

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 2016
Previous Corresponding Reporting Period	Year ended 30 June 2015

Part 2 – Results for Announcement to the Market

		June 2016 \$'000	June 2015 \$'000
Revenue from ordinary activities	Up 27% to	50,128	39,511
EBIT before R&D Costs and Significant Items	Up 200% to	3,985	1,328
R&D Costs (including new technology and product development costs)	Up 70% to	(3,487)	(2,051)
EBIT before significant Items ¹	Up to	498	(723)
Net financing costs before Significant items	Down to	(2,088)	(3,233)
Significant items net of tax ¹	Up to	(4,195)	19
Loss from ordinary activities after related income tax benefit	Down 47% to	(5,785)	(3,937)
Net loss attributable to members of the parent entity	Down 47% to	(5,785)	(3,937)

1. Refer Part 8 (d) of the attached financial report.

EBIT before significant items is a Non IFRS measure reported to provide a greater understanding of the underlying performance of the business. The disclosures are extracted or derived from the financial report for the year ended 30 June 2016.

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	

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

Total revenue increased 27% with Aerospace Manufacturing increasing by 46% (excluding the Orpe system sale in the prior period), this was driven by strong Aerospace Manufacturing volumes with 35 shipsets of C-130J and 590 JSF parts.

The increased revenue delivered an improved Aerospace Manufacturing result, with the total business achieving an EBIT pre R&D costs and significant items of \$4.0 million, an increase of \$2.7 million over prior year, where FY15 also benefitted from \$1.4 million of higher grants.

The Aerospace Manufacturing business successfully qualified all Vertical Tail components and commenced initial deliveries in FY16. The business incurred \$0.6 million in start-up costs for vertical tails plus a buildup in working capital to support the greater volume.

The business increased investment in R&D, new technology and product development in the second half post the capital raise, with total investment of \$3.5 million for the year, an increase of 70% versus the prior year.

During FY16, the Group set up a new R&D and manufacturing facility at Waurm Ponds. Ford and initial Thales production commenced from this facility. This facility is now focussed on product development programs for both global aerospace and automotive customers as the business continues progress towards its strategy of being a composite components manufacturer for automotive and aerospace.

The business commenced the FY15 period with 120 full time equivalents (FTE) and has grown to 174 FTE at the end of June 2016. Headcount has increased to support both the Aerospace Manufacturing growth and additional R&D activities.

The Group successfully raised \$21 million net of costs in the first half and reduced debt by \$5.5 million, commenced the capital expenditure programs at Bankstown (Aerospace Manufacturing growth) and Waurm Ponds (automotive production and R&D). \$3.4 million of capex was spent in preparation for further growth, with year-end net assets of \$14.2 million versus \$(1.2) million in the prior year.

The Group incurred a loss of \$5.8 million after financing expenses. A number of significant items were recognised in FY16. These amounts total \$4.2 million and are set out in Part 8 of this statement. They relate to four main items – start-up costs for vertical tails \$0.6 million, restructuring of the management team \$0.5 million, indirect taxes relating to the German operation \$1.6 million and financing costs of \$1.5 million.

Financial expenses of \$4.6 million include \$2.2 million relating to treatment of interest for the Newmarket loan, other interest costs and the impact of fx revaluations and are netted off by financial income of \$1.0 million, which reflects a \$0.9 million gain from the revaluation of the Newmarket options.

The Group finished the year with cash on hand of \$7.6 million, in line with management expectations, with a net cash outflow from operating activities of \$4.9 million. This was largely due to increased inventory of \$5.9 million, of which \$3.0 million was for Aerospace Manufacturing growth, \$0.7 million relating to the KIST project and approximately \$2 million of safety stock held during capital implementation projects at Bankstown. This \$2 million is expected to be recovered by 31 December 2016.

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

	Note*	2016 (\$000)	2015* (\$000) <i>Restated</i>
Sales revenue		50,128	39,511
Cost of sales	Part 8(d)(i)	(39,681)	(32,556)
Gross profit		10,447	6,955
Other income		460	1,817
Research and development expenses		(3,487)	(2,051)
Corporate and administrative expenses	Part 8(d)(ii)	(7,567)	(7,158)
Other expenses	Part 8(d)(iii)	(2,034)	(286)
Loss from operating activities		(2,181)	(723)
Financial income		1,008	1,024
Financial expense	Part 8(d)(iv)(v)	(4,612)	(4,238)
Net financing costs		(3,604)	(3,214)
Loss before income tax		(5,785)	(3,937)
Income tax (expense) benefit		-	-
Loss for the period		(5,785)	(3,937)
Other comprehensive loss, (income) net of income tax			
Items that may be reclassified to profit and loss			
Foreign currency translation difference for foreign operations		(55)	(641)
Reclassification of foreign currency differences on closure of US subsidiary		301	-
Other comprehensive income for the period, net of tax		246	(641)
Total comprehensive income for the period		(5,539)	(4,578)

* Notes refer to Significant Items detailed in Part 8(d)(i) to (iv) that are included in the line items

** Certain 2015 expenses have been reclassified to ensure consistency with 2016. There is no change in the total expenses reported.

