



Quickstep Holdings Limited  
361 Milperra Road, Bankstown Airport, NSW, 2200  
PO Box 337, Milperra, NSW, 2214

p: 02 9774 0300  
e: [info@quickstep.com.au](mailto:info@quickstep.com.au)

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

27 February 2020

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 2019, for immediate release to the market.

Included in this announcement are ASX Appendix 4D and the Interim Financial Report for the half year ended 31 December 2019 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 2019.

Yours Faithfully,

A handwritten signature in black ink, appearing to be 'Jaime Pinto', with a stylized flourish at the end.

**Jaime Pinto**  
**Company Secretary**

Att.

## QUICKSTEP HOLDINGS LTD

### Appendix 4D

#### Half Year Report Period Ended 31 December 2019 (Corresponding Period 31 December 2018)

##### Results for announcement to the Market

	<u>Percentage Change</u>		<u>Dec 2019</u>	<u>Dec 2018</u>
Revenue from ordinary activities	13.6% up	to	<b>\$38,441,000</b>	\$33,849,000
EBIT	18.8% up	to	<b>\$2,324,000</b>	\$1,956,000
Profit/(Loss) from ordinary activities after tax attributable to members	65.6% up	To	<b>\$1,467,000</b>	\$886,000
Net Profit/(Loss) for the period attributable to members	65.6% up	To	<b>\$1,467,000</b>	\$886,000

The Net Profit for the half year of \$1,467,000 is a \$581,000 (65.6%) improvement on the net profit after tax of \$886,000 for the six month period ended 31 December 2018. This can be attributed to an increase in volumes on the JSF program, a \$759,000 tax benefit relating to previously unrecognised tax losses, partially offset by a net \$407,000 increase in lease costs associated with the transition to AASB16.

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.

<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 2019	2.7 cents	
As at 31 December 2018	1.5 cents	

# **Quickstep Holdings Limited**

**Interim Financial Report  
for the half year ended 31 December 2019**

# Interim Financial Report

For the half-year ended 31 December 2019

## Contents

Directors' Report		Page
Directors' Report		3
Auditor's signed reports		
Auditor's Independence Declaration		5
Independent Auditor's Review Report		6
Financial statements		
Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income		8
Condensed Consolidated Balance Sheet		9
Condensed Consolidated Statement of Changes in Equity		10
Condensed Consolidated Statement of Cash Flows		11
Notes to the Condensed Consolidated Financial Report		
<b>A. About this Report</b>		
A.1	General Accounting Principles	12
A.2	Accounting Estimates and Judgements	13
<b>B. Business Performance</b>		
B.1	Segment Reporting	14
B.2	Income Tax (Expense)/Benefit	14
<b>C. Capital and Financial Risk Management</b>		
C.1	Loans and Borrowings	15
C.2	Financial Instruments	16
C.3	Financial Risk Management	17
C.4	Finance Income and Finance Costs	17
C.5	Share Capital	17
C.6	Capital and other Commitments	17
<b>D. Operating Assets and Liabilities</b>		
D.1	Trade and other Receivables	18
D.2	Inventories	18
D.3	Contract Liability	18
D.4	Contract Asset	19
D.5	Property, Plant and Equipment	19
<b>E. Other Disclosures</b>		
E.1	Subsequent Events	20
E.2	Changes in Significant Accounting Policies	20
Directors' Declaration		26

## Directors' Report

The Directors present their report on the consolidated entity consisting of Quickstep Holdings Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2019. Throughout the report, the consolidated entity is referred to as the "Group" or "Quickstep".

### 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  
Mrs. L Heywood

Mrs. E Mannes was appointed a Director on 22 August 2019 and Mr. P Largier was appointed a Director on 19 December 2019 and both continue in office at the date of this report.

Mr. B A Griffiths was a Director from the beginning of the financial year until his resignation on 30 August 2019.

Mr. J C Douglas was a Director from the beginning of the financial year until his resignation on 21 November 2019.

### Review of Operations

---

Total sales for the half year ended 31 December 2019 were \$38.4 million (H1 FY19 \$33.8 million) representing a 13.6% increase on the prior comparative period (pcp). The increase is attributable to ongoing growth in Joint Strike Fighter (JSF) program volumes to full rate production. Total revenue from JSF was \$27.9 million (H1 FY19 \$24.0 million) representing a 16.4% increase.

