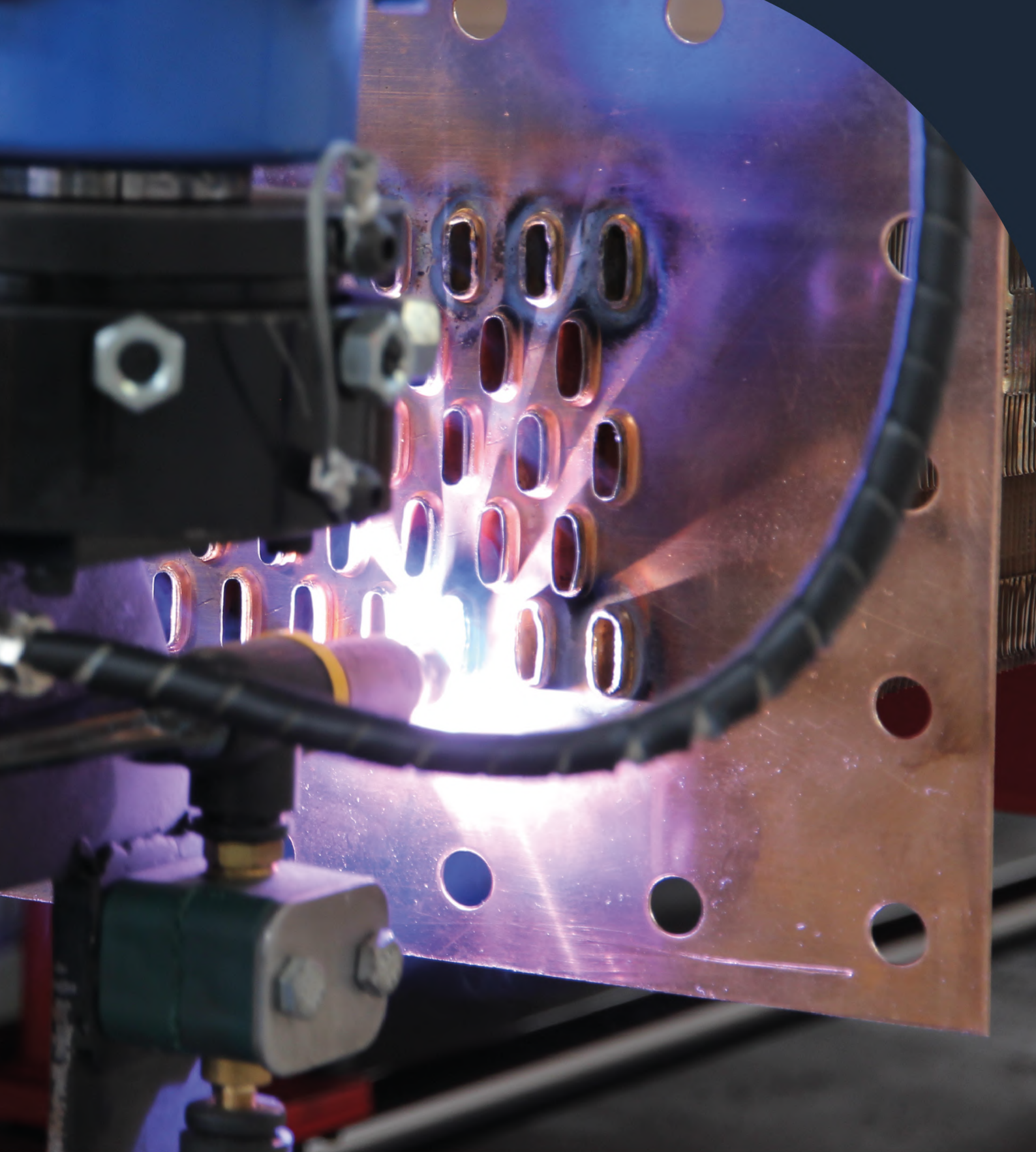




# ANNUAL REPORT

2023

ADRIAD

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## Corporate directory

### Directors

Mr. Glenn Davis (Independent Non-Executive Director and Chairman)

Mr. Donald McGurk (Independent Non-Executive Director)

Mr. Darryl Abotomey (Independent Non-Executive Director, appointed 11 April 2023; appointed Executive Director on 15 August 2023)

Mr. Gary Washington (Executive Director)

### Chief Executive Officer

Mr. Don Cormack (resigned 15 August 2023)

Mr. Darryl Abotomey (appointed 15 August 2023 on an interim basis)

### Joint Company Secretaries

Ms. Kaitlin Smith

Mr. Rod Hyslop (appointed 24 January 2023)

Mr. Chris Newman (resigned 24 January 2023)

### Registered offices

26 Howards Road Beverley, SA, 5009

### Auditor

Grant Thornton Audit Pty Ltd

Collins Square, Tower 5 727 Collins Street

Melbourne, VIC, 3008

### Bankers

Bank SA Level 1, 53 The Parade Norwood, SA, 5067

### Website

[www.adradholdings.com.au](http://www.adradholdings.com.au)

### Share registry

Computershare Investor Services Pty Ltd

### Stock exchange listing

Australian Stock Exchange (ASX: AHL)

## Overview of Adrad

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 aftermarket parts.

