive Plan. The market value of these shares was \$66,506.

#### Loyalty bonus (Equity-settled)

During the six months ended 31 December 2013, there were no new rights issued to employees.

During the six months ended 31 December 2013, 659,535 rights were exercised at \$nil consideration. The market value of the rights exercised was \$174,178.

#### Incentive Bonuses

During the six months to 31 December 2013, 471,048 shares were issued to senior management as compensation for bonuses as part of executive service agreements relating to the 2012/13 year. The market value of the shares issued was \$102,217.

### 16. Financial Instruments

#### Fair value hierarchy

As at reporting date, the Group has no financial instruments that are measured, and are recognised, at fair value. For all financial assets and liabilities, the carrying amount is a reasonable approximation of fair value.

**DIRECTORS' DECLARATION  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

In the opinion of the directors of Quickstep Holdings Limited:

1. (a) The financial statements and notes are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the six months ended on that date; and
    - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 
2. During 2014 and 2015 financial years the level of production required to satisfy orders placed for the JSF project and to fulfil advance paid orders under the C-130J contract is expected to increase. As a consequence the level of working capital required will also increase. The projected build-up of working capital arising from increasing customer orders will require further funding through debt raising and/or reducing cash outflows through cost control measures. As necessary working capital facilities have not been finalised at the date of this report, there is some uncertainty as to whether the Group will be able to arrange these working capital facilities and pay debts as and when they become due and payable. Further information can be found in Note 6 of the Financial Statements.

Dated at Sydney, New South Wales on this 26<sup>th</sup> day of February 2014.

Signed in accordance with a resolution of the Directors:



P M Odouard  
Director



## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF QUICKSTEP HOLDINGS LIMITED

We have reviewed the accompanying interim financial report of Quickstep Holdings Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2013, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year.

### *Directors' responsibility for the interim financial report*

The directors of the Company are responsible for the preparation of the interim 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 interim 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 interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Quickstep Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Conclusion*

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

- a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF QUICKSTEP HOLDINGS LIMITED (continued)**

*Material uncertainty regarding continuation as a going concern*

Without modifying our opinion, we draw attention to note 6, which provides disclosure regarding the consolidated entity's ability to continue as a going concern. As set out in note 6, the directors have indicated the need for future access to debt facilities to fund the expected increase in working capital requirements. This indicates the existence of material uncertainty as to whether the Group will be able to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the interim financial report.

KPMG

KPMG

Cameron Slapp  
*Partner*

Sydney

26 February 2014



**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To: the directors of Quickstep Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Cameron Slapp  
*Partner*

Sydney

26 February 2014