The \$2.3 million operating profit for the first half of FY20 represents a \$0.4m improvement on pcp including an improvement in gross profit of \$0.7 million partially offset by a modest increase in Corporate costs with spend on Research and Business Development (BD) activities aligned with the pcp. The investment in BD has resulted in a healthy pipeline of near term opportunities with significant new business awards anticipated over coming months.

The H1 FY20 net profit of \$1.5 million represents an improvement of \$0.6 million on pcp comprising the \$0.4 million increase in operating profit, an increase in net financing costs of \$0.6m (including \$0.7m interest expense on lease liabilities recognized for the first time under AASB 16) and a \$0.8 million tax benefit.

Net \$1.5 million cash out from operating activities for H1 FY20 was \$0.5 million unfavourable to that reported for the pcp noting a \$3.2 million reversal of deferred income on the C-130J contract during H1 FY20 compared to a \$0.9m increase in deferred income in the first half of FY19 – a turnaround of \$4.1 million. The deferred income reversal is now complete following transition to a new 5 year C-130J contract with cash receipts now closely aligned to deliveries. Capital expenditure of \$3.8 million (net of grants \$3.4 million) has been invested to provide new capability, particularly the flare housing manufacturing facility, increase capacity and improve operational efficiency.

Excluding the impact of lease liabilities coming on to the balance sheet with the implementation of AASB 16, net debt has increased by \$5.2 million to \$5.5 million since 30 June 2019 to fund the net \$3.4 million capital investment noted above and working capital needs associated with the reversal of deferred income on the C-130J contract. Total bank debt outstanding as at 31 December 2019 is \$8.8 million plus lease liabilities of \$18.5 million.

# Directors' Report

## Subsequent events

---

There have been no matters or circumstances that have arisen since 31 December 2019 up to the date of this report that would significantly affect:

- the operations of the Consolidated Entity;
- the results of those operations; and
- the state of affairs of the Consolidated Entity.

## 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 5.

## Rounding of Amounts

---

The Company is a kind referred to in ASIC Legislative Instrument 2016/191, 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 cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors on 27 February 2020.



M. H. Burgess  
Director  
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 2019 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

Tracey Driver

*Partner*

Sydney

27 February 2020



# Independent Auditor's Review Report

To the shareholders of Quickstep Holdings Limited

## Report on the Interim Financial Report

### Conclusion

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

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:

- giving a true and fair view of the **Group's** financial position as at 31 December 2019 and of 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*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2019;
- 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 A to E comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

### 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*; and
- 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 Company's financial position as at 31 December 2019 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 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

Tracey Driver

*Partner*

Sydney

27 February 2020

# Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

for the half-year ended 31 December 2019

	Notes	31 Dec 2019 \$000	31 Dec 2018 \$000
Revenue	B.1	38,441	33,849
Cost of sales of goods		(30,060)	(26,134)
Gross profit		8,381	7,715
Other income		-	122
Research and development expenses		(1,090)	(1,163)
Business development expenses		(891)	(894)
Corporate and administrative expenses		(4,076)	(3,824)
<b>Profit from operating activities</b>		<b>2,324</b>	<b>1,956</b>
Finance income	C.4	18	14
Finance expenses	C.4	(1,634)	(1,084)
<b>Net finance costs</b>		<b>(1,616)</b>	<b>(1,070)</b>
Profit before income tax		708	886
Income tax benefit		759	-
<b>Profit for the half year</b>		<b>1,467</b>	<b>886</b>
<b>Other comprehensive income net of income tax</b>			
Item that may be reclassified to profit or loss			
Cash flow hedges		(158)	306
Exchange difference on translation of a foreign operation		-	23
Other comprehensive income for the period, net of income tax		(158)	329
<b>Total comprehensive income for the half year</b>		<b>1,309</b>	<b>1,215</b>
<b>Profit per share:</b>		<b>Cents</b>	<b>Cents</b>
Basic profit per share		0.10	0.15
Diluted profit per share		0.10	0.15

