Quickstep

Why wait for the future.

Annual Report 2010

Quickstep Holdings Limited

Corporate Directory

Directors
Mr Mark Bernard Jenkins
Chairman

Mr Philippe Marie Odouard
Managing Director

Mr Dale Edwin Brosius
Executive Director

Mr Deryck Fletcher Gow Graham
Executive Director

Mr Peter Chapman Cook
Non-executive Director

Mr Errol McCormack (AO)
Non-executive Director

Mr David Singleton
Non-executive Director

Company Secretary
Mr Phillip MacLeod

Principal Office
136 Cockburn Road
North Coogee WA 6163

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Facsimile: 61 8 9432 3222
Email: info@quickstep.com.au
www.quickstep.com.au

Registered Office
136 Cockburn Road
North Coogee WA 6163

Auditors
KPMG Chartered Accountants
235 St Georges Terrace
Perth WA 6000

Solicitors
Cochrane Lishman London House
216 St Georges Terrace
Perth WA 6000

Patent Attorney
Watermark
21st Floor, 77 St Georges Terrace
Perth WA 6000

Share Registry
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Stock Exchange
ASX Limited
Exchange Plaza, 2 The Esplanade
Perth WA 6000

brr boardroom radio

To listen live to the Managing Director's Report during Quickstep's AGM and for replay thereafter go to: **www.brr.com.au/event/69756**

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ASX Code: QHL

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Chairman's Report

» The signing of these MoU's puts Quickstep on the cusp of joining the global defence sector, with potential to reap the benefits for many decades to come.

2010 Overview

» Cash inflows exceed **$2 million**

» Cash balance as at 30 June 2010 **$22.2 million**

Dear Shareholder,

I am pleased to report that 2010 has been a pivotal year for Quickstep, with the Company making significant progress towards achieving its goal of targeting contracts within the international aerospace and defence industries.

Of greatest significance was the signing of two landmark Memoranda of Understanding (MoU's) with global aerospace corporations, Lockheed Martin, Northrop Grumman and BAE Systems. These MoU's set in train the qualification processes necessary to secure approximately $700 million worth of potential contracts to manufacture components for the multi-nation F-35 Joint Strike Fighter (JSF) program.

These MoU's represents a genuine quantum leap for Quickstep.

The international defence industry is one of the most difficult industries in the world to gain access to – the barriers to entry are high and the approval process for new technologies can take many years. However, the rewards are significant. Typical contracts can last well over 20 years and defence is one of the few sectors not impacted by economic boom and bust cycles.

The signing of these MoU's puts Quickstep on the cusp of joining the global defence sector, with potential to reap the benefits for many decades to come.

Against this backdrop, the bulk of our efforts since signing the MoU's have therefore been focused on preparing our organisation for JSF manufacturing, according to the timetable agreed with Lockheed Martin and Northrop Grumman.

These preparations are proceeding to plan. As a result, Quickstep is increasingly recognised throughout the international aerospace industry as having established a manufacturing facility and aerospace team that are unrivalled by any other independent group in Australia.

Furthermore, we are now seeing other defence related manufacturing opportunities presented to us, based on our position in the Australian market.

This puts the Company in a truly exciting position - Australia has a requirement that some JSF parts be manufactured locally, and our shareholders can be proud that Quickstep is now positioned as the only Australian-based supplier of aerospace-grade composites with the manufacturing capacity and technical know-how to meet the requirements of the JSF program.

Quickstep remains on-track to sign a Long Term Agreement in relation to the JSF contracts in the near future and start production and revenue generation in early 2012. Whilst there have been the procedural delays involved with such a large international project, the production start date remains the same and Quickstep is positioned to meet that requirement.

In parallel with our JSF initiatives, the 2010 financial year has seen cash inflows from contracts, grants and interest income exceed $2 million. This growth is testament to Quickstep's success in selling its technology, and demonstrates that the adoption of the patented Quickstep Process within the international composites industry is gathering momentum. You can find further detail on our success in this area in Philippe Odouard's Managing Director's Report.

This income, together with additional funding secured through a successful capital raising and the exercise of options over the course of the year, has provided Quickstep with a consolidated group cash and short-term deposits balance as at 30 June 2010 of $22.2 million - a strong position from which to deliver future growth.

With the Company now poised to secure JSF manufacturing contracts, and first production on track for 2012, the forthcoming financial year looks set to represent a truly landmark period for Quickstep as we make the transition into aerospace and defence manufacturing.

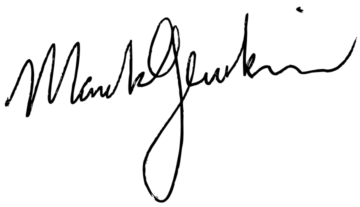
In light of this impending transition, we have recently announced the appointment of two new high profile Non-Executive Directors - Air Marshal Errol McCormack (Ret'd) AO and Mr David Singleton - to the Quickstep Board, both of whom bring very significant experience in the fields of aerospace and defence contracting.

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.

David Singleton is currently Chief Executive of Poseidon Nickel and was formerly CEO of Clough Engineering. However his core contribution to the Quickstep Board will be based on his significant experience in the global aerospace industry, having held numerous senior roles with BAE Systems (British Aerospace) and several British defence manufacturers. He brings a wealth of experience and strategic vision in international aerospace business, defence contracting, technology-based products and ASX-listed companies.

On behalf of the Board, I am absolutely delighted to welcome these two high calibre directors to our team as we embark on this historic period in the Company's growth.

Yours Sincerely,



Mark Jenkins

Chairman

» ...the forthcoming financial year looks set to represent a truly landmark period for Quickstep as we make the transition into aerospace and defence manufacturing.

Managing Director's Report

» First JSF part delivery is scheduled for early 2012 and we have achieved all the milestones to start generating revenue as planned by then.

Dear Shareholder,

The 2010 financial year has been an outstanding period for Quickstep, with the Company firmly cementing its position at the forefront of the 'next generation' of suppliers to the global aerospace industry.

As outlined in last year's Annual Report, we have a three-pronged approach to gaining new business:

One

Targeting manufacturing contracts utilising a range of manufacturing solutions including traditional manufacturing technologies such as autoclaves and 'next generation' technologies such as our patented Quickstep Process.

Two

Licensing our Quickstep Process technology to Original Equipment Manufacturers (OEM's) and their suppliers, and providing them with Quickstep machines and support services.

Three

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.

I am pleased to report that the Company is proceeding well on all three fronts, with a number of significant achievements over the year.

Targeting of aerospace manufacturing contracts

- Memorandum of Understanding signed with Lockheed Martin Corporation and Northrop Grumman Systems Corporation in November 2009 intended to secure approximately $700 million worth of potential contracts to manufacture components for the new multi-nation Joint Strike Fighter (JSF) program over 22 years.
- MoU paves the way for the execution of a Long Term Agreement (LTA) between the companies for Quickstep to supply 19,325 composite doors and access panels. The LTA is on-track to be signed in the near future.
- Quickstep may supply up to 21 different JSF components, including lower side skins, maintenance access panels, F2 fuel tank cover, lower skin and in-board weapons bay doors. These parts will all be exported to the United States for incorporation into the Joint Strike Fighters globally.
- First JSF part delivery is scheduled for early 2012 and we have achieved all the milestones to start generating revenue as planned by then.
- These contracts could generate annual turnover of $50 million by 2015.
- A second MoU was signed with Melbourne-based Marand Precision Engineering in November 2009 that could lead to a contract worth up to $50 million to supply composite Vertical Tail (VT) skins for the JSF. Marand would be the supplier of fully assembled VT to BAE Systems in the UK.

» To assist with targeting aerospace and defence contracts in the United States, Quickstep has incorporated a new subsidiary company based in Dayton, Ohio, called 'Quickstep Composites LLC'. The new company will operate from Quickstep's existing North American development site in Dayton, with Quickstep's US Manager Dale Brosius appointed President. It follows the completion of an initial 3-year collaboration agreement with the National Composite Center (NCC) in Dayton, which enabled Quickstep to evaluate the prospective market. Following the completion of this initial three year term, we now have ample confidence in the potential of the US market to establish a formal subsidiary and deal directly with the various tiers of the composites industry.

Preparations for JSF manufacturing

» A major upgrade to Quickstep's North Coogee manufacturing facility is now underway to prepare for aerospace-grade manufacturing.

» Numerous items of new manufacturing equipment have been installed and commissioned, and Quickstep has completed the necessary steps to be compliant with International Traffic in Arms Regulations (ITAR), an essential prerequisite to work with US defence technology.

» Quickstep was set a deadline to be ready to manufacture demonstration and qualification panels for JSF by October 2010 to enable Northrop Grumman to test our capability. The first skill development panels have now been produced – according to the required deadline – using all Quickstep company equipment and procedures.

» Northrop Grumman representatives have visited Quickstep's North Coogee manufacturing facility during planned management, technical and executive reviews and are holding regular phone conferences with Quickstep to discuss and review progress.

» Northrop Grumman requested that a group of Quickstep employees visit their American manufacturing headquarters to receive training on the methods, tools and processes for the manufacture of JSF parts. This visit occurred in September 2010.

» As a signatory to the international JSF program, Australia has a requirement to provide Industry Participation to the Australian industry, and Quickstep is now positioned as one of the few Australian-based suppliers of aerospace-grade composites with the manufacturing capacity and technical know-how to meet the requirements of the JSF program.

Quickstep Process activities

» The U.S Air Force has committed to a Phase II R&D program aimed at qualifying the use of our patented Quickstep Process to manufacture composite materials used in the JSF program. The project is being funded by the U.S Air Force and supported by lead JSF contractor, Lockheed Martin, due to the potential ability of the Quickstep Process to reduce JSF manufacturing costs. For Quickstep, it is a step towards licensing the Company's proprietary technology to the largest and one of the most visible aircraft programs in the world. The Phase II research has been deemed critical by the Air Force and has therefore been awarded one of the highest levels of funding available under the U.S

» The U.S Air Force has committed to a Phase II R&D program aimed at qualifying the use of our patented Quickstep Process to manufacture composite materials used in the JSF program.

» Cash inflows from R&D contracts and grants and interest income exceeded $2 million for the 2010 financial year showing Quickstep's successful growth in selling its technology.

Department of Defense Small Business Innovation Research (SBIR) program, with a US$2.6 million base contract and potential US$1.4 million follow-on option (US$4 million total program authorisation).

- Quickstep has identified and validated a major new opportunity for the Quickstep Process with the development of Binder Activation – a new processing technique with important applications in the aerospace industry. The Quickstep Process has been fully validated for Binder Activation and has been found to provide major cost efficiencies compared to its competitors. Because Binder Activation is classified as a non critical operation by aerospace companies, it does not need the lengthy and expensive qualification process that a new curing technology requires. It can therefore be used for commercial applications immediately and Quickstep is ready to licence its technology and supply its equipment to commence manufacturing.

- Quickstep's European subsidiary company, Quickstep GmbH in Germany, has secured paid development contracts with a total value of over $500,000 including further collaborative work with a large number of European aerospace companies. The projects include paid development work on the manufacture of integrated parts in one cure cycle, as well as composite repair solutions.

- Quickstep GmbH is also undertaking confidential projects on behalf of Airbus UK and CTRM Malaysia; development of ballistic panels using the Quickstep Process; and development work for infusion technologies and Quickstep Process curing.

- Good progress has been achieved throughout the year to design and test our new generation Quickstep machine that now provides a reliable, maintainable industrial machine that can be introduced in the manufacturing lines of our clients.

- Our research on Resin Spray Transfer supported by the $2.6M Climate Ready Grant has also progressed satisfactorily with specific resins formulated, equipment to spray identified, tested and ordered and contacts having been progressed with the automotive industry which is showing a growing interest in the technology. Design of a fully automatic production line has also progressed showing great promise for the automotive market.

- Cash inflows from R&D contracts and grants and interest income exceeded $2 million for the 2010 financial year showing Quickstep's successful growth in selling its technology.

Corporate

- In December 2009 and January 2010 Quickstep completed a two-phase capital raising to fund development activities in preparation for JSF manufacturing work. The raising comprised a placement of 22.1 million shares at a price of 52 cents per share to raise $11.492 million (before transaction costs), as well as a Share Purchase Plan to the Company's existing shareholders. This SPP closed over-subscribed and successfully raised approximately $12.8 million. The placement and SPP were managed by State One Stockbroking Ltd.

- At the time of the Quickstep's Initial Public Offering in 2005, the Company issued 7,500,000 unlisted options to shareholders with an expiry date of 15th April 2010 and an exercise price of 25 cents. While a small number of options had earlier been exercised, most of the outstanding options were exercised between January and April 2010, increasing share capital by around $1.4 million.
- At 30 June 2010 the consolidated group's cash and short-term deposits stood at $22,225,823, an increase of $19,409,947 over the previous year.
- A substantial investment has been made in development of the Quickstep team. Staff numbers have increased substantially to meet the requirements of these activities with about 30 people joining the company during the financial year. This includes Mr John Johnson, our new CFO who brings a lot of expertise in the aerospace and composite arena; Mr Ari Vihersaari, VP Global Business Development who comes from the composite industry in Finland; Mr Sebastien Godbille, GM Quickstep Systems who established the composite facility of Australian Aerospace in Brisbane recently; Mr Shane Bennett, Procurement and Logistics specialist with 20 years experience in aerospace and Mr Gary Beaton, Quality Manager who comes from an aerospace background in Sydney. The team is now ready to deliver JSF manufacturing contracts, as well as to address other opportunities in manufacturing and Quickstep Process industrialisation.

In conclusion, the 2009/10 financial year has been a landmark period for Quickstep, with the Company taking major steps forward in each of our three business growth strategies.

Quickstep is now well-recognised as having one of the most advanced aerospace manufacturing facilities in Australia, and our proprietary Quickstep Process is increasingly recognised throughout the industry as being at the forefront of 'next generation' advanced composites manufacturing.

Next year will see continued investment in capital equipment and staff as Quickstep focuses on consolidation of the JSF program and gets closer to deliveries and cash flow generation. Quickstep will also progress potential orders for the Quickstep Process as it matures with a number of our partners like CTRM, EDAG, Eurocopter, Airbus and the US DoD.

With these credentials, and with the Company expecting to sign the Long Term Agreement in relation to the JSF contracts in the near future, I am confident we are exceptionally well positioned to become a supplier to the aerospace and defence industries and deliver further exciting developments for our shareholders well into the future.

Philippe Odouard

Managing Director

» ...our proprietary Quickstep Process is increasingly recognised throughout the industry as being at the forefront of 'next generation' advanced composites manufacturing.

Financial Report

For the year ended 30th June 2010

Directors' Report

The Directors present their report together with the financial statements of the Group, being Quickstep Holdings Limited (the "Company") and its subsidiaries, for the financial year ended 30 June 2010 and the auditor's report thereon.

1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

Mr Mark Bernard Jenkins, B. Comm., Grad. Dip. Bus.
Independent Chairman - appointed as director on 14 July 2005; appointed as Chairman 13 March 2007

Mr Jenkins, aged 46, has over 20 years consulting, operational/financial management and business development experience in professional services firms (chartered accountants), investment banking, government agencies and public companies.

Initially qualifying as a chartered accountant in Australia, his career includes two extended periods in London and has involved successful and extensive investment, commercial, financial and government dealings in Australia, Asia, the United States and Europe. Mr Jenkins has also been involved as an advisor and investor in early stage technology companies, taking them through the initial funding and commercialisation stages.

Mr Jenkins holds a Bachelor Degree in Commerce from the University of WA and a Graduate Diploma in Business from Curtin University. He has also been involved in numerous professional development programs, including Cranfield University in England.

