



Quickstep Holdings Limited
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Quickstep Automotive - DDMC
Building LA, 75 Pigdons Road, Waurin Ponds, VIC, 3216

22 February 2018

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

Dear Sir/Madam,

Attached are the Company's results for the six months ended 31 December 2017, 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 2017 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 2017.

Yours Faithfully,

Jaime Pinto
Company Secretary

Att.

QUICKSTEP HOLDINGS LTD

Appendix 4D

Half Year Report Period Ended 31 December 2017 (Corresponding Period 31 December 2016)

Results for announcement to the Market

	<u>Percentage Change</u>		<u>Dec 2017</u>	<u>Dec 2016</u>
Revenue from ordinary activities	13% up	to	\$27,856,000	\$24,633,000
EBIT before R&D costs	46% up	to	(\$168,000)	(\$313,000)
R&D costs	18% down	to	(\$2,058,000)	(\$2,510,000)
EBIT	21% up	to	(\$2,226,000)	(\$2,823,000)
Loss from ordinary activities after tax attributable to members	6% down	to	(\$2,929,000)	(\$2,765,000)
Net Loss for the period attributable to members	6% down	to	(\$2,929,000)	(\$2,765,000)

During the December 2017 half, the business implemented a number of changes under the **OneQuickstep** program which will improve margins and reduce costs in the second half of FY18 and full year FY19. Revenue increased by 13% with higher JSF volumes delivered. EBIT improved over the same period last year due to higher sales volumes and lower R&D costs. In the second half this will continue, and with additional **OneQuickstep** benefits, are expected to further improve the financial position to a positive EBIT in the second half of FY18 and full year FY19.

The Net Loss increased due to higher Finance costs (see note 8 of the Interim Report) driven by a lower gain in options valuation (non-cash and \$400,000 lower than last year) and foreign currency revaluation losses of \$204,000.

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

Dividends	Amount per security	Percentage Franked
Current period:		
Interim Dividend	Nil	N/A
Date the Dividend is Payable:		N/A
Record Date for determining entitlements to the Dividend:		N/A
Prior corresponding period:		
Interim Dividend	Nil	N/A
Net Tangible Assets per Security		
As at 31 December 2017	\$0.01	
As at 31 December 2016	\$0.02	

Quickstep Holdings Limited

ACN 096 268 156

Interim Financial Report for the half year ended 31 December 2017

Quickstep Holdings Limited ACN 096 268 156

Interim Financial Report – 31 December 2017

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2017 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

Your directors present their report on the consolidated entity ("Group" or "Quickstep") consisting of Quickstep Holdings Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2017.

Directors

The following persons were directors of Quickstep Holdings Limited during the whole of the half year and up to the date of this report:

Mr. T H J Quick
Mr. M H Burgess
Mr. B A Griffiths
Mr. J C Douglas

The following persons were directors of Quickstep Holdings Limited from 1 July 2017 to 28 November 2017 when they all retired at the Annual General Meeting:

Mr. N I Ampherlaw
Mr. P C Cook
Air Marshal E J McCormack (Ret'd)

Results

Quickstep is the largest independent aerospace-grade advanced composite manufacturer in Australia, operating from state-of-the-art aerospace manufacturing facilities at Bankstown Airport in Sydney, NSW and a manufacturing and R&D/process development centre in Geelong, Victoria. The Group is an advanced manufacturer of carbon fibre components and assemblies for the defence, aerospace, automotive and other advanced manufacturing sectors.

Total sales for the half year ended 31 December 2017 were \$27.9 million (H1 FY17 \$24.6 million), an increase of 13% over the corresponding period in FY17, generating a loss from operating activities of \$2.2 million (H1 FY17 \$2.8 million loss) and an operating cash outflow of \$4.3 million (H1 FY17 \$0.8 million inflow). The increase in total revenue was driven by higher JSF volumes.

Gross margin increased to \$3.4 million (H1 FY17 \$2.9 million) on higher sales with the percentage flat. Gross margin was impacted by inefficiencies relating to the commissioning of the C-130J automated drilling equipment, the JSF program continuing to be below 50% of future volumes and impacts of the Thales Hawkei project. Gross margin dollars and percentage improved in Q2 and further improvement is expected in the second half with higher sales revenue, delivery of lean efficiency targets and improved C-130J performance.

