# Adrad Holdings Limited

**ABN 51121033396**

## Financial Report for the half-year ended - 31 December 2021

**Adrad Holdings Limited**
**Contents**
**31 December 2021**

**Adrad Holdings Limited**
**Corporate directory**
**31 December 2021**

| | |
|---|---|
| Directors | Mr. Glenn Davis<br>Mr. Donald McGurk<br>Mr. Gary Washington |
| Chief Executive Office | Mr. Don Cormack |
| Company Secretaries | Ms Kaitlin Smith and Mr. Christopher Newman |
| Registered office | Adrad Holdings Limited<br>26 Howards Road<br>Beverley, SA, 5009 |
| Principal place of business | Adrad Holdings Limited<br>26 Howards Road<br>Beverley, SA, 5009 |
| Auditor | Grant Thornton Audit Pty Ltd<br>Collins Square, Tower 5<br>727 Collins Street<br>Melbourne, VIC 3008 |

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Adrad Holdings Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2021.

## Directors

The following persons were directors of Adrad Holdings Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Gary Washington (Executive Director)
Glenn Davis (Executive Director) - Appointed 17 January 2022
Donald McGurk (Executive Director) - Appointed 23 March 2022

## Principal activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of the manufacture and importing of radiators and other automotive products.

Notwithstanding the divestment of Harrop Engineering Australia Pty Ltd and HCT Management Pty Ltd, there was no significant change in the nature of these activities that occurred during the year.

## Dividends

There were dividends declared of $2,000,000 during the current financial half-year.

## Review of operations

Adrad is an Australian-based business specialising in the design and manufacture of innovative heat transfer solutions for industrial applications, and the manufacture, importation and distribution of automotive parts for the aftermarket in Australia and New Zealand and for OE customers globally.

Adrad has grown organically and through strategic acquisitions to become a significant supplier of heat transfer products for engine cooling in Australia.

Adrad's operating entities integrate to form two major segments servicing all aspects of the engine cooling market:

- **Aftermarket**- Australian manufacturer, importer and distributor of radiators and other heat exchange products for the Australian and New Zealand automotive and industrial aftermarket, and
- **Original Equipment Market (OEM)-** designer and manufacturer of OEM industrial radiator and cooling systems across a broad range of market sectors.

With an extensive track record spanning over 100 years of experience, and trusted brands with quality, reliability and response times as a point of difference, Adrad has established a high quality and diverse customer base with long-term relationships including large global OEMs such as Caterpillar, Kenworth, Cummins, and Hitachi.

The operations of the consolidated entity for the half-year ended 31 December 2021 resulted in a profit of $7,063,694 (31 December 2020: $7,485,754). The net assets of the consolidated entity increased to $72,059,850 at 31 December 2021 (30 June 2021: $64,288,418). The consolidated entity had net cash inflows from operating activities for the period of $670,227 (31 December 2020: inflows of 7,597,120).

## Significant changes in the state of affairs

Adrad Group Ltd sold 100% of its shareholdings in Harrop Engineering (Australia) Pty Ltd and HCT Management Pty Ltd to Adcore Holdings as Trustee for the Gary Washington Family Trust. Sale proceeds were $4,920,000.

Adrad Group Ltd purchased 34% shareholdings of Air Radiators (Thailand) Limited for $5,786,000 and therefore now has 100% shareholdings.

Adrad Pty Ltd purchased the business operation (fixed assets, IP, working capital) from Adcore Holdings Pty Ltd. as a Trustee for the Gary Washington Family Trust for $16,101,000. This is an aftermarket business of radiators and other automotive products and operates in the Aftermarket division of the consolidated entity.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

**Adrad Holdings Limited**
**Directors' report**
**31 December 2021**

**Matters subsequent to the end of the financial half-year**
No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Auditor's independence declaration**
A copy of the auditor's independence declaration is included on page 5 of this financial report and forms part of this Directors' Report.

This report is made in accordance with a resolution of directors.

On behalf of the directors

Gary Washington
Director

2 August 2022

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# Auditor's Independence Declaration

## To the Directors of Adrad Holdings Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Adrad Holdings Limited for the half-year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