Two major segments servicing all aspects of the engine cooling market: (1) Heat transfer solutions and (2) Automotive aftermarket.

### Heat transfer solutions (Air Radiators)

A vertically integrated designer and manufacturer of industrial radiator and cooling solutions.



### Automotive Aftermarket (Adrad)

Australian manufacturer, importer and distributor of radiators and other products for the Australian automotive and industrial aftermarket.



## Heat transfer solutions



Successfully transitioned volume part manufacturing to Thailand providing opportunity for margin improvement.



Established manufacturing capability in Thailand to pursue powergen opportunities in SE Asia.



Developing heavy duty aluminum radiators to replace copper/brass radiators in some applications.



Achieved prototype development phase utilising our Alu Fin technology for cooling of hydrogen fuel cells.



Kenworth supplier of the year.

## Automotive aftermarket



13% revenue growth – growing number of customers and share of “basket”.



Warehouse additions supporting revenue growth and customer reach.



Continued development of product range including the introduction of brakes and rotating electrical.



Rationalisation of manufacturing footprint to generate efficiencies (closure of Molendinar (QLD) and NZ manufacturing).

## Company Highlights 2023

**\$141.1m**

Trading Revenue  
Up 8% from pro  
forma FY22

**\$15.6m<sup>1</sup>**

Pro forma EBITDA  
Down 5% from pro  
forma FY22

**\$5.6m**

NPAT

**\$6.8m**

Cash flow generated  
from operations

**6.6%<sup>2</sup>**

ROACE

**\$4.0m**

Capital Investment

**8.46 cents**

Basic EPS

**1.63**

CPS Final dividend  
Full year dividend: 2.33  
cps 34% of NPAT Fully  
franked



1. Pro forma EBITDA, refer to slide 8 for EBITDA adjustments

2. EBIT ÷ Average Capital Employed (Average Total Assets minus Average Current Liabilities)

## Letter from the chair

On behalf of the Adrad Holdings Ltd (AHL) Board of Directors I am pleased to deliver the Annual Report for 2023, a year which saw the Company successfully admitted to the Official List of the Australian Securities Exchange (ASX) and continue its track record of strong revenue growth year on year.

Investments were made in FY22 in progressing our strategy by expanding the automotive aftermarket segment's distribution footprint through the addition of four new warehouses with associated revenue benefits commencing to contribute throughout FY23. This year we continued to add to our already extensive range of automotive parts on offer particularly through the addition of friction products (brakes) and rotating electrical parts in early FY23 and the introduction of shock absorbers in late FY23. By the end of the year the Company had in excess of 24,000 parts on offer, up from 20,000 at the end of the prior year.

This introduction of new products required investment in inventory to cover the range of vehicles in the Australian market. Our focus on high quality service parts for the Oceania vehicle market and growth in our distribution footprint saw our automotive aftermarket segment revenue grow in excess of 13% over FY22.

In addition, the Company directed capital investment towards expanding its Thailand production capability by adding equipment and capacity for additional stationary (power generation/data centre) and mobile (vehicular) heat exchange applications. We have successfully relocated some volume component manufacturing to the facility and aim for more transfers during FY24.

Excitingly, AHL is playing its part in efforts to decarbonize the industry by providing customers with leading edge heat exchange solutions for low and no emissions vehicles. Significant traction has been gained in utilising our Alu Fin product in the challenging environment of cooling hydrogen fuel cell powered equipment. We look forward to



**I would like to take this opportunity to thank the hard-working Adrad team, a dedicated group with an array of in-depth expertise spanning an equally wide number of functions; they are the heart and soul of the Company and are committed to its success. ”**



continued success in this area by working with global OEMs in the mining, construction and transport sectors in achieving low/zero emissions for their critical equipment.

The Company is very pleased to announce the appointment of Mr. Darryl Abotomey as an independent non-executive director in April 2023. Mr. Abotomey brings a wealth of in-depth executive leadership and financial expertise across the manufacturing, distribution and automotive aftermarket industries being the former Managing Director and CEO of Bapcor (ASX:BAP) having held that position for 10 years until 2021.

Don Cormack, AHL's CEO for the last 17 years is retiring. As Don steps away from that role I acknowledge and applaud him on a tremendous career at Adrad. He has overseen significant growth and development of the business and leaves a strong legacy. On behalf of the Board I congratulate and thank Don for all he has done for AHL. He leaves with our best wishes and gratitude. Darryl Abotomey has now been appointed our interim Chief Executive Officer on 15 August 2023 and became Executive Director on this date, as we continue our search for a new Chief Executive Officer.

I would like to take this opportunity to thank the hard-working Adrad team, a dedicated group with an array of in-depth expertise spanning an equally wide number of functions; they are the heart and soul of the Company and are committed to its success.