The operating loss improved from the first half of FY17 with reductions in R&D and Corporate costs, and these costs are expected to further reduce in the second half with the delivery of **OneQuickstep** actions taken in H1. The business expects to be EBIT positive (profit from operating activities) in the second half of FY18 and full year FY19.

JSF revenue grew by 53% for H1 FY18 over the prior corresponding period. All deliveries were achieved on time and in line with program demand. This volume growth will continue in the second half of FY18 and the following two years. H1 C-130J 'Super Hercules' volumes were aligned to long term levels, about 15% below the prior corresponding period.

Quickstep remains committed to delivering a positive EBIT in H2 FY18, with stronger sales expected and the initial benefits from **OneQuickstep** activities being reflected in the second half results. Cost savings from **OneQuickstep** activities are expected to be around \$3.5 million per annum and the Company expects to deliver positive cashflow in H2 FY18.

In November 2017, Quickstep entered into a new secured \$2 million loan agreement with Dorrigo Capital Pty Ltd to fund working capital to support growth, new business activities and the initial implementation of **OneQuickstep**. Total loans, including capitalised interest, were \$15.6 million at 31 December 2017.

OneQuickstep - Delivers Positive Impact and Cost Savings

On 1 August 2017, CEO Mark Burgess outlined Quickstep's new strategic direction -- **OneQuickstep** -- to accelerate profitability and growth. **OneQuickstep** is a values system and cultural change program that provides Quickstep with a vision and corporate values that will drive the behaviours of all employees and deliver improved financial performance for the business. The **OneQuickstep** program brings significant benefits from a revised organisational structure and leadership roles, productivity and efficiency improvements, refocused R&D investment and a focus on targeted business development and growth. Quickstep expects to see significant benefit from these changes beginning in H2 FY18. During H1, the following **OneQuickstep** items were delivered:

<u>OneQuickstep</u> Initiatives	Actions and Achievements in H1 FY18
Aligned strategy	<ul style="list-style-type: none"> » Strategic and operational review completed » Focus on high value, growing markets
People, structure	<ul style="list-style-type: none"> » Revised organisational structure » Reduced key management personnel » Simplified management and board structure implemented
R&D, technology	<ul style="list-style-type: none"> » R&D realigned to revised strategy, commercial opportunities and business development team » Single global centre of excellence in place at Geelong
Lean enterprise, cost efficiency	<ul style="list-style-type: none"> » German facility closed » Geelong operations consolidated » Ceasing non-core programs, including Hawkei project in H2 FY18 » Lean programs commenced at Bankstown and Geelong
Growth and expansion	<ul style="list-style-type: none"> » Continuing development of proprietary Qure and QPS solutions » Business Development function expanded » On track to increase sales >10% in FY18 versus prior year
Profitability	<ul style="list-style-type: none"> » Executive pay freeze and continuing freeze on directors' fees » On track to deliver \$3.5m cost savings in FY18 compared to FY17 » On track to deliver positive EBIT H2 FY18

New Business Growth

Quickstep's vision is to become a world leader in advanced composites manufacturing and is focused on expanding its business in the aerospace, defence, automotive, medical devices and other high-growth sectors. Quickstep has long-term contracts in place with blue-chip defence customers, continued JSF production growth and a strong defence aerospace 'build to print' outlook.

In H1 FY18 Quickstep continued its focus on new opportunities in the European and North American markets, through the development of manufacturing and technology partnerships and the addition of new resources to the Group's business development team. During H1 FY18, Quickstep achieved the following:

- » Quickstep was awarded two new contracts with Boeing Defense. These contracts will demonstrate the Group's capability and secure supplier accreditation with the world's largest integrated aerospace company and will be leveraged for higher future volumes
- » Quickstep is partnering with General Atomics in the "Team Reaper Australia" tender for Remotely Piloted Aircraft (RPA) systems. This may lead to additional project opportunities with General Atomics
- » Quickstep is in discussions in the European market on partnership opportunities
- » Quickstep's business development team has active growth activities with a number of new and existing customers

Outlook – Forward View

A major focus of **OneQuickstep** is to accelerate growth and profitability. The business has a three-tiered approach to growth. The first is delivering the existing contract growth and new defence and aerospace business at Bankstown that aligns to the current infrastructure and experience. The second is new business opportunities in aerospace, automotive and other advanced industries utilizing Qure and QPS. The third is large program or inorganic growth opportunities in defence, commercial aerospace and automotive.