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

# Condensed Consolidated Balance Sheet

as at 31 December 2019

	Notes	Dec 2019 \$'000	Jun 2019 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,639	7,333
Financial instruments		-	143
Term deposits		718	810
Trade and other receivables	D.1	5,855	6,853
Prepayment and other assets		674	554
Inventories	D.2	7,647	8,461
Contract assets	D.4	9,393	9,832
<b>Total current assets</b>		<b>26,926</b>	<b>33,986</b>
<b>Non-current assets</b>			
Property, plant and equipment	D.5	32,977	14,808
Intangibles		35	40
Deferred tax asset		1,748	989
<b>Total non-current assets</b>		<b>34,760</b>	<b>15,837</b>
<b>Total assets</b>		<b>61,686</b>	<b>49,823</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		10,281	14,349
Financial instruments		15	-
Loans and borrowings	C.1	6,245	3,668
Contract liability	D.3	-	3,160
Employee benefit obligations		1,270	1,360
<b>Total current liabilities</b>		<b>17,811</b>	<b>22,537</b>
<b>Non-current liabilities</b>			
Loans and borrowings	C.1	21,119	4,787
Provisions		3,140	-
Employee benefit obligations		620	461
<b>Total non-current liabilities</b>		<b>24,879</b>	<b>5,248</b>
<b>Total liabilities</b>		<b>42,690</b>	<b>27,785</b>
<b>Net assets</b>		<b>18,996</b>	<b>22,038</b>
<b>EQUITY</b>			
Share capital	C.5	120,785	120,785
Reserves		5,691	5,318
Accumulated losses		(107,480)	(104,065)
<b>Total equity</b>		<b>18,996</b>	<b>22,038</b>

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

# Condensed Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2019

	Share capital \$000	Foreign currency translation reserve \$000	Cash flow hedges reserve \$000	Share based payments \$000	Accumulated losses \$000	Total equity \$000
<b>Dec 2019</b>						
<b>Balance at 1 July 2019</b>	<b>120,785</b>	<b>(273)</b>	<b>143</b>	<b>5,448</b>	<b>(104,065)</b>	<b>22,038</b>
Adjustment on initial application of AASB 16 Refer Note E.2	-	-	-	-	(4,882)	(4,882)
<b>Adjusted balance at 1 July 2019</b>	<b>120,785</b>	<b>(273)</b>	<b>143</b>	<b>5,448</b>	<b>(108,947)</b>	<b>17,156</b>
Profit for the half year	-	-	-	-	1,467	1,467
<b>Other comprehensive (loss)</b>						
Foreign currency translation difference for foreign operations	-	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges	-	-	(158)	-	-	(158)
<b>Total comprehensive income/ (loss) for the half year</b>	<b>-</b>	<b>-</b>	<b>(158)</b>	<b>-</b>	<b>1,467</b>	<b>1,309</b>
Transactions with owners of the company:						
Share based payments expenses	-	-	-	531	-	531
<b>Balance at 31 December 2019</b>	<b>120,785</b>	<b>(273)</b>	<b>(15)</b>	<b>5,979</b>	<b>(107,480)</b>	<b>18,996</b>

<b>Dec 2018</b>						
<b>Balance at 1 July 2018</b>	109,118	(271)	239	4,605	(107,905)	5,786
Adjustment on initial application of AASB 15 (net of tax)	-	-	-	-	1,147	1,147
<b>Adjusted balance at 1 July 2018</b>	<b>109,118</b>	<b>(271)</b>	<b>239</b>	<b>4,605</b>	<b>(106,758)</b>	<b>6,933</b>
Profit for the half year	-	-	-	-	886	886
<b>Other comprehensive income</b>						
Foreign currency translation difference for foreign operations	-	23	-	-	-	23
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	306	-	-	306
<b>Total comprehensive income for the half year</b>	<b>-</b>	<b>23</b>	<b>306</b>	<b>-</b>	<b>886</b>	<b>1,215</b>
Transactions with owners of the company:						
Share based payments expenses	-	-	-	257	-	257
<b>Balance at 31 December 2018</b>	<b>109,118</b>	<b>(248)</b>	<b>545</b>	<b>4,862</b>	<b>(105,872)</b>	<b>8,405</b>

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

# Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2019

	Dec 2019 \$000	Dec 2018 \$000
<b>Cash flows from operating activities</b>		
Cash receipts in course of operations	37,690	33,604
Interest received	18	14
Interest paid	(1,121)	(177)
Cash payments in the course of operations	(38,055)	(34,387)
<b>Net cash (used in) operating activities</b>	<b>(1,468)</b>	<b>(946)</b>
<b>Cash flows from investing activities</b>		
Acquisition costs of plant and equipment and intangible assets	(3,758)	(2,253)
Proceeds from customer funding of capital works	374	1,855
Receipts from restricted cash and term deposit	92	-
<b>Net cash (used in) investing activities</b>	<b>(3,292)</b>	<b>(398)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	3,200	3,250
Repayment of borrowings	(2,679)	(1,500)
Repayment of lease liabilities	(455)	-
Payment of borrowing costs	-	(157)
<b>Net cash from financing activities</b>	<b>66</b>	<b>1,593</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(4,694)</b>	<b>249</b>
Cash and cash equivalents at the beginning of the financial year	7,333	2,862
Effects of exchange rate changes on cash and cash equivalents	-	60
<b>Cash and cash equivalents at end of half year</b>	<b>2,639</b>	<b>3,171</b>

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

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## A. About this Report

This section provides information relating to the Group's accounting policies.

