

APPENDIX 4D AND HALF YEAR FY21 REPORT

Tuesday 23 February 2021: Quickstep Holdings Limited (ASX: QHL) releases its Appendix 4D and Interim Report for the half year ended 31 December 2020.

Authorised by the Board of Quickstep Holdings Limited.

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About Quickstep Holdings

Quickstep Holdings Limited (ASX: QHL) is the largest independent aerospace composite business in Australia, with facilities in Sydney, Geelong, Melbourne and Houston. The group employs more than 270 people in Australia and internationally. More information about Quickstep is available at www.quickstep.com.au

QUICKSTEP HOLDINGS LTD

Appendix 4D

Half Year Report Period Ended 31 December 2020 (Corresponding Period 31 December 2019)

Results for announcement to the Market

	<u>Percentage Change</u>		<u>Dec 2020</u>	<u>Dec 2019</u>
Revenue from ordinary activities	7.94% up	to	\$41,494,000	\$38,441,000
EBIT	32.06% down	to	\$1,579,000	\$2,324,000
Profit/(Loss) from ordinary activities after tax attributable to members	44.44% down	to	\$815,000	\$1,467,000
Net Profit/(Loss) for the period attributable to members	44.44% down	to	\$815,000	\$1,467,000

The Net Profit for the half year of \$815,000 is a \$652,000 (44.44%) decrease on the net profit after tax of \$1,467,000 for the six month period ended 31 December 2019. The increase in revenue is attributable to ongoing growth in the Joint Strike Fighter (JSF) program volumes to full rate production. The decrease in net profit is due to unfavourable AUD vs USD exchange rate movements, an end to payroll tax concessions in December 2019 and a modest price decrease on the C-130 contract.

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

Dividends	Amount per security	Percentage Franked
Current period:		
Interim Dividend	Nil	N/A
Date the Dividend is Payable:		N/A
Record Date for determining entitlements to the Dividend:		N/A
Prior corresponding period:		
Interim Dividend	Nil	N/A
Net Tangible Assets per Security		
As at 31 December 2020	3.2 cents	
As at 31 December 2019	2.7 cents	

Quickstep Holdings Limited

**Interim Financial Report
for the half year ended 31 December 2020**

Interim Financial Report

For the half-year ended 31 December 2020

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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 2020. 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. P Largier
Mr. M H Burgess
Mrs. L Heywood
Mrs. E Mannes
Air Vice Marshal K Osley (Ret'd)

The following person was appointed Chairman of Quickstep Holdings Limited during the half-year and continue up to the date of this report:

Mr. P Largier was appointed Chairman on 31 August 2020 continue in office at the date of this report.

Mr. T H Quick was a Director and Chairman from the beginning of the financial year until his resignation on 31 August 2020.

Review of Operations

Total sales for the half year ended 31 December 2020 were \$41.5 million (H1 FY19 \$38.4 million) representing a 7.9% 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 \$30.9 million (H1 FY20 \$27.9 million) representing a 10.7% increase.

The \$1.6 million operating profit for the first half of FY21 represents a \$0.7m decrease on pcp including a \$1.0m million drop in gross profit (unfavourable exchange rate movement, C-130 price reduction and end of payroll tax concession) partially offset by a \$0.5m decrease in Corporate and BD costs. Investment in R&D including the AeroQure project has increased \$0.6m on the pcp, partially offset by grant funding of \$0.3m.

The H1 FY21 net profit of \$0.8 million represents a \$0.7 million decrease on pcp comprising the \$0.7 million decrease in operating profit, an decrease in net financing costs of \$0.9m (principally representing an improved FX outcome compared to the pcp) and nil tax benefit (versus a \$0.8 million benefit in pcp).

Net \$4.3 million cash from operating activities for H1 FY21 was \$5.8 million favourable to that reported for the pcp noting a one off \$3.2 million reversal of deferred income on the C-130J contract during H1 FY20 and a material decrease in inventory held during the first half of FY21. Capital expenditure of \$1.5 million (net of grants \$1.2 million) has been invested to increase capacity, introduce new technology and improve operational efficiency.