Quickstep remains on track to deliver **OneQuickstep** initiatives to assist margins and cash flow, and the Group expects to deliver a positive EBIT in the second half of FY18 and full year FY19. Over the next three years Quickstep will benefit from the doubling of JSF production and, as economies of scale improve, increase its margins. The Group's strong order book, patented technologies and competitiveness will support Quickstep's strong growth potential.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Rounding of amounts

The Company is of a kind referred to in *ASIC Legislative Instrument 2017/191*, relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded off to the nearest thousand dollars, or in certain instances to the nearest dollar.

This report is made in accordance with a resolution of directors.



M H Burgess
Managing Director

22 February 2018
Sydney, New South Wales



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 of Quickstep Holdings Limited for the half-year ended 31 December 2017 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

Charmaine Hopkins
Partner

Sydney
22 February 2018

Quickstep Holdings Limited
Condensed consolidated statement of profit or loss and other comprehensive income
For the half year ended 31 December 2017

	31 December	31 December
	2017	2016
Notes	\$000	\$000
Revenue	27,856	24,633
Cost of sales of goods	(24,420)	(21,722)
Gross profit	3,436	2,911
Other income	251	293
Research and development expenses	(2,058)	(2,510)
Corporate and administrative expenses	(3,812)	(3,505)
Other expenses	(43)	(12)
Loss from operating activities	(2,226)	(2,823)
Finance income	111	598
Finance expenses	(814)	(540)
Net finance (expenses) /income	8 (703)	58
Loss before income tax	(2,929)	(2,765)
Income tax benefit	-	-
Loss for the period	(2,929)	(2,765)
Other comprehensive income net of income tax		
<i>Item that may be reclassified to profit or loss</i>		
Exchange difference on translation of a foreign operation	9	37
Other comprehensive income for the period, net of tax	9	37
Total comprehensive loss for the period	(2,920)	(2,728)
	Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the Company:		
Basic loss per share	(0.52)	(0.49)
Diluted loss per share	(0.52)	(0.49)

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Quickstep Holdings Limited
Condensed consolidated balance sheet
As at 31 December 2017

		31 December 2017	30 June 2017
	Notes	\$000	\$000
ASSETS			
Current assets			
Cash and cash equivalents	9(a)	2,317	3,722
Trade and other receivables	9(b)	4,880	6,292
Other financial assets	9(c)	718	718
Other current assets	9(d)	471	635
Inventories	10(a)	11,734	10,599
Total current assets		20,120	21,966
Non-current assets			
Property, plant and equipment		13,860	14,753
Intangible assets		31	61
Total non-current assets		13,891	14,814
Total assets		34,011	36,780
LIABILITIES			
Current liabilities			
Trade and other payables	9(e)	7,080	10,346
Deferred revenue	9(f)	4,174	4,220
Loans and borrowings	9(g)	6,145	3,763
Employee benefit obligations		1,187	1,138
Total current liabilities		18,586	19,467
Non-current liabilities			
Deferred revenue	9(f)	243	682
Loans and borrowings	9(g)	9,449	8,240
Employee benefit obligations		237	210
Total non-current liabilities		9,929	9,132
Total liabilities		28,515	28,599
Net assets		5,496	8,181
EQUITY			
Share capital	11	109,118	109,118
Reserves		4,321	4,077
Accumulated losses		(107,943)	(105,014)
Total equity		5,496	8,181

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Quickstep Holdings Limited
Condensed consolidated statement of changes in equity
For the half year ended 31 December 2017