M J Climpson
Partner – Audit & Assurance

Melbourne, 2 August 2022

**Adrad Holdings Limited**
**Statement of profit or loss and other comprehensive income**
**For the half-year ended 31 December 2021**

| | Note | Consolidated 31 December 2021 $ | 31 December 2020 $ |
|---|---|---|---|
| **Revenue** | | | |
| Sales revenues | | 55,289,054 | 40,553,158 |
| Cost of sales | | (36,024,522) | (27,863,946) |
| Gross profit | | 19,264,532 | 12,689,212 |
| Other income | 5 | 819,715 | 3,950,884 |
| **Expenses** | | | |
| Finance costs | | (985,872) | (423,901) |
| Selling and distribution expense | | (7,002,571) | (3,908,223) |
| Administration expense | | (5,032,110) | (4,822,218) |
| **Profit before income tax expense from continuing operations** | | 7,063,694 | 7,485,754 |
| Income tax expense | 6 | (2,093,869) | (1,893,914) |
| Profit after income tax expense from continuing operations | | 4,969,825 | 5,591,840 |
| Profit after income tax expense from discontinued operations | 7 | 2,043,650 | 1,722,469 |
| **Profit after income tax expense for the half-year** | | 7,013,475 | 7,314,309 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | (470,618) | 390,671 |
| Other comprehensive income for the half-year, net of tax | | (470,618) | 390,671 |
| **Total comprehensive income for the half-year** | | 6,542,857 | 7,704,980 |
| Profit for the half-year is attributable to: | | | |
| Non-controlling interest | | 287,855 | 485,539 |
| Owners of Adrad Holdings Limited | | 6,725,620 | 6,828,770 |
| | | 7,013,475 | 7,314,309 |
| Total comprehensive income for the half-year is attributable to: | | | |
| Continuing operations | | 4,499,207 | 5,244,311 |
| Discontinued operations | | 2,043,650 | 2,460,669 |
| Owners of Adrad Holdings Limited | | 6,542,857 | 7,704,980 |
| | | 6,542,857 | 7,704,980 |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Adrad Holdings Limited**
**Statement of profit or loss and other comprehensive income**
**For the half-year ended 31 December 2021**

| | Cents | Cents |
|---|---|---|
| **Earnings per share for profit from continuing operations attributable to the owners of Adrad Holdings Limited** | | |
| Basic earnings per share | 400 | 559,184,000 |
| Diluted earnings per share | 400 | 559,184,000 |
| **Earnings per share for profit from discontinued operations attributable to the owners of Adrad Holdings Limited** | | |
| Basic earnings per share | 1,021,825 | 861,235 |
| Diluted earnings per share | 1,021,825 | 861,235 |
| **Earnings per share for profit attributable to the owners of Adrad Holdings Limited** | | |
| Basic earnings per share | 526 | 770,498,000 |
| Diluted earnings per share | 526 | 770,498,000 |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Adrad Holdings Limited**
**Statement of financial position**
**As at 31 December 2021**

| | Note | Consolidated 31 December 2021 $ | 30 June 2021 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 11,144,406 | 4,842,913 |
| Trade and other receivables | 8 | 19,713,036 | 16,125,998 |
| Inventories | 9 | 40,625,453 | 26,619,865 |
| Total current assets | | 71,482,895 | 47,588,776 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 12,640,407 | 12,960,624 |
| Right-of-use assets | | 33,582,544 | 7,096,823 |
| Intangible assets | | 36,974,869 | 36,974,881 |
| Deferred tax asset | | 2,880,213 | 3,048,126 |
| Total non-current assets | | 86,078,033 | 60,080,454 |
| **Total assets** | | 157,560,928 | 107,669,230 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 18,296,427 | 16,853,187 |
| Borrowings and interest bearing liabilities | 11 | 24,327,817 | 10,789,516 |
| Lease liabilities | | 3,055,475 | 1,117,558 |
| Provisions | 12 | 3,632,943 | 3,196,697 |
| Total current liabilities | | 49,312,662 | 31,956,958 |
| **Non-current liabilities** | | | |
| Borrowings and interest bearing liabilities | 11 | 861,366 | 1,943,406 |
| Lease liabilities | | 30,825,360 | 5,921,054 |
| Provisions | 12 | 4,501,690 | 3,559,394 |
| Total non-current liabilities | | 36,188,416 | 11,423,854 |
| **Total liabilities** | | 85,501,078 | 43,380,812 |
| **Net assets** | | 72,059,850 | 64,288,418 |
| **Equity** | | | |
| Contributed equity | 13 | 3,750,761 | 1 |
| Reserves | 14 | (2,800,277) | (1,807,473) |
| Retained profits | | 71,109,366 | 64,149,662 |
| Equity attributable to the owners of Adrad Holdings Limited | | 72,059,850 | 62,342,190 |
| Non-controlling interest | 15 | - | 1,946,228 |
| **Total equity** | | 72,059,850 | 64,288,418 |