Excluding lease liabilities coming on to the balance sheet with the implementation of AASB 16, net debt has decreased by \$2.7 million to \$3.7 million since 30 June 2020 as a consequence of strong operating cash flow. Total bank debt outstanding as at 31 December 2020 is \$8.8 million plus lease liabilities of \$18.5 million.

Directors' Report

Subsequent events

The acquisition of operating assets plus inventories and certain customer contracts from Boeing Australia Component Repairs Pty Ltd was completed on 18 February 2021 in exchange for cash consideration of \$2.64 million. The purchase price accounting for this acquisition in accordance with AASB 3 Business Combinations is expected to be finalised by 30 June 2021.

To finance the acquisition and refinance the Secured Bank Loan detailed in Note C.1 Quickstep Holdings Limited executed a loan agreement on 17 February 2021 for \$6.41 million with Australian and New Zealand Banking Group Limited (ANZ). Loan repayments are in 10 equal quarterly instalments with the first repayment due on 30 June 2021. The interest rate on the facility comprises a variable base rate and a fixed margin.

There have been no other matters or circumstances that have arisen since 31 December 2020 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 22 February 2021.



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 2020 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.

A handwritten version of the KPMG logo, with the letters 'KPMG' in a stylized, cursive script.

KPMG

A handwritten signature in black ink, appearing to read 'Tracey Driver'.

Tracey Driver

Partner

Sydney

22 February 2021



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 2020 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:

- Condensed consolidated balance sheet as at 31 December 2020;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Interim Period ended on that date 31 December 2020;
- 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 Interim Period's end or from time to time during the interim Period.

The **Interim Period** is the 6 months ended on 31 December 2020.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 Dec 2020 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*.

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.

KPMG

Tracey Driver

Partner

Sydney

22 February 2021

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

for the half-year ended 31 December 2020

	Notes	31 Dec 2020 \$000	31 Dec 2019 \$000
Revenue	B.1	41,494	38,441
Cost of sales of goods		(34,126)	(30,060)
Gross profit		7,368	8,381
Other income		308	-
Research and development expenses		(1,666)	(1,090)
Business development expenses		(526)	(891)
Corporate and administrative expenses		(3,905)	(4,076)
Profit from operating activities		1,579	2,324
Finance income	C.4	10	18
Finance expenses	C.4	(774)	(1,634)
Net finance costs		(764)	(1,616)
Profit before income tax		815	708
Income tax benefit		-	759
Profit for the half year		815	1,467
Other comprehensive income/(loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		474	(158)
Exchange difference on translation of a foreign operation		45	-
Other comprehensive income/(loss) for the half-year, net of income tax		519	(158)
Total comprehensive income for the half year		1,334	1,309
Profit per share:		Cents	Cents
Basic profit per share		0.11	0.10
Diluted profit per share		0.11	0.10

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 2020

	Notes	Dec 2020 \$000	Jun 2020 \$000
ASSETS			
Current assets			
Cash and cash equivalents		1,885	1,690
Financial instruments	C.2	433	-
Term deposits		718	718
Trade and other receivables	D.1	7,179	7,716
Prepayment and other assets		666	787
Inventories	D.2	9,159	10,136
Contract assets	D.3	6,508	9,556
Total current assets		26,548	30,603
Non-current assets			
Property, plant and equipment and intangibles	D.4	32,188	32,996
Deferred tax asset		3,201	3,201
Total non-current assets		35,389	36,197
Total assets		61,937	66,800
LIABILITIES			
Current liabilities			
Trade and other payables		9,554	12,176
Provisions		-	421
Financial instruments	C.2	-	41
Loans and borrowings	C.1	7,270	8,375
Employee benefit obligations		1,514	1,683
Total current liabilities		18,338	22,696
Non-current liabilities			
Loans and borrowings	C.1	16,365	18,478
Provisions		3,173	3,156
Employee benefit obligations		756	734
Total non-current liabilities		20,294	22,368
Total liabilities		38,632	45,064
Net assets		23,305	21,736
EQUITY			
Share capital	C.5	120,785	120,785
Reserves		6,761	6,007
Accumulated losses		(104,241)	(105,056)
Total equity		23,305	21,736