### A.1 General Accounting Principles

### A.2 Accounting Estimates and Judgements

### A.1 General Accounting Principles

This interim half-year financial report (Financial Report) represents the consolidated results of Quickstep Holdings Limited (the "Company") and its controlled entities (the "Group"). The Financial Report comprises general purpose financial statements which have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*.

The Financial Report does not include all the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2019.

This is the first set of the Group's financial statements where AASB 16 Leases has been applied. Changes to significant accounting policies are described in Note E.2.

These interim financial statements were authorised for issue by the Board of Directors on xx February 2020.

The Company is domiciled in Australia and the Group is a for-profit entity. The Group is at the forefront of advanced composites manufacturing and technology development and is the largest independent aerospace-grade advanced composite manufacturer in Australia, currently partnering with some of the world's largest aerospace/defence organisations.

### Materiality

Information is only included in the financial report to the extent that it has been considered material and relevant to the understanding of the financial statements. Factors that influence if a disclosure is material and relevant, include whether:

- the dollar amount is significant in size (quantitative factor)
- the dollar amount is significant by nature (qualitative factor)
- the Group's results cannot be understood without the specific disclosure (qualitative factor)
- it is critical to allow a user to understand the impact of significant changes in the Group's business during the period; and
- it relates to an aspect of the Group's operations that is important to its future performance.

### Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have therefore been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## A. About this Report

### A.2 Accounting Estimates and Judgements

The preparation of these interim consolidated financial statements are in conformity with AASBs which requires management to make judgements, estimates and assumptions about future events. Actual results may differ from these estimates.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described below:

#### *Going Concern*

The financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The Group has generated a profit after tax for the period ended 31 December 2019 of \$1,467,000 (year to 30 June 2019 profit of \$2,693,000). The Group has net assets of \$18,996,000 (1 July 2019 \$17,156,000 after adopting AASB16) and net current assets of \$9,115,000 (30 June 2019: \$11,449,000). Current loans and borrowings are \$6,245,000 (including lease liabilities of \$575,000) compared to 30 June \$3,668,000. Operating cash outflow for the period was \$1,468,000 (year to 30 June 2019 operating cash inflow \$363,000) including \$3,160,000 of deferred income reversal on the C-130J contract which is now complete. Customer receipts on the C-130J contract are now closely aligned to deliveries which is expected to improve cash flow in the second half of FY20.

Profitability and operating cash flow are both expected to improve over the second half of FY20 benefiting from improved cash flow from the C-130J contract, an increase in cash profits on the back of strong revenue growth and an ongoing focus on cost control.

A \$6,000,000 short term working capital facility is in place with Export Finance Australia. The limit has recently been increased by \$2,000,000 to help fund strong revenue growth over the remainder of FY20 and into FY21 backed up by customer orders. The facility is available to draw upon until 31 May 2021 and is drawn to \$3,500,000 as at 27 February 2020.

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## B. Business Performance

This section provides information relating to the Group's accounting policies.

### B.1 Segment Reporting

### B.2 Income Tax (Expense)/Benefit

### B.1 Segment Reporting

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

Revenue by program:

	Dec 2019 \$000	Dec 2018 \$000
Joint Strike Fighter Program	27,926	23,994
Other	10,515	9,855
	38,441	33,849

### B.2 Income Tax (Expense)/Benefit

Income tax (expense)/benefit comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it is related to a business combination, or items recognised directly in equity or in other comprehensive income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group has recognised a deferred tax asset relating to previously unrecognised tax losses to the extent there are sufficient taxable temporary differences against which the unused tax losses can be utilised. Utilisation of tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. The recognised tax losses are subject to the shareholder continuity test.

As a result of improved profitability, the Group continues to review previously unrecognised tax losses and has determined that it is now probable that future taxable profits will be available against which the tax losses can be utilised. As a consequence, a deferred tax asset of \$1,188,000 was recognised for the half year, of which \$429,000 has been offset against current year estimate of tax payable.



# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## C. Capital and Financial Risk Management

This section provides information relating to the Group's capital structure and its exposure to financial risks, how they affect the Group's financial position and performance and how the risks are managed.