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Adrad Holdings Limited**
**Statement of changes in equity**
**For the half-year ended 31 December 2021**

| Consolidated | Contributed Equity $ | Foreign Currency Translation Reserve $ | Common Control Acquisition Reserve $ | Acquisition of Non-Controlling Reserve $ | Retained profits $ | Non-controlling Interest $ | Total equity $ |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2020 | 1 | (1,877,171) | - | - | 51,285,237 | 1,121,606 | 50,529,673 |
| Profit after income tax expense for the half-year | - | - | - | - | 6,828,770 | 485,539 | 7,314,309 |
| Other comprehensive income for the half-year, net of tax | - | 299,808 | - | - | - | 90,865 | 390,671 |
| Total comprehensive income for the half-year | - | 299,808 | - | - | 6,828,770 | 576,404 | 7,704,982 |
| Balance at 31 December 2020 | 1 | (1,577,363) | - | - | 58,114,007 | 1,698,008 | 58,234,653 |

| Consolidated | Contributed Equity $ | Foreign Currency Translation Reserve $ | Common Control Acquisition Reserve $ | Acquisition of Non-Controlling Reserve $ | Retained profits $ | Non-controlling interest $ | Total equity $ |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2021 | 1 | (1,807,473) | - | - | 64,149,663 | 1,946,228 | 64,288,418 |
| Profit after income tax expense for the half-year | - | - | - | - | 6,725,620 | 287,855 | 7,013,475 |
| Other comprehensive income for the half-year, net of tax | - | (470,618) | - | - | 104,809 | (104,809) | (470,618) |
| Total comprehensive income for the half-year | - | (470,618) | - | - | 6,830,429 | 183,046 | 6,542,857 |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Contributions of equity, net of transaction costs (note 13) | 3,750,760 | - | - | - | - | - | 3,750,760 |
| Discount on Purchase of Net Assets from Adcore Holdings Pty Ltd | - | - | 4,804,650 | - | - | - | 4,804,650 |
| Shareholdings purchase of Air Radiators Thailand Ltd | - | - | - | (5,326,836) | 2,129,274 | (2,129,274) | (5,326,836) |
| Dividends declared | - | - | - | - | (2,000,000) | - | (2,000,000) |
| Balance at 31 December 2021 | 3,750,761 | (2,278,091) | 4,804,650 | (5,326,836) | 71,109,366 | - | 72,059,850 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Adrad Holdings Limited**
**Statement of cash flows**
**For the half-year ended 31 December 2021**

| | Note | Consolidated 31 December 2021 $ | Consolidated 31 December 2020 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 66,761,361 | 60,235,552 |
| Payments to suppliers and employees (inclusive of GST) | | (64,015,100) | (50,657,530) |
| Finance cost | | (1,042,261) | (565,294) |
| Income tax paid | | (1,033,773) | (1,415,608) |
| Net cash from operating activities | | 670,227 | 7,597,120 |
| **Cash flows from investing activities** | | | |
| Payments for property ,plant & equipment | | (2,674,354) | (1,119,076) |
| Proceeds from disposal of Harrop, net of cash held | 7 | 4,434,881 | - |
| Acquisition of ART, net of cash received | 14 | (5,326,836) | - |
| Acquisition of assets of Adcore, net of cash received | 18 | (15,539,584) | - |
| Net cash used in investing activities | | (19,105,893) | (1,119,076) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 13 | 3,750,760 | - |
| Proceeds from convertible notes | | 20,000,000 | - |
| Proceeds from/ (payment to) related parties | | 1,774,997 | (4,475,305) |
| Dividends paid | | (2,000,000) | - |
| Repayment of lease liabilities | | (1,981,261) | (731,148) |
| Proceeds from borrowings | | 3,192,663 | 306,772 |
| Net cash from/(used in) financing activities | | 24,737,159 | (4,899,681) |
| Net increase in cash and cash equivalents | | 6,301,493 | 1,578,363 |
| Cash and cash equivalents at the beginning of the financial half-year | | 4,842,913 | 3,729,366 |
| Cash and cash equivalents at the end of the financial half-year | | 11,144,406 | 5,307,729 |

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## Note 1. General information

The financial statements cover Adrad Holdings Limited as a consolidated entity consisting of Adrad Holdings Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Adrad Holdings Limited's functional and presentation currency.

Adrad Holdings Limited is a Company limited by shares, incorporated and domiciled in Australia. The principal activities of the Company during the half-year ended 31 December 2021 were the manufacture and importing of radiators and other automotive products.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**Basis of preparation**
The consolidated entity's financial year ends 30 June. The consolidated entity present the following financial statements (condensed or complete) in its half-yearly interim financial report as of 31st December 2021.

| | | |
|---|---|---|
| **Statement of financial position:** | 31 December 2021 | 30 June 2021 |
| At | | |
| **Statement of comprehensive income:** | | |
| 6 months ending | 31 December 2021 | 31 December 2020 |
| **Statement of cash flows:** | | |
| 6 months ending | 31 December 2021 | 31 December 2020 |
| **Statement of changes in equity:** | | |
| 6 month ending | 31 December 2021 | 31 December 2020 |

These general-purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include all the information required in annual financial statements in accordance with Australian Accounting Standards. It is recommended that this financial report be read in conjunction with the annual special purpose consolidated financial statements of Adrad Group for the year ended 30 June 2021.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

These financial statements have been prepared under the historical cost convention.