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 2020

	Share capital \$000	Foreign currency translation reserve \$000	Cash flow hedges reserve \$000	Share based payments \$000	Accumulated losses \$000	Total equity \$000
Dec 2020						
Balance at 1 July 2020	120,785	(316)	(41)	6,364	(105,056)	21,736
Profit for the half year	-	-	-	-	815	815
Other comprehensive income						
Foreign currency translation difference for foreign operations	-	45	-	-	-	45
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	474	-	-	474
Total comprehensive income for the half year	-	45	474	-	815	1,334
Transactions with owners of the company:						
Share based payments expenses	-	-	-	235	-	235
Balance at 31 December 2020	120,785	(271)	433	6,599	(104,241)	23,305
Dec 2019						
Balance at 1 July 2019	120,785	(273)	143	5,448	(104,065)	22,038
Adjustment on initial application of AASB 16	-	-	-	-	(4,882)	(4,882)
Adjusted balance at 1 July 2019	120,785	(273)	143	5,448	(108,947)	17,156
Profit for the half year	-	-	-	-	1,467	1,467
Other comprehensive income / (loss)						
Foreign currency translation difference for foreign operations	-	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	(158)	-	-	(158)
Total comprehensive income / (loss) for the half year	-	-	(158)	-	1,467	1,309
Transactions with owners of the company:						
Share based payments expenses	-	-	-	531	-	531
Balance at 31 December 2019	120,785	(273)	(15)	5,979	(107,480)	18,996

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 2020

	Dec 2020 \$000	Dec 2019 \$000
Cash flows from operating activities		
Cash receipts in course of operations	46,661	37,690
Interest received	10	18
Interest paid	(746)	(1,121)
Cash payments in the course of operations	(41,596)	(38,055)
Net cash (used in) operating activities	4,329	(1,468)
Cash flows from investing activities		
Acquisition costs of plant and equipment and intangible assets	(1,489)	(3,758)
Proceeds from customer funding of capital works	268	374
Receipts from restricted cash and term deposit	-	92
Net cash (used in) investing activities	(1,221)	(3,292)
Cash flows from financing activities		
Proceeds from borrowings	500	3,200
Repayment of borrowings	(2,852)	(2,679)
Repayment of lease liabilities	(516)	(455)
Net cash from financing activities	(2,868)	66
Net (decrease) / increase in cash and cash equivalents	240	(4,694)
Cash and cash equivalents at the beginning of the financial year	1,690	7,333
Effects of exchange rate changes on cash and cash equivalents	(45)	-
Cash and cash equivalents at end of half year	1,885	2,639

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 2020

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 2020.

These interim financial statements were authorised for issue by the Board of Directors on 22 February 2021.

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 2020

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 2020 of \$815,000 (year to 30 June 2020 profit of \$3,891,000). The Group has net assets of \$23,305,000 (30 June 2020 \$21,736,000) and net current assets of \$8,210,000 (30 June 2020: \$7,907,000). Current loans and borrowings are \$7,270,000 (including lease liabilities of \$1,007,000) compared to 30 June \$8,375,000. Operating cash inflow for the period was \$4,329,000 (year to 30 June 2020 operating cash inflow \$177,000) with the improvement attributable to ongoing profitability and a material reduction in inventory.

The Group expects to continue to generate profits and positive operating cash flow in the second half of FY20. During the half year ended 31 December 2020 and until the date of this report the Group has not experienced any significant impacts due to the onset of the COVID-19 pandemic and has continued to operate without the need to curtail or lockdown operations. The forecast for FY21 does not include any expected changes in revenues, sales volumes or supply costs as a consequence of the pandemic as there is no indication that there will be a significant impact on the Group's continuing activities or operations at this time. On 18 February 2021, the Group completed the acquisition of operating assets plus inventories and certain customer contracts from Boeing Australia Component Repairs Pty Ltd. The acquired business' forecast results have been included from end February 2021. The assumptions in the forecast results represent the Group's best estimates of the profits to be generated by the component repair business given the financial data provided during due diligence.