In conclusion I would like to thank our shareholders, for supporting us during the Initial Public Offering and for continuing to support us during these turbulent and challenging global economic conditions as the Company positions itself for future growth.



**Glenn Davis**  
Chair





## Directors' Report

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# Directors' report

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', 'AHL' or 'Adrad') and the entities it controlled at the end of, or during, the year ended 30 June 2023.

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

## Directors

| Name                           | Position                                        |
|--------------------------------|-------------------------------------------------|
| <b>Non-executive directors</b> |                                                 |
| Glenn Davis                    | Independent Non-Executive Director and Chairman |
| Donald McGurk                  | Independent Non-Executive Director              |
| Darryl Abotomey <sup>(1)</sup> | Executive Director                              |
| <b>Executive director</b>      |                                                 |
| Gary Washington                | Executive Director                              |

(1) appointed 11 April 2023 as an independent non-executive and appointed interim CEO on 15 August 2023.

## Principal activities

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 segment.

The company has two key segments:

- [Heat Transfer Solutions](#) – Designs and manufactures industrial cooling solutions for use in road transport and heavy vehicles, mining, power generation, data centres and rail industries.
- [Automotive Aftermarket](#) – Manufactures, imports and distributes radiators, mobile and stationary heat exchange products and a variety of automotive parts for the Australian and New Zealand automotive and industrial markets;

The Company has facilities across Australia, New Zealand and Thailand, a number of which include warehousing, manufacturing and service facilities capable of responding to urgent customer needs. The Company has approximately 500 employees.

The Company successfully listed on the Australian Securities Exchange on 30 September 2022. There has been no significant change in the nature of the Company's activities during the year.

## Operating and financial review

A review of operations of Adrad during the financial year are set out below.

Financial results for FY23 are summarised below:

- Statutory revenue in FY23 of \$142.9m, was an increase of 15% on the prior year. Pro forma revenue (adjusting for items that do not relate to ongoing operations) was \$141.1m, an increase of 8% on the prior year, driven largely by growth in the Automotive Aftermarket segment.
- Pro forma earnings before interest, taxes, depreciation and amortisation ("EBITDA") in FY23 was \$15.6m (FY22 \$16.4m), despite the impact of inflationary pressures on IT, insurance, freight and occupancy and a reduction in other income, along with an increase in lease costs.
- Pro forma Net Profit after Tax (NPAT) in FY23 of \$8.5m was up 1.5% on the prior year. Statutory Net Profit after Tax in FY23 was \$5.6m, down from \$7.1m in the prior year.

## Key Results

| Change                                   |     | 2023          | 2022          |         |
|------------------------------------------|-----|---------------|---------------|---------|
| <b>Income</b>                            |     |               |               |         |
| Statutory trading revenue                | \$m | 141.1         | 122.8         | 14.9%   |
| Statutory EBITDA <sup>(1)</sup>          | \$m | 19.3          | 18.3          | 5.5%    |
| Net Profit after tax (NPAT)              | \$m | 5.6           | 7.1           | (20.6%) |
| Pro forma trading revenue <sup>(2)</sup> | \$m | 141.1         | 130.7         | 8.0%    |
| Pro forma EBITDA <sup>(2)</sup>          | \$m | 15.6          | 16.4          | (5.1%)  |
| Pro forma NPAT <sup>(2)</sup>            | \$m | 8.5           | 8.4           | 1.5%    |
| Interim dividends paid                   | \$m | 0.56          | 2.00          | (71.8%) |
| Final dividends announced                | \$m | 1.31          | -             |         |
| Basic EPS                                | cps | 8.46          | 272.35        | (96.9%) |
| <b>Cash Flow</b>                         |     |               |               |         |
| Operating Cash Flow                      | \$m | 6.8           | 8.1           | (16.2%) |
| <b>Financial Position</b>                |     |               |               |         |
|                                          |     | As at 30 June | As at 30 June |         |
| Cash ( including term deposit)           | \$m | 13.9          | 3.5           | 300.5%  |
| Net Assets                               | \$m | 116.9         | 72.0          | 62.3%   |

(1) Earnings before interest, tax, depreciation and amortisation.

(2) Pro forma results in the table above are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying operating business. They have not been subject to audit or review by the Company's external auditors.

The statutory operating profit of the consolidated entity for the year ended 30 June 2023 resulted in a profit of \$12,293,071 (30 June 2022: \$12,629,537). The net assets of the consolidated entity increased to \$116,886,214 as at 30 June 2023 (30 June 2022: \$72,026,499). The consolidated entity had net cash inflows from operating activities for the period of \$6,756,521 (30 June 2022: inflows of \$8,060,625).

### Non-IFRS financial information

This report contains non-IFRS financial information provided to assist readers to better understand the business. "Pro forma" information is presented before significant or abnormal items which are one-off costs associated with mergers, acquisitions and divestment activity, capital restructuring and non-recurring costs incurred that are not reflective of underlying business activity.