- C.1 Loans and Borrowings
- C.2 Financial Instruments
- C.3 Financial Risk Management
- C.4 Finance Income and Finance Costs
- C.5 Share Capital
- C.6 Capital and other Commitments

### C.1 Loans and Borrowings

	Dec 2019			June 2019		
	Current \$000	Non-current \$000	Total \$000	Current \$000	Non-current \$000	Total \$000
Secured bank loan	2,957	1,478	4,435	2,957	2,957	5,914
Capitalised interest facility	492	1,687	2,179	492	1,830	2,322
Accrued borrowing cost	221	-	221	219	-	219
Secured bank loan carrying amount	3,670	3,165	6,835	3,668	4,787	8,455
Short term facility	2,000	-	2,000	-	-	-
Lease liabilities	575	17,954	18,529	-	-	-
	6,245	21,119	27,364	3,668	4,787	8,455

### Term and Debt Repayment Schedule

	Effective interest rate	Year of maturity	Dec 2019	June 2019
			Maximum facility value \$000	Maximum facility value \$000
Secured bank loan	5.47%	2021	10,000	10,000
Capitalised Interest	5.47%	2021	3,333	3,333
Short term facility	8.06%	2021	6,000	4,000

### 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 Australia (EFA) (formerly Export Finance and Insurance Corporation) (Guarantor) to fund certain capital expenditure. The Agreement provides for a loan facility of up to \$10,000,000 plus capitalised interest of up to \$3,333,000. Loan repayments commenced on 30 April 2016, with the final repayment due in October 2021. No further draw down of this facility can be made as the availability period has passed.

Interest will be capitalised until the maximum facility value of \$3,333,000 is reached. At 31 December 2019 the interest facility has been drawn to \$2,179,000 (2019 \$2,322,000). The Company has paid in this financial year an amount of \$246,000 (2019 \$353,000).

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.

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## C. Capital and Financial Risk Management

### C.1 Loans and Borrowings

#### Short term facility

Quickstep Holdings Limited executed an Export Contract Loan (ECL) agreement with EFA on 28 June, 2017 a variation deed dated 28 June 2019 and a further variation deed dated 25 February 2020. This revolving loan facility is limited to \$6,000,000 (2019 \$4,000,000) 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 and is available to be drawn up to 31 May 2021 with final repayment no later than 25 March 2022.

The interest rate on the facility is a variable rate calculated as the sum of the base rate plus a margin of 6.56%, payable to EFA quarterly on funds drawn. A commitment fee of 1.5%pa accrues from the date of the agreement and is payable to EFA quarterly.

#### Lease liabilities

The group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in accumulated losses at the date of this initial application. See Note E.2. Following the adoption of AASB 16, the group has presented lease liabilities within Loans and Borrowings.

### C.2 Financial Instruments

#### (Current liability) / Current asset

Forward foreign exchange contracts – cash flow hedges

Dec 2019	June 2019
\$000	\$000
(15)	143

#### Recognition and Measurement

##### *Fair Value Measurement*

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income and accumulated in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit and loss. The Group uses forward foreign exchange contracts to hedge its currency exposure risk in relation to sales in US dollars – all hedges have a maturity date less than 1 year from reporting date.

##### *Valuation of Financial Measurement – cash flow hedges*

Foreign currency forward contracts are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

##### *Fair Value Hierarchy*

Financial assets and liabilities, including foreign currency hedges are considered level 2 in the fair value hierarchy. The carrying value of financial assets and liabilities carried at amortised costs, approximate their fair value. During the half year, there have been no transfers between levels in the fair value hierarchy.

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## C. Capital and Financial Risk Management

### C.3 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 2019.

### C.4 Finance Income and Finance Costs

	Dec 2019 \$000	Dec 2018 \$000
<b>Finance income</b>		
Interest income	18	14
<b>Finance income</b>	<b>18</b>	<b>14</b>
<b>Finance costs</b>		
Interest expense on liabilities measured at amortised cost	(289)	(589)
Interest expense on lease liabilities and make good provision	(662)	-
Foreign currency losses	(638)	(472)
Other expenses	(45)	(23)
<b>Finance costs</b>	<b>(1,634)</b>	<b>(1,084)</b>
<b>Net finance costs</b>	<b>(1,616)</b>	<b>(1,070)</b>