Mr Philippe Marie Odouard
Managing Director - appointed 23 October 2009

Mr Odouard, aged 55, has significant management experience within the global aerospace and defence sectors – both of which are primary target markets for Quickstep's technology. Before joining Quickstep and since 2005, Mr Odouard has held a dual role with Thiess Pty Ltd – one of Australia's largest infrastructure and services contractors – as Senior Manager of Strategy and Business Development: Defence, and Project Director for the A$3 billion Melbourne desalination plant.

Prior to joining Thiess, Mr Odouard held a number of senior manager positions within Thomson-CSF (now Thales Group) - a world leader in platforms and systems for the aerospace, defence and security markets. During his time with Thomson, which included roles in both Australia and Europe, Mr Odouard negotiated and managed long term contracts with major global aerospace and defence groups including major developments and technology transfers. Significantly, Mr Odouard managed the Minehunter project, which at the time was the largest user of composites in Australia. In addition, Mr Odouard negotiated and managed significant contracts with Eurocopter when they sold the all-composite Tiger helicopter to the Australian Defence forces.

In 1977 Mr Odouard graduated with a Masters of Science in Business from École des Hautes Études Commerciales de Paris.

Mr Dale Edwin Brosius, B. Sc. (Chem. Eng.), MBA
Executive Director and Chief Operating Officer for the Americas and Europe - appointed 13 August 2004

Mr Brosius, aged 52, as the Chief Operating Officer is responsible for the commercial development of the Company's technology in Europe and the Americas. He brings extensive practical experience in the composites field, having led composites-oriented businesses in the US and Europe, with a strong emphasis on materials. He is based near Detroit, Michigan.

Mr Brosius spent eight years with Dow Chemical, in manufacturing and commercial development roles, with a focus on automotive composites. He then spent twelve years in various commercial and general management roles at Fiberite and Cytec Fiberite, gaining considerable exposure to advanced composites processes and applications in aerospace, sporting goods, and industrial markets.

In 1999 Mr Brosius created a successful consulting business serving manufacturers of composite materials, equipment and parts manufacturers worldwide. During this time he obtained a thorough understanding of the global market and developed numerous relationships at the original equipment manufacturer (OEM) and supplier levels.

Mr Brosius is active in leadership levels in key composites professional associations and is the author of over forty published articles in the field.

In 1979 Mr Brosius graduated with a Bachelor of Science in Chemical Engineering from Texas A&M University, and in 1990 earned his MBA from the University of Phoenix.

Mr Deryck Fletcher Gow Graham, Dip. Co. Dir.
Executive Director *(not classified as Independent)* - appointed 16 June 2001

Mr Graham, aged 49, has over 20 years' experience in senior management, administration and marketing positions.

His experience includes five years as Managing Director of an ASX listed company that designed, developed, manufactured and distributed hardware and software products for the broadcasting and entertainment industries. He has been a director of Eagle Aircraft Australia Limited, where he held the role of Marketing Director. Since 1986, Mr Graham has been involved in the composites and aerospace industries.

Mr Graham is also a founder and adviser to emerging technology companies in the mining, civil engineering and software development industries.

Mr Graham holds the executive position of Business Development Manager – Australia

Mr Graham holds a Diploma of Company Directors from the Australian Institute of Company Directors.

Mr Peter Chapman Cook, M. Pharm., FRMIT, PhC., MPS, MRACI, C.Chem., MAICD.
Independent Non-Executive Director - appointed 14 July 2005

Mr Cook, aged 63, has extensive business experience, both within Australia and overseas.

Prior to his current appointments as Managing Director and Chief Executive Officer of Biota Holdings Limited, Mr Cook has held the positions of Managing Director and Chief Executive Officer of Orbital Corporation Limited, Chief Executive Officer of Faulding Hospital Pharmaceuticals, President of Ansell's Protective Products Division, Deputy Managing Director of Invetech and Director of Research and Development for Nicholas Kiwi. He has had extensive experience in the commercialisation of innovation, both in new and established markets. He also has extensive experience in mergers and acquisitions, particularly with technology-based companies and has a strong manufacturing background.

Mr Cook has over ten years of international commercial experience in Europe, USA and Asia, where he has both lived and worked. He holds a Masters Degree in Pharmacy and post graduate qualifications in Management from RMIT University.

Air Marshal Errol John McCormack, AO
Independent Non-Executive Director - appointed 11 August 2010

Air Marshal McCormack, aged 69, has extensive experience as a Senior Commander in the Royal Australian Air Force.

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. During his period of service he commanded at unit, wing and command level, held staff positions in capability development, operations and educational posts and attended both RAAF and Joint Services Staff Colleges. His overseas postings included flying tours in Vietnam, Thailand, Malaysia and Singapore, an exchange tour with the US Air Force flying the RF4C, Air Attaché Washington and Commander Integrated Air Defence System in the Five Power Defence Agreement between Malaysia, Singapore, UK, New Zealand and Australia.

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 is also Non-Executive Chairman of Chemring Australia Pty Ltd, a countermeasures and pyrotechnic manufacturing company based in Victoria, and consults for Chemring Group PLC and General Electric Military Engines.

His pro-bono work includes Chairman of the Board of the Williams Foundation, an RAAF Association think- tank supporting development of Australian military aviation policy. He is a member of the Royal Aeronautical Society and the Australian Institute of Company Directors.

2. Company Secretary

Mr Peter John Williams, B.Bus., FCPA, MAICD.

Mr Williams, aged 53, resigned from the position of company secretary in November 2009. Mr Williams is a senior finance professional with over 30 years commercial experience gained both domestically and internationally. He joined Quickstep after two years with ASX listed biodiesel producer, Mission NewEnergy Limited where he was Finance Director and Company Secretary.

Mr Phillip James MacLeod B.Bus., ASA.

Mr MacLeod, aged 45, was appointed to the position of company secretary on 13 November 2009. Mr MacLeod has over 20 years commercial experience and has held the position of company secretary with listed companies since 1995. Mr MacLeod has provided corporate, management and accounting services to domestic and international public companies involved in the technology, resources, healthcare and property industries.

Mr MacLeod holds a Bachelor Degree in Business from Edith Cowan University and is an associate member of CPA Australia having qualified as a CPA.

3. Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nominations Committee Meetings	
Director	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Mr M B Jenkins	8	8	2	2	2	2	2	2
Mr P M Odouard	8	8	-	-	2	2	2	2
Mr D E Brosius	8	7	-	-	2	2	2	2
Mr D F G Graham	8	8	-	-	2	2	2	2
Mr P C Cook	8	7	2	2	2	2	2	2
Mr E J McCormack	-	-	-	-	-	-	-	-

A - number of meetings held during the time the Director held office during the year
B - number of meetings attended

4. Principal Activities

During the financial year, the principal activities of the Group consisted of:

- building the capability and capacity of the organisation to achieve accredited supplier status with Northrop Grumman in relation to the Joint Strike Fighter ("JSF") project;
- working closely with potential customers through the international network of Quickstep 'Centres of Excellence' to qualify the Quickstep Process as a viable and effective alternative to traditional autoclave-based composite manufacturing techniques;
- development work and securing initial small-scale prototype contracts to accelerate entry to the global aerospace sector;
- further expansion of the Group's existing portfolio of international research and development alliances and partnerships with major aerospace, industrial and automotive groups and their Tier One suppliers;
- coordination of a cohesive strategic plan for the Group's global Research & Development initiatives; and
- expansion of the global management team to ensure that the Group is positioned to take full advantage of new business opportunities as they arise.

5. Results

The Group incurred a loss after tax of $10,970,613 for the year ended 30 June 2010 (2009: loss of $8,620,973).

6. Operating Review

A review of operations and activities for the financial year is set out in the Managing Director's Review.

7. Dividends

No dividend has been declared or paid by the Company to the date of this report.

8. Environmental Regulation

The Group's activities to date have not been subject to any particular and significant environmental regulation under Laws of either the Commonwealth or a State or Territory. The Directors are not aware of any material breach of environmental regulations as they relate to the Group.

9. Events Subsequent to Reporting Date

Since the close of the financial period the Group has entered into purchase agreements for:

- a 5-axis precision milling machine for €1,761,261 for delivery in the last quarter of the 2011 financial year; and
- the supply of technical assistance and training from Northrop Grumman in order to achieve fundamental capability in relation to the JSF project to the value of US$2,489,922.

Other than the matters referred to above or in the financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

10. Likely Developments

The Group's key areas of focus for the 2010/2011 financial year will include:

- seeking to achieve accredited supplier status with Northrop Grumman through anticipated completion of:
  - (i) the capital expenditure program to support initial production;
  - (ii) quality accreditation of processes and products;
  - (iii) the establishment and accreditation of supplier network;
  - (iv) the training and development of staff; and
  - (v) the signing of long term supply agreements.
- securing contracts in the aerospace and defence industries using both traditional autoclave and new technology Quickstep processing;
- maintaining a strategic global marketing campaign to potential customers through our international showcase sites and pilot production facilities;
- conducting paid or self-funded commercially focussed research & development on new composite structures and materials for the aerospace and defence sectors; and
- working to secure early cash-flow generating contracts.

Capital commitments of the Group pertaining to the above are set out in Notes 27 and 33 in the financial statements. Note 1(d) in the financial statements also sets out the updated future operating cash flow requirements on the Group's financial position.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

11. Directors' Interests

The relevant interest of each Director in the shares, rights and options at the date of this report is as follows:

Director	Shares	Options	Rights
Mr M B Jenkins	-	-	-
Mr P M Odouard	1,851,852	1,397,624	882,353
Mr D E Brosius	600,000	-	-
Mr D F G Graham (1)	26,651,526	-	-
Mr P C Cook (2)	137,946	-	-
Mr E McCormack(3)	19,000	-	-

11. Directors’ Interests (cont’d)

1. The registered holder of the shares is Decta Holdings Pty Ltd. Decta Holdings Pty Ltd is trustee for a discretionary trust. Mr Graham is a potential beneficiary of that trust.
2. The registered holder of the shares is Bond Street Custodians Limited as custodian for the Lloyds Wharf Super Fund of which Mr Cook is a trustee.
3. The registered holder of the shares is Aviops Pty Ltd for which Mr McCormack is a director.

12. Share Options and Rights

During the financial year, 1,851,852 options were granted and vested under the Quickstep Employee Incentive Plan (“EIP”) (2009: nil) to the CEO, Mr Philippe Odouard, as part of his remuneration. These options were exercised on 23 September 2010. A further 1,397,624 options were granted to Mr Odouard during the financial year but with vesting based on future conditions. No other options have been granted during or since the end of the financial year.

During or since the end of the financial year, the Company granted rights for no consideration over unissued ordinary shares in the Company to the following key management personnel of the Group as part of their remuneration:

Executives	Exercise Price	Number of Rights
Mr W Beckles	$0.00	468,750
Ms M Withers	$0.00	276,000
Mr S Godbille*	$0.00	267,605
Mr A Vihersaari*	$0.00	250,000

Rights for Mr Beckles and Ms Withers were granted during the financial year. The rights for Mr Godbille and Mr Vihersaari were granted since the end of the financial year. None of these rights have vested during or since the end of the financial year.

* Mr S Godbille and Mr A Vihersaari were appointed as executives subsequent to 30 June 2010.

Unissued shares under option and rights

At the date of this report, unissued ordinary shares of the Company under options and rights are:

Exercise Price	Number of Shares
$0.00	3,542,332

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

Shares issued on exercise of options and rights

During the financial year, the Company issued ordinary shares as a result of the exercise of options and rights as follows (there were no amounts unpaid on the shares issued):

Number of Shares	Amount paid on each Share
5,735,619	$0.25
200,000	$0.26
800,000	$0.00

13. Indemnification and Insurance of Officers

Indemnification

The Group has indemnified the Directors (as named above) and all executive officers of the Group and of any related body corporate against any liability incurred as a Director, secretary or executive officer to the maximum extent permitted by the *Corporations Act 2001*.

The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer of the Group or of any related body corporate against a liability incurred as an officer.

Insurance Premiums

The Group has paid a premium in respect of a directors and officers liability insurance policy, insuring the directors of the Company, the company secretary and all executive officers of the Company and Group against a liability incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

14. Non-audit Services

During the financial year, KPMG, the Group's auditor, has not performed any additional services to their statutory duties.

15. 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 financial year ended 30 June 2010, is set out on page 70.

16. Remuneration Report - Audited

The remuneration report is set out under the following main headings:

A: Principles used to determine the nature and amount of remuneration
B: Service agreements
C: Details of remuneration
D: Share-based compensation
E: Analysis of bonuses in remuneration
F: Other benefits

Remuneration is referred to as compensation throughout this report.

A. Principles of compensation

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the directors of the Company and executives for the Group including the five most highly remunerated Company and Group executives. The Board has established a remuneration committee which assists the Board in formulating policies on and in determining:

- the remuneration packages of executive directors, non-executive directors and senior executives; and
- cash bonuses and equity based incentive plans, including appropriate performance hurdles, total payments proposed and plan eligibility criteria.

If necessary, the committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Group. The Corporate Governance Statement provides further information on the role of this committee.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages include a mix of fixed compensation, short term incentives and equity-based compensation as well as employer contributions to superannuation funds.

Shares and options may only be issued to directors subject to approval by shareholders in general meeting.

The Group does not have any scheme relating to retirement benefits for its key management personnel.

16. Remuneration Report (cont'd)

A. Principles of Compensation (cont'd)

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually through a process that considers individual achievement of objectives and overall performance of the Group. Compensation is also reviewed in the event of promotion or significant change in responsibilities.

Short-term incentives

Certain key management personnel receive short-term incentives ("STI") in the form of cash and/or shares. Each year, the remuneration committee considers the appropriate targets and key performance indicators ("KPIs"). The committee is also responsible for assessing whether the KPIs are met. The remuneration committee recommends the total incentive to be paid to the individuals for approval by the Board.

Other than as disclosed in this report, there have been no performance-linked payments made by the Group to key management personnel.

Equity-based compensation (long-term incentives)

Equity-based long-term incentives were previously provided to key management personnel via the Quickstep Holdings Limited Employee Share Option Scheme ("ESOS") (refer to note 31 to the financial statements). The incentives are provided as options over ordinary shares of the Company and are provided to key management personnel based on their position within the Group. Such incentives are considered to promote continuity of employment. As at 30 June 2010, all options granted from the ESOS have been exercised or lapsed.

Long-term incentives may be provided to key management personnel via the Quickstep Employee Incentive Plan ("EIP") (refer to note 31 to the financial statements). The incentives are provided as options over ordinary shares of the Company and the plan is open to eligible employees of the Group. The incentives are considered to promote continuity of employment and encourage superior performance.

Non-executive directors' fees

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2005 Annual General Meeting, is not to exceed $300,000 per annum. Fees are set with reference to fees paid to non-executive directors of comparable companies. Currently, the Company's Chairman, Mr Jenkins, is entitled to receive $120,000 per annum and the other non-executive directors, Mr Cook and Air Marshal McCormack, receive $59,500 per annum and $60,000 per annum, respectively.

Non-executive directors do not receive performance related compensation. Directors' fees cover all main board activities and membership of committees.

B. Service agreements

Key management personnel have entered into service agreements. The employment contracts outline the components of compensation paid to the key management personnel and are reviewed on an annual basis.

Mr Philippe Odouard, Managing Director, entered into an executive services agreement with the Group effective from 13 October 2008. The agreement specified the duties and obligations to be fulfilled by Mr Odouard in his role as Managing Director and Chief Executive Officer of the Group. The remuneration paid to Mr Odouard under the agreement for the financial year ended 30 June 2010 was $303,656 (2009: $217,250), with the ability to qualify for cash and share-based bonuses to be determined annually by the remuneration committee, subject to the Group achieving planned targets. On termination by the Group, Mr Odouard shall be paid a sum equal to 12 months of his annual salary package, a prorated annual bonus at the Board's discretion, and accrued annual leave. There is no entitlement to termination payment in the event of removal for misconduct. A cash bonus of $56,250 has been accrued in respect of the year ended 30 June 2010 (2009: $30,000 cash). The actual amount paid for the bonus accrued in the prior financial year was $40,625. Mr Odouard has the ability to earn a loyalty bonus based on years of service for the Company which will be paid with shares in the Company. His total entitlement is 882,353 shares, with one third vesting on 22 November 2010 and two thirds vesting on 26 November 2011.