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 2014	88,228	92	3,397	(88,630)	3,087
Total comprehensive income for the period					
Loss for the period	-	-	-	(3,937)	(3,937)
Other comprehensive income					
Foreign currency translation difference	-	(641)	-	-	(641)
Total comprehensive income for the period	-	(641)	-	(3,937)	(4,578)
Transactions with owners in their capacity as owners:					
Share based transaction payments	-	-	258	-	258
Balance at 30 June 2015	88,228	(549)	3,655	(92,567)	(1,233)
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

Part 6 – Consolidated Balance Sheet

	2016	2015
	(\$000)	(\$000)
CURRENT ASSETS		
Cash and cash equivalents	7,578	1,170
Trade and other receivables	5,320	5,134
Inventories	11,906	5,982
Other financial assets	963	709
Other assets	398	528
Total Current Assets	26,165	13,523
NON CURRENT ASSETS		
Property, plant and equipment	13,058	12,025
Intangible assets	25	20
Total Non Current Assets	13,083	12,045
TOTAL ASSETS	39,248	25,568
CURRENT LIABILITIES		
Trade and other payables	7,196	4,566
Deferred income	3,182	3,204
Loans and borrowings	2,159	5,244
Employee benefits	950	748
Total Current Liabilities	13,487	13,762
NON CURRENT LIABILITIES		
Employee benefits	199	113
Deferred income	1,566	2,426
Loans and borrowings	9,764	10,500
Total Non Current Liabilities	11,529	13,039
TOTAL LIABILITIES	25,016	26,801
NET ASSETS (LIABILITIES)	14,232	(1,233)
EQUITY		
Issued capital	109,118	88,228
Reserves	3,466	3,106
Accumulated losses	(98,352)	(92,567)
TOTAL EQUITY	14,232	(1,233)

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Part 7 – Consolidated Statement of Cash Flows

	2016 (\$000)	2015 (\$000)
Cash flows from operating activities		
Cash receipts in the course of operations	49,190	27,967
Interest received	83	33
Interest, other finance cost paid and realized FX	(1,370)	(492)
R&D tax offset rebate and government grants	460	6,053
Cash payments in the course of operations	(53,278)	(39,941)
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<i>Net cash used in operating activities</i>	(4,915)	(6,380)
Cash flows from investing activities		
Payments for property, plant and equipment	(3,412)	(952)
Sale of plant and equipment	-	257
(Investment in) withdrawal from term deposits	(254)	3,150
	<hr/>	<hr/>
<i>Net cash provided by / (used) in investing activities</i>	(3,666)	2,455
Cash flows from financing activities		
Net proceeds from issues of shares	20,890	-
Proceeds from borrowings	-	5,500
Repayment of borrowings	(5,500)	(500)
Payment of borrowing costs	(329)	(404)
Finance lease payments	(8)	(43)
	<hr/>	<hr/>
<i>Net cash provided by financing activities</i>	15,053	4,553
Net increase (decrease) in cash held	6,472	628
Effects of foreign exchange rate changes	(64)	(24)
Cash at the beginning of the year	1,170	566
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CASH AT THE END OF THE YEAR	7,578	1,170

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Part 8 – Other Income and Expenses

The loss before income tax includes the following items of revenue and expense:		2016 (\$000)	2015 (\$000)			
(a)	Other income					
	Government grants	460	1,817			
(b)	Other expenses					
	Amortisation of intangible assets	19	32			
	Marketing Expenses	230	181			
	Indirect taxes relating to German operations	1,633	-			
	Loss on disposal of assets	183	73			
		2,034	286			
(c)	Employee benefits expense					
	Wages and salaries	18,404	13,114			
	Defined contribution plan expenses	1,355	1,132			
	Other associated personnel expenses	1,306	1,325			
	Increase in liability for annual leave	288	285			
	Expense of share based payments	114	258			
		21,467	16,114			
(d)	Significant Items					
		Impact on Earnings Before Interest and Income Tax	Finance Expenses	Income Tax Expense	Impact on Net Profit	
	Significant Items 2016					
	Vertical Tails start-up and qualification costs	(i)	(556)	-	-	(556)
	Termination and Restructuring Payments	(ii)	(490)	-	-	(490)
	Indirect taxes relating to German operations	(iii)	(1,633)	-	-	(1,633)
	Financing Costs - Newmarket (Net Interest Expense & Options)	(iv)	-	(1,215)	-	(1,215)
	Reclassification of FCTR on finalisation of US entity closure	(v)	-	(301)	-	(301)
	Total Significant Items 2016		(2,679)	(1,516)	-	(4,195)
	Significant Items 2015					
	Financing Costs - Newmarket (Net Interest Expense & Options)	(iv)	-	19	-	19
	Total Significant Items 2015		-	19	-	19