**New or amended Accounting Standards and Interpretations adopted**
The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adrad Holdings Limited ('company' or 'parent entity') as at 31 December 2021 and the results of all subsidiaries for the half year then ended. Adrad Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

**Note 2. Significant accounting policies (continued)**

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

**Revenue recognition**
*Revenue from contracts with customers*
Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principal whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principal are recognised as a refund liability.

*Sale of goods- aftermarket*
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. The customers also have the right to return faulty parts for repair or replacement dependant on the type of fault, during goods' warranty period. An estimated cost for returns is recognised in the consolidated entity's provisions and expense account and is based on past experience and projections.

*Sale of goods – OEM (Original Equipment)*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. Revenue from the manufacture of power generation products is recognised using the percentage of completion method based on the actual cost of material and labour as a portion of the total materials and labour to be performed. The customers also have the right to return faulty parts for repair or replacement dependant on the type of fault, during goods' warranty period. An estimated cost for returns is recognised in the consolidated entity's provisions and expense account and is based on past experience and projections.

*Rendering of services*
Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

**Note 2. Significant accounting policies (continued)**

*Interest*
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*
Other revenue is recognised when it is received or when the right to receive payment is established.

**Income tax**
The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability excluding a business combination that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in profit or loss except where it relates to items which are recognised directly in equity, in which case the deferred tax is recognised directly in equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and tax losses can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse changes will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Adrad Holdings Limited and its wholly owned subsidiaries are consolidated for tax purposes under the Tax Consolidation System. Adrad Holdings Limited is responsible for recognising the current tax assets and liabilities of the consolidated entity. The consolidated entity notified the Australian Taxation Office on 5 December 2007 that it had formed an income tax consolidated entity to apply from the date of incorporation of the company. The tax consolidated entity has entered into tax sharing and tax funding agreements whereby each company in the consolidated entity contributes to the income tax payable in proportion to their contribution to the taxable profit of the tax consolidated entity.

**Discontinued operations**
A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

**Current and non-current classification**
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

## Note 2. Significant accounting policies (continued)

### Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the consolidated entity uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The consolidated entity assess impairment of trade receivables on a collective basis as they possess credit risk characteristics based on the days past due.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### Inventories
Inventory is valued at the lower of net realisable value or cost, which includes direct materials (including inwards freight), direct labour and an appropriate proportion of variable and fixed overheads but excludes freight outwards, administration and sales overheads. Standard costs are regularly reviewed to ensure they fairly represent the actual cost of the stock existing at that point in time. Due regard is taken of slow moving stock given the dynamics of the automotive aftermarket and a provision for obsolescence has been created to enable inventory to be valued as described.

### Property, plant and equipment
Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

| **Asset Categories** | **Straight Line Depreciation Rates** |
|---|---|
| Fixtures & Fittings | 7.5%-33.3% |
| Leasehold Improvements | 7.0%-33.0% |
| Plant & Equipment | 5.0%-33.3% |
| Motor Vehicle | 5.0%-25.0% |
| Office Equipment | 33.3%-50.0% |
| Office Furniture | 7.5%-12.0% |

**Note 2. Significant accounting policies (continued)**

All of the above are measured on the cost basis.

*Depreciation*
All assets are depreciated on a straight line basis over their useful lives to the consolidated entity

**Intangible assets**
*Goodwill*
Goodwill arises on the acquisition of a business and on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net tangible assets at date of acquisition. Impairment testing is conducted annually to ascertain whether the carrying value of intangibles exceeds the recoverable amount.

*Research and development*
Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

**Impairment of non-financial assets**
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Right-of-use assets**
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**Borrowings**
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at fair value and are Level 3 liabilities in the fair value hierarchy.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

**Note 2. Significant accounting policies (continued)**

**Lease liabilities**
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**Goods and Services Tax ('GST')**
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

**Business Combinations/Asset Acquisitions**
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.
On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.
Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.
The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.
Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires the directors of the company to make judgements, estimates and assumptions that affect the application of accounting policies and the report amounts of the assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. All significant judgements, estimates and assumptions made during the year have been considered for significance. No significant critical judgement or accounting estimates have been made during the period, with the exception of the following:

*Impacts of Covid-19*
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

*Estimation of useful lives of assets*
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Below is the rates used for calculation depreciation:

| **Asset Categories** | **Straight Line Depreciation Rates** |
|---|---|
| Fixtures & Fittings | 7.5%-33.3% |
| Leasehold Improvements | 7.0%-33.0% |
| Plant & Equipment | 5.0%-33.3% |
| Motor Vehicle | 5.0%-25.0% |
| Office Equipment | 33.3%-50.0% |
| Office Furniture | 7.5%-12.0% |

*Recognition of deferred tax assets*
Deferred tax assets are recognised for deductible temporary differences and carried forward losses, only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses

*Income tax*
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*Provision for impairment of inventories*
Inventory is valued at the lower of net realisable value and cost. There is a significant amount of judgement involved in determining a fair provision for obsolescence with respect to slow moving stock.