16. Remuneration Report – Audited (cont'd)

B. Service agreements (cont'd)

On 30 March 2010, Mr Odouard accepted an offer of 3,249,476 options from the Quickstep Employee Incentive Plan ("EIP") in accordance with the resolutions passed at the 2009 Annual General Meeting. The number of options granted was calculated partly with reference to the volume weighted average of the ASX quoted price for QHL shares on the date of Mr Odouard's appointment (16.2 cents) and partly with reference to the volume weighted average of the ASX quoted price for QHL shares at 31 July 2009 (31.8 cents). The options will vest at various times if prescribed performance hurdles relating to an increase in share value are achieved. The fair value of the options, as calculated under the accounting standards, takes into account various assumptions including the likelihood of the options vesting and the projected share price at the time of vesting. Further details relating to this grant are set out in section 16C(i) of this report. The fair value of the options granted is $1,065,322 of which $782,511 has been recorded as an expense in the financial statements for the portion attributable to the current financial year as required by accounting standards.

Mr Dale Brosius, Executive Director and Chief Operating Officer for the Americas and Europe, has entered into an executive services agreement with the Group effective from 1 September 2005. The agreement specifies the duties and obligations to be fulfilled by Mr Brosius in his role as Chief Operating Officer for the Americas and Europe. The remuneration payable to Mr Brosius under the agreement is US$188,100 per annum, with the ability to qualify for a cash bonus subject to the Group achieving planned targets. A cash bonus of A$26,041 has been accrued in respect of the year ended 30 June 2010 (2009: A$14,000). After currency conversion, the actual amount paid for the bonus accrued in the prior financial year was A$10,234. The agreement continues until terminated in accordance with the terms contained therein. On termination by the Group, Mr Brosius shall be paid a sum equal to one half of his annual remuneration package and a prorated annual bonus measured in accordance with his agreement. There is no entitlement to termination payment in the event of removal for misconduct.

Mr Deryck Graham (Jnr) entered into a services agreement with the Group effective from 5 January 2009. The agreement specifies the services to be performed in the areas of Business Development and Marketing. The remuneration paid to Mr Graham under the agreement for the financial year ended 30 June 2010 was $110,000 (2009: $79,000), with the ability to qualify for cash based bonuses to be determined annually by the CEO. A cash bonus of $16,800 has been accrued in respect of the year ended 30 June 2010 (2009: nil). The actual bonus amount paid for the prior financial year was $7,440. The agreement continues until terminated in accordance with the terms contained therein.

Mr Andrew (Drew) Myers, Head of Engineering and Chief Operating Officer, Australia, resigned effective 15 February 2010. He had entered into a contract of employment which specified the duties and responsibilities to be fulfilled in his role. The agreement included the ability to earn performance-based bonuses to be determined annually by the CEO. Due to resignation, no cash bonus was accrued for the year ended 30 June 2010 (2009: $13,000). The actual amount paid for the bonus accrued in the prior financial year was $10,189. On 9 December 2009, 28,438 ordinary shares were issued to Mr Myers with a fair value of $10,181 representing the remainder of the 2009 performance-based bonus. Mr Myers received 800,000 shares, which vested on formally signing his contract of employment. The shares were issued pursuant to the agreement on 1 October 2009.

Dr Jens Schlimbach, Joint CEO, Quickstep GmbH, provides services to the Group in accordance with an agreement effective 1 January 2009. After currency conversion, the monthly charge for Dr Schlimbach is approximately A$12,805. For the year ended 30 June 2010 a cash bonus of A$12,605 (2009: A$14,000) and a share-based bonus of A$12,605 (2009:nil) for which the number of shares will be determined by the market value on the actual date of issue, have been accrued. After currency conversion, the actual amount paid for the bonus accrued in the prior financial year was approximately A$9,625.

Mr Peter Williams, Chief Financial Officer and Company Secretary had entered into a contract of employment with effect from 8 September 2008 which specified the duties and responsibilities to be fulfilled in his role. Mr Williams resigned on 13 November 2009. The agreement included the ability to earn performance-based bonuses determined annually by the CEO. Due to resignation, no cash bonus has been accrued in respect of the year ended 30 June 2010 (2009: $14,000). The actual amount paid for the bonus accrued in the prior financial year was $18,847. On 9 December 2009, 52,602 ordinary shares were issued with a fair value of $18,832 representing the remainder of the 2009 performance-based bonus. Mr Williams had the ability to earn a loyalty bonus based on years of service for the Company which was to be paid with shares in the Company. His resignation was prior to the full vesting of the shares and therefore his entitlement to these shares was forfeited.

16. Remuneration Report – Audited (cont'd)

B. Service agreements (cont'd)

Mr John Johnson, Chief Financial Officer, entered into an executive services contract on 10 December 2009 for a six month period. The daily charge for Mr Johnson is $1,000. The agreement continues until terminated according to the terms contained therein. This agreement has been extended for a further six months from 14 July 2010.

Mr Woodville Beckles, Operations Manager, entered into an executive contract of employment on 1 September 2009. The agreement continues until terminated in accordance with the terms contained therein. On termination by the Group, Mr Beckles shall be paid a sum equal to 6 months of his annual salary package, a prorated annual bonus at the Board's discretion, and accrued annual leave. There is no entitlement to termination payment in the event of removal for misconduct. The agreement includes the ability to earn performance-based bonuses to be determined annually by the CEO. For the year ended 30 June 2010 a cash bonus of $14,531 and a share-based bonus of A$14,531 for which the number of shares will be determined by the market value on the actual date of issue, have been accrued. Mr Beckles has the ability to earn a loyalty bonus based on years of service for the Company which will be paid with shares in the Company. His total entitlement is 468,750 shares amounting to a fair value of $150,000, with one third vesting on 1 September 2011 and two thirds vesting on 1 September 2012.

Ms Michelle Withers, Human Resources Manager, entered into an executive contract of employment on 1 October 2009. The agreement continues until terminated in accordance with the terms contained therein. On termination by the Group, Ms Withers shall be paid a sum equal to 6 months of her annual salary package, a prorated annual bonus at the Board's discretion, and accrued annual leave. There is no entitlement to termination payment in the event of removal for misconduct. The agreement includes the ability to earn performance-based bonuses to be determined annually by the CEO. For the year ended 30 June 2010 a cash bonus of $11,344 and a share-based bonus of $11,344 for which the number of shares will be determined by the market value on the actual date of issue, have been accrued. Ms Withers has the ability to earn a loyalty bonus based on years of service for the Company which will be paid with shares in the Company. Her total entitlement is 276,000 shares amounting to a fair value of $88,320, with one third vesting on 1 October 2011 and two thirds vesting on 1 October 2012.

Mr Gary Beaton, Quality Manager, entered into an executive contract of employment on 3 February 2010. The agreement continues until terminated in accordance with the terms contained therein. On termination by the Group, Mr Beaton shall be paid a sum equal to 1 month of his annual salary package, a prorated annual bonus at the Board's discretion, and accrued annual leave. There is no entitlement to termination payment in the event of removal for misconduct. The agreement includes the ability to earn performance-based bonuses to be determined annually by the CEO. No bonus has been accrued for the year ended 30 June 2010 due to the period of service from appointment to the end of the financial year.

Mr Sebastien Godbille, General Manager of Quickstep Process Systems, entered into an executive contract of employment effective from 12 July 2010. The agreement continues until terminated in accordance with the terms contained therein. On termination by the Group, Mr Godbille shall be paid a sum equal to 3 months of his annual salary package, a prorated annual bonus at the Board's discretion, and accrued annual leave. There is no entitlement to termination payment in the event of removal for misconduct. The agreement includes the ability to earn performance-based bonuses to be determined annually by the CEO. Mr Godbille has the ability to earn a loyalty bonus based on years of service for the Company which will be paid with shares in the Company. His total entitlement is 267,605 shares amounting to a fair value of $69,577, with one third vesting on 12 July 2012 and two thirds vesting on 12 July 2013.

Mr Ari Vihersaari, Vice President of Global Business Development, provides services to the Group in accordance with an agreement effective 1 July 2010. After currency conversion, the monthly charge for Mr Vihersaari is approximately A$15,000. The agreement continues until terminated according to the terms contained therein. The agreement includes the ability to earn performance-based bonuses to be determined annually by the CEO. Mr Vihersaari has the ability to earn a loyalty bonus based on years of service for the Company which will be paid with shares in the Company. His total entitlement is 250,000 shares amounting to a fair value of $67,500, with one third vesting on 1 July 2012 and two thirds vesting on 1 July 2013.

The overall level of key management personnel's compensation takes into account the progress of the Group towards the attainment of its business plan, including its progress towards commercialised operations. The at risk component of remuneration of key management personnel takes into account achievements against corporate objectives such as share price, order intake, profitability, cash position, business unit specific performance and position specific targets aligned to the corporate business plan.

16. Remuneration Report – Audited (cont'd)

C. Details of remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named Company executives and relevant Group executives who received the highest remuneration and other key management personnel of the Group for the year are:

		Short Term				Post Employment		Share-based Payments				
	Year	Salary / fees $	STI cash bonus $	Non-monetary benefits $	Total	Super-annuation benefits $	Term-ination Benefits $	Shares $	Options & rights $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors												
Executive												
Mr P M Odouard	2010	275,229	66,875	-	342,104	28,427	-	-	816,776	1,187,307	71.4%	65.9%
	2009	199,390	30,000	-	229,390	17,860	-	-	38,732	285,982	10.5%	-
Mr D E Brosius	2010	210,295	22,275	1,798	234,368	1,980	-	-	-	236,348	9.4%	-
	2009	264,033	14,000	-	278,033	-	-	-	-	278,033	5.0%	-
Mr D F G Graham	2010	110,000	24,240	-	134,240	-	-	-	-	134,240	18.1%	-
	2009	79,000	-	-	79,000	-	-	-	-	79,000	-	-
Non-executive												
Mr M B Jenkins	2010	119,542	-	-	119,542	-	-	-	-	119,542	-	-
	2009	131,458*	-	-	131,458	-	-	-	-	131,458	-	-
Mr P C Cook	2010	59,500	-	-	59,500	-	-	-	-	59,500	-	-
	2009	59,500	-	-	59,500	-	-	-	-	59,500	-	-
Executives												
Mr A M Myers	2010	99,289	(2,811)	-	96,478	9,853	-	10,181	-	116,512	6.3%	-
(resigned 15 February 2010)	2009	163,020	13,000	-	176,020	17,304	-	-	128,000	321,324	4.0%	-
Dr J Schlimbach	2010	153,663	8,230	-	161,893	-	-	12,605	-	174,498	11.9%	-
	2009	178,343	14,000	-	192,343	-	-	-	-	192,343	7.3%	-
Mr P J Williams	2010	67,875	4,847	-	72,722	7,805	-	18,832	(34,590)	64,769	36.6%	-
(resigned 13 November 2009)	2009	149,848	14,000	-	163,848	13,486	-	-	34,590	211,924	6.6%	-
Mr J F Johnson *(appointed 10 December 2009)*	2010	138,101	-	-	138,101	-	-	-	-	138,101	-	-
Mr W Beckles *(appointed to executive 1 September 2009)*	2010	150,000	14,531	-	164,531	15,188	-	14,531	48,240	242,490	12.0%	-
Ms M A Withers *(appointed to executive 1 October 2009*	2010	89,078	11,344	-	100,422	6,482	-	11,344	25,582	143,830	15.8%	-
Mr G S Beaton *(appointed 3 February 2010)*	2010	41,449	-	-	41,449	3,730	-	-	-	45,179	-	-

Notes in relation to the table of remuneration:

* During the prior year Mr Jenkins was paid amounts relating to prior periods that he was entitled to but had not claimed.

16. Remuneration Report – Audited (cont'd)

C. Details of remuneration (cont'd)

(1) In accordance with the terms of Mr Odouard's employment contract, he is entitled to receive 882,353 fully paid shares with one third vesting on 22 November 2010 and two thirds vesting on 26 November 2011.

A fair value of $34,265 (2009: $38,732) has been recorded as an expense in the financial statements for the portion attributable to the current financial year. A fair value of 13 cents per share was used for the purposes of this valuation, being the ASX quoted price of QHL shares at the grant date of the rights.

Additionally, on 30 March 2010 Mr Odouard accepted an offer of 3,249,476 options from the Quickstep Employee Incentive Plan ("EIP") in accordance with the resolutions passed at the 2009 Annual General Meeting. The number of options granted was calculated partly with reference to the volume weighted average of the ASX quoted price for QHL shares on the date of Mr Odouard's appointment (16.2 cents) and partly with reference to the volume weighted average of the ASX quoted price for QHL shares at 31 July 2009 (31.8 cents). The options will vest at various times if prescribed performance hurdles relating to an increase in share value are achieved. The fair value of the options, as calculated under the accounting standards, takes into account various assumptions including the likelihood of the options vesting and the projected share price at the time of vesting. The fair value of the options granted is $1,065,322 of which $782,511 has been recorded as an expense in the financial statements for the portion attributable to the current financial year as required by accounting standards. As at 30 June 2010, 1,851,852 options had vested and were exercisable.

Earliest possible vesting date	No. of options	Fair value per option at grant date ($)	Total fair value ($)
Tranche 1 - 30/06/09	925,926	0.3500	324,074
Tranche 2 - 30/06/10	925,926	0.3480	322,222
Tranche 3 - 30/06/11	925,926	0.3150	291,667
Tranche 4 - 30/06/12	471,698	0.2700	127,359
Total	**3,249,476**		**1,065,322**

Tranche 1 had fully vested at the grant date of 30 March 2010 and therefore the fair value is based on the ASX quoted price for QHL shares at grant date of the options. The Monte-Carlo simulation was used to determine the fair value of Tranches 2, 3 and 4 which include future market performance conditions.

(2) In accordance with the terms of Mr Williams' employment contract, he was entitled to receive 411,765 fully paid shares with one third vesting on 22 November 2010 and two thirds vesting on 26 November 2011.

A fair value of ($34,590) (2009: positive $34,590) has been recorded as a negative expense in the financial statements due to Mr Williams' resignation in the current financial year, prior to the vesting of the abovementioned shares. A fair value of 29 cents per share was used for the purposes of this valuation, being the ASX quoted price of QHL shares at the grant date of the rights.

(3) In accordance with the terms of Mr Beckles employment contract, he is entitled to receive 468,750 fully paid shares with one third vesting on 1 September 2011 and two thirds vesting on 1 September 2012.

A fair value of $48,240 has been recorded as an expense in the financial statements for the portion attributable to the current financial year. A fair value of 32 cents per share was used for the purposes of this valuation, being the ASX quoted price of QHL shares at the grant date of the rights.

(4) In accordance with the terms of Ms Withers employment contract, she is entitled to receive 276,000 fully paid shares with one third vesting on 1 October 2011 and two thirds vesting on 1 October 2012.

A fair value of $25,582 has been recorded as an expense in the financial statements for the portion attributable to the current financial year. A fair value of 32 cents per share was used for the purposes of this valuation, being the ASX quoted price of QHL shares at the grant date of the rights.

(5) The Short Term Incentive ("STI") in 2010 is comprised of an accrued cash bonus which fully vested in 2010 plus adjustments to the accrued STI for the year ended 30 June 2009 for actual amounts paid during the 2010 financial year.

