



23 February 2011

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

Dear Sir

Please find attached the Company's interim results for the 2010/11 year, 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 2010 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 2010.

Yours Faithfully

A handwritten signature in black ink, appearing to read 'Phillip J MacLeod', written in a cursive style.

Phillip MacLeod  
*Company Secretary*

Att.

## Appendix 4D

## Half Year Report Period Ended 31 December 2010

## Results for announcement to the Market

	<u>Percentage Change</u>		<u>\$'000</u>
Revenue from ordinary activities	81% up	to	231
Profit/(loss) from ordinary activities after tax attributable to members	62% down	to	(6,953)
Net profit/(loss) for the period attributable to members	62% down	to	(6,953)

The loss after tax of the consolidated entity for the half-year was \$6,952,598 (2009: \$4,294,927).

Business activity in the period reflected the fast paced growth of the organisation driven by the successful capturing of the Joint Strike Fighter opportunity in late 2009.

During the period the Group focused on Joint Strike Fighter program development activities necessary to achieve facility, process and product qualifications required to commence component manufacture and the continued commercialisation phase of its business plan. The following comparison to the previous corresponding half year reflects these activities:

- An increase in operational expenses of \$2,362,671 to \$4,333,683 primarily due to the investment in development of staff resources, production systems and process to support development of the Group's production capability.
- An increase in administration and corporate expenses of \$766,666 to \$2,291,145 due to the expanding management and administrative requirements including improvements in Business systems, IT infrastructure and establishing high levels of corporate compliance related to the expansion of production capability.
- An increase in research and development expenses of \$560,791 to \$824,838 which is largely offset by an increase in from customer-paid development work by \$103,536 to \$230,673 and an increase in other revenue of \$308,021 to \$644,164 mainly from research and development grant income.
- An increase in financial income of \$334,697 to \$411,873 reflecting interest earned on increased average cash and term deposit balances over the half year as a result of the prior year's capital raising.
- A decrease in financial expenses of \$433,966 to \$131,877 mainly due to interest expense savings resulting from the conversion of debt to equity during the previous financial year.

<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 2010	\$0.083	
As at 31 December 2009	\$0.069	



**QUICKSTEP HOLDINGS LIMITED**

ACN: 096 268 156

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**CONDENSED INTERIM FINANCIAL  
STATEMENTS**

for the six months ended 31<sup>st</sup> December 2010

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**These condensed 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 2010 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 condensed 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 2010 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 Mark Jenkins	Chairman
Mr Philippe Odouard	Managing Director
Mr Dale Brosius	Executive Director
Mr Peter Cook	Non-Executive Director
Mr Deryck Graham Jnr	Executive Director
Mr Errol McCormack AO (appointed 11 August 2010)	Non-Executive Director
Mr David Singleton (appointed 12 October 2010)	Non-Executive Director
Mr David Wills (appointed 26 November 2010)	Non-Executive Director

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

### 2. Results

The Group incurred a loss after tax of \$6,952,598 for the six months ended 31 December 2010 (2009: loss of \$4,294,927).

### 3. Operating Review

#### HIGHLIGHTS

- Development program for Joint Strike Fighter (JSF) manufacturing requiring investment in capital equipment and substantial staff resources is progressing on schedule.
- The first of several anticipated Long Term Agreements has been signed with lead JSF contractor, Northrop Grumman, as per the Memorandum of Understanding (MoU) that was signed in November 2009. The agreement was signed subsequent to the end of the reporting period.
- High-calibre additions to the Quickstep Board, with Air Marshal Errol McCormack (Retired), David Singleton and David Wills appointed as Non-Executive Directors.
- Appointment of experienced aerospace executives Sebastien Godbille as General Manager of Quickstep Process Systems and Ari Vihersaari as Vice President of Global Business Development.
- Licensing agreement signed with Vector Composites, Inc ("Vector") in US, allowing Vector to use the patented Quickstep Process in the key North American market.
- Formal teaming agreement signed with Vector to jointly promote the Quickstep Process in North America.
- Funding granted from the German federal government to develop next-generation manufacturing moulds.
- Cash reserves and investments in term deposits at the end of the reporting period of \$12.494 million.

#### Joint Strike Fighter Program

The Company's Australian operations remain focused on completing the necessary work to commence component manufacture for the F-35 aircraft program.