Significant Items Notes	
(i) Vertical Tails start-up and qualification costs	Labour costs incurred and expenses for qualification of vertical tails prior to first sales revenue generation
(ii) Termination and Restructuring Payments	Termination and management restructuring costs of \$490K were made or provided in FY16.
(iii) Indirect taxes relating to German operations	Quickstep has recognised a provision of \$1,633K for potential underpayment of indirect taxes (social security, VAT and employment taxes) applicable to the employment arrangements of former management of the German business. These possible irregularities were recently identified by new Quickstep management, and the Company is currently in the process of determining its overall exposure, including its ability to recover amounts from third parties.
(iv) Financing Costs - Newmarket (Net Interest Expense & Options)	The net impact of the accounting treatment for the Newmarket loan using the effective interest rate method and the movement in the valuation of options associated with that loan was an expense of \$1,215K in FY16, compared with a gain of \$19K in FY15. This will continue to be a significant item until the Newmarket Options expire or are exercised.
(v) Reclassification of FCTR on finalisation of US entity closure	During the year the Group finalised the closure of its previous US subsidiary. As a consequence, the accumulated foreign currency translation losses have been recycled through the profit and loss statement.

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

	2016	2015
Basic loss per share		
Ordinary shares	(1.17 cents)	(0.99 cents)
	No.	No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share.	495,782,664	397,663,615
Diluted loss per share		
Diluted ordinary shares	(1.17 cents)	(0.99 cents)
	No.	No.
Weighted average number of diluted ordinary shares used as the denominator in the calculation of diluted earnings per share.	495,782,664	397,663,615

Part 11 – Net Tangible Assets per Security

	2016	2015
Net tangible asset (liability) backing per ordinary security	2.53 cents	(0.31 cents)

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

Not applicable.

Part 13 – Issued Securities

	2016 (\$000)	2015 (\$000)
Issued capital		
562,474,143 (2015: 397,873,501) fully paid ordinary shares	<u>109,118</u>	<u>88,228</u>

The following movements in issued capital occurred during the year:

	<u>2016</u>		<u>2015</u>	
	No. of shares	\$000	No. of shares	\$000
Balance at the beginning of the year	397,873,501	88,228	397,457,534	88,228
Shares issued on exercise of rights	595,053	-	415,967	-
Share issue and capital raising costs	<u>164,005,589</u>	<u>20,890</u>	-	-
Balance at the end of the year	<u><u>562,474,143</u></u>	<u><u>109,118</u></u>	<u><u>397,873,501</u></u>	<u><u>88,228</u></u>

Options

Options granted during the year

During the financial year, the Company granted options as follows.

Expiry Date	Exercise Price	Number of Options	
		2016	2015
31 December 2018	Refer below *	-	25,000,000

* Option exercise price was set at \$0.1625 post the capital raise in FY16.

Unissued shares under option

At 30 June 2016, unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Options	
		2016	2015
30 March 2017	\$0.00	-	1,091,144
26 November 2017	\$0.00	-	471,337
23 November 2018	\$0.00	-	706,373
22 November 2019	\$0.00	-	987,739
31 December 2018	Refer above *	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 (2015: Nil).

Lapse of options

During the current financial year, 3,256,593 options lapsed (2015: Nil).

Part 14– Financial Position

As at 30 June 2016 the company has cash and deposits of \$8,541K of which \$963K is in restricted term deposits held in Other Financial Assets.

Part 15– Subsequent Events

There have been no events subsequent to balance date which would have a material effect on the Group’s financial statements as at 30 June 2016.

Part 16 – Audit Status

This report is based on accounts to which one of the following applies:
(Tick one)

The accounts have been audited	<input type="checkbox"/>	The accounts have been subject to review	<input type="checkbox"/>
The accounts are in the process of being audited or subject to review	<input checked="" type="checkbox"/>	The accounts have not yet been audited or reviewed	<input type="checkbox"/>

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.

Not applicable

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

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