(6) Share based payments classified as Shares are comprised of shares issued as cash bonuses relating to 2009 plus an accrual of shares to be issued relating to bonuses for the 2010 financial year.

16. Remuneration Report – Audited (cont'd)

D. Share based compensation

Options

Mr Odouard was granted as compensation during the reporting period options from the EIP. Refer to the table below for further details.

	Number of options granted during 2010	Grant date	Fair value per option at grant date ($)	Vested during the year
Executives				
Mr P Odouard	925,926	30/3/2010	$0.3500	925,926
Mr P Odouard	925,926	30/3/2010	$0.3480	925,926
Mr P Odouard	925,926	30/3/2010	$0.3150	-
Mr P Odouard	471,968	30/3/2010	$0.2700	-

The above options have an exercise price of $nil and an expiry date of 30 March 2017.

Details of the vesting profile of the options granted are detailed below.

	Number of options granted	Grant date	% vested in year	% forfeited in year (A)	Financial years in which grant vests
Directors					
Mr P Odouard	3,249,476	30/3/2010	57.0%	-	2010,2011 & 2012

(A) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to performance criteria not being achieved.

Exercise of options granted as compensation

During the reporting period no shares were issued on the exercise of options previously granted as compensation nor did any options lapse.

Rights to shares

Messrs Beckles and Withers were granted as compensation during the reporting period rights to shares offered through their executive services agreements. Refer to the table below for further details.

	Number of rights granted during 2010	Grant date	Fair value per right at grant date ($)	Vested during the year
Executives				
Mr W Beckles	468,750	1/09/2009	$0.32	-
Ms M Withers	276,000	1/10/2009	$0.32	-

16. Remuneration Report – Audited (cont'd)

D. Share based compensation (cont'd)

Details of the vesting profile of the rights to shares granted as remuneration to each key management person of the Group and each of the Company executives and Group executives are detailed below.

	Number of rights granted	Grant date	% vested in year	% forfeited in year (A)	Financial years in which grant vests
Directors					
Mr P Odouard	882,353	13/10/2008	-	-	2011 & 2012
Executives					
Mr P Williams	411,765	8/09/2008	-	100%	-
Mr W Beckles	468,750	1/09/2009	-	-	2012 & 2013
Ms M Withers	276,000	1/10/2009	-	-	2012 & 2013

(A) The % forfeited in the year represents the reduction from the maximum number of rights available to vest due to performance criteria not being achieved.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

E. Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel of the Group are detailed below:

	Short-term incentive bonus		
	Included in remuneration $ (A)	% vested in year	% forfeited in year (B)
Directors			
Mr P Odouard	66,875	75%	25%
Mr D Brosius	22,275	59%	41%
Mr D Graham	24,240	56%	44%
Executives			
Mr A Myers	(2,811)	-	-
Dr J Schlimbach	8,230	72%	28%
Mr P J Williams	4,847	-	-
Mr W Beckles	14,531	78%	22%
Ms M Withers	11,344	84%	16%

(A) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of Group and/or personal goals and satisfaction criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2010 year. The amounts included in remuneration for the current reporting period include variances to the 2009 bonus paid during the current reporting period compared to the bonus accrual made in the prior reporting period.

16. Remuneration Report – Audited (cont'd)

E. Analysis of bonuses in remuneration (cont'd)

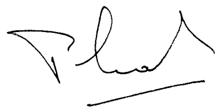
(B) The amounts forfeited are due to the Group and/or personal performance or service criteria not being met in relation to the current financial year.

F. Other benefits

During the 2008 financial year, Mr Brosius received an unsecured loan of $100,000 from the Company. The loan was initially for a period of 6 months at a commercial rate of interest but had subsequently been extended until 30 September 2009. The balance of the loan was fully repaid on 16 October 2009.

Dated at Perth, Western Australia this 28th day of September 2010.

Signed in accordance with a resolution of the Directors:



P M Odouard

Managing Director

Corporate Governance Statement

This statement summarises the corporate governance practices adopted by the Board. Quickstep's intention is to continue to adopt appropriate policies and procedures outlined in the "Corporate Governance Principles and Recommendations Second Edition" issued by the ASX Corporate Governance Council in August 2007 and as revised from time to time, to the extent that they are appropriate for a company of Quickstep's size.

The Board's Charter identifies its key objectives as:

- increasing shareholder value;
- safeguarding shareholders' rights and interests; and
- ensuring the Company is properly managed.

The Board is responsible for:

- guiding the development of an appropriate culture and values for the Group through the establishment and review of Codes of Conduct and policies and procedures to enforce ethical behaviour and provide guidance on appropriate work methods;
- monitoring financial performance including approval of the annual and half-year financial statements and liaison with the Company's auditors;
- appointment of, and assessment of the performance of the Chief Executive Officer;
- monitoring managerial performance;
- ensuring that an appropriate set of internal controls is implemented so that significant risks facing the Company and its controlled entities have been identified;
- reporting to shareholders and regulatory authorities; and
- making all decisions outside the scope of powers and authorities otherwise delegated.

Day-to-day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are delegated by the Board to the Managing Director and senior executives.

BOARD COMPOSITION AND MEMBERSHIP

During the financial year, the Board was comprised of two non-executive directors, one of whom is the Chairperson, and three executive directors. Subsequent to the end of the financial year an additional non-executive director has been appointed.

The Company's Constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any share holding qualification.

The Board, through its Nominations Committee, is responsible for establishing criteria for Board membership, reviewing Board membership and identifying and nominating directors. Board membership is regularly reviewed to ensure the Board has an appropriate mix of qualifications, skills and experience. Directors appointed by the Board hold office only until the next Annual General Meeting and are then eligible for re-appointment.

Directors, (other than the Managing Director) are eligible for reappointment by shareholders, no later than the third anniversary following their last appointment. Subject to the requirements of the Corporations Act, there is no maximum period of service as a director.

The Managing Director may be appointed for any period and on any terms the Directors, through its Nomination's and Remuneration's Committees, identify as appropriate, although they shall be guided by current market practices and rates.

The Board has established three Committees; Audit, Remuneration and Nominations, to assist with effective governance.

AUDIT COMMITTEE

During the financial year, the Audit Committee was comprised of the independent non-executive directors. The Audit Committee meets at least twice per year and its key roles are to:

- monitor the integrity of the financial statements of the Group;
- review significant financial reporting judgements; and
- recommend to the Board the appointment of external auditors.

AUDIT COMMITTEE (cont'd)

The Audit Committee is chaired by Mr M B Jenkins, who has both relevant financial qualifications and business experience required for this role.

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of the full Board. The Chairperson must be one of the non-executive directors. The committee meets at least twice per year.

The function of the committee is to assist the Board in formulating policies on and in determining:

- the remuneration packages of executive directors, non-executive directors and senior executives; and
- cash bonuses and equity based incentive plans, including appropriate performance hurdles and total payments proposed.

The Remuneration Committee is chaired by Mr P Cook. Attendance at Remuneration Committee meetings held during the financial year is disclosed in the Directors' Meetings section of the Directors Report.

NOMINATIONS COMMMITTEE

The Nominations Committee is comprised of the full Board. The Chairperson of the committee is also Chairman of the Board. The committee meets on an as needed basis and at least once per year.

The role of the committee, within the limits required by the Company's Constitution, is to:

- determine the size and composition of the Board;
- select new directors and senior executives; and
- establish the evaluation methods used in determining the performance of directors and senior executives.

DIRECTOR PERFORMANCE EVALUATION

The performance of the Board and the various committees is formally reviewed annually by the full Board. The performance of each director is continually monitored by the Chairman and the other directors and is reviewed by each director with the Chairman. The performance of the Chairman is reviewed by the other directors and the results discussed with the Chairman by a nominated director.

ETHICAL STANDARDS

Quickstep is aware of its Corporate Governance responsibilities and seeks to operate to the highest ethical standards. Quickstep has established the following policies and codes to ensure that ethical standards are understood by all of its associates and are followed at all times:

Code of Conduct

An *Employee Code of Conduct* has been developed and applies to all directors, managers, employees and contractors. The code specifies the standards of behaviour and the following principles embody the Code:

- To act with integrity and professionalism in the performance of duties and be scrupulous in the proper use of Quickstep Technologies Pty Ltd information, funds, equipment and facilities;
- To edify the company and colleagues when dealing with customers, visitors, suppliers and shareholders;
- To exercise fairness, equity, proper courtesy, consideration and sensitivity in all dealings in the course of carrying out duties;
- To avoid real, apparent or perceived conflicts of interest; and
- To increase shareholder value within an appropriate framework to safeguard the rights and interests of the Company's shareholders and the financial community.

Trading in Company Securities

Directors, officers and employees who wish to trade in Company securities must have regard to the statutory provisions of the *Corporations Act 2001* dealing with insider trading. Furthermore, directors and officers are required to observe Blackout Periods in accordance with ASX rulings and to seek the approval of the Chairman prior to undertaking transactions at any other time.

ETHICAL STANDARDS (cont'd)

Director's Disclosure Obligations

This policy is included in the *Code of Conduct* to ensure trading in the Company's securities is conducted on a fair basis. Quickstep directors are obliged (subject to specific exceptions) to advise the ASX of any information that a reasonable person would expect to have material effect on the price or value of the Company's issued securities.

INDEPENDENT PROFESSIONAL ADVICE

Individual directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to a director's rights and duties, the engagement of outside advisors is subject to prior approval of the Chairman, which will not be unreasonably withheld.

SHAREHOLDER PARTICIPATION

The Board encourages participation of shareholders at the Annual General Meeting. In addition, Quickstep proactively provides additional information with its quarterly reports to the ASX and periodically produces Shareholder newsletters to update on the latest developments and results for the Group.

IDENTIFYING AND MANAGING RISK

The Board oversees the establishment, implementation and review of the Group's risk management systems which have been established by management for assessing, monitoring and managing operational, financial reporting and compliance risks.

Appropriate risk management strategies and procedures are developed to mitigate any identified risks to the business. The procedures include identifying the context, registering, analysing, evaluating, treating, monitoring and escalating the identified risks accordingly.

The Chief Executive Officer and Chief Financial Officer have declared, in writing to the Board that they have evaluated the effectiveness of the Group's financial disclosure, controls and procedures and have concluded that they are operating efficiently and effectively.

ASX GUIDELINES ON CORPORATE GOVERNANCE

Pursuant to ASX Listing Rule 4.10.3, the Company advises that it has followed the best practice recommendations set by the ASX Corporate Governance Council except as identified below:

Principle of Good Corporate Governance and Best Practice Recommendations		Reasons if not adopted
2.1	A majority of the board should be independent directors:	The Company notes that the Board consists of 6 directors, 3 of whom are executives and 3 who are non-executives who are considered to be independent which includes an additional independent Director appointed subsequent to the end of the financial year. The structure is considered appropriate at this stage of the Company's development but is continually under review.
4.2	The audit committee should be structured so that it: ▪ consists only non-executive directors ▪ consists of a majority of independent directors ▪ is chaired by an independent chair who is not chair of the board ▪ has at least three members.	The chair of the Audit Committee is the chair of the Board. This utilises the appropriate skills of the directors and is considered sufficient and appropriate for the Company's present size and level of activity. Two members are considered sufficient and appropriate for the Company's present size and level of activity.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

	Note	2010 $	2009 $
Revenue	5	448,322	314,667
Cost of sales		(108,491)	(129,515)
Gross profit		339,831	185,152
Other income	5	1,064,787	201,033
Administration and corporate expenses		(4,741,921)	(2,687,264)
Marketing expenses		(657,024)	(977,652)
Operational expenses		(5,192,167)	(3,443,005)
Research and development expenses		(2,063,720)	(793,677)
Other expenses	6	(115,355)	(2,002,562)
Loss from operating activities		(11,365,569)	(9,517,975)
Financial income		669,153	689,477
Financial expense		(812,286)	(120,995)
Net financing income	8	(143,133)	568,482
Loss before income tax		(11,508,702)	(8,949,493)
Income tax benefit	9	538,089	328,520
Loss for the period	25	(10,970,613)	(8,620,973)
Other comprehensive income, net of income tax			
Foreign currency translation difference for foreign operations		(127,995)	49,187
Total comprehensive income for the period		(11,098,608)	(8,571,786)
Loss attributable to:			
Owners of the company		(10,970,613)	(8,620,973)
Total comprehensive income attributable to:			
Owners of the company		(11,098,608)	(8,571,786)
Earnings per share			
Basic loss (cents/share) for Quickstep Holdings Ltd	11	5.41	5.31

There is no material dilutive effect of potential ordinary shares

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

Consolidated Statement of Financial Position

For the year ended 30 June 2010

	Note	2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	12	12,225,823	2,815,876
Trade and other receivables	13	1,156,488	650,655
Inventories	14	76,673	115,475
Other financial assets	15	10,238,422	-
Other assets	16	496,385	294,178
TOTAL CURRENT ASSETS		24,193,791	3,876,184
NON-CURRENT ASSETS			
Property, plant and equipment	17	8,091,182	7,026,016
Intangible assets	18	381,503	171,322
TOTAL NON-CURRENT ASSETS		8,472,685	7,197,338
TOTAL ASSETS		32,666,476	11,073,522
CURRENT LIABILITIES			
Trade and other payables	20	3,626,875	964,188
Loans and borrowings	21	9,890	9,890
Employee benefits	22	119,892	63,626
TOTAL CURRENT LIABILITIES		3,756,657	1,037,704
NON-CURRENT LIABILITIES			
Trade and other payables	20	471,093	889,934
Loans and borrowings	21	8,242	2,508,124
TOTAL NON-CURRENT LIABILITIES		479,335	3,398,058
TOTAL LIABILITIES		4,235,992	4,435,762
NET ASSETS		28,430,484	6,637,760
EQUITY			
Share capital	23	62,296,410	30,146,119
Other reserves	24	1,060,484	447,438
Accumulated losses	25	(34,926,410)	(23,955,797)
TOTAL EQUITY		28,430,484	6,637,760

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

	Note	Share capital	Translation reserve	Share based payments reserve	Convertible instruments reserve	Accumulated losses	Total equity
		$	$	$	$	$	$
Balance as at 1 July 2008		30,146,119	(17,799)	167,762	-	(15,334,824)	14,961,258
Total comprehensive income for the period							
Loss for the period	25	-	-	-	-	(8,620,973)	(8,620,973)
Other comprehensive income							
Foreign currency translation difference	24	-	49,187	-	-	-	49,187
Total comprehensive income for the period		-	49,187	-	-	(8,620,973)	(8,571,786)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Issue of convertible instruments, net of transaction costs	24	-	-	-	46,966	-	46,966
Share based transaction payments	24	-	-	201,322	-	-	201,322
Total transactions with owners		-	-	201,322	46,966	-	248,288
Balance at 30 June 2009		**30,146,119**	**31,388**	**369,084**	**46,966**	**(23,955,797)**	**6,637,760**

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

	Note	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
Total comprehensive income for the period							
Loss for the period	25	-	-	-	-	(10,970,613)	(10,970,613)
Other comprehensive income							
Foreign currency translation difference	24	-	(127,995)	-	-	-	(127,995)
Total comprehensive income for the period		-	(127,995)	-	-	(10,970,613)	(11,098,608)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Issue of convertible instruments	23	-	-	-	724,898		724,898
Issue of ordinary shares	23	31,121,526	-	-	(771,864)	-	30,349,662
Share raising costs	23	(893,800)	-	-	-	-	(893,800)
Share based transaction payments	23,24	436,680	-	788,007	-	-	1,224,687
Share options exercised	23	1,485,885	-	-	-		1,485,885
Total transactions with owners		32,150,291	-	788,007	(46,966)	-	32,891,332
Balance at 30 June 2010		**62,296,410**	**(96,607)**	**1,157,091**	**-**	**(34,926,410)**	**28,430,484**

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

	Note	2010 $	2009 $
Cash flows from operating activities			
Cash receipts in the course of operations		292,608	237,809
Interest received		390,753	409,711
Interest paid		(269,787)	(2,832)
Research and development tax offset rebate and government grants		1,390,484	1,042,952
Cash paid to suppliers and employees		(9,375,034)	(7,440,240)
Net cash used in operating activities	28	(7,570,976)	(5,752,600)
Cash flows from investing activities			
Acquisition of plant and equipment		(1,723,741)	(4,690,732)
Acquisition of intangibles		(226,000)	-
Investment in term deposit		(10,000,000)	-
Employee loan repaid / (provided)		-	54,000
Net cash used in investing activities		(11,949,741)	(4,636,732)
Cash flows from financing activities			
Proceeds from issues of shares		25,907,412	-
Payment of transaction costs		(836,294)	-
Proceeds from convertible loans		4,000,000	2,700,000
Convertible note issue costs		-	(178,200)
Finance lease payments		(9,890)	(9,890)
Net cash from financing activities		29,061,228	2,511,910
Net (decrease) / increase in cash and cash equivalents		9,540,511	(7,877,422)
Effects of exchange rate changes on cash held in foreign currencies		(130,564)	385,683
Cash and cash equivalents at 1 July		2,815,876	10,307,615
Cash and cash equivalents at 30 June	12	**12,225,823**	**2,815,876**

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

1. Significant accounting policies

(a) Reporting entity

Quickstep Holdings Limited ("the Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities"). The Group is primarily involved in the manufacture of composite components for the aerospace industry, and continuing research and development in composite manufacturing processes.