Substantial management effort has been directed to securing the future of the JSF program through negotiation of a Long Term Agreement (LTA) and securing of a suitable location for future manufacturing facilities. Systems and procedures to support manufacturing operations have been developed and implemented.

During the reporting period, Quickstep completed the following development activities required for the commencement of JSF manufacturing:

- Quickstep employees received Technical Assistance Training on the methods, tools and processes for the manufacture of JSF parts. Part of this training was at Northrop Grumman's manufacturing facility in the United States.
- The Company's manufacturing readiness, as demonstrated by its equipment, facilities, processes, procedures and trained workforce, was reviewed and tested by Northrop Grumman and found to be ready to commence operations.

## **DIRECTORS' REPORT (cont'd)**

### **Licensing Agreement Signed With Vector Composites**

Quickstep has granted Vector Composites, Inc. ("Vector") a license to use the Quickstep Process for development and manufacturing of advanced composite components. Vector is the first licensee of the Quickstep Process in North America. The licensing agreement will allow Vector to develop and produce composite structural parts using the Quickstep Process for aerospace and defence customers in the North American market from its Dayton, Ohio facility.

Initially, Vector will lease time on a Quickstep machine from Quickstep Composites LLC, a wholly owned subsidiary of Quickstep, located adjacent to the Vector facilities in Dayton. However the non-exclusive license agreement includes thresholds which would trigger the purchase of a Quickstep manufacturing machine by Vector, together with the payment of associated royalties and service fees consistent with Quickstep's business model.

In addition, Quickstep and Vector signed a strategic teaming agreement under which the companies will jointly promote the Quickstep Process for system applications and customers in the aerospace and defence industries of North America.

### **International Showcase Sites and Development Facilities**

#### ***Quickstep GmbH (Germany)***

Quickstep has been awarded funding under the German federal government's WING materials research program, coordinated by the German Ministry for Education & Research, to develop a new technique for building thin-wall moulds for composites manufacturing.

The technique is called 'Sprayforming' and is expected to have important implications for composites manufacturing due to its ability to create moulds - or 'tools' - of complex parts, while also delivering cost efficiencies in the manufacturing process.

If the technology can be successfully developed, Sprayforming would enable the rapid and economic production of thin-wall moulds for large-sized composite aerospace parts with complex geometry. Tooling is currently a key cost component within the manufacturing process, and Quickstep believes the twin benefits of complex geometries and enhanced cost efficiencies will be highly attractive to end users.

Quickstep GmbH is also continuing to work closely with a number of high-profile development partners, including Airbus UK, EADS Innovation Works, Fraunhofer ICT Augsburg and EDAG to develop and promote the commercial and technical advantages of the Quickstep Process. They are all progressing according to plan.

#### ***Quickstep Composites LLC (United States)***

Quickstep Composites LLC is working with Vector Composites on Research and Development work associated with the Small Business Innovation Research (SBIR) contract awarded by the U.S. Air Force in May 2010, aimed at qualifying the Quickstep Process for the manufacture of materials used in the F-35 Joint Strike Fighter.

This R&D program is progressing well and is generating cash flow for the Company.

## **Corporate**

### ***Board Appointments***

Reflecting the impending move into aerospace manufacturing, Quickstep has appointed three high calibre Non-Executive Directors, Air Marshal Errol McCormack (Retired), Mr David Singleton and Mr David Wills, to the Board.

Errol McCormack served in the Royal Australian Air Force for 39 years, retiring in 2001 as Chief of Air Force with the rank of Air Marshal. Since his retirement from the RAAF he has established a company providing consultancy services for multi-national companies working with the Australian Department of Defence. He has outstanding contacts throughout the Australian and international defence industries, and significant experience in assisting companies such as Quickstep in defence contracting and government liaison.

## **DIRECTORS' REPORT (cont'd)**

David Singleton worked for 19 years for BAE Systems (formerly British Aerospace) in a variety of roles. He was the Group Head of Strategy, Mergers and Acquisitions for BAE Systems based in London. Prior to that, Mr Singleton spent three years as the Chief Executive Officer of Alenia Marconi Systems (a BAE Systems European Joint Venture) and was based in Rome, Italy. Mr Singleton has served as a member of the National Defence Industries Council in the UK, and as a board member and Vice-President of Defence for Intellect. David became the Chief Executive Officer and Managing Director of Poseidon Nickel in July 2007. He was the Chief Executive Officer and Managing Director of Clough Limited between August 2003 and January 2007. He is a non-executive Director of Triton Gold which was one of the few successful resource IPO's on the ASX in 2009. Mr Singleton has over 20 years international business experience in senior executive roles, primarily in Europe, USA and Australia.