### C.5 Share Capital

#### Movements in Share Capital

	Dec 2019 Shares	June 2019 Shares	Dec 2019 \$000	June 2019 \$000
Opening balance	710,307,982	562,880,792	120,785	109,118
Shares issued under share based payments arrangements	3,127,321	1,147,525	-	-
Shares issued under a Share Placement and Share Purchase Plan	-	144,470,745	-	11,667
Shares issued to Quickstep Employee Exempt Share Plan	-	1,808,920	-	-
Closing balance	713,435,303	710,307,982	120,785	120,785

During the half year, the Company issued 3,127,321 (2019 Nil) shares pursuant to share-based payment arrangements with certain key management personnel.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

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

### C.6 Capital and other Commitments

#### Capital Commitments

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

	Dec 2019 \$000	June 2019 \$000
Property, plant and equipment	1,036	2,355

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## D. Operating Assets and Liabilities

This section provides information relating to the operating assets and liabilities of the Group. Quickstep has a strong focus on maintaining a strong balance sheet through continued focus on cash conversion. The Group's strategy also considers expenditure, growth and acquisition requirements.

- D.1 Trade and Other Receivables**
- D.2 Inventories**
- D.3 Contract Liability**
- D.4 Contract Asset**
- D.5 Property, Plant and Equipment**

### D.1 Trade and Other Receivables

	Dec 2019 \$000	June 2019 \$000
<b>Current assets</b>		
Trade receivables	<b>4,818</b>	6,305
Other receivables	<b>1,037</b>	548
	<b>5,855</b>	6,853

All trade receivables are current.

### D.2 Inventories

	Dec 2019 \$000	June 2019 \$000
<b>Current assets</b>		
Raw materials and consumables	<b>7,336</b>	8,445
Work in progress	<b>311</b>	3
Finished goods	-	13
	<b>7,647</b>	8,461

### D.3 Contract Liability

	Dec 2019 \$000	June 2019 \$000
Current	-	3,160

The amount reported as 2019 contract liability represents a 50% advance payment from Lockheed Martin Aeronautics Co for long lead time materials for C-130J wing flaps, which was recognised as income in FY20. No further advance payments have been received.

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## D. Operating Assets and Liabilities

### D.4 Contract Assets

	Dec 2019 \$000	June 2019 \$000
<b>Current</b>	<b>9,393</b>	<b>9,832</b>

Under AASB 15 the Group has determined that for made-to-order parts, the customer controls all the work in progress as the products are being manufactured. This is because under those contracts, parts are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Therefore, revenue from these contracts and the associated costs are recognised over time – i.e. before the goods are delivered to the customers' premises. Invoices are issued according to contractual terms. Uninvoiced amounts are presented as contract assets.

### D.5 Property, Plant and Equipment

	Plant and equipment \$000	Assets under construction \$000	Office furniture & equipment \$000	Right of Use Asset (ROU) and Make Good \$000	Total \$000
<b>Dec 2019</b>					
Opening net book amount	12,273	2,238	297	-	14,808
Initial adoption of AASB 16	-	-	-	17,129	17,129
Additions	-	3,175	-	-	3,175
Additions of new leases	-	-	-	96	96
Customer and government funding received	-	(374)	-	-	(374)
Amortisation leases and make good	-	-	-	(846)	(846)
Amortisation of grant	203	-	-	-	203
Depreciation charge	(1,169)	-	(45)	-	(1,214)
<b>Closing net book amount</b>	<b>11,307</b>	<b>5,039</b>	<b>252</b>	<b>16,379</b>	<b>32,977</b>
<i>Cost</i>	<b>33,774</b>	<b>5,039</b>	<b>949</b>	<b>24,908</b>	<b>64,670</b>
<i>Accumulated depreciation</i>	<b>(22,467)</b>	<b>-</b>	<b>(697)</b>	<b>(8,529)</b>	<b>(31,693)</b>
<b>June 2019</b>					
Opening net book amount	12,520	574	143	-	13,237
Additions	-	6,401	-	-	6,401
Customer and government funding received	-	(2,895)	-	-	(2,895)
Transfers from assets under construction	1,618	(1,842)	224	-	-
Amortisation of grant	406	-	-	-	406
Depreciation charge	(2,271)	-	(70)	-	(2,341)
<b>Closing net book amount</b>	<b>12,273</b>	<b>2,238</b>	<b>297</b>	<b>-</b>	<b>14,808</b>
<i>Cost</i>	<b>33,774</b>	<b>2,238</b>	<b>949</b>	<b>-</b>	<b>36,961</b>
<i>Accumulated depreciation</i>	<b>(21,501)</b>	<b>-</b>	<b>(652)</b>	<b>-</b>	<b>(22,153)</b>

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## E. Other Disclosures

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements.