(b) Basis of preparation

Statement of compliance

The consolidated financial statements are general purpose financial statements, which have been prepared in accordance with the Australian Accounting Standards ("AASBs") (including Australian interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements of the Group comply with the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 24th September 2010.

Basis of measurement

The financial statements are prepared on the historical cost basis except for items outlined in note 2.

Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 17 – Recoverable amount of property, plant and equipment
- Note 20 – Royalties payable
- Note 31 – Share-based payments

Changes in accounting policies

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements

(c) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities in the Group, except as explained in notes 1(b),1(i), 1(u) and 1(v) which address changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation (see note 4).

1. Significant accounting policies (cont'd)

(d) Financial position

The Group has incurred a loss after tax for the year of $10,970,613 (2009: loss $8,620,973). The Group has a surplus in working capital at 30 June 2010 of $20,437,134 (2009: surplus $2,838,480).

During the past 12 months ended 30 June 2010, Quickstep has:

- accessed additional sources of funding through:
  - a placement of shares (net of costs) of $10,655,706;
  - two draw downs, each of $2,000,000 under the $10,000,000 Convertible Loan Facility with InvestOne Financial Advisory Est., a related company of Al Farida Investments Company LLC, headquartered in Abu Dhabi, United Arab Emirates. These draw downs were converted to equity during the period.
  - a share purchase plan which closed in January 2010 raising $12,765,559
  - the exercising of share options that raised $1,485,885;
- signed two Memorandums of Understanding relating to the production of parts for the Joint Strike Fighter Program. Subject to the attainment of accreditation and completion of contractual agreements, it is expected that these will result in production income from 2012 onwards.
- converted $2,700,000 of convertible notes during the period.

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. Existing and planned capital expenditure commitments for 2011, together with anticipated working capital outflows are anticipated to deplete existing cash reserves and therefore it is likely that additional sources of funds may be required. Given the recent success of the Company in fund raising activities, initial discussion with potential sources of funds, anticipated ongoing support of key investors and fund raising alternatives available, directors anticipate that 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.

(e) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quickstep Holdings Limited ("Company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Quickstep Holdings Limited and its subsidiaries together are referred to in the financial statements as the consolidated entity or the Group.

A subsidiary is any entity controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of another entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and de-consolidated from the date that control ceases.

Intragroup balances and any recognised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

1. Significant accounting policies (cont'd)

(e) Basis of consolidation (cont'd)

Associates and jointly controlled entities (equity accounted investees) (cont'd)

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of

Associates and jointly controlled entities (equity accounted investees) (cont'd)

further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(f) Foreign currency

These consolidated financial statements are presented in Australian Dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Since 1 July 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the statement of comprehensive income.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

(g) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset of liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: held-to-maturity financial assets, and loans and receivables.

1. Significant accounting policies (cont'd)

(g) Financial instruments (cont'd)

(i) Non-derivative financial assets (cont'd)

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables. Trade and other receivables are stated at their amortised cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash consists of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Trade and other payables, other than royalties payable, are stated at their amortised cost

Royalties payable are royalties due under contracts and are on initial recognition recorded at fair value utilising discounted cash flows and then subsequently recorded at amortised cost (refer note 20).

(iii) Share Capital

Ordinary shares

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.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes and convertible loans that can be converted to share capital at the option of both the holder and issuer, provided certain pre-existing conditions are met. The number of shares to be issued does not vary with changes in their fair value.

1. Significant accounting policies (cont'd)

(g) Financial instruments (cont'd)

(iv) Compound financial instruments (cont'd)

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation (see below) and any impairment in value (see accounting policy (l)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

Depreciation

Depreciation is recognised as an expense in the statement of comprehensive income on a reducing balance basis over the estimated useful life of the asset. The depreciation rates used for each class of depreciable asset for the current and prior years are:

Class of Fixed Asset	*Depreciation Rate*
Plant and factory equipment	6.67% to 37.50%
Office equipment	6.67% to 50.00 %

(i) Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically feasible, the Group has sufficient resources to complete development and the Group is able to demonstrate how the product or process will generate future economic benefits.

Expenditure which may be capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (l)).

Goodwill

Change in accounting policy

As from 1 July 2009, the Group has adopted the revised AASB 3 *Business Combinations* (2008) and the amended AASB 127 *Consolidated and Separate Financial Statements* (2008). Revised AASB 3 and amended AASB 127 have been applied prospectively to business combinations with an acquisition date on or after 1 July 2009.

The change in accounting policy had no impact on earnings per share.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

1. Significant accounting policies (cont'd)

(i) Intangible assets (cont'd)

Goodwill (cont'd)

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (l)).

Amortisation

Amortisation is recognised as an expense in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with indefinite useful lives are tested for impairment at each balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- Licences, patents and rights to technology — 10 years
- Royalty buy-back — 10 years
- Capitalised development costs — 5 – 10 years
- Software — 2 ½ years

(j) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

1. Significant accounting policies (cont'd)

(l) Impairment (cont'd)

Non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite useful lives or are not yet available for use, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset of its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment write down to goodwill may not be reversed in future years. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Employee entitlements

Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and other entitlements represent present obligations resulting from employees' services provided to reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months (such as long service leave) are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Share-based payment transactions

An expense is recognised for all equity-based remuneration and other transactions, including shares, rights and options issued to employees and directors. The fair value of equity instruments granted is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The amount recognised is adjusted to reflect the actual number of shares and options that vest, except for those that fail to vest due to market conditions not being met. The fair value of equity instruments granted is measured using a generally accepted valuation model, taking into account the terms and conditions upon which the equity instruments were granted. The fair value of shares, options and rights granted is measured based on relevant market prices at the grant date.

(n) Revenue

Revenue from sale of goods is recognised in the statement of comprehensive income when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the rendering of a service is recognised in the income statement in proportion to the stage of completion of the transaction at balance sheet date. The stage of completion is assessed by reference to analysis of work performed.

To the extent to which amounts are received in advance of the provision of the related services, the amounts are recorded as unearned income and credited to the statement of comprehensive income as earned.

Licence fee revenue is recognised on an accruals basis when the Group has the right to receive payment under the relevant agreement and has performed its obligations.

1. Significant accounting policies (cont'd)

(o) Government grants

Government grants are recognised initially as deferred income where there is a reasonable assurance that the grant will be received and all grant conditions will be met. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(p) Lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

(q) Finance income and finance costs

Finance income comprises interest income and is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

Finance costs comprise interest payable on borrowings calculated using the effective interest method, dividend income, transaction costs, unwinding discounting of provisions and foreign exchange gains and losses. The interest expense component of finance lease payments is recognised in the statement of comprehensive income using the effective interest method.

(r) Income tax

Income tax on statement of comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax provides for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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.

Quickstep Holdings Limited and its subsidiaries have unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

(s) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

1. Significant accounting policies (cont'd)

(s) Goods and services tax (cont'd)

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options and rights granted and convertible notes and convertible loans on issue.

(u) Segment reporting

Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(v) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Key amendments to the *Corporations Act 2001* were given royal assent on 28 June 2010 which removed the requirement to include full parent entity financial statements when preparing consolidated financial statements. This amendment is applicable for financial years ended 30 June 2010 and therefore parent entity financial statements are not included in this report. Disclosures regarding the parent entity are included in Note 32.

1. Significant accounting policies (cont'd)

(w) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing these financial statements.

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement - AASB 14* make amendments to Interpretation *14* AASB 119 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Group's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact on the financial statements.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

2. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

2. Determination of fair values (cont'd)

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes and loans, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(c) Share-based payment transactions

The fair value of the Employee Share Options Scheme ("ESOS") and Employee Incentive Plan ("EIP") are measured using Monte Carlo Simulations. The fair value of the share rights is measured using the Black-Scholes formula. For both methodologies, measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for expected changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). In the case of the EIP, market performance conditions attaching to the grant are taken into account in the Monte Carlo Simulation in determining fair value. Service and non-market performance conditions attached to the ESOS and EIP transactions are not taken into account in determining fair value.

3. Financial risk management

(a) Overview

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and formally documented procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash balances and deposits.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Geographically, other than in Australia for amounts due from the Australian Taxation Office, there is no concentration of credit risk. Goods are generally sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

3. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Cash balances and deposits

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's. Given these high credit ratings, management has assessed the risk that counterparties fail to meet their obligations as low.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of at least 12 months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group holds cash reserves raised during the financial year from a share placement, draw downs of funds from a convertible note facility, and a share purchase plan.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group does not enter into derivatives in order to manage market risks.

Interest rate risk

The Group is exposed to interest rate risk predominantly on cash balances and deposits. Given the relatively short investment horizon for these, management has not found it necessary to establish a policy on managing the exposure of interest rate risk.

Currency risk

The Group is exposed to currency risk on sales, purchases and cash holdings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar ("AUD"), Euro ("EUR") and US Dollar ("USD"). The currencies in which these transactions primarily are denominated are AUD, EUR and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's investment in its German and US subsidiaries are not hedged as the currency positions are considered to be long-term in nature.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future development in accordance with the business strategy. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group's focus has been to raise sufficient funds through equity and/or compound financial instruments so as to fund its working capital and commercialisation of technology requirements.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

4. Segment reporting

The Group has four operating segments, as described below. These operating segments are managed separately because they address different geographic market segments. For each of the segments, the CEO reviews internal management reports on at least a quarterly basis.

The following summary describes the operations in each of the Group's reportable segments:

- Australia – Development and commercialisation of Quickstep process equipment, research and development of materials and process technologies, and manufacture of aerospace components.
- USA – Development and proving of Quickstep process technologies through paid customer projects.
- Germany – Development and proving of Quickstep process technologies through paid customer projects.
- UK – internally funded development of process technologies.

There is integration between the segments in the forms of research and development activity charged from the German and USA segments to the Australian segment for Australian managed projects. The accounting policies of the reportable segments are the same as described in Note 1.

Comparative segment information has been re-presented in conformity with the requirement of AASB 8 *Operating Segments*.

	Australia		USA		Germany		United Kingdom		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	87,280	66,334	75,634	-	285,408	248,333	-	-	448,322	314,667
Inter-segment revenue	-	-	26,309	-	242,189	-	-	-	268,498	-
Depreciation and amortisation	(592,508)	(814,960)	(3,490)	-	(78,396)	(62,228)	-	-	(674,394)	(877,188)
Reportable segment loss before income tax	(7,556,452)	(6,755,026)	(442,885)	(896,101)	(582,895)	(771,232)	(126,595)	(130,314)	(8,708,827)	(8,552,673)
Income tax benefit	538,089	328,520	-	-	-	-	-	-	538,089	328,520
Reportable segment loss	(7,018,363)	(6,426,506)	(442,885)	(896,101)	(582,895)	(771,232)	(126,595)	(130,314)	(8,170,738)	(8,224,153)
Other material non-cash items:										
Impairment on property, plant and equipment and intangible assets	-	(1,638,644)	-	-	-	-	-	-	-	(1,638,644)
Reportable segment assets	31,470,081	10,523,205	189,296	-	1,007,099	550,317	-	-	32,666,476	11,073,522
Capital expenditure	1,663,093	4,672,759	45,064	-	15,584	17,973	-	-	1,723,741	4,690,732
Reportable segment liabilities	3,918,963	4,332,674	35,381	-	281,648	103,088	-	-	4,235,992	4,435,762

4. Segment Reporting (cont'd)

Reconciliations of reportable segment revenues, profit or loss and liabilities

	Consolidated 2010 $	Consolidated 2009 $
Revenues		
Total revenue for reportable segments	716,820	314,667
Elimination of inter-segment revenue	(268,498)	-
Consolidated revenue	448,322	314,667
Profit or loss		
Total loss for reportable segments	(8,170,738)	(8,224,153)
Unallocated amounts: other corporate expenses	(2,799,875)	(396,820)
Consolidated loss	(10,970,613)	(8,620,973)
Assets		
Total assets for reportable segments	32,666,476	11,073,522
Consolidation total assets	32,666,476	11,073,522
Liabilities		
Total liabilities for reportable segments	4,235,992	4,435,762
Consolidated total liabilities	4,235,992	4,435,762

Major Customers

Three customers have contributed approximately $356,224 (79.5%) (2009: $62,822 (20.0%)) of the Group's total external revenues. This amount is comprised of $205,040 (2009: $62,822) from a German segment customer, $75,551 (2009: nil) from an Australian segment customer, and $75,634 (2009: nil) from a USA segment customer.

5. Revenue and income

	Note	Consolidated 2010 $	Consolidated 2009 $
Sales		448,322	314,667
Total revenue from operating activities		448,322	314,667
Other income			
Income from government grants		1,064,787	201,033

Income from government grants includes $1,060,937 (2009: $108,515) received for an approved Climate Ready Grant from AusIndustry, a division of the Department of Innovation, Industry, Science and Research. The grant is assisting the Group to develop the Quickstep Resin Spray Technology ("RST").