Mr David Wills is a Chartered Accountant and was an audit partner with PricewaterhouseCoopers for 24 years. He retired from the firm in 2004 having held a number of management positions including Deputy Chairman of PwC in Australia, Managing Partner of the Sydney office, Chairman of the manufacturing practice and Managing Partner of the PNG practice. He is currently a Non-Executive Director of Washington H Soul Pattinson & Company Limited; Clover Corporation Limited; Souls Private Equity Limited; and Wesfarmers General Insurance Limited.

### ***Senior Executive Appointments***

Quickstep has appointed Sebastien Godbille to the position of General Manager of Quickstep Process Systems and Ari Vihersaari to the position of Vice President of Global Business Development.

Sebastien Godbille is a highly experienced aerospace executive, who joined Quickstep following three years as CEO of Daher Australian Aerospace, where he was responsible for building and managing a new multi-million-dollar facility in south-east Queensland dedicated to the manufacture of advanced composite parts for helicopter fuselages for Eurocopter.

Ari Vihersaari is an aeronautical engineer and has an MBA degree. He has worked in the aerospace, defence and advanced composite industries for over twenty years. Among other responsibilities, he managed an advanced composites company engaged in the design and manufacture of composite ship superstructures and lightweight armouring. His aerospace and defence experience includes over 10 years with Patria Corporation and its predecessor companies, where he held positions in aeronautical engineering, sales & marketing and management, working on Airbus and Boeing aircraft programs and specifically on business related to composite aerostructures.

### **Current Focus and Outlook**

Quickstep's Australian focus remains on completing the necessary preparations to commence Joint Strike Fighter manufacturing before the end of the 2011 calendar year, ahead of first parts delivery in early 2012.

In addition, the Company is actively seeking to secure additional manufacturing contracts in the global aerospace and defence industries.

In parallel, Quickstep is actively working with customers and development organisations to commercialise the Quickstep Process for use in the Aerospace, Defence and Automotive industries. Our teams in Germany, the USA and Australia are jointly working to deliver specific Quickstep solutions including programs supported by the US Department of Defense, major European based aerospace OEM's and selected members of the automotive industry. Development is now firmly focused on commercial solutions.

## **4. Events Subsequent to Reporting Date**

### **Long Term Agreement Signed with Northrop Grumman**

Subsequent to the end of the reporting period, Quickstep signed a Long Term Agreement (LTA) with lead JSF contractor Northrop Grumman on 2 February 2011.

The LTA is the first of several agreements which will implement the Memorandum of Understanding (MoU) that was signed in November 2009 with F-35 prime contractor Lockheed Martin and Northrop Grumman, one of its principal F-35 contractors.

## **DIRECTORS' REPORT (cont'd)**

Under the MoU, Quickstep may supply up to 16 different JSF components, including lower side skins, maintenance access panels, fuel tank covers, lower skins and in-board weapons bay doors, projected to amount to some 30,000+ parts over the life of the program. The components are in 3 Groups, each of which will involve increasing skills and manufacturing complexity over staged implementation dates. Each Group will be covered by separate LTAs. The value of each LTA is expected to reflect the complexity of the parts produced and whilst this LTA is expected to be the lowest in value, Directors consider it to be a significant achievement in demonstrating the development of Quickstep's manufacturing capability, confirming Quickstep's ability to provide competitive pricing and establishes a precedent for the conversion of the balance of the MoU into firm commitments.

The LTA allows for annual purchase orders to be issued for Group 1 parts. The first delivery of these parts and first cash flow is anticipated to be in 2012.

### **Manufacturing Facility to be relocated to Bankstown, NSW**

On 2 February 2011, Quickstep announced its intentions to secure a long-term lease over buildings at Bankstown Airport in south-west Sydney, as the location for a major new aerospace manufacturing facility. The site was previously used by US aerospace giant Boeing, and will enable Quickstep to secure a long-term lease over a manufacturing facility that offers the scale, resources and utilities necessary to undertake large-scale aerospace and defence manufacturing.

The move to Bankstown will provide Quickstep with the manufacturing capacity to become the largest independent aerospace composites manufacturer in Australia, with the Company actively seeking further manufacturing contracts.