Pro forma EBITDA is presented before significant and abnormal items and excludes any impact of AASB-16 which is consistent with existing banking covenant reporting requirements.

Pro forma NPAT is presented before significant and abnormal items at the Company's statutory tax rate of 30%.

The directors believe the presentation of non IFRS financial measures is useful as they provide additional and relevant information that reflects the underlying financial performance and trends of the business. Non IFRS financial measures contained within this report are not subject to audit or review.

### Pro forma NPAT

The Company generated statutory NPAT of \$5.6 million (2022: \$7.1 million) pre-normalisation for the treatment of the costs associated with listing the Company, pre-IPO restructuring and other significant, non-recurring expenditure. After adjusting for these costs, a pro forma NPAT of \$8.5 million was generated representing a 1.5% increase from FY22 pro forma NPAT of \$8.4 million.

The reconciliation between statutory NPAT and pro forma NPAT is:

|                                                                                                            | FY23       | FY22       |
|------------------------------------------------------------------------------------------------------------|------------|------------|
|                                                                                                            | \$m        |            |
| <b>Statutory NPAT</b>                                                                                      | 5.6        | 7.1        |
| Significant and abnormal items not (net of tax at 30%)                                                     | 0.0        | 0.3        |
| Pre-IPO related business restructure <sup>1</sup>                                                          | 0.0        | (2.7)      |
| Discontinued operations <sup>1</sup>                                                                       | 0.0        | (0.8)      |
| Powergen profit <sup>2</sup>                                                                               | 0.6        | 2.2        |
| IPO related costs net of recover (inc \$0.3M options and rights issued on successful listing) <sup>3</sup> | 1.1        | 2.4        |
| Convertible notes costs <sup>4</sup>                                                                       | 1.2        | 0.0        |
| Other (Redundancies, DTA, Asset write down)                                                                |            |            |
| <b>Pro Forma NPAT</b>                                                                                      | <b>8.5</b> | <b>8.4</b> |

1. On 31 October 2021 the Company acquired the business operations of Adcore Holdings Pty Ltd and disposed of Harrop Engineering (Australia) Pty Ltd and HCT Management Pty Ltd; these adjustments reflects the post-tax impact had these transactions transpired prior to the start of FY22.

2. During FY22 the Company completed a powergen contract close-out; this adjustment matches these revenues with the recognition of related cost of good sold in FY21.

3. Non-recurring cost net of cost recovery from the Original Shareholders for expenses incurred on their behalf during the IPO process; includes \$0.3 million in share based payments made in respect of the successful listing on the ASX.

4. Non-recurring establishment and interest costs in respect of convertible notes which converted at IPO on 30 September 2022.



### Pro forma EBITDA

The Company generated a statutory EBITDA of \$19.3 million (2022: \$18.3 million) pre-normalisation for the treatment of leases under AASB-16. After adjusting for AASB-16 and the significant and abnormal costs associated with listing the Company, a pro forma EBITDA of \$15.6 million was generated representing a 5% decrease from FY22 pro forma EBITDA of \$16.4 million.

The reconciliation between statutory EBITDA and pro forma EBITDA is:

|                                                                                                             | FY23        | FY22        |
|-------------------------------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                                             | \$m         |             |
| Revenue and Other Income                                                                                    | 142.9       | 124.2       |
| Operating Expenses (Ex depreciation)                                                                        | (123.6)     | (105.9)     |
| <b>Statutory EBITDA</b>                                                                                     | <b>19.3</b> | <b>18.3</b> |
| Significant and abnormal items not in the ordinary course of Operations                                     | 0.0         | 0.7         |
| Pre-IPO related business restructure                                                                        | 0.0         | (1.2)       |
| Powergen profit                                                                                             | 0.7         | 2.3         |
| IPO related costs net of recovery (inc \$0.3M options and rights issued on successful listing) <sup>1</sup> | (4.7)       | (4.0)       |
| Lease Payments                                                                                              | 0.2         | 0.3         |
| Other (Redundancies)                                                                                        |             |             |
| <b>Pro Forma EBITDA</b>                                                                                     | <b>15.6</b> | <b>16.4</b> |

*1. Tax effected, non-recurring cost net of cost recovery from the Original Shareholders for expenses incurred on their behalf during the IPO process; includes \$0.3 million in share based payments made in respect of the successful listing on the ASX.*

### Heat Transfer Solutions (Air Radiators):

New products and qualifying them with customers has a long lead time and can take many years in development. This development is a core investment that the Company continues to make. Accordingly in FY23, many of the initiatives are expected to commence delivering benefits well beyond the year in which the investments were made.

In FY23 a key Australian road transport customer increased its quantity of orders due to its build rate increasing, driving additional revenue in this segment. While underground mining equipment orders have tapered off during FY23 there are early indications from key customers that global stockpiles of new equipment are thinning and demand for additional units should increase as the year progresses. The Company intends to capitalise on its market position and existing customer relationships to remain the cooling package supplier of choice.