6. Other expenses

	Note	2010	2009
Impairment of property, plant & equipment	17	-	1,374,447
Impairment of intangible assets	18	-	264,197
Other		115,355	363,918
		115,355	2,002,562

	Note	Consolidated 2010 $	Consolidated 2009 $
7. Personnel expenses			
Wages and salaries		3,715,612	2,871,202
Other associated personnel expenses		572,788	331,869
Increase in liability for annual leave		56,266	27,737
Expense of share based payments	31	923,499	201,322
		5,268,165	3,432,130
8. Finance income and expense			
Recognised in profit or loss			
Interest income		669,153	352,986
Net foreign exchange gain		-	336,491
Finance income		669,153	689,477
Finance lease interest paid		(2,868)	(2,832)
Convertible note interest		(190,248)	(76,671)
Convertible loan costs		(306,571)	-
Amortisation of convertible note costs		(105,535)	(15,158)
Amortisation of convertible loan costs		(156,164)	-
Net foreign exchange loss		(2,568)	-
Interest expense on liabilities measured at amortised cost		(48,332)	(26,334)
Finance expense		(812,286)	(120,995)
Net finance income		(143,133)	568,482
Recognised in other comprehensive income			
Foreign currency translation differences for foreign operations		(127,995)	49,187
Finance income recognised in other comprehensive income, net of tax		(127,995)	49,187
Attributable to:			
Owners of the company		(127,995)	49,187
Finance income recognised in other comprehensive income, net of tax		(127,995)	49,187

9. Income tax

(a) Income tax benefit

The major components of income tax benefit are:

	2010 $	2009 $
Current income tax benefit	(537,062)	(328,520)
Adjustments in respect of current income tax of previous years	(1,027)	-
Income tax benefit reported in the consolidated income statement	(538,089)	(328,520)

9. Income Tax (cont'd)

	Consolidated 2010 $	Consolidated 2009 $

(b) Numerical reconciliation between tax benefit and pre-tax net loss

A reconciliation between tax benefit and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

	2010 $	2009 $
Loss before tax from continuing operations	(11,508,702)	(8,949,493)
At the statutory income tax rate of 30%	(3,452,611)	(2,684,848)
Expenditure not allowable for income tax purposes	394,458	94,565
R&D concession uplift	-	(52,685)
Adjustments in respect of current income tax of previous years	(1,027)	-
Effect of different tax rate for overseas subsidiaries	194,647	218,985
Deferred tax asset not brought to account	2,326,444	2,095,463
Income tax benefit	(538,089)	(328,520)

(c) Tax losses not brought to account

	2010 $	2009 $
Unused tax losses for which no deferred tax asset has been recognised:		
Potential at 30% (2009: 30%)	7,141,312	4,693,482

(d) Temporary differences not brought to account

Deferred tax assets/(liabilities):

	2010 $	2009 $
Accrued income	-	(2,670)
Interest receivable	(83,520)	-
Prepayments	(25,356)	(20,089)
Other provisions	210,727	96,009
Borrowing costs	25,311	24,288
Deductible capital raising costs and blackhole expenditure	381,571	328,731
Property, plant and equipment	540,537	518,105
Deferred tax assets not recognised	(1,049,270)	(944,374)
	-	-

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(e) Tax consolidation legislation

Quickstep Holdings Limited and its 100% owned Australian resident subsidiaries have not formed a tax consolidated group.

10. Auditor's remuneration

Amounts received or due and receivable by the auditor for:

	2010 $	2009 $
Audit services		
KPMG – current year	74,500	43,088
KPMG – under-accrual from prior year	26,450	7,709
	100,950	50,797

11. Loss per share

The calculation of basic loss per share at 30 June 2010 was based on the loss attributable to ordinary shareholders of $10,970,613 (2009: $8,620,973) and a weighted average number (W.A.N.) of ordinary shares outstanding during the financial year ended 30 June 2010 of 202,961,683 (2009: 162,446,305) calculated as follows:

		2010		2009	
	Note	Actual No.	W.A.N.	Actual No.	W.A.N.
Issued ordinary shares 1 July	23	162,446,305	162,446,305	162,446,305	162,446,305
Effect of shares issued		48,534,976	24,877,605	-	-
Effect of conversion of notes		33,500,000	14,216,438	-	-
Effect of share options exercised		5,935,619	1,421,335	-	-
Issued ordinary shares at 30 June	23	251,416,900	202,961,683	162,446,305	162,446,305

There is no material dilutive effect of potential ordinary shares.

	Note	Consolidated 2010 $	Consolidated 2009 $
12. Cash and cash equivalents			
Cash at bank and on hand		7,225,823	2,815,876
Short-term bank deposits		5,000,000	-
		12,225,823	2,815,876
13. Trade and other receivables			
Current			
Trade receivables		228,701	72,986
Other receivables			
- R&D tax offset rebate and government grants receivable		577,060	368,520
- GST and VAT receivable		302,002	209,149
- accrued interest		39,978	-
- FBT receivable		8,052	-
- other		695	-
		1,156,488	650,655
14. Inventories			
Raw materials and consumables		76,673	115,475
15. Other financial assets			
Held-to-maturity investments		10,238,422	-

A 180 day term deposit for $10,000,000 with an interest rate of 5.92% matures on 3 August 2010.

	Note	2010 $	2009 $
16. Other current assets			
Prepayments		292,549	235,569
Deferred costs of borrowing	21	203,836	-
Loan to key management personnel	29	-	58,609
		496,385	294,178

17. Property, plant & equipment

	Consolidated			
	Plant & Equipment $	Assets Under Construction $	Office Furniture & Equipment $	Total $
Costs				
Balance at 1 July 2008	2,852,474	1,652,879	525,791	5,031,144
Additions	2,543,627	2,079,422	47,598	4,670,647
Transfers	244,955	(244,955)	-	-
Effect of movements in exchange rates	17,045	-	7,384	24,429
Balance at 30 June 2009	**5,658,101**	**3,487,346**	**580,773**	**9,726,220**
Balance at 1 July 2009	5,658,101	3,487,346	580,773	9,726,220
Additions	515,886	1,123,172	172,265	1,811,323
Transfers	2,241,551	(2,246,854)	5,303	-
Transfer to intangible assets			(159,940)	(159,940)
Effect of movements in exchange rates	(77,001)	(1,221)	(34,014)	(112,236)
Balance at 30 June 2010	**8,338,537**	**2,362,443**	**564,387**	**11,265,367**
Depreciation and impairment losses				
Balance at 1 July 2008	625,211	-	126,040	751,251
Depreciation for the year	432,631	-	137,531	570,162
Impairment losses (i)	1,106,719	235,802	31,926	1,374,447
Effect of movements in exchange rates	4,299	-	45	4,344
Balance at 30 June 2009	**2,168,860**	**235,802**	**295,542**	**2,700,204**
Balance at 1 July 2009	2,168,860	235,802	295,542	2,700,204
Depreciation for the year	534,840	-	75,710	610,550
Transfers	(627)	-	627	-
Transfer to intangible assets	-	-	(111,915)	(111,915)
Effect of movements in exchange rates	(16,696)	-	(7,958)	(24,654)
Balance at 30 June 2010	**2,686,377**	**235,802**	**252,006**	**3,174,185**
Carrying Amounts				
At 1 July 2008	2,227,263	1,652,879	399,751	4,279,893
At 30 June 2009	3,489,241	3,251,544	285,231	7,026,016
At 1 July 2009	3,489,241	3,251,544	285,231	7,026,016
At 30 June 2010	5,652,160	2,126,641	312,381	8,091,182

(i) In the previous financial year, impairments of property, plant and equipment in prior year were recognised on certain machines held by the Group, and minor property, plant and equipment and office furniture and fittings that are not expected to be recoverable. The recoverable amount of these assets were determined with reference to their fair value less costs to sell, which has been deemed to be nil.

18. Intangibles

	Consolidated					
	Patents & Rights $	Royalty Buy-Back $	Technology $	Computer Software	Goodwill $	Total $
Costs						
Balance at 1 July 2008	649,027	94,419	1,320,970	-	175,000	2,239,416
Balance at 30 June 2009	**649,027**	**94,419**	**1,320,970**	**-**	**175,000**	**2,239,416**
Balance at 1 July 2009	649,027	94,419	1,320,970	-	175,000	2,239,416
Additions				226,000	-	226,000
Transfer from property, plant & equipment	-	-	-	159,940	-	159,940
Balance at 30 June 2010	**649,027**	**94,419**	**1,320,970**	**385,940**	**175,000**	**2,625,356**
Amortisation and impairment losses						
Balance at 1 July 2008	482,078	47,214	792,579	-	175,000	1,496,871
Amortisation for the year	33,390	9,442	264,194	-	-	307,026
Impairment losses (i)	-	-	264,197	-	-	264,197
Balance at 30 June 2009	**515,468**	**56,656**	**1,320,970**	**-**	**175,000**	**2,068,094**
Balance at 1 July 2009	515,468	56,656	1,320,970	-	175,000	2,068,094
Amortisation for the year	33,390	9,442	-	21,012	-	63,844
Transfer from property, plant & equipment	-	-	-	111,915	-	111,915
Balance at 30 June 2010	**548,858**	**66,098**	**1,320,970**	**132,927**	**175,000**	**2,243,853**
Carrying amounts						
At 1 July 2008	166,949	47,205	528,391	-	-	742,545
At 30 June 2009	133,559	37,763	-	-	-	171,322
At 1 July 2009	133,559	37,763	-	-	-	171,322
At 30 June 2010	100,169	28,321	-	253,013	-	381,503

(i) An impairment loss of $264,197 has been recognised in the other expenses in the income statement for the year ended 30 June 2009 in respect to the Technology intangible asset. The forecast future cash flows of the Group are expected to arise through the design and production of composite parts using the recently acquired plant and machinery, rather than the existing technology which was being amortised over a five-year period.

The recoverable amount of the asset has been determined with reference to the fair value less costs to sell, which is deemed to be nil.

19. Group entities

	Country of incorporation	Entity interest 2010	Entity interest 2009
Parent entity			
Quickstep Holdings Limited	Australia		
Controlled entities			
Quickstep Technologies Pty Ltd	Australia	100%	100%
Quickstep Operations Pty Ltd *	Australia	100%	-
QuickBoats Pty Ltd	Australia	100%	100%
Quickstep GmbH	Germany	100%	100%
Quickstep Composites LLC *	USA	100%	-

*These entities were established during the year.

20. Trade and other payables

	Consolidated 2010 $	Consolidated 2009 $
Current		
Unsecured trade payables	111,190	188,740
Sundry payables and accrued expenses	2,865,685	569,497
Royalties payable (i)	650,000	205,951
	3,626,875	964,188
Non-current		
Royalties payable (i)	471,093	889,934

(i) On 21 July 2005, a Heads of Agreement was executed between Quickstep Holdings Limited ("QHL"), Quickstep Technologies Pty Ltd ("QTPL") and VCAMM Limited which agreed the value of services provided by VCAMM to the Group during the period 1 July 2003 to 30 June 2005 and which formalised arrangements that existed before 30 June 2005 between the parties. The agreed consideration for services provided was $1,790,000, which was satisfied by the grant of 2,160,000 ordinary fully paid shares in QHL (issued at $0.25 per share), with the balance of $1,250,000 to be paid to VCAMM on a quarterly basis from total cash revenues received by QTPL on a percentage basis (varying from 4% to 7% of QTPL's cash revenues for the period), subject to a maximum annual repayment of $650,000. The discount rate that has been used to calculate the royalties payable is 8.46%.

21. Loans and borrowings

	Consolidated 2010 $	Consolidated 2009 $
Current		
Finance lease liabilities	9,890	9,890
Non-current		
Finance lease liabilities	8,242	18,132
Convertible notes (net of transaction costs)	-	2,489,992
	8,242	2,508,124

At 30 June 2009 13,500,000 convertible notes were on issue at $0.20 per note to raise funds of $2,700,000. The notes had an 11% coupon rate and were convertible into ordinary shares on 27 March 2012 on the basis of 1 share for 1 convertible note. On 17 February 2010 the Company redeemed all the outstanding notes when the 5-day volume weighted average price of shares remained above $0.30 for a continuous period of more than 3 months. A portion of convertible notes was classified as equity ($46,966).

21. Loans and borrowings (cont'd)

Quickstep has also entered into a $10,000,000 Convertible Loan Agreement on 5 March 2009. Tranches of up to $2,000,000 can be drawn in intervals of at least 90 days, at Quickstep's discretion, with the first $2,000,000 being available 60 days after execution of the agreement (5 March 2009). The term of the facility is 2 years from the date of the agreement. No interest is payable on the loan. The lender may elect to convert all or part of the outstanding balance of the loan into Quickstep shares at an issue price of $0.20 per share at any time. On expiry of the loan, the lender may elect to convert the outstanding balance of the loan into Quickstep shares or seek repayment of the outstanding loan balance. Two drawings of $2,000,000 were made during the period (2009: nil). A portion of convertible loans was classified as equity ($724,898). The lender gave notice for conversion of the $4,000,000 loan to 20,000,000 shares on 14 December 2009. On 13 January 2010, the Company issued these shares in settlement of the loan.

In respect of the convertible loan, consulting costs of $600,000 were incurred and are being amortised over the facility period of 2 years. The fees are payable in five equal instalments 7 days after the receipt of each draw down from the facility. If Quickstep does not draw down on the totality of the facility by the end of the facility period, and the lender is not in default of the agreement, Quickstep will be required to pay the balance of the fees to the consultants.

Finance lease liabilities

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2010	**2010**	**2010**	**2009**	**2009**	**2009**
Less than one year	12,478	2,588	9,890	12,478	2,588	9,890
Between one and five years	10,398	2,156	8,242	22,876	4,744	18,132
	22,876	4,744	18,132	35,354	7,332	28,022

22. Employee benefits

	Consolidated 2010 $	Consolidated 2009 $
Current		
Liability for annual leave	119,892	63,626

23. Contributed equity

	Consolidated 2010 $	Consolidated 2009 $
(i) Issued capital		
251,416,900 (2009: 162,446,305) fully paid ordinary shares	62,296,410	30,146,119

The following movements in issued capital occurred during the year:

	Note	2010 No. of shares	2010 $	2009 No. of shares	2009 $
Balance at the beginning of the year		162,446,305	30,146,119	162,446,305	30,146,119
Shares issued for cash (a)		47,305,022	24,421,527	-	-
Shares issued on exercise of options (ii)		5,935,619	1,485,885	-	-
Shares issued on conversion of notes	21	13,500,000	2,653,034	-	-
Shares issued on conversion of loans	21	20,000,000	3,275,102	-	-
Shares issued on exercise of rights (b)		800,000	128,000	-	-
Shares issued to consultants (c)		1,348,914	279,667	-	-
Shares issued to executives as remuneration	31	81,040	29,012	-	-
Transfer from convertible instrument reserve	24	-	771,864	-	-
Share issue and capital raising costs		-	(893,800)	-	-
Balance at the end of the year		251,416,900	62,296,410	162,446,305	30,146,119

(a) During the year, the Company issued 47,305,022 shares at issue prices varying from 25 cents to 52 cents per share to raise $24,421,527.

(b) During the year, the Company issued 800,000 shares pursuant to share-based payment arrangements with certain key management personnel. The fair value of the rights at their grant date was 16 cents per share.

(c) During the year, the Company issued 1,348,914 shares to certain consultants with the fair value of services provided being $279,667.

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(ii) Options

Options granted during the year

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

Expiry Date	Exercise Price	Number of Options 2010	Number of Options 2009
30 March 2017	$0.00	3,249,476	-

23. Contributed equity (cont'd)

(ii) Options (cont'd)

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

Expiry Date	Exercise Price	Number of Options	
		2010	2009
15 April 2010	$0.25	-	6,391,489
16 June 2010	$0.26	-	440,000
30 March 2017	$0.00	3,249,476	-

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 financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Expiry Date	Exercise Price	Number of Options	
		2010	2009
15 April 2010	$0.25	5,735,619	-
16 June 2010	$0.26	200,000	-

Lapse of options
During the current financial year, the following options lapsed:

Expiry Date	Exercise Price	Number of Options	
		2010	2009
15 April 2010	$0.25	655,870	-
16 June 2010	$0.26	240,000	-

The options that lapsed on 15 April 2010 were subject to an underwriting agreement by State One Nominees Pty Ltd. In accordance with that agreement, 655,870 shares were issued raising $163,968.

(iii) Rights

At 30 June, unissued ordinary shares of the Company under rights totalled 1,627,103 (2009: 2,094,118). The rights are issued pursuant to executive services agreement and vest at various times in the future according to years of service completed. The exercise price of the rights is nil and the rights are forfeited if employment is terminated prior to the vesting date. Refer to Note 29(i).