The decision to establish a new manufacturing hub in NSW was underpinned by strong support from the NSW Government and the ability to access an existing workforce with the specialist skill sets required to deliver a large scale defence program such as JSF, together with access to the large network of suppliers located in NSW and on the east coast of Australia.

Whilst the relocation plans are yet to be fully developed, at this time Quickstep intends to undertake a staged transition from its existing facility in Western Australia.

## **5. 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 2010, is set out on page 19.

Dated at Perth, Western Australia this 23rd day of February 2011.

Signed in accordance with a resolution of the Directors:



P M Odouard

*Managing Director*



**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>\$</b>	<b>\$</b>
Revenue	230,673	127,137
Cost of sales	<u>(82,316)</u>	<u>(49,682)</u>
Gross profit	148,357	77,455
Other income	644,164	336,143
Administration and corporate expenses	(2,291,145)	(1,524,479)
Marketing expenses	(451,849)	(403,455)
Operational expenses	(4,333,683)	(1,971,012)
Research and development expenses	(824,838)	(264,047)
Other expenses	<u>(114,285)</u>	<u>(57,894)</u>
<b>Loss from operating activities</b>	<b>(7,223,279)</b>	<b>(3,807,289)</b>
Financial income	411,873	77,176
Financial expense	<u>(131,877)</u>	<u>(565,843)</u>
Net financing income	<u>279,996</u>	<u>(488,667)</u>
<b>Loss before income tax</b>	<b>(6,943,283)</b>	<b>(4,295,956)</b>
Income tax (expense)/benefit	<u>(9,315)</u>	<u>1,029</u>
<b>Loss for the period</b>	<b><u>(6,952,598)</u></b>	<b><u>(4,294,927)</u></b>
Other comprehensive income		
Foreign currency translation difference for foreign operations	<u>(113,103)</u>	<u>(48,675)</u>
<b>Other comprehensive income for the period, net of income tax</b>	<b><u>(113,103)</u></b>	<b><u>(48,675)</u></b>
<b>Total comprehensive income for the period</b>	<b>(7,065,701)</b>	<b>(4,343,602)</b>
<b>Loss attributable to:</b>		
Owners of the Company	(6,952,598)	(4,294,927)
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	(7,065,701)	(4,343,602)
<b>Earnings per share</b>		
Basic loss (cents/share) for Quickstep Holdings Ltd	(2.75)	(2.58)
There is no material dilutive effect of potential ordinary shares		

The condensed consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010**

	Note	31 December 2010 \$	30 June 2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	5,492,989	12,225,823
Trade and other receivables		1,105,869	1,156,488
Inventories		162,253	76,673
Other financial assets	8	7,057,420	10,238,422
Other assets		191,402	496,385
<b>TOTAL CURRENT ASSETS</b>		<u>14,009,934</u>	<u>24,193,791</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	9,726,390	8,091,182
Intangible assets		437,244	381,503
<b>TOTAL NON-CURRENT ASSETS</b>		<u>10,163,634</u>	<u>8,472,685</u>
<b>TOTAL ASSETS</b>		<u>24,173,568</u>	<u>32,666,476</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		1,778,300	3,626,875
Loans and borrowings		18,705	9,890
Employee benefits		261,325	119,892
<b>TOTAL CURRENT LIABILITIES</b>		<u>2,058,330</u>	<u>3,756,657</u>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables		518,386	471,093
Loans and borrowings		20,772	8,242
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>539,158</u>	<u>479,335</u>
<b>TOTAL LIABILITIES</b>		<u>2,597,488</u>	<u>4,235,992</u>
<b>NET ASSETS</b>		<u>21,576,080</u>	<u>28,430,484</u>
<b>EQUITY</b>			
Share capital	10	62,296,410	62,296,410
Other reserves		474,146	1,060,484
Accumulated losses		(41,194,476)	(34,926,410)
<b>TOTAL EQUITY</b>		<u>21,576,080</u>	<u>28,430,484</u>