*Goodwill*
Assumptions are made in relation to forecast cash flows of cash generating units when the directors test goodwill for impairment. In undertaking the impairment assessment the future profitability of the relevant cash generating units is assessed. As a result of the goodwill impairment testing the Directors' believe that the carrying value of intangible assets exceeds the recoverable amount. A change in these estimates may result in a material adjustment to the financial statements.

## Note 3. Critical accounting judgements, estimates and assumptions (continued)

*Provision for warranty*
A provision is taken up for expected future warranty claims, usually based on past claims. This involves significant judgement, particularly with respect to newly acquired entities or changes in the trading conditions of existing entities.

## Note 4. Operating segments

*Identification of reportable operating segments*
The consolidated entity is organised into three operating segments based on differences in products and services provided: automotive aftermarket parts, original equipment manufacturing and group support and holding companies. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Other segments represent the investment holdings of the operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

*Types of products and services*
The principal products and services of each of these operating segments are as follows:

| | |
|---|---|
| Aftermarket | Automotive aftermarket parts |
| OEM | Original equipment manufacturing |
| Corporate | Group support and holding companies |

*Operating segment information*

| **Consolidated - 31 December 2021** | **Aftermarket $** | **OEM $** | **Corporate $** | **Total $** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 21,451,608 | 33,837,446 | - | 55,289,054 |
| Total sales revenue | 21,451,608 | 33,837,446 | - | 55,289,054 |
| Total segment revenue | 21,451,608 | 33,837,446 | - | 55,289,054 |
| *Unallocated revenue:* | | | | |
| Discontinued Harrop revenue | | | | 9,064,514 |
| **Total revenue** | | | | 64,353,568 |
| | | | | |
| **EBITDA** | 3,817,631 | 7,096,312 | 684,470 | 11,598,413 |
| Depreciation and amortisation | - | - | (2,593,298) | (2,593,298) |
| Interest revenue | - | - | 6,820 | 6,820 |
| Finance costs | - | - | (1,042,260) | (1,042,260) |
| Discontinued Harrop EBITDA | - | - | 1,758,527 | 1,758,527 |
| **Profit/(loss) before income tax expense** | 3,817,631 | 7,096,312 | (1,185,741) | 9,728,202 |
| Income tax expense | | | | (2,714,727) |
| **Profit after income tax expense** | | | | 7,013,475 |

## Note 4. Operating segments (continued)

| **Consolidated - 31 December 2020** | **Aftermarket** **$** | **OEM** **$** | **Corporate** **$** | **Total** **$** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 16,128,953 | 24,424,205 | - | 40,553,158 |
| Total segment revenue | 16,128,953 | 24,424,205 | - | 40,553,158 |
| *Unallocated revenue:* | | | | |
| Discontinued Harrop revenue | | | | 12,620,501 |
| **Total revenue** | | | | 53,173,659 |
| | | | | |
| **EBITDA** | 2,804,206 | 5,981,329 | 1,316 | 8,786,851 |
| Depreciation and amortisation | - | - | (1,448,191) | (1,448,191) |
| Interest revenue | - | - | 418 | 418 |
| Finance costs | - | - | (591,100) | (591,100) |
| Discontinued Harrop EBITDA | - | - | 3,198,445 | 3,198,445 |
| **Profit before income tax expense** | 2,804,206 | 5,981,329 | 1,160,888 | 9,946,423 |
| Income tax expense | | | | (2,632,114) |
| **Profit after income tax expense** | | | | 7,314,309 |

## Note 5. Other income

| | **Consolidated** | |
|---|---|---|
| | **31 December 2021** **$** | **31 December 2020** **$** |
| Gain from disposal of property, plant and equipment | 3,000 | - |
| Rental income | 7,632 | 25,114 |
| Grant income (Inclusive of Job keeper income) | 6,200 | 1,803,166 |
| Management fees | 258,568 | 262,051 |
| Foreign exchanges gains/(losses) * | (94,591) | 1,331,446 |
| Other income | 323,449 | 363,616 |
| Scrap Recovery | 308,637 | 165,073 |
| Interest Received | 6,820 | 418 |
| | | |
| Other income | 819,715 | 3,950,884 |

* The prior year value mostly relates to a foreign exchange adjustment in respect of Air Radiators Thailand