	Share capital	Foreign currency translation reserve	Share based payments	Accumulated losses	Total equity
	\$000	\$000	\$000	\$000	\$000
Half year ended 31 December 2016					
Balance at 1 July 2016	109,118	(303)	3,769	(98,352)	14,232
Loss for the period	-	-	-	(2,765)	(2,765)
Other comprehensive gain					
Foreign currency translation difference for foreign operations	-	37	-	-	37
Total comprehensive income/(loss) for the period	-	37	-	(2,765)	(2,728)
Transactions with owners in their capacity as owners:					
Share based payments transactions	-	-	180	-	180
Balance at 31 December 2016	109,118	(266)	3,949	(101,117)	11,684
Half year ended 31 December 2017					
Balance at 1 July 2017	109,118	(235)	4,312	(105,014)	8,181
Loss for the period	-	-	-	(2,929)	(2,929)
Other comprehensive gain					
Foreign currency translation difference for foreign operations	-	9	-	-	9
Total comprehensive income/(loss) for the period	-	9	-	(2,929)	(2,920)
Transactions with owners in their capacity as owners:					
Share based payments transactions	-	-	235	-	235
Total transactions with owners	-	-	235	-	235
Balance at 31 December 2017	109,118	(226)	4,547	(107,943)	5,496

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Quickstep Holdings Limited
Condensed consolidated statement of cash flows
For the half year ended 31 December 2017

		31 December 2017 \$000	31 December 2016 \$000
Cash flows from operating activities			
Cash receipts in course of operations		28,076	27,347
Interest received		11	11
Interest and finance charges paid		(220)	(127)
Research and development tax incentive and government grants		262	99
Cash payments in the course of operations		<u>(32,427)</u>	<u>(26,483)</u>
Net cash (used in)/from operating activities		<u>(4,298)</u>	847
Cash flows from investing activities			
Acquisition of plant and equipment and intangible assets	10(b)	(385)	(2,846)
Proceeds from government grant for capital		-	209
Net cash (used in) investing activities		<u>(385)</u>	<u>(2,637)</u>
Cash flows from financing activities			
Proceeds from borrowings		3,500	-
Repayment of borrowings		(43)	(500)
Payment of borrowing costs		(155)	(171)
Finance lease payments		-	(1)
Net cash from/(used in) financing activities		<u>3,302</u>	<u>(672)</u>
Net (decrease) in cash and cash equivalents		(1,381)	(2,462)
Cash and cash equivalents at the beginning of the financial period		3,722	7,578
Effects of exchange rate changes on cash and cash equivalents		<u>(24)</u>	<u>(125)</u>
Cash and cash equivalents at end of period	9(a)	<u>2,317</u>	<u>4,991</u>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Reporting entity

Quickstep Holdings Limited ("the Company") is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the half year ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the "Group" or "Quickstep"). The Group is the largest independent aerospace-grade advanced composite manufacturer in Australia, operating from state-of-the-art aerospace manufacturing facilities at Bankstown Airport in Sydney, NSW and a manufacturing and R&D/process development centre in Geelong, Victoria.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2017 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.

2. Statement of compliance

These condensed consolidated interim financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The condensed 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 2017 and any public announcements made by Quickstep Holdings Limited during the interim period in accordance with continuous disclosure requirements of the *Corporations Act 2001*.

The Company is of a kind referred to in *ASIC Legislative Instrument 2017/191*, relating to the "rounding off" of amounts in the director's report and financial statements. Unless otherwise expressly stated, amounts have been rounded off to the nearest thousand dollar.

The condensed consolidated interim financial statements were approved by the Board of Directors on 22 February 2018.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated Financial Statements for the year ended 30 June 2017. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Several new accounting standards have been published that are not mandatory for this reporting period and have not yet been adopted by the Group. AASB 9 Financial instruments, AASB 15 Revenue from contracts with customers will be adopted by the Group in FY19 and AASB 16 Leases will be adopted by the Group in FY20.

The Group is continuing its assessment as to the potential impact upon adoption of AASB 9 Financial instruments and AASB 15 Revenue from contracts with customers, however adoption of these accounting standards is not anticipated to have a material impact on the financial statements.

Within the condensed consolidated statement of cash flows, borrowing costs have been included within financing activities as opposed to operating activities. This change has been made to better reflect the nature of the cash flows and accordingly the comparative 31 December 2016 disclosure has been amended to align to this revised basis.