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

	Share capital	Translation reserve	Share based payments reserve	Convertible instruments reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2009	30,146,119	31,388	369,084	46,966	(23,955,797)	6,637,760
<b>Total comprehensive income for the period</b>						
Loss for the period	-	-	-	-	(4,294,927)	(4,294,927)
<b>Other comprehensive income</b>						
Foreign currency translation difference	-	(48,675)	-	-	-	(48,675)
<b>Total comprehensive income for the period</b>	-	(48,675)	-	-	(4,294,927)	(4,343,602)
<b>Transactions with owners, recorded directly in equity</b>						
Issue of convertible instruments	-	-	-	724,898	-	724,898
Issue of ordinary shares	12,075,413	-	-	-	-	12,075,413
Share raising costs	(574,600)	-	-	-	-	(574,600)
Share based transaction payments	-	-	(82,535)	-	-	(82,535)
<b>Total transactions with owners</b>	11,500,813	-	(82,535)	724,898	-	12,143,176
<b>Balance at 31 December 2009</b>	<b>41,646,932</b>	<b>(17,287)</b>	<b>286,549</b>	<b>771,864</b>	<b>(28,250,725)</b>	<b>14,437,333</b>

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

	Note	Share capital	Translation reserve	Share based payments reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$
Balance as at 1 July 2010		62,296,410	(96,607)	1,157,091	(34,926,410)	28,430,484
<b>Total comprehensive income for the period</b>						
Loss for the period		-	-	-	(6,952,598)	(6,952,598)
<b>Other comprehensive income</b>						
Foreign currency translation difference		-	(113,103)	-	-	(113,103)
<b>Total comprehensive income for the period</b>		-	(113,103)	-	(6,952,598)	(7,065,701)
<b>Transactions with owners, recorded directly in equity</b>						
Share based transaction payments	11	-	-	211,297	-	211,297
Transfer on exercise of employee options and rights	10	-	-	(684,532)	684,532	-
<b>Total transactions with owners</b>		-	-	(473,235)	684,532	211,297
<b>Balance at 31 December 2010</b>		<b>62,296,410</b>	<b>(209,710)</b>	<b>683,856</b>	<b>(41,194,476)</b>	<b>21,576,080</b>

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

	Note	31 December 2010 \$	31 December 2009 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		427,495	100,686
Interest received		632,853	77,176
Interest paid		(1,942)	(148,500)
Research and development tax offset rebate and government grants		532,366	665,692
Cash paid to suppliers and employees		<u>(8,867,105)</u>	<u>(3,942,918)</u>
<b>Net cash from/(used in) operating activities</b>		<u>(7,276,333)</u>	<u>(3,247,864)</u>
<b>Cash flows from investing activities</b>			
Acquisition of plant and equipment		(2,146,008)	(531,006)
Acquisition of intangibles		(174,379)	-
Proceeds from term deposits		<u>3,000,000</u>	<u>-</u>
<b>Net cash from/(used in) investing activities</b>		<u>679,613</u>	<u>(531,006)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		-	12,726,650
Payment of transaction costs		-	(574,600)
Proceeds from convertible loans		-	4,000,000
Finance lease payments		<u>(7,953)</u>	<u>(4,945)</u>
<b>Net cash from/(used in) financing activities</b>		<u>(7,953)</u>	<u>16,147,105</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		(6,604,673)	12,368,235
Effects of exchange rate changes on cash held in foreign currencies		(128,161)	(48,930)
Cash and cash equivalents at 1 July		<u>12,225,823</u>	<u>2,815,876</u>
<b>Cash and cash equivalents at 31 December</b>	8	<u><b>5,492,989</b></u>	<u><b>15,135,181</b></u>

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

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

### **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 six months ended 31 December 2010 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 (see Note 7).

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2010 are available upon request from the Company's registered office at 136 Cockburn Road, North Coogee, Western Australia, or may be viewed on the Company's website, [www.quickstep.com.au](http://www.quickstep.com.au).

### **2. Statement of compliance**

The condensed 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 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 2010.

The condensed consolidated interim financial statements were approved by the Board of Directors on 23 February 2011.

### **3. Significant accounting policies**

The accounting policies and method of computation applied by the Group in these condensed 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 2010 with the exception of the basis for presenting operating segments (see Note 7) and presentation of transactions recognised in other comprehensive income (see below):

#### **(a) Presentation of transactions recognised in other comprehensive income**

From 1 July 2010 the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in the interim 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 condensed 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 2010.