## Note 6. Income tax expense

| | Consolidated 31 December 2021 $ | Consolidated 31 December 2020 $ |
|---|---|---|
| Income tax expense is attributable to: | | |
| Profit from continuing operations | 2,093,869 | 1,893,914 |
| Profit from discontinued operations | 620,858 | 738,200 |
| Aggregate income tax expense | 2,714,727 | 2,632,114 |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* for the relevant jurisdictions. | | |
| Profit before income tax expense from continuing operations | 7,063,694 | 7,485,754 |
| Profit before income tax expense from discontinued operations | 2,097,109 | 2,460,669 |
| | 9,160,803 | 9,946,423 |
| Tax at the statutory tax rate of 30% | 2,748,241 | 2,983,927 |
| Non-assessable / non-deductible items | (33,514) | (351,183) |
| Income tax expense | 2,714,727 | 2,632,114 |

## Note 7. Discontinued operations

*Description*
On 31 October 2021, the consolidated entity sold its shares in Harrop Engineering Australia Pty Ltd and HCT Management Pty Ltd to a related party for $4,920,000. The gain on disposal is included in the profit from discontinued operations.

*Financial performance information*

| | Consolidated 31 December 2021 $ | Consolidated 31 December 2020 $ |
|---|---|---|
| Revenue | 9,131,763 | 12,620,501 |
| Total expenses | (7,034,654) | (10,159,832) |
| Profit before income tax expense | 2,097,109 | 2,460,669 |
| Income tax expense | (620,858) | (738,200) |
| Profit for the year | 1,476,251 | 1,722,469 |
| Profit from sale and debt forgiveness | 567,399 | - |
| Profit after income tax expense from discontinued operations | 2,043,650 | 1,722,469 |

## Note 7. Discontinued operations (continued)

*Carrying amounts of assets and liabilities disposed*

| | 31 October 2021 $ |
|---|---|
| Cash and cash equivalents | 682,512 |
| Trade and other receivables | 4,376,549 |
| Inventories | 9,090,927 |
| Property, plant and equipment | 5,017,846 |
| Intangibles | 12 |
| Right-of-use assets | 4,550 |
| Deferred tax asset | 186,745 |
| Total assets | 19,359,141 |
| | |
| Trade and other payables | 12,767,097 |
| Interest-bearing liabilities | 1,454,048 |
| Provisions | 1,305,453 |
| Lease liabilities | 97,826 |
| Current Tax Liabilities | 3,118 |
| Other Liabilities | - |
| Total liabilities | 15,627,542 |
| | |
| Net assets | 3,731,599 |

## Note 8. Trade and other receivables

| | Consolidated | |
|---|---|---|
| | 31 December 2021 $ | 30 June 2021 $ |
| *Current* | | |
| Trade debtors | 15,776,275 | 13,565,257 |
| Less: Allowance for expected credit losses | (51,839) | (46,514) |
| | 15,724,436 | 13,518,743 |
| | | |
| Other receivables | 1,703,760 | 1,872,630 |
| Prepayments | 2,284,840 | 734,625 |
| | 3,988,600 | 2,607,255 |
| | | |
| | 19,713,036 | 16,125,998 |

## Note 9. Inventories

| | Consolidated 31 December 2021 $ | 30 June 2021 $ |
|---|---|---|
| *Current* | | |
| Raw materials - at cost | 12,604,324 | 7,751,335 |
| Work in progress - at cost | 4,893,754 | 8,647,779 |
| Finished goods - at cost | 15,426,481 | 8,995,942 |
| Stock in transit - at cost | 8,605,209 | 2,527,446 |
| Less: Provision for impairment | (904,315) | (1,302,637) |
| | 40,625,453 | 26,619,865 |

## Note 10. Trade and other payables

| | Consolidated 31 December 2021 $ | 30 June 2021 $ |
|---|---|---|
| *Current* | | |
| Trade creditors and accruals | 18,296,427 | 16,853,187 |

Payables to related entities are unsecured, interest bearing, with no fixed terms for repayment.

## Note 11. Borrowings and interest bearing liabilities

| | Consolidated 31 December 2021 $ | 30 June 2021 $ |
|---|---|---|
| *Current liabilities* | | |
| Related party payables- Unsecured | - | 10,282,354 |
| Convertible notes- Unsecured | 20,000,000 | - |
| Trade refinance- Secured | 3,230,471 | 285,400 |
| Related party payables- Loan from Subsidiary | 1,000,000 | - |
| Equipment Finance Liability- Secured | 97,346 | 221,762 |
| | 24,327,817 | 10,789,516 |
| *Non-current liabilities* | | |
| Equipment Finance Liability- Secured | 861,366 | 1,943,406 |

Convertible notes are unsecured and were issued on 15th December 2021 with a maturity date 1 year from issue. The redemption amount and conversion price include the following features:

- 125% of the face value of the notes if redeemed before the maturity date, and 137.5% if redeemed after the maturity date
- Various conversion prices are adjusted in the event of an IPO or trade sale, including:
  - In the event of an IPO, the lower of the offer price less 20% of that price or $125m
  - In the event of a trade sale, the lower of 80% of the equity value implied or $125m

## Note 11. Borrowings and interest bearing liabilities (continued)

Equipment finance liabilities are secured over the underlying asset subject to finance.