4. Critical accounting estimates and judgements

The preparation of these condensed consolidated 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in these condensed consolidated interim financial statements is described in Note 6.

5. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2017.

6. Going concern

The Group has incurred a loss after tax for the half year ended 31 December 2017 of \$2,929,000 (HI FY17 \$2,765,000). The Group has net assets at 31 December 2017 of \$5,496,000 (FY17 \$8,181,000). Current loans and borrowings at 31 December 2017 are \$6,145,000 (FY17 \$3,763,000). Operating cash outflow for the half year ended 31 December 2017 was \$4,298,000 including R&D investment of \$2,058,000.

The loss for the half year reflects overhead costs and R&D expenditure before the impact of **OneQuickstep** savings, flat margins from operations due to the JSF program continuing to be below 50% of future volumes, costs and inefficiencies relating to the commissioning of the C-130J automated drilling equipment and impacts of the Hawkei project. The business announced a number of measures on 1 August 2017 under the **OneQuickstep** program and have taken actions in H1 that are forecast to improve cash and financial returns in H2 and FY19.

The existing cash position of the Group and the need to further support growth requirements, uncertainty associated with foreign exchange rate fluctuations on US\$ denominated sales and commercialisation of new technology has resulted in some risk as to the future cash flow of the Group being dependent on a combination of the following solutions:

- cost controls;
- delivering manufacturing efficiencies for existing programs;
- reduced R&D spend; and
- additional sources of debt funding.

The going concern basis presumes that a combination of the above operational and funding solutions, as deemed appropriate by the Directors, will be achieved and that the realisation of assets and settlement of liabilities will occur in the normal course of business. Notwithstanding the confidence of the Directors, the dependency on the above solutions to be successful indicates that a material uncertainty exists as to whether the Group would be able to continue as a going concern.

The Directors consider that there is a basis to expect that the Group will be able to meet its commitments due to the above measures and accordingly the financial report has been prepared on the basis of a going concern.

7. Segment information

The Group is an advanced composites manufacturer.

The Group is managed as a whole and is considered to have a single operating segment. There is no further division of the Group or internal segment reporting used by the Directors, when making strategic decisions or resource allocation decisions.

8. Finance income and expense

	31 December	31 December
	2017	2016
	\$000	\$000
Recognised in profit or loss		
Interest income	11	11
Foreign currency gains	-	87
Change in fair value of option liability	100	500
Finance income	111	598
Interest expense and borrowing costs amortised on loans	(546)	(495)
Foreign currency losses	(204)	-
Other expenses	(64)	(45)
Finance expense	(814)	(540)
Net Finance (expenses)/income	(703)	58

9. Financial assets and liabilities

(a) Cash and cash equivalents	31 December 2017 \$000	30 June 2017 \$000
Current assets		
Cash at bank and in hand	<u>2,317</u>	<u>3,722</u>
 (b) Trade and other receivables	 31 December 2017 \$000	 30 June 2017 \$000
Current assets		
Trade receivables	4,051	4,756
Other receivables		
GST and VAT receivables	154	1,252
Payroll tax refund receivable	675	284
	<u>4,880</u>	<u>6,292</u>
 (c) Other financial assets	 31 December 2017 \$000	 30 June 2017 \$000
Current assets		
Held to maturity term deposits	<u>718</u>	<u>718</u>
 (d) Other assets	 31 December 2017 \$000	 30 June 2017 \$000
Current assets		
Prepayments	407	635
Other	64	-
	<u>471</u>	<u>635</u>
 (e) Trade and other payables	 31 December 2017 \$000	 30 June 2017 \$000
Current liabilities		
Trade payables	3,976	8,255
Sundry payables and accrued expenses	3,104	2,091
	<u>7,080</u>	<u>10,346</u>

9. Financial assets and liabilities (continued)

(f) Deferred revenue

	31 December 2017			30 June 2017		
	Current \$000	Non- current \$000	Total \$000	Current \$000	Non- current \$000	Total \$000
Deferred revenue	4,174	243	4,417	4,220	682	4,902