### **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 2010.

### **6. Financial position**

The Group has incurred a loss after tax for the six months to 31 December 2010 of \$6,952,598 (2009: loss \$4,294,927). The Group has a surplus in working capital at 31 December 2010 of \$11,951,603 (30 June 2010: surplus \$20,437,134).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2010 (cont'd)

### 6. Financial position (cont'd)

Since 30 June 2010, the Group has continued to pursue its objectives of securing a Long Term Agreement (LTA) for the supply of Joint Strike Fighter (JSF) parts and ready itself for commercial manufacturing activities. Consistent with this objective it:

- invested \$2.1 million in capital equipment to develop aerospace manufacturing capability; and
- utilised cash resources of \$7.3 million for operating requirements, a majority of which has been to develop aerospace manufacturing capability.

These activities have been the principal contributors to the reduction in cash reserves since 30 June 2010.

As a consequence of the above activities, since 30 June 2010, the Group has:

- signed an LTA with lead JSF contractor Northrop Grumman for the supply of Group 1 parts pursuant to its Memorandum of Understanding (MoU) executed in November 2009. The LTA allows for annual purchase orders to be issued. It is expected that further long term agreements will be negotiated for Group 2 and 3 parts;
- announced the intention to establish production facilities in Bankstown, NSW; and
- signed a Deed of Arrangements with the NSW state government which provides for incentives subject to certain conditions, including signing of the LTA with Northrop Grumman and establishment of production facilities in NSW

The Group also continues to actively seek opportunities for the sale of Quickstep machines and licensing of its associated technology, as well as outsourced composite manufacturing contracts.

These activities, in the opinion of Directors, warrant the ongoing commitments of the Group's financial resources to enable future profitable operations. Such operations are expected to enable recovery of the Group's investment in property, plant and equipment and intangible assets.

The Group will continue to invest in the development of its production capability including the Bankstown facility. Existing and planned capital expenditure commitments for the remainder of 2011, together with anticipated working capital outflows, are anticipated to deplete existing cash reserves during the 2011 calendar year and therefore additional sources of funds will be required. Given the recent success of the Company in fund raising activities, together with initial and ongoing discussion with potential sources of funds, anticipated ongoing support of key investors and fund raising alternatives available, the Directors anticipate that either equity and/or debt funding will be obtained as required.

For the reasons discussed above, the Directors are confident that the Group will be able to continue its operations into the foreseeable future.

### 7. Operating segments

#### Information about reportable segments For the six months ended 31 December 2010

	Manufacturing		Quickstep Process		Research and Development		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	-	11,558	-	-	230,673	115,579	230,673	127,137
Reportable segment loss before income tax	(4,274,704)	(1,500,732)	(54,795)	-	(453,604)	(749,207)	(4,783,103)	(2,249,939)
Reportable segment assets	8,961,280	6,572,517	-	-	1,463,046	950,851	10,424,326	7,523,368

The Group has three operating segments, as described below. These operating segments are managed separately because they address Quickstep's three separate strategies to grow the business and are reported to the CEO on at least a quarterly basis.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010 (cont'd)**
**7. Operating segments (cont'd)**

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 Process** - Licensing our "Quickstep Process" technology to Original Equipment Manufacturers (OEM's) and their suppliers, and providing them with Quickstep machines and support services.
- **Research and Development** - Conducting research and development on Quickstep and associated technologies where possible on a paid basis on behalf of customers to validate its suitability for their needs and/or develop the technology to meet their specific requirements.

There is integration between the segments in the form of use of the Manufacturing segment assets for Research and Development purposes.

The basis of segmentation has been changed from the geographical basis presented in the consolidated financial statements as at and for the year ended 30 June 2010. Comparative segment information has been restated in conformity with the requirement of AASB 8 *Operating Segments*.

	<b>31 December 2010</b>	<b>31 December 2009</b>
	\$	\$
<b>Reconciliation of reportable segment loss</b>		
Total loss for reportable segments	(4,783,103)	(2,249,939)
Unallocated amounts: other corporate expenses	(2,160,180)	(2,046,017)
Consolidated loss before income tax	<u>(6,943,283)</u>	<u>(4,295,956)</u>

**Reconciliation of reportable segment assets**

Total assets for reportable segments	10,424,326	7,523,368
Unallocated amounts: other corporate assets	13,749,242	25,143,108
Consolidated total assets	<u>24,173,568</u>	<u>32,666,476</u>

**8. Cash and other financial assets**

	<b>31 December 2010</b>	<b>30 June 2010</b>
	\$	\$
Cash and cash equivalents	5,492,989	12,225,823
Term deposits	7,000,000	10,000,000
Total cash and term deposits	<u>12,492,989</u>	<u>22,225,823</u>
Interest receivable on term deposits	57,420	238,422
Total cash and other financial assets	<u>12,550,409</u>	<u>22,464,245</u>



