

Appendix 4E

Preliminary Final Report to the Australian Securities Exchange

Part 1

Name of Entity	Quickstep Holdings Limited
ABN	55 096 268 156
Financial Period	Year ended 30 June 2017
Previous Corresponding Reporting Period	Year ended 30 June 2016

Part 2 – Results for Announcement to the Market

	2017 \$'000	2016 \$'000	Percentage increase /(decrease) over previous corresponding period
Revenue from continuing operations	51,915	50,198	4%
EBIT before R&D Costs	(208)	1,306	-
R&D Costs (including new technology and product development costs)	(5,492)	(3,487)	(57%)
EBIT	(5,700)	(2,181)	(161%)
Net Financing Costs	(962)	(3,604)	73%
Loss after related income tax benefit	(6,662)	(5,785)	(15%)
Net loss attributable to members of the parent entity	(6,662)	(5,785)	(15%)

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	Nil	Nil
Interim Dividend	Nil	Nil
Record date for determining entitlements to the dividends (if any)	Not Applicable	

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Sales increased by 4% to \$51.9 million with strong growth in JSF volumes offset by lower volumes of wing flap assemblies for C-130J. Total JSF deliveries were 1,230 parts, an increase of 108% on the 590 parts delivered in FY16. C-130J shipset deliveries of 27.25 (26 shipsets and 5 spares) returned to normal program volumes after 35 ship-sets were delivered in FY16 as scheduled by Lockheed Martin.

Gross margin was impacted in FY17 with a change in business mix from the stable C-130J program to higher JSF revenues. Margin was impacted by the learning curve as the business ramped up vertical tails production (514 parts delivered in FY17 versus 32 in the prior year), commissioning of the automated drilling equipment for C-130J in February 2017 and the low capacity utilisation at Bankstown. Future production volumes will increase substantially; current JSF production represents approximately 50% of FY19 forecast volumes and 45% of FY20 and FY21 volumes, and as production increases, the company will benefit from economies of scale and increased margins.

Research & Development costs were higher at \$5.5 million compared to \$3.5 million in the prior year. This was critical to further developing the company's proprietary process technologies and the new business and production programs at the company's Geelong facilities. R&D expenditure is fully expensed in the year incurred.

Net financing costs were lower in FY17 at \$1.6 million compared to \$4.6 million in the prior year. FX impacts were \$(0.5) million in FY17 versus \$(1.4) million in FY16 and the prior year also included \$2.2 million of non-cash interest costs relating to the Newmarket loan.

The Group incurred a loss of \$6.7 million in the current year versus a loss of \$5.8 million in FY16.

Operating cashflow was \$0.1 million after the \$5.5 million investment in R&D. Inventory decreased \$1.3 million to close at \$10.6 million at 30 June 2017. Income from grants was \$0.5 million, in line with the previous year.

Net cash decreased to \$3.7 million after the \$3.9 million capital equipment investment for future capacity which was completed during the year. The business also had a net financing cash outflow of \$0.3 million in FY17, with repayments of principal and capitalised interest made against the \$10 million long term Efic loan and \$1.5 million drawn down against a new Efic \$3 million Export Contract Loan.

As at 30 June 2017 the company had total cash and deposits of \$4.4 million of which \$0.7 million were in restricted term deposits. Net assets at 30 June 2017 were \$8.0 million.

The group's cash balance closed in line with management expectations and will support delivery of Quickstep's booked orders as well as forecast reduced investment of \$2.8 million in R&D for FY18.

Part 3 – Contents of ASX Appendix 4E

Section	Contents
Part 1	Details of entity, reporting period
Part 2	Results for announcement to the market
Part 3	Contents of ASX Appendix 4E
Part 4	Consolidated statement of profit and loss and other comprehensive income
Part 5	Consolidated Statement of changes in equity
Part 6	Consolidated balance sheet
Part 7	Consolidated statement of cash flows
Part 8	Other income and expenses
Part 9	Details relating to dividends
Part 10	Loss per share
Part 11	Net tangible assets per security
Part 12	Details of entities over which control has been gained or lost
Part 13	Issued securities
Part 14	Financial position
Part 15	Subsequent events
Part 16	Audit status

Part 4 – Consolidated statement of profit and loss and other comprehensive income