In the power generation market, the Company secured a \$7.5 million supply order for cooling packages to support back-up power generation deployed in large data centres. These units will be delivered over calendar year 2023.

Our new product developments, particularly around the Company's proprietary Alu Fin technology, continues to gain traction for potential mining applications and development of prototype units for a major Original Equipment Manufacture (OEM) customer to use the product in heavy vehicle applications.

Margin improvement activities have continued with a transitioning of manufacturing from Australia to our Thailand facilities where we have commenced production of radiator panels and have progressed our steel fabrication capabilities.

Overall, the Company's expectations are for less disruptions including the impact of COVID-19, floods and reduced impact of supply chain related events. This will be harnessed to make inroads towards lowering the relative carrying value of inventory which was increased as a response to supply chain disruptions experienced over 2021 and into

2022 with re-investment into expanding the product range further.

Reflecting the Company's long standing commitment to excellence, Air Radiators received the prestigious Supplier of the Year Award by major leading truck manufacturer Kenworth Trucks Australia at their annual supplier recognition event. The award recognises Air Radiators' commitment to excellence in product quality, on-time delivery, customer service, and overall value to Kenworth and was selected from a group of over 300 suppliers.

### **Automotive Aftermarket (ADRAD)**

During the year ended 30 June 2023, the Company continued to grow its product offering in the automotive aftermarket segment. In addition to offering the most extensive radiator and heat exchange product range in Australia and New Zealand, the Company expanded its range of automotive replacement parts, notably the introduction of two major new product lines - rotating electrical and brakes.

The rotating electrical program encompasses products from OEM suppliers reflecting our commitment to supplying the aftermarket with high quality, low risk product. The Company is pleased to partner with TMD Friction for our brake program. Two new brands were launched, MINTEX and NISSHINBO. The Company's brake range covers more than 90% of the Australian car parc (based on the quantity of vehicles on the road).

Along with introducing new product ranges, the Company continued to grow its "traditional" programs such as radiators, intercoolers, air conditioning condensers and compressors, now offering more than 24,000+ parts in its aftermarket product catalogue.

During the year, the Company continued to make substantial investment in adding products and expanding its distribution footprint while also growing its customer base. While radiators and automotive air conditioning product remain our cornerstone focus, with greater product range (engine belts, filters, spark plugs, alternators, starter motors, EGR's, gas struts, coolant bottles, brakes, globes, etc) and four new warehouse locations the Company has increased its reach and provides customers a broader, more efficient, "one-stop" offering.

Development of a comprehensive shock absorber program was the next step in the evolution of becoming a total parts supplier to the trade. In the second half of FY23 we signed an agreement with global player ZF Service to range the Sachs brand of shock absorbers. The addition of the Sachs range is a significant addition to our expanded product offering for FY24.

The Company remains the largest aftermarket radiator manufacturer in Australia and continued to penetrate the heavy vehicle and off-highway aftermarket segments through its network of mechanical industrial and automotive workshops and via independent radiator specialists.

Manufacturing remains a cornerstone of our business and the Company continuously strives to gain production efficiencies to remain competitive. In pursuing this we have recently closed our Queensland and NZ manufacturing operations to better deploy resources across the remaining manufacturing network in Australia and Thailand.

### **Dividends**

On 24 February 2023, the Directors declared a fully franked interim dividend of 0.7 cents per ordinary share. A total of \$564,574 was paid on 29 March 2023.

The Directors declared a fully franked dividend of 1.63 cents per ordinary share with a record date of 15 September 2023 to be paid on 29 September 2023. The final dividend represents 35% of NPAT for the six month period ending 30 June 2023; the distribution of \$1.3 million is based on the number of shares outstanding as at 28 August 2023. The financial effect of this final dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2023.

Total dividends declared relevant to the FY23 year were 2.33 cents per share, fully franked. This represents a payout of 33.5% of NPAT – within the target range of 30% to 40% of NPAT.

### Deed of Cross Guarantee

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations (Wholly owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