(g) Loans and borrowings

	31 December 2017			30 June 2017		
	Current \$000	Non- current \$000	Total \$000	Current \$000	Non- current \$000	Total \$000
Secured bank loan (ii)	815	7,392	8,207	1,750	6,500	8,250
Capitalised interest facility (ii)	135	2,057	2,192	291	1,740	2,031
Prepaid borrowing cost (ii)	170	-	170	97	-	97
Secured bank loan carrying amount	1,120	9,449	10,569	2,138	8,240	10,378
Short term facility – Efic (iii)	3,000	-	3,000	1,500	-	1,500
Short term facility – Dorrigo (iv)	2,000	-	2,000	-	-	-
Newmarket share options at fair value (v)	25	-	25	125	-	125
	6,145	9,449	15,594	3,763	8,240	12,003

(i) Term and debt repayment schedule

	Effective interest rate	Year of maturity	31 December 2017		30 June 2017	
			Maximum facility value \$000	Carrying amount \$000	Maximum facility value \$000	Carrying amount \$000
Secured bank loan	7.17	2021	10,000	8,207	10,000	8,250
Capitalised Interest	7.17	2021	3,333	2,192	3,333	2,031
Short term facility – Efic	7.85	2018	3,000	3,000	3,000	1,500
Short term facility – Dorrigo	12.0	2018	2,000	2,000	-	-

(ii) Secured bank loan

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

Loan repayments commenced on 30 April 2016, with the final repayment due in 2021.

Interest will be capitalised until the maximum interest facility value of \$3,333,000 is reached. At 31 December 2017 the interest facility has been drawn to \$2,057,000. The Group paid \$7,000 (FY17 \$208,000) interest during the half year.

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 the Financier and the Guarantor on the undrawn principal balance.

9. Financial assets and liabilities (continued)

(g) Loans and borrowings (continued)

(ii) Secured bank loan (continued)

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. The carrying value of total assets pledged as collateral at 31 December 2017 is \$31,304,000 (FY17 \$31,208,000) which represents the cash and cash equivalents, plant and equipment, inventory and other assets owned by Quickstep Technologies Pty Ltd.

Under this agreement, Quickstep Technologies Pty Ltd (Chargor) has agreed to the following restrictions on title on any of the assets under which Efic (Chargee) has a fixed charge over. Without the consent of the Chargee, the Chargor may not:

- dispose of the Secured Property,
- lease or license the Secured Property or any interest in it, or deal with any existing lease or licence,
- part with possession of the Secured Property,
- waive any of the Chargor's rights or release any person from its obligations in connection with the Secured Property,
- deal in any other way with the Secured Property or any interest in it, or allow any interest in it to arise or be varied.

Quickstep Holdings Limited has entered into a subordination agreement which subordinates certain intercompany debts due to it from Quickstep Technologies Pty Ltd to the amounts due under the Facility. The face value of this subordinated intercompany debt at 31 December 2017 is \$86,284,000 (FY17 \$83,271,000) and its carrying value net of impairment is \$46,985,000 (FY17 \$43,892,000).

(iii) Short term facility – Efic

Quickstep Holdings Limited executed an Export Contract Loan (ECL) agreement with Efic on 28 June, 2017. This revolving loan facility is limited to \$3,000,000 and each drawing under the facility will be due for repayment within 10 months of the drawdown date. The facility is in place to support additional working capital requirements related to growth of JSF deliveries.

The interest rate on the facility is a variable rate calculated as the sum of the Base Rate plus a margin of 4.85% p.a., payable to Efic quarterly on funds drawn. A commitment fee of 1.5% p.a. accrues from the date of the agreement and is payable to Efic quarterly. The facility is expected to be in place for three years with annual reviews.

(iv) Short term facility – Dorrigo

On 27 November 2017 Quickstep Holdings Limited entered into a Secured Loan Facility Agreement with Dorrigo Capital Pty Ltd as trustee for the Braque Trust. This loan facility is limited to \$2,000,000 and is secured by a general security agreement over Quickstep's assets. Efic's existing security remains in place and continues to be prioritized. The purpose of the loan is to fund **OneQuickstep** initiatives, new business growth activities and short term working capital requirements in support of booked growth. The term of the facility is 6 months and amounts outstanding under the facility will incur interest at 12% p.a. on drawn funds. Interest is payable monthly on the last day of each month.