### E.1 Subsequent Events

### E.2 Changes in Significant Accounting Policies

### E.1 Subsequent Events

There have been no matters or circumstances that have arisen since 31 December 2019 up to the date of this report that would significantly affect:

- the operations of the Consolidated Entity;
- the results of those operations; and
- the state of affairs of the Consolidated Entity.

### E.2 Changes in Significant Accounting Policies

Except as described below, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements as for the year ended 30 June 2019.

The Group has initially adopted AASB 16 Leases effective from 1 July 2019. A number of other new standards are effective from 1 July 2019, but they do not have a material effect on the Group's financial statements.

#### **AASB 16 Leases**

AASB 16 introduced a single, on-balance sheet accounting model for leases, as a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in accumulated losses at 1 July 2019. Accordingly, the comparative information presented for FY19 has not been restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. There are recognition exemptions for short-term leases and leases of low-value items.

The adjustment for AASB 16 has a positive impact on EBITDA as the costs of operating leases (previously recognised as part of EBIT expensed over the term of the lease) will now be excluded from EBITDA as lease costs will be recognised separately in depreciation (for the right of use assets) while interest on lease liabilities will be disclosed as part of financing costs.

On adoption of AASB 16, the group recognized lease liabilities in relation to leases which had been previously classified as 'operating Leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average incremental borrowing rate applied to the lease liability on 1 July 2019 was 6.88%.

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## E. Other Disclosures

### E.2 Changes to Significant Accounting Policies

#### *AASB 16 Leases*

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases that have reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made by applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The Group leases assets including properties, production equipment and IT equipment.

As a lessee, the Group previously classified leases as operating leases or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognize right-of-use assets and lease liabilities of low value assets. The Group recognizes the lease payments associated with these leases as an agreed expense on a straight line basis over the term of the lease.

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## E. Other Disclosures

### E.2 Changes to Significant Accounting Policies

#### AASB 16 Leases

The following table summarises the impact, net of tax, of transition to AASB 16 on the consolidated balance sheet as at 1 July 2019.

#### Impact on Opening Consolidated Balance Sheet at 1 July 2019

	June 2019 As reported \$000	Impact of adopting AASB 16 \$000	1 July 2019 opening \$000
<b>ASSETS</b>			
<b>Total current assets</b>	<b>33,986</b>	-	33,986
<b>Non-current assets</b>	-	-	-
Property, plant and equipment	14,808	17,129	31,937
Intangibles	40	-	40
Deferred tax asset	989	-	989
<b>Total non-current assets</b>	<b>15,837</b>	17,129	32,966
<b>Total assets</b>	<b>49,823</b>	17,129	66,952
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14,349	-	14,349
Loans and borrowings	3,668	934	4,602
Contract liability	3,160	-	3,160
Employee benefit obligations	1,360	-	1,360
<b>Total current liabilities</b>	<b>22,537</b>	934	23,471
<b>Non-current liabilities</b>			
Loans and borrowings	4,787	17,953	22,740
Provisions	-	3,124	3,124
Employee benefit obligations	461	-	461
<b>Total non-current liabilities</b>	<b>5,248</b>	21,077	26,325
<b>Total liabilities</b>	<b>27,785</b>	22,011	49,796
<b>Net assets</b>	<b>22,038</b>	(4,882)	17,156
<b>EQUITY</b>			
Share capital	120,785	-	120,785
Reserves	5,318	-	5,318
Accumulated losses	(104,065)	(4,882)	(108,947)
<b>Total equity</b>	<b>22,038</b>	(4,882)	17,156



# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## E. Other Disclosures

### E.2 Changes to Significant Accounting Policies

#### AASB 16 Leases

The following tables summarises the impact of adopting AASB 16 on the Group's condensed consolidated balance sheet as at 31 December 2019 and its condensed consolidated statement of profit or loss and other comprehensive income for the half year then ended for each of the lines affected and its condensed consolidated cash flows for the half year.