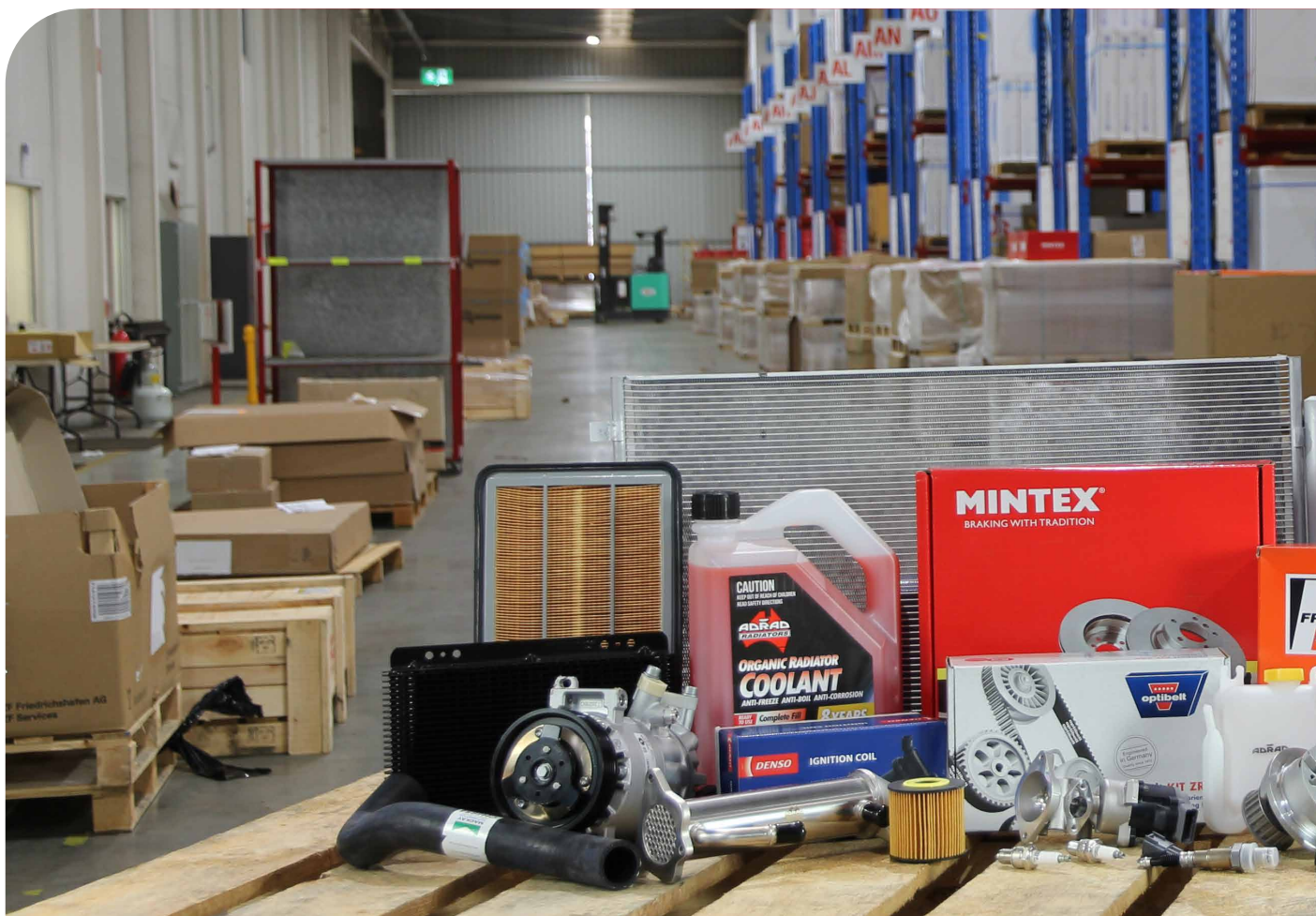
In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which ASIC Corporations (Wholly owned Companies) Instrument 2016/785 applies, as detailed in note 30 to the financial statements will, as a group, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

### Significant changes in the state of affairs

During the period the Company successfully completed its Initial Public Offering (IPO) and listed on the Australian Securities Exchange on 30 September 2022 and now is a publicly traded company under the ASX ticker: AHL.

Prior to listing, on 26 August 2022, the Company issued 50,236,020 Fully Paid Ordinary Shares (Shares) to the original owners as part of the IPO process. 4,666,667 of these were subsequently transferred to SaleCo and made available to the public at IPO.

On 30 September 2022, the Company issued 10,000,000 Fully Paid Ordinary Shares (Shares) to professional and



sophisticated investors at an Issue Price of \$1.50 (150 cents) per share at IPO.

In addition, on 30 September 2022 16,666,704 Fully Paid Ordinary Shares (Shares) were issued on the conversion of the convertible notes.

In early FY24, the company introduced an Employee Share Plan, to acknowledge the contribution of the Adrad Team members. Shares will be issued to team members for NIL consideration, at an approximate cost to the company of \$0.5 million in FY24.

On 15 August 2023 it was announced that Adrad's Chief Executive Officer ("CEO") for the last 17 years, Mr Don Cormack would be retiring. The Board thanks Mr Cormack for his significant contribution to the growth of the company and leaving it in a strong position for the future. Mr Darryl Abotomey has been appointed as the interim CEO until a permanent CEO appointment is made.