(v) Newmarket share options at fair value

Newmarket Financing Management Pty Ltd and Associates (Newmarket) holds 25,000,000 (FY17 25,000,000) options to acquire ordinary shares in Quickstep. These options expire on 31 December 2018.

The options were revalued at 31 December 2017 to a fair value of 0.1 cents (FY17 0.5 cents) per share or \$25,000 (FY17 \$125,000). The gain of \$100,000 (H1 FY17 \$500,000) has been recognised through the profit and loss as finance income.

10. Non-financial assets

(a) Inventories

	31 December 2017 \$000	30 June 2017 \$000
Current assets		
Raw materials and consumables	6,533	6,136
Work in progress	4,723	3,920
Finished goods	478	543
	11,734	10,599

(b) Property, plant and equipment

Acquisitions and disposals

During the half year ended 31 December 2017 the Group acquired assets with a cost of \$385,000 (H1 FY17 \$2,846,000).

11. Equity

(a) Share capital

	31 December 2017 Shares	30 June 2017 Shares	31 December 2017 \$000	30 June 2017 \$000
Ordinary shares - fully paid	562,880,792	562,880,792	109,118	109,118

(i) Movements in ordinary shares

	31 December 2017 Shares	30 June 2017 Shares	31 December 2017 \$000	30 June 2017 \$000
Opening balance as at 1 July 2017	562,880,792	562,474,143	109,118	109,118
Issue of ordinary shares, net of costs (a)	-	-	-	-
Shares issued under share based payments arrangements (b)	-	406,649	-	-
Closing balance as at 31 December 2017	562,880,792	562,880,792	109,118	109,118

During the period, the Company issued Nil (FY17 406,649) shares pursuant to share-based payment arrangements with certain key management personnel.

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

12. Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	31 December	30 June
	2017	2017
	\$000	\$000
Property, plant and equipment	348	784

13. Events occurring after the reporting period

There have been no significant events that have occurred since the end of the reporting period.

14. Related party transactions

On 19 December 2016 Mr. J Douglas became a non-executive director of Quickstep Holdings Limited. Mr. Douglas is also a director of Newmarket Financing Management Pty Ltd and Associates and Dorrigo Capital Pty Ltd. Therefore, at 31 December 2017 the Newmarket Options (Note 9(g) (v)) and the Short-term facility – Dorrigo (Note 9(g)(iv)) are considered to be held by a related party.

15. Financial Instruments

Fair value hierarchy

As at the reporting date, all financial liabilities held by the Group are considered level 2 in the fair value hierarchy. The carrying value of liabilities considered level 2 approximates their fair value. During H1 FY18 there have been no transfers from levels in the fair value hierarchy.

In the opinion of the directors of Quickstep Holdings Limited ("the Company"):

- (a) the condensed consolidated interim financial statements and notes set out on pages 7 to 17 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001, and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six-month period ended on that date, 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.

Signed in accordance with a resolution of the directors.



Mr M H Burgess
CEO and Managing Director

Sydney
22 February, 2018



Independent Auditor's Review Report

To the shareholders of Quickstep Holdings Limited

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Quickstep Holdings Limited (the Company).

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 (the Company) 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 2017 and of its performance for the **Interim Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Condensed consolidated balance sheet as at 31 December 2017;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Interim Period ended on that date;
- Notes comprising a summary of significant accounting policies and other explanatory information;
- The Directors' Declaration.

The **Group** comprises Quickstep Holdings Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

Material uncertainty related to going concern – emphasis of matter

We draw attention to Note 6, "Going Concern" in the Interim Financial Report. The conditions disclosed in Note 6, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Interim Financial Report. Our conclusion is not modified in respect of this matter.



Responsibilities of the Directors 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*;
- 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 for the review of the Interim Financial Report

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 2017 and its performance for the interim period 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 (the Company), *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period 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.

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

KPMG

Charmaine Hopkins
Partner

Sydney
22 February 2018