A \$6,000,000 short term working capital facility is in place with Export Finance Australia. The facility is available to draw upon until 26 May 2021 and is drawn to \$2,900,000 as at 22 February 2021 leaving head room of \$3.1 million. Repayments of amounts drawn are to be made no later than 10 months from drawdown. The Directors of Quickstep expect that this working capital facility will remain in place beyond 26 May 2021 on an ongoing basis to fund potential future working capital needs. While there is a need to renew or roll the facility, based on previous history and discussions with EFA the Directors anticipate that the facility will be renewed.

The directors of Quickstep consider it appropriate that the Group will continue to fulfil all obligations as and when they fall due for the foreseeable future and accordingly consider that the Group's financial statements should be prepared on a going concern basis. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2020

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 2020 \$000	Dec 2019 \$000
Joint Strike Fighter Program	30,919	27,926
Other	10,575	10,515
	41,494	38,441

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.

The Group continues to review previously unrecognised tax losses and has determined that although it remains probable that future taxable profits will be available against which the tax losses can be utilised no additional losses have been recognised at 31 December 2020. Tax loss recognition will be reassessed as at 30 June 2021 when there is greater certainty over the level of profits to be generated by the recently acquired component repair business. As a consequence, nil additional deferred tax asset was recognised for the half year (compared to \$759,000 for the prior comparative period).

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2020

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 2020			June 2020		
	Current \$000	Non-current \$000	Total \$000	Current \$000	Non-current \$000	Total \$000
Secured bank loan	1,478	-	1,478	2,957	-	2,957
Capitalised interest facility	1,788	-	1,788	492	1,505	1,997
Accrued borrowing cost	97	-	97	167	-	167
Secured bank loan carrying amount	3,363	-	3,363	3,616	1,505	5,121
Short term facility	2,900	-	2,900	3,700	-	3,700
Lease liabilities	1,007	16,365	17,372	1,059	16,973	18,032
	7,270	16,365	23,635	8,375	18,478	26,853

Term and Debt Repayment Schedule

	Effective interest rate	Year of maturity	Dec 2020	June 2020
			Maximum facility value \$000	Maximum facility value \$000
Secured bank loan	4.67%	2021	10,000	10,000
Capitalised Interest	4.67%	2021	3,333	3,333
Short term facility	5.62%	2021	6,000	6,000

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 2020 the interest facility has been drawn to \$1,788,000 (2019 \$2,179,000). The Company has paid in this financial year an amount of \$246,000 (2019 \$246,000).

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 2020

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 26 February 2020. This revolving loan facility is limited to \$6,000,000 (2020 \$6,000,000) 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 26 May 2021 with final repayment no later than 26 March 2022.

The interest rate on the facility is a variable rate calculated as the sum of the base rate plus a margin of 5.62%, 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

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 2020	June 2020
\$000	\$000
433	(41)

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 2020

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 2020.

C.4 Finance Income and Finance Costs

	Dec 2020 \$000	Dec 2019 \$000
Finance income		
Interest income	10	18
Finance income	10	18
Finance costs		
Interest expense on liabilities measured at amortised cost	(188)	(289)
Interest expense on lease liabilities and make good provision	(610)	(662)
Foreign currency gains/(losses)	42	(638)
Other expenses	(18)	(45)
Finance costs	(774)	(1,634)
Net finance costs	(764)	(1,616)

C.5 Share Capital

Movements in Share Capital

	Dec 2020 Shares	June 2020 Shares	Dec 2020 \$	June 2020 \$
Opening balance	713,435,303	710,307,982	120,784,623	120,784,623
Shares issued under share based payments arrangements	1,537,519	3,127,321	-	-
Shares issued to Quickstep Employee Exempt Share Plan	1,296,522	-	-	-
Closing balance	716,269,344	713,435,303	120,784,623	120,784,623

During the half year, the Company issued 2,834,041 (2020: 3,127,321) 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 2020 \$000	June 2020 \$000
Property, plant and equipment	547	574

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2020

Other Commitments

On the 13 November 2020 the Group agreed to the terms for the purchase of Boeing Defence Australia's aerospace maintenance, repair and overhaul capability based in Tullamarine, Victoria.

Under the terms of the asset purchase agreement the Company acquired operating assets plus inventories and certain customer contracts for a cash purchase price of \$2.64 million on 18 February 2021.