#### Impact on Consolidated Balance Sheet as at 31 December 2019

	Dec 2019 As reported \$000	Impact of adopting AASB 16 \$000	Dec 2019 without adoption of AASB 16 \$000
<b>ASSETS</b>			
<b>Total current assets</b>	<b>26,926</b>	-	26,926
<b>Non-current assets</b>			
Property, plant and equipment	32,977	16,379	16,598
Intangibles	35	-	35
Deferred tax asset	1,748	-	1,748
<b>Total non-current assets</b>	<b>34,760</b>	16,379	18,381
<b>Total assets</b>	<b>61,686</b>	16,379	45,307
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10,281	-	10,281
Financial instruments	15	-	15
Loans and borrowings	6,245	575	5,670
Employee benefit obligations	1,270	-	1,270
<b>Total current liabilities</b>	<b>17,811</b>	575	17,236
<b>Non-current liabilities</b>			
Loans and borrowings	21,119	17,954	3,165
Provisions	3,140	3,140	-
Employee benefit obligations	620	-	620
<b>Total non-current liabilities</b>	<b>24,879</b>	21,094	3,785
<b>Total liabilities</b>	<b>42,690</b>	21,669	21,021
<b>Net assets</b>	<b>18,996</b>	(5,290)	24,286
<b>EQUITY</b>			
Share capital	120,785	-	120,785
Reserves	5,691	-	5,691
Accumulated losses	(107,480)	(5,290)	(102,190)
<b>Total equity</b>	<b>18,996</b>	(5,290)	24,286

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## E. Other Disclosures

### E.2 Changes to Significant Accounting Policies

#### AASB 16 Leases

#### Impact on Condensed Consolidated Statement of Profit and Loss and other Comprehensive Income for the half year ended 31 December 2019

	Dec 2019 reported \$000	Impact of adopting AASB 16 \$000	Dec 2019 without adoption of AASB 16 \$000
Revenue	38,441	-	38,441
Cost of sales of goods	(30,060)	135	(30,195)
Gross profit	8,381	135	8,246
Research and development expenses	(1,090)	(21)	(1,069)
Business development expenses	(891)	-	(891)
Corporate and administrative expenses	(4,076)	141	(4,217)
<b>Profit from operating activities</b>	<b>2,324</b>	<b>255</b>	<b>2,069</b>
Finance income	18	-	18
Finance expenses	(1,634)	(662)	(972)
<b>Net finance costs</b>	<b>(1,616)</b>	<b>(662)</b>	<b>(954)</b>
Profit before income tax	708	(407)	1,115
Income tax benefit	759	-	759
<b>Profit for the half year</b>	<b>1,467</b>	<b>(407)</b>	<b>1,874</b>
<b>Other comprehensive income net of income tax</b>			
Item that may be reclassified to profit or loss			
Cash flow hedges	(158)	-	(158)
Exchange difference on translation of a foreign operation	-	-	-
Other comprehensive income for the period, net of income tax	(158)	-	(158)
<b>Total comprehensive income for the half year</b>	<b>1,309</b>	<b>(407)</b>	<b>1,716</b>

# Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2019

## E. Other Disclosures

### E.2 Changes to Significant Accounting Policies

#### AASB 16 Leases

#### Impact on Condensed Consolidated Statement of Cash Flows for the half year ended 31 December 2019

	Dec 2019 reported \$000	Impact of adopting AASB 16 \$000	Dec 2019 without adoption of AASB 16 \$000
<b>Cash flows from operating activities</b>			
Cash receipts in course of operations	37,690	-	37,690
Interest received	18	-	18
Interest paid	(1,121)	(646)	(475)
Cash payments in the course of operations	(38,055)	1,101	(39,156)
<b>Net cash (used in) operating activities</b>	<b>(1,468)</b>	<b>455</b>	<b>(1,923)</b>
<b>Cash flows from investing activities</b>			
Acquisition costs of plant and equipment and intangible assets	(3,758)	-	(3,758)
Proceeds from customer funding and government grants for capital works	374	-	374
Receipts from restricted cash and term deposit	92	-	92
<b>Net cash (used in) investing activities</b>	<b>(3,292)</b>	<b>-</b>	<b>(3,292)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	3,200	-	3,200
Repayment of borrowings	(2,679)	-	(2,679)
Payment of lease liabilities	(455)	(455)	-
<b>Net cash from financing activities</b>	<b>66</b>	<b>(455)</b>	<b>521</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(4,694)</b>	<b>-</b>	<b>(4,694)</b>
Cash and cash equivalents at the beginning of the financial year	7,333	-	7,333
<b>Cash and cash equivalents at end of period</b>	<b>2,639</b>	<b>-</b>	<b>2,639</b>

## Directors' Declaration

for the half-year ended 31 December 2019

In the Directors' opinion:

- (a) the condensed consolidated half-year financial statements and notes set out on pages 8 to 25 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 2019 and of its performance for the half-year 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.

This declaration is made in accordance with a resolution of Directors.



**Mr. M H Burgess**

Director

27 February 2020

Sydney, New South Wales