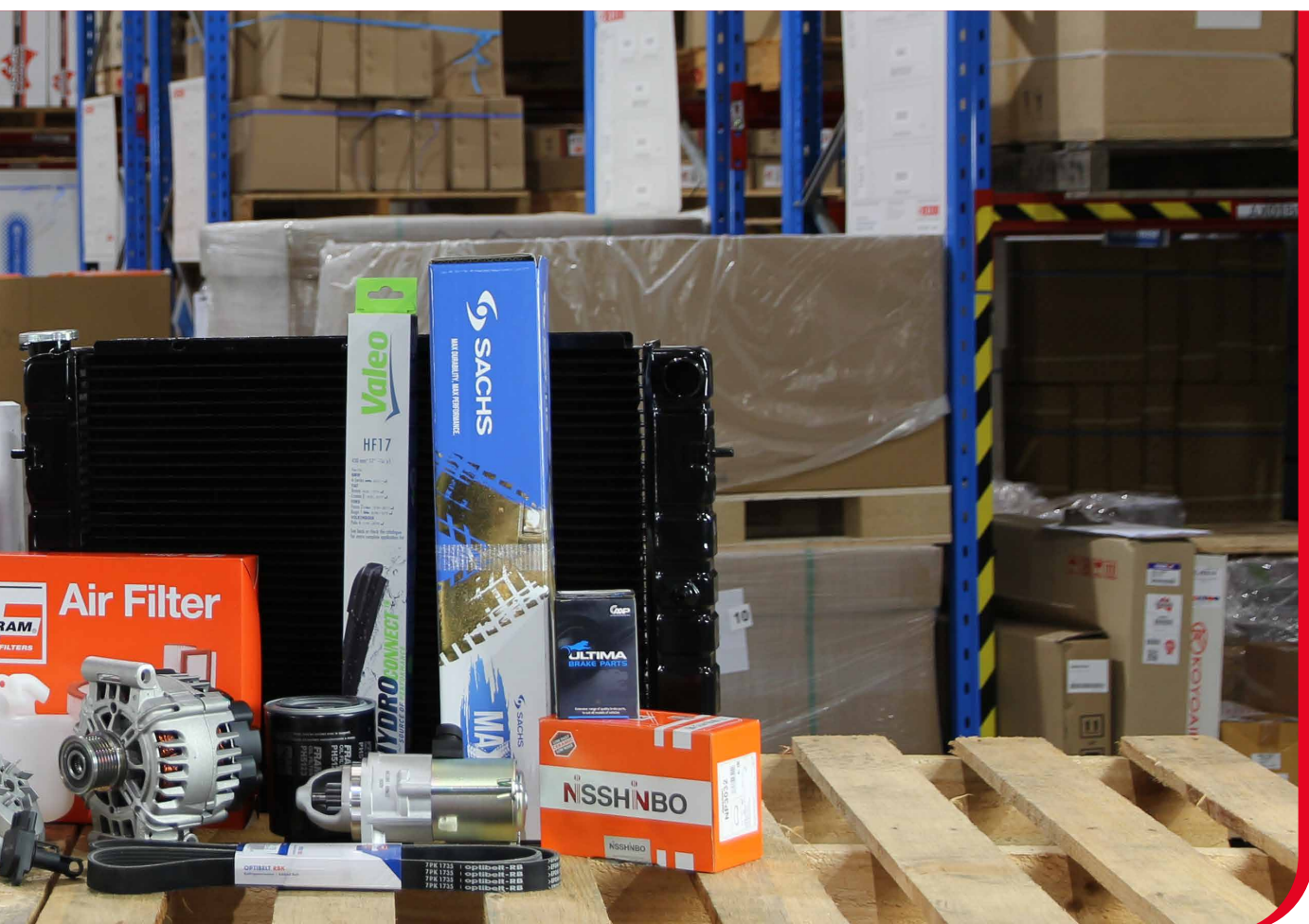
There were no other significant changes in the state of affairs of the consolidated entity during the year.

### Environmental legislation

The consolidated group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

### Executive performance rights

Throughout FY23, the Company issued the following unlisted performance rights under the Long Term Incentive Plan (LTI): 213,333 on 30 September 2022; and 46,666 on 1 June 2023. All are exercisable for nil consideration and are not exercisable before the IPO listing anniversary date of 30 September 2023.



## Information on directors

The names of the directors of Adrad who held office during the financial year and at the date of this report are:



### Glenn Stuart Davis

Independent non-executive Chairman – LLB, BEc, FAICD

#### Experience and expertise

Mr Davis has practiced as a solicitor in corporate and risk throughout Australia for over 30 years initially in a national firm and then a firm he founded. He has expertise and experience in the execution of large transactions, risk management and in corporate activity regulated by the Corporations Act (2001) and ASX Limited. Mr Davis has worked in the oil and gas industry as an advisor and director for over 25 years.

#### Current and former listed company directorships in the last 3 years

Mr Davis is currently a director of ASX listed company SkyCity Entertainment Group Ltd (since 2022), iTech Minerals Ltd (ITM) (since 2021) and Beach Energy Ltd (since 2007).

#### Responsibilities

Mr Davis' special responsibilities include Chairman of the Board; Chairman of the Remuneration and Nomination Committee (was Chairman of the Committee until June 2023 and a member until his re-appointment as Chairman on 25 August 2023) plus membership of the Audit and Risk Committee.

#### Date of appointment

Mr Davis joined Adrad as Chair of the Company on 17 January 2022.