	2017 (\$000)	2016 (\$000)
Sales revenue	51,915	50,128
Cost of sales	(44,175)	(39,700)
Gross profit	7,740	10,428
Other income	532	460
Research and development expenses	(5,492)	(3,487)
Corporate and administrative expenses	(8,083)	(7,567)
Other expenses	(398)	(2,015)
Loss from operating activities	(5,700)	(2,181)
Financial income	606	1,008
Financial expense	(1,568)	(4,612)
Net financing costs	(962)	(3,604)
Loss before income tax	(6,662)	(5,785)
Income tax (expense) benefit	-	-
Loss for the period	(6,662)	(5,785)
Other comprehensive loss, (income) net of income tax		
Items that may be reclassified to profit and loss		
Foreign currency translation difference for foreign operations	68	(55)
Reclassification of foreign currency differences on closure of US subsidiary	-	301
Other comprehensive income for the period, net of tax	68	246
Total comprehensive loss for the period	(6,594)	(5,539)

Part 5 –Consolidated Statement of Changes in Equity

	Share capital	Foreign Currency Translation reserve	Share based payments	Accumulated losses	Total Equity
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2015	88,228	(549)	3,655	(92,567)	(1,233)
Total comprehensive income for the period					
Loss for the period	-	-	-	(5,785)	(5,785)
Other comprehensive income					
Reclassification of foreign currency differences on closure of US subsidiary	-	301	-	-	301
Foreign currency translation difference	-	(55)	-	-	(55)
Total comprehensive income for the period	-	246	-	(5,785)	(5,539)
Transactions with owners in their capacity as owners:					
Issue ordinary shares	20,890	-	-	-	20,890
Share based transaction payments	-	-	114	-	114
Total transactions with owners	20,890	-	114	-	21,004
Balance at 30 June 2016	109,118	(303)	3,769	(98,352)	14,232
Balance at 1 July 2016	109,118	(303)	3,769	(98,352)	14,232
Total comprehensive income for the period					
Loss for the period	-	-	-	(6,662)	(6,662)
Other comprehensive income					
Foreign currency translation difference	-	68	-	-	68
Total comprehensive income for the period	-	68	-	(6,662)	(6,594)
Transactions with owners in their capacity as owners:					
Share based transaction payments	-	-	326	-	326
Balance at 30 June 2017	109,118	(235)	4,095	(105,014)	7,964

Part 6 – Consolidated Balance Sheet

	2017 (\$000)	2016 (\$000)
CURRENT ASSETS		
Cash and cash equivalents	3,722	7,578
Trade and other receivables	6,292	5,320
Inventories	10,599	11,906
Other financial assets	718	963
Other assets	635	398
Total Current Assets	21,966	26,165
NON CURRENT ASSETS		
Property, plant and equipment	14,753	13,058
Intangible assets	61	25
Total Non Current Assets	14,814	13,083
TOTAL ASSETS	36,780	39,248
CURRENT LIABILITIES		
Trade and other payables	10,563	7,196
Deferred income	4,220	3,182
Loans and borrowings	3,763	2,159
Employee benefits	1,138	950
Total Current Liabilities	19,684	13,487
NON CURRENT LIABILITIES		
Employee benefits	210	199
Deferred income	682	1,566
Loans and borrowings	8,240	9,764
Total Non Current Liabilities	9,132	11,529
TOTAL LIABILITIES	28,816	25,016
NET ASSETS	7,964	14,232
EQUITY		
Issued capital	109,118	109,118
Reserves	3,860	3,466
Accumulated losses	(105,014)	(98,352)
TOTAL EQUITY	7,964	14,232

Part 7 – Consolidated Statement of Cash Flows

	2017 (\$000)	2016 (\$000)
Cash flows from operating activities		
Cash receipts in the course of operations	50,860	49,190
Interest received	31	83
Interest, other finance cost paid and realized FX	(74)	(1,370)
Government grants	532	460
Cash payments in the course of operations	(51,255)	(53,278)
<i>Net cash provided by/ (used in) operating activities</i>	94	(4,915)
Cash flows from investing activities		
Payments for property, plant and equipment	(3,970)	(3,412)
Receipts from (investment in) term deposits	245	(254)
<i>Net cash (used in) investing activities</i>	(3,725)	(3,666)
Cash flows from financing activities		
Net proceeds from issues of shares	-	20,890
Proceeds from borrowings	1,500	-
Repayment of borrowings	(1,250)	(5,500)
Payment of borrowing costs	(542)	(329)
Finance lease payments	(1)	(8)
<i>Net cash (used in)/ provided by financing activities</i>	(293)	15,053
Net (decrease) increase in cash held	(3,924)	6,472
Effects of foreign exchange rate changes	68	(64)
Cash at the beginning of the year	7,578	1,170
CASH AT THE END OF THE YEAR	3,722	7,578