24. Reserves

	Note	Consolidated 2010 $	2009 $
Share based payments reserve			
Balance at the beginning of the year		369,084	167,762
Grant of rights to shares to key management personnel	31	108,086	201,322
Grant of options to key management personnel	31	782,511	-
Transfer to issued capital on vesting of rights		(128,000)	-
Non-vestment of rights to shares by key management personnel		(34,590)	-
Success fee payable on convertible note agreement		60,000	-
Balance at the end of the year		1,157,091	369,084

This reserve is used to record the fair value of options over ordinary shares and rights to ordinary shares granted as consideration for services provided.

	Note	2010 $	2009 $
Foreign currency translation reserve			
Balance at the beginning of the year		31,388	(17,799)
Foreign currency translation differences		(127,995)	49,187
Balance at the end of the year		(96,607)	31,388

The foreign currency translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations.

	Note	2010 $	2009 $
Convertible instrument reserve			
Balance at the beginning of the year		46,966	-
Issue of convertible instruments		724,898	50,285
Transaction costs		-	(3,319)
Transfer to issued capital on conversion of instruments	23	(771,864)	-
Balance at the end of the year		-	46,966

The convertible instruments reserve is used to record the equity component of the convertible instruments.

		2010 $	2009 $
Total reserves		1,060,484	447,438

25. Accumulated losses

	2010 $	2009 $
Accumulated losses at the beginning of the year	(23,955,797)	(15,334,824)
Loss for the year	(10,970,613)	(8,620,973)
Accumulated losses at the end of the year	(34,926,410)	(23,955,797)

26. Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	2010	**2009**
	$	**$**
Cash and equivalents	12,225,823	2,815,876
Held-to-maturity financial assets	10,238,422	-
Loan to related parties (i)	-	58,609
R&D tax offset rebate and government grants receivable	577,060	368,520
Interest receivable	39,978	-
GST / VAT receivable	302,002	209,149
FBT receivable	8,052	-
Trade receivables	228,701	72,986
Other	695	-
	23,620,733	3,525,140

(i) The related party loan was with Mr Dale Brosius, a key management personnel, and was unsecured.

As at 30 June 2010, other than a VAT receivable of $117,649, no financial asset was considered past due (2009: nil).

At 30 June 2010, no financial asset is considered impaired (2009: nil).

The Group's maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was:

	Consolidated	
	2010	**2009**
	$	**$**
Australia	769,040	588,963
Germany	320,187	120,301
USA	67,261	-
	1,156,488	709,264

26. Financial instruments (cont'd)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
Consolidated						
30 June 2010						
VCAMM royalties payable	1,121,093	(1,141,304)	(325,000)	(325,000)	(491,304)	-
Trade and other payables	2,976,875	(2,976,875)	(2,976,875)	-	-	-
Finance lease liabilities	18,132	(24,689)	(6,733)	(6,733)	(11,222)	-
	4,116,100	(4,142,868)	(3,308,608)	(331,733)	(502,526)	-
30 June 2009						
VCAMM royalties payable	1,095,885	(1,143,404)	(102,976)	(102,976)	(650,000)	(287,453)
Trade and other payables	758,237	(758,237)	(758,237)	-	-	-
Finance lease liabilities	28,022	(38,156)	(6,733)	(6,733)	(24,689)	-
Convertible note	2,489,992	(2,700,000)	(148,500)	(148,500)	(297,000)	(2,106,000)
	4,372,136	(4,639,797)	(1,016,446)	(258,209)	(971,689)	(2,393,453)

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

2010	**USD**	**EUR**
Cash	50,566	146,060
Trade payables	(426,819)	(983,159)
Receivables	93,398	320,187
	(282,855)	(516,912)

2009	**USD**	**EUR**
Cash	-	25,634
Trade payables	-	(103,088)
Receivables	-	120,301
	-	42,847

26. Financial instruments (cont'd)

Currency risk (cont'd)

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2010	**2009**	**2010**	**2009**
USD	0.8821	0.7477	0.8523	0.8114
EUR	0.6355	0.5420	0.6979	0.5751

Sensitivity analysis

A 10 percent movement of the Australian dollar against the following currencies at 30 June would have increased (decreased) profit or loss and equity on balances denominated in foreign currencies by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	2010		2009	
	Profit / Loss		Profit / Loss	
	+10% $	-10% $	+10% $	-10% $
USD	25,714	(31,428)	-	-
EUR	46,992	(57,435)	(3,895)	4,761
	72,706	(88,865)	(3,895)	4,761

	2010		2009	
	Equity		Equity	
	+10% $	-10% $	+10% $	-10% $
USD	(13,793)	16,858	-	-
EUR	(65,950)	80,606	(40,657)	49,692
	(79,743)	97,464	(40,657)	49,692

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial assets/(liabilities) was:

	Consolidated	
	2010 $	**2009 $**
Fixed rate instruments		
Held-to-maturity term deposits	10,238,422	-
Loans to related parties	-	58,608
Convertible notes	-	(2,700,000)
Finance lease liabilities	(18,132)	(28,022)
	10,220,290	(2,669,414)
Variable rate instruments		
Cash and cash equivalents	12,225,823	2,815,876

26. Financial instruments (cont'd)

Interest rate risk (cont'd)

Cash includes funds held in short term deposits and cheque accounts during the year, which earned a weighted average interest rate 4.48% (2009: 5.35%).

The interest rates applicable to the Group's finance leases are 9.55% (2009: 9.55%).

Financial assets held-to-maturity includes a 180 day term deposit of $10,000,000 that is fixed interest bearing earning interest at a rate of 5.92% per annum.

All other material financial assets and liabilities are non-interest bearing.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

Effect in AUD	**Consolidated profit or loss**	
	100 bp increase	**100 bp decrease**
30 June 2010		
Variable rate instruments	122,258	(122,258)
Cash flow sensitivity (net)	122,258	(122,258)
30 June 2009		
Variable rate instruments	28,159	(28,159)
Cash flow sensitivity (net)	28,159	(28,159)

Fair values

The carrying amounts of financial assets and liabilities approximate fair value.

27. Capital and other commitments

	Consolidated	
	2010	**2009**
	$	**$**
Operating lease commitments		
Non-cancellable operating lease contracted for but not capitalised in the financial statements.		
Payable		
- less than 1 year	240,389	237,087
- between 1 and 5 years	20,834	267,940
	261,223	505,027

The property lease is a non-cancellable lease with a 5-year term, with rent payable quarterly in advance. The lease contains provisions for rent reviews on an annual basis, and a 5-year renewable option.

27. Capital and other commitments (cont'd)

Capital commitments

The Group's commitments in respect of plant and equipment contracted for but not provided for are set out below:

	Consolidated 2010 $	2009 $
Payable		
- less than 1 year	552,420	379,785
	552,420	379,785

Refer also to Note 33 on capital commitments subsequent to year end.

28. Cash flow information

	Note	Consolidated 2010 $	2009 $
Reconciliation of cash flows from operating activities to loss after income tax:			
Loss for the year		(10,970,613)	(8,620,973)
Adjustments for:			
• Amortisation of intangibles	18	63,844	307,026
• Depreciation	17	610,550	570,162
• Impairment of intangibles	18	-	264,197
• Impairment of property, plant & equipment	17	-	1,374,447
• Amortisation of convertible note costs	8	105,535	15,158
• Amortisation of convertible loan costs	8	156,164	-
• Share based payment expense		1,224,687	201,322
• Convertible note interest	8	-	76,671
• Foreign exchange gain	8	2,568	(336,491)
• Finance costs	8	48,332	20,565
Operating loss before changes in working capital		(8,758,933)	(6,127,916)
(Increase)/decrease in trade & other receivables		(744,255)	491,366
Decrease in inventories		38,802	2,991
(Increase)/decrease in other current assets		(360,560)	56,581
Increase/(decrease) in trade and other payables		2,197,704	(203,358)
Increase in employee benefits		56,266	27,736
Net cash used in operating activities		(7,570,976)	(5,752,600)

29. Related parties

Key management personnel compensation

The key management personnel compensation included in "personnel expenses" in note 7 is as follows:

	Consolidated 2010 $	2009 $
Short-term employee benefits	1,665,351	1,399,592
Post-employment benefits	73,465	48,650
Share based payments	923,499	201,322
	2,662,315	1,649,564

29. Related parties (cont'd)

Individual directors and executives compensation (key management personnel remuneration) disclosures

Information regarding individual directors' and executives' remuneration and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in the Remuneration Report and below, no director has entered into a material contract with the Company or the Group since the end of the previous financial year.

Loans to key management personnel and their related parties

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to key management personnel and their related parties, and the number of individuals in each group, are as follows:

	Opening balance $	Closing balance $	Interest not charged $	Number in group at 30 June
Total for key management personnel 2010	58,609	-	-	1
Total for key management personnel 2009	103,708	58,609	-	1

Key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company or its subsidiaries during the financial year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

			Consolidated	
Director	Transaction	Note	2010 $	2009 $
Mr D Graham	Consulting services	(i)	34,019	50,537

(i) A company associated with Mr Graham, Decta Holdings Pty Ltd, provided prototype design services, patent portfolio management and development program coordination. Terms for such services were based on market rates and amounts were payable on a monthly basis. No amounts were outstanding at 30 June 2010 (2009: nil).

29. Related Parties (cont'd)

Equity holdings

Options and rights over shares

The movement during the reporting period in the number of options and rights over ordinary shares in Quickstep Holdings Limited held, directly, indirectly or beneficially by each key management persons, including their personally-related entities at 30 June 2010, are as follows:

(i) Rights

	Held at 1 July 2009	Granted as compensation	Exercised	Other changes*	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
2010							
Directors							
Mr P Odouard	882,353	-	-	-	882,353	-	-
Executives							
Mr A Myers	800,000	-	(800,000)	-	-	-	-
Mr P Williams	411,765	-	-	(411,765)	-	-	-
Mr W Beckles	-	468,750	-	-	468,750	-	-
Ms M Withers	-	276,000	-	-	276,000	-	-

* Other changes represent rights that were forfeited during the year

	Held at 1 July 2008	Granted as compensation	Exercised	Other changes	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
2009							
Directors							
Mr P Odouard	-	882,353	-	-	882,353	-	-
Executives							
Mr A Myers	-	800,000	-	-	800,000	800,000	800,000
Mr P Williams	-	411,765	-	-	411,765	-	-

(ii) Options

	Held at 1 July 2009	Granted as compensation	Exercised	Other changes	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
2010							
Directors							
Mr P Odouard	-	3,249,476	-	-	3,249,476	1,851,852	1,851,852

There were no options granted to, or held by, key management persons, including their personally-related entities in the previous financial period.

29. Related Parties (cont'd)

Equity holdings (cont'd)

Shares

The movement during the year in the number of ordinary shares held, directly, indirectly or beneficially by each key management person, including their personally-related entities, is as follows:

	Held at 1 July	Purchases	Disposals	Received on exercise of options/ rights	Issued as compensation	Held at 30 June
2010						
Directors						
Mr P M Odouard	-	-	-	-	-	-
Mr D E Brosius	800,000	-	(200,000)	-	-	600,000
Mr M B Jenkins	-	-	-	-	-	-
Mr D F G Graham	38,651,529	-	(12,000,000)	-	-	26,651,529
Mr P C Cook	344,300	28,846	(235,200)	-	-	137,946
Executives						
Mr A M Myers	-	-	-	800,000	828,438(1)	n/a(1)
Dr J Schlimbach	-	-	-	-	-	-
Mr P J Williams	-	-	-	-	52,602(2)	n/a(2)
Mr J F Johnson	-	20,000	-	-	-	20,000
Mr W Beckles	-	-	-	-	-	-
Ms M A Withers	-	-	-	-	-	-
Mr G S Beaton	-	-	-	-	-	-

	Held at 1 July	Purchases	Disposals	Received on exercise of options	Issued as compensation	Held at 30 June
2009						
Directors						
Mr P M Odouard	-	-	-	-	-	-
Mr D E Brosius	800,000	-	-	-	-	800,000
Mr M B Jenkins	-	-	-	-	-	-
Mr D F G Graham	41,335,730	-	(2,684,201) (3)	-	-	38,651,529
Mr P C Cook	344,300	-	-	-	-	344,300
Mr N M Noble	4,270,350	1,210,972	(556,416)	-	-	n/a(4)
Executives						
Mr A M Myers	-	-	-	-	-	-
Dr J Schlimbach	-	-	-	-	-	-

(1) On 1 October 2009, 800,000 ordinary fully paid shares were issued to Mr A Myers. On 9 December 2009, a further 28,438 ordinary fully paid shares were issued. These were in accordance with the terms of the Executive Service Agreement between the Company and Mr Myers. Mr A Myers ceased to be a key management person on 15 February 2010.

(2) On 9 December 2009, 52,602 ordinary fully paid shares were issued to Mr P Williams in accordance with the terms of the Executive Service Agreement between the Company and Mr Williams. Mr P Williams ceased to be a key management person on 13 November 2009.

(3) On 14 August 2008, a related party of Mr D Graham (Decta Holdings Pty Ltd) disposed of 1,684,201 shares via an on market trade and transferred an additional 1,000,000 shares in an off market transaction to Mr N Noble.

(4) Mr N Noble ceased to be a key management person on 30 September 2008.

30. Equity accounted investees

On 1 May 2008 the Group acquired a 20 percent investment in QuickPipes Pty Ltd for the amount of $2. This investee was established as an incorporated joint venture in conjunction with Vortex Pipes Ltd to research and develop a composite pipe for industrial applications. At reporting date, the investee held no assets or liabilities and had not entered into any transactions.

31. Share based payments

The Company has established the Quickstep Holdings Limited Employee Share Option Scheme ("ESOS") to provide a means by which employees of the Group, including directors, upon whom the responsibilities for the successful growth of the Group rest, can share in such growth, thereby strengthening their commitment to the Group. Pursuant to the Scheme, and subject to any approvals required by the Corporations Act 2001 and the ASX Listing Rules, the directors may, from time to time, resolve to grant such numbers of options, at such exercise price to such employees of the Group as determined by the directors.

To date, only two option issues have been made pursuant to the Scheme. These were made to the retiring directors in June 2005, Messrs Land and Smalley. Mr Land was issued 480,000 options and Mr Smalley 240,000 options. The options vested one month from the date of grant and were exercisable by 16 June 2010.

There are no voting or dividend rights attaching to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

During the year ended 30 June 2010, 200,000 options were exercised (2009: nil). The remaining 240,000 options lapsed during the financial year (refer to note 23(ii)).

The Company has 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. Each option is a conditional right to one Quickstep ordinary share, subject to the satisfaction of the applicable performance conditions and payment of the exercise price (if any).

The EIP provides sufficient flexibility for the Board to grant short-term or long-term incentives to eligible employees. That is, the performance conditions set by the Board may apply over the period of time the Board determines appropriate in the circumstances. It is currently intended that the "short-term" grants under the EIP will be in the form of an equity retention incentive, with the applicable performance condition based on the key performance indicators set under the Company's short term incentive program, and that the "long term" grants will be subject to performance criteria based on achieving total shareholder return targets over a three year period.

In general, the options will not vest until the performance criteria specified by the Board at the time of the grant have been achieved and provided the participant remains a Group employee. If the performance criteria are not satisfied at the end of the applicable performance period the options will lapse. The options may lapse in other circumstances provided for in the EIP rules, including forfeiture where the employee engages in dishonest or fraudulent conduct, where there is a change in control and where the employee ceases employment. Subject to the rules and the terms of grant, options will lapse on the seventh anniversary of their grant date.