There is a registered mortgage debenture over the whole of the consolidated entity assets in respect of finance facilities undertaken by the consolidated entity and related entities. Bank loans are held in related entities and are secured by a first registered mortgage over the assets and undertakings of the entities within the consolidated entity. The bank loan agreement is subject to covenant clauses, whereby the consolidated entity is required to meet certain key financial ratios. During the year, management was compliant with all covenant clauses.

## Note 12. Provisions

| | Consolidated | |
|---|---|---|
| | 31 December 2021 $ | 30 June 2021 $ |
| *Current* | | |
| Employee benefits | 3,016,993 | 2,569,372 |
| Warranty | 615,950 | 540,561 |
| Other provisions | - | 86,764 |
| | 3,632,943 | 3,196,697 |
| *Non-current* | | |
| Employee benefits | 4,501,690 | 3,559,394 |

## Note 13. Contributed equity

| | Consolidated | | | |
|---|---|---|---|---|
| | 31 December 2021 Shares | 30 June 2021 Shares | 31 December 2021 $ | 30 June 2021 $ |
| Ordinary shares - fully paid | 3,750,761 | 1 | 3,750,761 | 1 |

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| Balance | 1 July 2021 | 1 | | 1 |
| Issued of shares | 1 November 2021 | 3,750,760 | $1.00 | 3,750,760 |
| Balance | 31 December 2021 | 3,750,761 | | 3,750,761 |

*Ordinary shares*
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

*Capital risk management*
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

## Note 13. Contributed equity (continued)

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## Note 14. Reserves

| | Consolidated | |
|---|---|---|
| | 31 December 2021 $ | 30 June 2021 $ |
| Foreign currency translation reserve opening balance | (1,807,473) | (1,877,171) |
| Loss/(gain) on revaluation of foreign subsidiaries | (470,618) | 69,698 |
| Acquisition of non-controlling interest reserve | (5,326,836) | - |
| Common control acquisition reserve | 4,804,650 | - |
| | (2,800,277) | (1,807,473) |

The foreign currency translation reserve is used to record unrealised gains/losses on the conversion of the transactions of the wholly owned foreign subsidiaries to Australian dollars.

The acquisition of non-controlling interest reserve is used to record the difference in the capital purchase of the remaining 34% shareholding of Air Radiators Thailand Ltd, which amounts to $5,326,836.

Common control acquisition reserve is to record the purchase of Adcore Holdings Pty Ltd ATF the Gary Washington Family Trust's Assets where the purchase price was less than the fair value of assets and liabilities acquired by the amount of $4,804,650. Refer to Note 18 for the acquisition details.

## Note 15. Non-controlling interest

| | Consolidated | |
|---|---|---|
| | 31 December 2021 $ | 30 June 2021 $ |
| Carrying value | - | 1,946,228 |

The consolidated entity held 66% (34% non-controlling interested) in Air Radiators (Thailand) Limited prior to 1st November 2021. The remaining 34% shares were purchased on 1st November 2021.

## Note 16. Contingent liabilities

In addition to the security provided for related entities as outlined in Note 11, the consolidated entity has given bank guarantees as at 31st December 2021 $876,780 to various landlords and $559,302 to various Customers for Defects Liability.

WorkSafe Victoria is currently undertaking an investigation in respect of Air Radiators Pty Ltd (a subsidiary of the Company) (**Air Radiators**) in relation to an incident that occurred at Air Radiators' manufacturing facility located in Victoria, as a result of which an employee of Air Radiators suffered fatal injuries (**Incident**). WorkSafe Victoria has to date issued two improvement notices to Air Radiators in respect of the Incident and may elect to prosecute in respect of the Incident. Air Radiators have notified their insurer of the Incident and are working with and being advised by the insurer's legal counsel in respect of potential liabilities.

## Note 17. Lease liabilities

| | Consolidated | |
|---|---|---|
| | 31 December 2021 $ | 30 June 2021 $ |
| Lease liabilities | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 3,055,475 | 1,053,165 |
| One to five years | 30,587,459 | 4,029,938 |
| More than five years | 237,901 | 1,955,509 |
| Net commitment recognised as liabilities | 33,880,835 | 7,038,612 |

## Note 17. Lease liabilities (cont'd)

The following leases were entered into during the half-year accounting for the increase in lease commitments.