Part 8 – Other Income and Expenses

The loss before income tax includes the following items of revenue and expense:	2017	2016
	(\$000)	(\$000)
(a) Other income		
Government grants	532	460
(b) Other expenses		
Marketing expenses	53	199
Write off bad debt	345	-
Indirect taxes related to German operations	-	1,633
Loss on disposal of plant and equipment	-	183
	398	2,015
(c) Employee benefits expense		
Wages and salaries	19,050	19,710
Defined contribution plan expenses	1,536	1,355
Increase in liability for annual leave	199	288
Expense of share based payments	326	114
	21,111	21,467

Part 9 – Details Relating to Dividends

Date the dividend is payable	N/A
Record date to determine entitlement to the dividend	N/A
Amount per security	N/A
Total dividend	N/A
Amount per security of foreign sourced dividend or distribution	N/A
Details of any dividend reinvestment plans in operation	N/A
The last date for receipt of an election notice for participation in any dividend reinvestment plans	N/A

Part 10 – Loss per Share

	2017	2016
Basic loss per share		
Ordinary shares	(1.18 cents)	(1.17 cents)
	No.	No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share.	562,538,584	495,782,664
Diluted loss per share		
Diluted ordinary shares	(1.18 cents)	(1.17 cents)
	No.	No.
Weighted average number of diluted ordinary shares used as the denominator in the calculation of diluted earnings per share.	562,538,584	495,782,664

Part 11 – Net Tangible Assets per Security

	2017	2016
Net tangible asset backing per ordinary security	1.40 cents	2.53 cents

Part 12 – Details of Entities over Which Control has been Gained or Lost

Not applicable.

Part 13 – Issued Securities

	2017 (\$000)	2016 (\$000)
Issued capital		
562,880,792 (2016 562,474,143) fully paid ordinary shares	109,118	109,118

The following movements in issued capital occurred during the year:

	<u>2017</u>		<u>2016</u>	
	No. of shares	\$000	No. of shares	\$000
Balance at the beginning of the year	562,474,143	109,118	397,873,501	88,228
Shares issued on exercise of rights	406,649	-	595,053	-
Share issue and capital raising costs	-	-	164,005,589	20,890
Balance at the end of the year	562,880,792	109,118	562,474,143	109,118

Options

Options granted during the year

During the financial year, the Company granted no options.

Unissued shares under option

At 30 June 2017, unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Options	
		2017	2016
31 December 2018	\$0.1625	25,000,000	25,000,000

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

Exercise of options

During the current financial year the company issued no shares as a result of the exercise of options (2016: Nil).

Lapse of options

During the current financial year and the previous financial year, no options lapsed.

Part 14– Financial Position

As at 30 June 2017 the company has cash and deposits of \$ 4.4 million of which \$718,000 is in restricted term deposits held in Other Financial Assets.

Part 15– Subsequent Events

On 1 August 2017, the business announced a number of changes to drive profitability and growth, following a comprehensive strategy and operational review by its new CEO/Managing Director, the executive management team and the Board. The updated strategy, OneQuickstep, includes a revised organisational structure and leadership roles, productivity and efficiency improvements, refocused R&D investment and a focus on targeted business development and growth.

Part 16 – Audit Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been audited		The accounts have been subject to review	
The accounts are in the process of being audited or subject to review	✓	The accounts have not yet been audited or reviewed	

If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

The Group has incurred a loss after tax for the year ended 30 June 2017 of \$6,662K (2016: loss after tax of \$5,785K). At 30 June 2017 the Group has net assets of \$7,964K (2016: net assets of \$14,232K). Operating cashflow for the year was \$94K after R&D investment of \$5,492K.

The loss reflects the ongoing investment by the business in R&D and lower margins from its operations due to the JSF program still being below 50% of future volumes, changed business mix, learning curve costs in the first year of vertical tails production and commissioning of the C-130J automated drilling equipment.

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

- Cost controls
- Delivering manufacturing efficiencies for existing programs;
- Reduced R&D spend; and
- Additional sources of debt funding

The going concern basis presumes that a combination of the above solutions, as deemed appropriate by the Directors, will be achieved and that the realisation of assets and settlement of liabilities will occur in the normal course of business. Notwithstanding the confidence of the Directors, if the combined effect of the above solutions should not be wholly successful, there is a material uncertainty as to whether the Group would continue as a going concern.

The Directors consider that there is a basis to expect the Group will be able to meet its commitments and accordingly, the financial report has been prepared on the basis of a going concern. The business announced a number of measures on 1 August 2017 under the OneQuickstep program which include a revised organisational structure and leadership roles, productivity and efficiency improvements, refocused R&D investment and a focus on targeted business development and growth.

If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

Not Applicable