	Dec 2020 \$000	June 2020 \$000
Purchase of Boeing assets and liabilities	2,640	-

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 Asset**
- D.4 Property, Plant and Equipment**

D.1 Trade and Other Receivables

	Dec 2020 \$000	June 2020 \$000
Current assets		
Trade receivables	7,117	7,622
Other receivables	62	94
	7,179	7,716

All trade receivables are current.

D.2 Inventories

	Dec 2020 \$000	June 2020 \$000
Current assets		
Raw materials and consumables	8,924	9,868
Work in progress	235	268
	9,159	10,136

D.3 Contract Assets

	Dec 2020 \$000	June 2020 \$000
Current	6,508	9,556

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2020

D. Operating Assets and Liabilities

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.4 Property, Plant and Equipment

	Plant and equipment \$000	Assets under construction \$000	Office furniture & equipment \$000	Intangibles and software \$000	Right of Use Asset (ROU) and Make Good \$000	Total \$000
Dec 2020						
Opening net book amount	12,489	4,305	213	328	15,661	32,996
Additions	-	1,622	-	-	-	1,622
Customer and government funding received	-	(372)	-	-	-	(372)
Transfers from assets under construction	1,110	(1,268)	158	-	-	-
Adjustments to right-of-use assets due to reassessment or modification					(143)	(143)
Amortisation leases	-	-	-	-	(757)	(757)
Amortisation of grant	204	-	-	-	-	204
Depreciation charge	(1,282)	-	(45)	(35)	-	(1,362)
Closing net book amount	12,521	4,287	326	293	14,761	32,188
<i>Cost</i>	<i>40,194</i>	<i>4,287</i>	<i>1,111</i>	<i>1,093</i>	<i>24,670</i>	<i>71,355</i>
<i>Accumulated depreciation</i>	<i>(27,672)</i>	<i>-</i>	<i>(785)</i>	<i>(800)</i>	<i>(9,910)</i>	<i>(39,167)</i>
June 2020						
Opening net book amount	12,273	2,238	297	40	-	14,848
Initial adoption of AASB16	-	-	-	-	17,129	17,129
Additions	25	4,906	-	-	-	4,931
Additions of new leases	-	-	-	-	108	108
Customer and government funding received	-	(397)	-	-	-	(397)
Transfers from assets under construction	2,136	(2,442)	3	303	-	-
Amortisation leases and make good	-	-	-	-	(1,576)	(1,576)
Amortisation of grant	406	-	-	-	-	406
Depreciation charge	(2,351)	-	(87)	(15)	-	(2,341)
Closing net book amount	12,489	4,305	213	328	15,661	32,996
<i>Cost</i>	<i>35,935</i>	<i>4,305</i>	<i>952</i>	<i>1,093</i>	<i>24,920</i>	<i>67,205</i>
<i>Accumulated depreciation</i>	<i>(23,446)</i>	<i>-</i>	<i>(739)</i>	<i>(765)</i>	<i>(9,259)</i>	<i>(34,209)</i>

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 31 December 2020

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.3 Standards issued but not yet effective**

E.1 Subsequent Events

The acquisition of operating assets plus inventories and certain customer contracts from Boeing Australia Component Repairs Pty Ltd was completed on 18 February 2021 in exchange for cash consideration of \$2.64 million. The purchase price accounting for this acquisition in accordance with AASB 3 Business Combinations is expected to be finalised by 30 June 2021.

To finance the acquisition and refinance the Secured Bank Loan detailed in Note C.1 Quickstep Holdings Limited executed a loan agreement on 17 February 2021 for \$6.41 million with Australian and New Zealand Banking Group Limited (ANZ). Loan repayments are in 10 equal quarterly instalments with the first repayment due on 30 June 2021. The interest rate on the facility comprises a variable base rate and a fixed margin.

There have been no other matters or circumstances that have arisen since 31 December 2020 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 Significant Accounting Policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as and for the year ended 30 June 2020. A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

E.3 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted, however the Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

Directors' Declaration

for the half-year ended 31 December 2020

In the Directors' opinion:

- (a) the condensed consolidated half-year financial statements and notes set out on pages 8 to 21 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 2020 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

22 February 2021

Sydney, New South Wales