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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010 (cont'd)****9. Property, plant and equipment****Acquisitions and disposals**

During the six months ended 31 December 2010 the Group acquired assets with a cost of \$2,192,460 (six months ended 31 December 2009: \$531,006)

**Capital commitments**

During the six months ended 31 December 2010 the Group entered into a contracts to purchase property, plant and equipment for;

- a 5-axis precision milling machine for \$2,336,895 (€1,765,261) for delivery in the last quarter of the 2011 financial year of which \$490,146 (€353,052) has been paid on this contract during the reporting period; and
- a 10-axis C-GIS2 Complex Geometry Inspection System for \$953,303 (£627,750) for delivery in the second quarter of the 2012 financial year.

**10. Share capital****Issuances**

On 23 September 2010, 1,851,852 ordinary shares were issued as a result of the exercise of vested options (\$Nil strike price) arising from the options previously granted from the Quickstep Employee Incentive plan (EIP) (Refer to consolidated financial statements for the Group as at and for the year ended 30 June 2010 for the terms and conditions of the EIP). Options were exercised for zero value. All issued shares are fully paid.

On 24 December 2010, 294,118 ordinary shares were issued to Mr Philippe Odouard for nil consideration as a result of loyalty bonus share rights which had vested and were exercised. Mr. Odouard's executive service agreement provides for the ability to earn a loyalty bonus based on years of service for the Company. His total entitlement is 882,353 shares, with one third vested following the November 2010 Annual General Meeting (AGM) and two thirds vesting following the November 2011 AGM.

**11. 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 2010.

On 26 November 2010, at the Group's 2010 Annual General Meeting, shareholders approved the offer of a further 471,337 options to Mr. Odouard. The offer was accepted and the options were granted on 26 November 2010 with a fair value of \$170,624, utilising a Monte-Carlo simulation.

**Loyalty bonus (equity-settled)**

During the six months ended 31 December 2010, the Group has entered into executive service agreements with two key management personnel that have terms for an equity-settled loyalty bonus based on completed years of service. The total amount of share rights granted during the period is for 517,605 shares with a fair value of \$137,077. The fair value of these share rights is determined as the quoted price on the ASX of the shares of the Company on the day the share rights were granted. One third of the share rights will vest in July 2012 and the remaining two thirds will vest in July 2013.

**12. Other commitments**

The Group has entered into a purchase agreement for the supply of technical assistance and training from Northrop Grumman in order to achieve fundamental capability in relation to the Joint Strike Fighter program. As at 31 December 2010, the remaining commitment is \$1,416,578 (US\$1,439,668).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010 (cont'd)**

**13. Subsequent events**

On 2 February 2010, Quickstep signed a Long Term Agreement (LTA) with Northrop Grumman for the manufacture of components for the new multi-nation Joint Strike Fighter program. The LTA is for Group 1 parts and allows for annual purchase orders to be issued. The first sales under the LTA framework are expected in 2012.

On 31 January 2010, a decision was approved by the board of the Company to relocate the Group's Australian operations from North Coogee, Western Australia to Bankstown, New South Wales to secure the Group's long-term aerospace manufacturing capabilities. The company is currently developing its relocation plans which are anticipated to include the future decommissioning of the North Coogee site and transition the Western Australian operations to Bankstown. However, the plans are not yet sufficiently developed to enable the Directors to reliably estimate the timing for any such decommissioning and transition or the potential financial effect.

**DIRECTORS' DECLARATION  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

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 2010 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.

Dated at Perth, Western Australia this 23rd day of February 2011.

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**

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Quickstep Holdings Limited (the Company), which comprises the condensed consolidated statement of financial position as at 31 December 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half year ended on that date, notes 1 to 13 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's end or from time to time during the half-year period.

#### *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 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 2010 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 2010 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*.

KPMG

KPMG



Matthew Beevers  
*Partner*

Perth

23 February 2011



*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

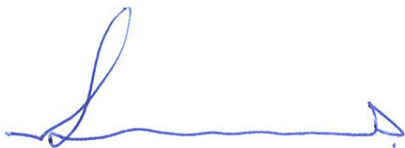
To: the directors of Quickstep Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 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



Matthew Beevers  
*Partner*

Perth

23 February 2011