| Lease | Commencement Date | Lease Term |
|---|---|---|
| 4 Barnett Place, Molendinar, QLD | 1 October 2021 | 5 years * |
| Unit 1 231 Collier Rd, Bayswater, WA | 1 July 2021 | 5 years * |
| Unit 2 231 Collier Rd, Bayswater, WA | 1 July 2021 | 5 years * |
| Unit 3 231 Collier Rd, Bayswater, WA | 1 July 2021 | 5 years * |
| Unit 4 231 Collier Rd, Bayswater, WA | 1 July 2021 | 5 years * |
| 26-50 Howards Rd, Beverley, SA | 1 July 2021 | 5 years * |
| 41-51 Howards Road, Beverley, SA | 1 July 2021 | 5 years * |
| 45 Heales Road, Lara, VIC | 1 July 2021 | 5 years * |
| 70 Long Street Smithfield NSW | 1 July 2021 | 5 years * |
| Unit 1, 26 Expo Court, Ashmore, QLD | 14 October 2021 | 3 years |
| 7/443 Moo6, Mabyangporn Sub-District, Pluak Daeng District, Rayong Province | 1 September 2021 | 3 years |

* All leases with five years are with related parties. The remaining leases are with external parties.

The following leases were terminated during the year due to the disposal of Harrop:

| Lease | Termination Date |
|---|---|
| 96 Bell St, Preston, VIC | 31 October 2021 |
| 96A Bell St, Preston, VIC | 31 October 2021 |

## Note 18. Business combinations

On 1st November 2021, the consolidated entity acquired the business operation (fixed assets, IP, working capital) from Adcore Holdings Pty Ltd as Trustee for the Gary Washington Family Trust. This is an aftermarket business and operates in the Aftermarket division of the consolidated entity. Assets and liabilities acquired at existing book value, difference between fair value of consideration and book values is $4,804,650 and is recorded in a separate equity reserve; as common control on acquisition.

Details of the acquisition are as follows:

| | Fair value $ |
|---|---|
| Cash and cash equivalents | 741,416 |
| Trade receivables | 6,663,963 |
| Inventories | 19,461,693 |
| Plant and equipment | 3,281,044 |
| Right-of-use assets | 17,784 |
| Trade payables and other payables | (8,963,733) |
| Lease liability | (296,517) |
| | |
| Net assets acquired | 20,905,650 |
| Discount on purchase of assets (common control acquisition reserve) | (4,804,650) |
| | |
| Acquisition-date fair value of the total consideration transferred | 16,101,000 |

## Note 19. Controlled Entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in :

| | | Ownership interest | |
|---|---|---|---|
| | | 31 December 2021 | 30 June 2021 |
| **Controlled entities that form part of the consolidated entity are;** | **Country of incorporation** | **%** | **%** |
| Adrad Investments Pty Ltd | Australia | 100.00% | 100.00% |
| Adrad Group Limited* | Australia | 100.00% | 100.00% |
| Adrad Pty Ltd** | Australia | 100.00% | 100.00% |
| Air Radiators Pty Ltd | Australia | 100.00% | 100.00% |
| Natrad OF Pty Ltd | Australia | 100.00% | 100.00% |
| National Radiators Ltd | New Zealand | 100.00% | 100.00% |
| Air Radiators Industrial Pty Ltd | Australia | 100.00% | 100.00% |
| Air Radiators (Thailand) Limited | Thailand | 100.00% | 66.00% |
| Breakaway Industrial Radiators Pty Ltd | Australia | 100.00% | 100.00% |
| Air Radiators (WA) Pty Ltd | Australia | 100.00% | 100.00% |
| Adrad Management Services Pty Ltd | Australia | 100.00% | 100.00% |
| Adrad IT Services Pty Ltd | Australia | 100.00% | 100.00% |
| Wingfan Pty Ltd | Australia | 100.00% | 100.00% |
| Air Radiators International Limited*** | Thailand | - | 100.00% |
| Harrop Engineering Australia Pty Ltd | Australia | - | 100.00% |
| HCT Management Pty Ltd | Australia | - | 100.00% |
| Harrop Casting Technologies Pty Ltd | Australia | - | 50.00% |
| Harrop Engineering USA Inc | USA | - | 100.00% |

* Adrad Group Limited was formerly known as Natra Group Ltd and changed its name on October 14, 2021.
** Adrad Pty Ltd was formerly known as Natra Pty Ltd and changed its name on October 14, 2021.
*** Air Radiators International Limited was deregistered on February 19, 2021.

## Note 20. Events after the reporting period

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Adrad Holdings Limited**
**Directors' declaration**
**31 December 2021**

In the directors' opinion:

- the attached financial statements and notes comply with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and other mandatory professional reporting requirements
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors

Gary Washington
Director

2 August 2022

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# Independent Auditor's Review Report

## To the Members of Adrad Holdings Limited

### Report on the review of the half year financial report

#### Conclusion

We have reviewed the accompanying half year financial report Adrad Holdings Limited (Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Adrad Holdings Limited does not comply with the *Corporations Act 2001* including:

a giving a true and fair view of the Adrad Holdings Limited's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001.*

#### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### Directors' Responsibility for the Half Year Financial Report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

M J Climpson
Partner – Audit & Assurance

Melbourne, 2 August 2022