The number and weighted average exercise prices ("WAEP") of options issued under the ESOS and EIP are as follows:

Employee Share Option Scheme	**2010 Number**	**2010 WAEP**	**2009 Number**	**2009 WAEP**
Outstanding at 1 July	440,000	$0.26	440,000	$0.26
Exercised during the period	(240,000)	$0.26	-	-
Forfeited during the period	(200,000)	$0.26	-	-
Outstanding at 30 June	-	-	440,000	$0.26
Exercisable at the end of the year	-	-	440,000	$0.26

31. Share based payments (cont'd)

Employee Incentive Plan	**2010 Number**	**2010 WAEP**	**2009 Number**	**2009 WAEP**
Outstanding at 1 July	-	-	-	-
Granted during the period	3,249,476	$0.00	-	-
Outstanding at the end of the year	3,249,476	$0.00	-	-
Exercisable at the end of the year	1,851,852	$0.00	-	-

The options granted from the EIP in 2010 to Mr. Odouard are subject to performance conditions based on achieving pre-set accumulated absolute Total Shareholder Return (TSR) targets over the applicable performance period. In summary, TSR combines share price appreciation over a period and dividends paid during that period to show the total return to shareholders over that period. For the purposes of the performance conditions attached to the options, TSR will be calculated as the 45 day volume weighted average price (VWAP) of Quickstep shares as at 30 June. This calculation has been adopted bearing in mind Quickstep's market capitalisation and to ensure the performance hurdle and testing process remain appropriate in all the circumstances.

Tranche 1 will be subject to a one-year performance condition, Tranche 2 will be subject to a two-year performance condition and Tranches 3 and 4 will each be subject to a three year performance condition. In respect of each of Tranches 1, 2 and 3 the performance period will commence on 1 July 2008. The performance period for Tranche 4 will commence on 1 July 2009.

The specific TSR targets for each Tranche are set out below. The targets are calculated from an initial value of $0.165 for each of Tranches 1, 2 and 3 and $0.25 for Tranche 4.

If the Threshold hurdle of TSR is achieved at a test date, 25% of the Options in the tranche will vest. If the Target hurdle of TSR is achieved at a test date in any given year, 50% of Options in the tranche will vest. If the Stretch hurdle of TSR is achieved at a test date in any given year 100% of Options in the tranche will vest. After the initial vesting period, re-testing of the performance conditions occurs annually. However, the re-tested Options will be tested at the same time and on the same basis as the subsequent tranche. Re-testing will occur over the longer performance period and against the higher TSR hurdle. In respect of Tranche 4, re-testing will occur.

Earliest vesting date			**Tranche 1- 30/6/09**	**Tranche 2- 30/6/10**	**Tranche 3- 30/6/11**	**Tranche 4- 30/6/12**
			TSR Hurdle VWAP as at 30 June			
	% Annual Growth (TP)	**% Vesting**	**2009**	**2010**	**2011**	**2012**
Initial value			$0.165	$0.165	$0.165	$0.250
Threshold	5	25	$0.170	$0.179	$0.188	$0.290
Target	8	50	$0.175	$0.189	$0.204	$0.315
Stretch	12	100	$0.181	$0.203	$0.227	$0.352

31. Share based payments (cont'd)

If Mr. Odouard ceases employment with the Quickstep Group due to death, disability, bona fide redundancy or any other reason which may meet with the approval of the Board, the Board may determine that any unvested options he holds will vest as at his date of cessation, having regard to such factors as the Board considers relevant, including pro rata performance against the performance condition over the period from the grant date to the date of cessation.

If he ceases employment in these circumstances and holds vested options he may exercise those options within the 12 month period following his date of cessation (or, the remaining period until the expiry of the options, if less than 12 months).

If he ceases employment for any other reason any unvested options he holds will lapse on his date of cessation unless the Board determines otherwise, and any vested options must be exercised within 3 months.

Rights

Performance rights issued during 2010 were as follows:

	2010 Number	Vesting conditions
Performance rights on issue July 1	2,094,118	
Performance rights terminated	(411,765)	
Performance rights exercised	(800,000)	
Performance rights granted	744,750	Vest in two tranches provided the employee remains with the Group. 1/3 vest 2 years from the date granted, 2/3 vest 3 years from the date granted.
Total performance rights on issue 30 June	1,627,103	

	2009 Number	Vesting conditions
Performance rights on issue July 1	-	
Performance rights granted	800,000	Vest immediately on date of signing contract
Performance rights granted	1,294,118	Vest in two tranches provided the employee remains with the Group. 1/3 vest 2 years from the date granted, 2/3 vest 3 years from the date granted.
Total performance rights on issue 30 June	2,094,118	

	Consolidated	
Employee expenses	**2010 $**	**2009 $**
Shares	67,492	-
Share rights granted	73,496	201,322
Options	782,511	-
	923,499	201,322

31. Share based payments (cont'd)

Employee expenses (cont'd)

The Company issued shares as a performance bonus to specific key management personnel (refer Note 29).

The Company has entered into executive service agreements with its executive directors and key management personnel. During the year, pursuant to the Executive Services Agreements with certain key management personnel, the Company has granted the rights over 744,750 shares with a fair value of $283,320. During the year, $73,496 (2009: $201,322) was expensed in the income statement representing the services performed by the key management personnel to 30 June 2010 as a percentage of the period to full vesting of the rights.

The fair value of share rights and shares granted is determined as the quoted price on the ASX of the shares of the Company on the day of the grant.

On 30 March 2010, Mr Odouard accepted an offer of 3,249,476 options from the Quickstep Employee Incentive Plan ("EIP") in accordance with the resolutions passed at the 2009 Annual General Meeting. The number of options granted was calculated partly with reference to the volume weighted average of the ASX quoted price for QHL shares on the date of Mr Odouard's appointment (16.2 cents) and partly with reference to the volume weighted average of the ASX quoted price for QHL shares at 31 July 2009 (31.8 cents). Some or all of the options will vest if certain performance hurdles relating to an increase in share value are achieved at the prescribed testing dates. The fair value of the options, as calculated under the accounting standards, takes into account a range of assumptions including the likelihood of the options vesting and the projected share price at the time of vesting (see below). The fair value of the options granted is $1,065,322 of which $782,511 has been recorded as an expense in the financial statements for the portion attributable to the current financial year as required by accounting standards. As at 30 June 2010, 1,851,852 options had vested and were exercisable.

	No. of options	Fair value per option at grant date ($)	Total fair value ($)
Tranche 1	925,926	$0.3500	324,074
Tranche 2	925,926	$0.3480	322,222
Tranche 3	925,926	$0.3150	291,667
Tranche 4	471,698	$0.2700	127,359
Total	**3,249,476**		**1,065,322**

Whilst these options are fully vested, at balance date the options were yet to be issued.

Tranche 1 options had fully vested at the grant date of 30 March 2010 and therefore the fair value is based on the ASX quoted price for QHL shares at grant date of the options. The Monte-Carlo simulation has been used to value Tranches 2, 3 and 4 that had a future vesting condition at the grant date of the options. Assumptions used in the valuation of the options in Tranche 2, 3 and 4 at grant date included:

Tranche	2	3	4
Grant Date	30/3/2010	30/3/2010	30/3/2010
First testing date	30/6/2010	30/6/2011	30/6/2012
Expiry date	30/3/2017	30/3/2017	30/3/2017
Share price at grant date	$0.35	$0.35	$0.35
Exercise price	Nil	Nil	Nil
Expected life (years)	0.3	1.3	2.3
Volatility	80%	80%	80%
Risk free interest rate	4.54%	4.66%	5.01%
Dividend yield	0%	0%	0%

32. Parent Entity

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Group was Quickstep Holdings Limited.

	Company	
	2010 $	2009 $
Results of the parent entity		
Loss for the period	(11,098,608)	(8,544,824)
Other comprehensive income	-	-
Total comprehensive income for the period	(11,098,608)	(8,544,824)
Financial position of the parent entity at year end		
Current assets	234,241	95,014
Total assets	28,862,398	9,298,703
Current liabilities	431,914	170,951
Total liabilities	431,914	2,660,943
Total equity of the parent entity comprising of:		
Share capital	62,296,410	30,146,119
Share based payments reserve	1,157,091	369,084
Convertible notes reserve	-	46,966
Accumulated losses	(35,023,017)	(23,924,409)
Total equity	28,430,484	6,637,760

33. Subsequent Events

Since the end of the financial period the Group has entered into purchase agreements for:

- a 5-axis precision milling machine for €1,761,261 for delivery in the last quarter of the 2011 financial year; and
- the supply of technical assistance and training from Northrop Grumman in order to achieve fundamental capability in relation to the Joint Strike Fighter ("JSF") project to the value of US$2,489,922.

Other than the matters referred to above or in the financial statements, 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 2010.

Directors' Declaration for the year ended 30 June 2010

In the opinion of the directors of Quickstep Holdings Limited:

1. (a) the financial statements and notes and Remuneration Report in the Directors' Report, set out on pages 27 to 68 and pages 15 to 23 respectively, are in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and their performance, for the financial year ended on that date; and

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

    (b) the financial statements comply with International Financial Reporting Standards as described in Note 1 (b);

    (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by s.295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

Dated at Perth, Western Australia this 28th day of September 2010.

Signed in accordance with a resolution of the directors:

P M Odouard
Managing Director

Auditor's Independence Declaration

KPMG

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 audit for the financial year ended 30 June 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

M Beevers
Partner

Perth

28 September 2010

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

TO THE MEMBERS OF QUICKSTEP HOLDINGS LIMITED

KPMG

Independent auditor's report to the members of Quickstep Holdings Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising Quickstep Holdings Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year , which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 33 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1b, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1b.

Report on the remuneration report

We have audited the Remuneration Report included in page 10 to 18 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Quickstep Holdings Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

M Beevers
Partner

Perth

28 September 2010

Shareholder Information

DETAILS OF SHARES AND OPTIONS AS AT 14 SEPTEMBER 2010:

Voting rights

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options do not carry any voting rights.

Substantial shareholders

The names of substantial shareholders in the company and the number of shares to which each substantial shareholder and their associates have a relevant interest are set out below:

Substantial Shareholder	Number of Shares
Washington H Soul Pattinson and Company Limited	28,797,570
Decta Holdings Pty ltd	26,651,529

On-Market buy back

There is no current on-market buy back.

Distribution schedules

Distribution of each class of security as at 14 September 2010:

Ordinary fully paid shares

Range			Holders	Units	%
1	–	1,000	472	236,370	0.09
1,001	–	5,000	1,150	3,693,339	1.47
5,001	–	10,000	1,086	9,238,398	3.67
10,001	–	100,000	2,431	76,629,608	30.48
100,001	–	Over	251	161,619,185	64.28
Total			5,390	251,416,900	100.00

Options exercisable at $0.00 on or before 30 March 2017 (unlisted)

Range			Holders	Units	%
1	–	1,000	–	–	–
1,001	–	5,000	–	–	–
5,001	–	10,000	–	–	–
10,001	–	100,000	–	–	–
100,001	–	Over	1	3,249,476	100.00
Total			1	3,249,476	100.00

DETAILS OF SHARES AND OPTIONS AS AT 14 SEPTEMBER 2010 (cont'd):

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 1,408 shares at $0.355 per share):

Holders	Units
547	328,211

Top holders

The 20 largest registered holders of each class of quoted security as at 14 September 2010 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Washington H Soul Pattinson and Company Limited	28,797,570	11.45
2.	Decta Holdings Pty Ltd	26,651,529	10.60
3.	Romadak Pty Ltd <Romadak Super Fund A/C>	6,788,838	2.70
4.	WSF Pty Ltd <ADH S/F A/C>	5,643,061	2.24
5.	State One Stockbroking Ltd	4,643,141	1.85
6.	Boldbow Pty Ltd	3,442,676	1.37
7.	Nicholas Michael Noble	2,618,447	1.04
8.	Aileendonan Investments Pty Ltd	2,505,500	1.00
9.	HSBC Custody Nominees (Australia) Limited	2,264,582	0.90
10.	Mr Julius Solomons and Mrs Dianne Solomons <The Sols Super Fund A/C>	2,121,413	0.84
11.	Prunelle Holdings Pty Ltd	2,077,692	0.83
12.	Mr David Creighton Gellatly & Mrs Evelyn May Gellatly <D&E Gellatly Super A/C>	2,028,846	0.81
13.	Equity Trustees Limited <SGH PI Smaller Co's Fund>	2,000,000	0.80
14.	Equilibrium Pensions Limited <Campbell Family Int PPPS A/C>	1,836,000	0.73
15.	Equity Trustees Limited <SGH Micro Cap Fund A/C>	1,600,000	0.64
16.	Yarraandoo Pty Ltd <Yarraandoo Super Fund A/C>	1,535,324	0.61
17.	Davmin Pty Ltd	1,500,000	0.60
18.	Maitland Trustees Limited	1,256,000	0.50
19.	Mr David Creighton Gellatly & Mrs Evelyn May Gellatly	1,250,000	0.50
20.	State One Holdings Pty Ltd	1,200,000	0.48
		101,760,619	40.49

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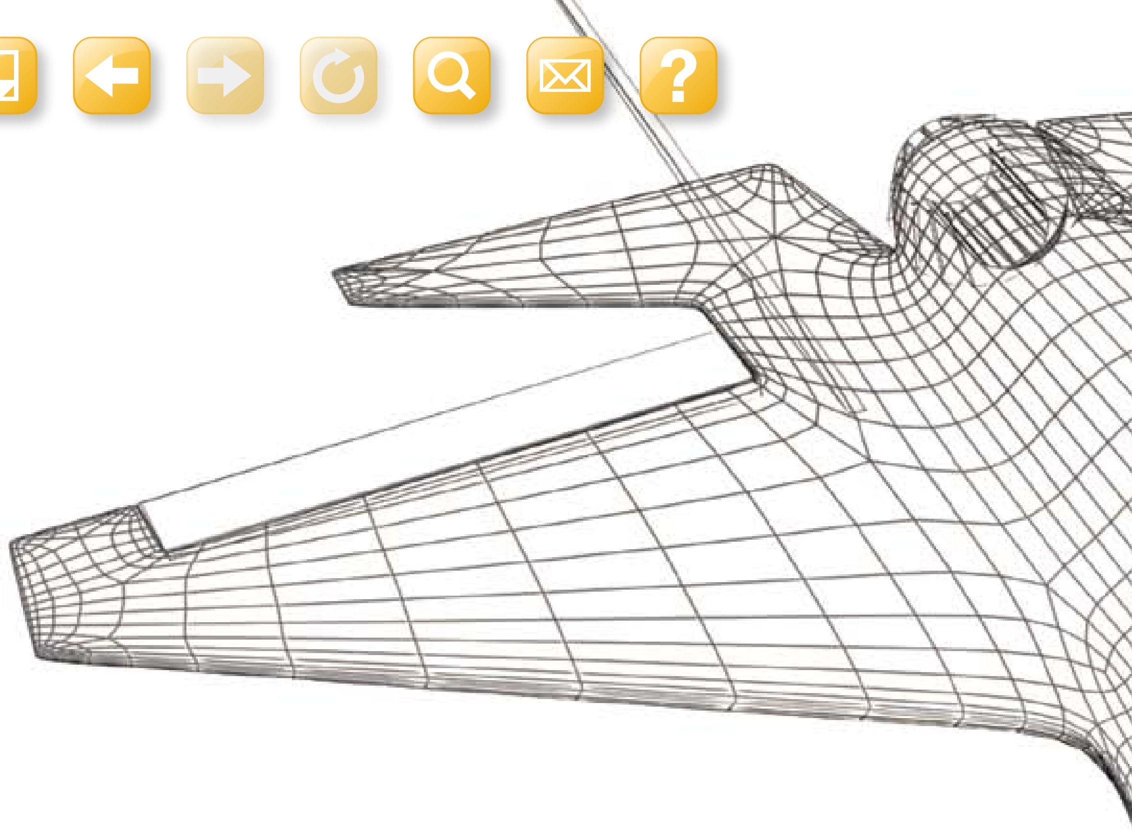

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