### Gary David Washington

Executive Director

#### Experience and expertise

Mr Washington founded Adrad in 1985 and has successfully led significant growth in the Company's business since its establishment, both organically and by way of acquisition, including the acquisition of the Natra group of companies in 2006.

Mr Washington has over 50 years' experience in the industrial and automotive heat exchange industries and in manufacturing in Australia.

Mr Washington was Chair of the Company from its establishment until the appointment of Mr Davis to the role in January 2022.

#### Current and former listed company directorships in the last 3 years

None.

#### Responsibilities

In addition to his role as a director on the Board, Mr Washington also acts in an executive capacity. His special responsibilities include membership of the Remuneration and Nomination Committee plus membership of the Audit and Risk Committee (until June 2023).

#### Date of appointment

Since inception in 1985.



## Donald McGurk

Independent non-executive director

### Experience and expertise

Mr McGurk is the former Managing Director and Chief Executive Officer of Codan Limited, a global electronic solutions company developing technology solutions such as metal detection, tactical and critical communication solutions for government, military, public safety, non-government organisations and consumer markets internationally.

Mr McGurk has an extensive background in change management applied to manufacturing operations and has held senior manufacturing management positions in several industries.

### Current and former listed company directorships in the last 3 years

Mr McGurk is a non-executive director of Aerometrex Limited (ASX:AMX) (appointed 3 March 2022).

Mr McGurk was managing director of Codan Ltd. until resigning in February 2022.

### Responsibilities

Mr McGurk's special responsibilities include Chairmanship of the Audit and Risk Committee plus membership of the Remuneration and Nomination Committee.

### Date of appointment

Mr McGurk joined the Board of the Company on 23 March 2022.



## Darryl Abotomey

Independent non-executive director (appointed 11 April 2023 until 15 August 2023)

Interim Chief Executive Officer and Executive Director (appointed 15 August 2023)

### Experience and expertise

Mr Abotomey brings over 30 years of executive leadership and financial expertise having held Board and executive leadership roles across manufacturing, global paper and packaging distribution and automotive aftermarket industries. Mr Abotomey was most recently Chief Executive Officer and Managing Director of Bapcor Limited, Asia Pacific's leading provider of vehicle parts, accessories, equipment, service and solutions, where during his 10 years in that role he was instrumental to the successful growth and expansion of the business in line with its strategic growth plan.

### Current and former listed company directorships in the last 3 years

Mr Abotomey was Managing Director of Bapcor Limited (resigned December 2021).

Mr Abotomey was a director of SGX listed company Tye Soon Limited from May 2021 to December 2021.

Mr Abotomey is a director of K-TIG Limited appointed 4 April 2022

### Responsibilities

Mr Abotomey's special responsibilities include membership of the Audit and Risk Committee and membership of the Remuneration and Nomination Committee (appointed Chairman of the Committee in June 2023) until a subsequent sub-committee composition change on 25 August 2023 following his appointment as interim CEO. Appointed executive director and interim CEO on 15 August 2023.

### Date of appointment

Mr Abotomey joined the Board of the Company on 23 April 2023.

## Joint company secretary



### Ms Kaitlin Smith

B.Comm (Acc.), CA, FGIA

Ms Smith provides company secretarial and accounting services to various public and proprietary companies; she is a chartered accountant and a fellow member of the Governance Institute of Australia and holds a Bachelor of Commerce (Accounting).



### Mr Rod Hyslop (appointed 24 January 2023)

B.A. (Econ.), CA

Mr Hyslop was appointed Joint Company Secretary on 24 January 2023 and has previous company secretary experience for both public and proprietary companies. Mr Hyslop also serves as the Group CFO (appointed 1 December 2022).



### Mr Chris Newman (resigned 24 January 2023)

Mr Newman was formerly the Group CFO and Joint Company Secretary and resigned from these positions on 24 January 2023.

## Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each director was:

| Name            | Board Meeting       |          | Audit and Risk Committee |          | Remuneration Committee |          |
|-----------------|---------------------|----------|--------------------------|----------|------------------------|----------|
|                 | Held <sup>(1)</sup> | Attended | Held <sup>(1)</sup>      | Attended | Held <sup>(2)</sup>    | Attended |
| Glenn Davis     | 11                  | 11       | 3                        | 3        | -                      | -        |
| Donald McGurk   | 11                  | 11       | 3                        | 3        | -                      | -        |
| Gary Washington | 11                  | 11       | 3                        | 3        | -                      | -        |
| Darryl Abotomey | 3                   | 3        | 1                        | 1        | -                      | -        |

<sup>(1)</sup> Number of meetings held during the time that the director was appointed to the Board or Committees

<sup>(2)</sup> Periodic review of remuneration matters are discussed and considered independently and during meetings of the Board of Directors



## Board committees

Chairmanship and membership of each board committee throughout the year and at the date of this report are as follows:

| Committee                   | Chairman                       | Members                                                                      |
|-----------------------------|--------------------------------|------------------------------------------------------------------------------|
| Audit and Risk              | Donald McGurk                  | Glenn Davis, Darryl Abotomey <sup>(1)</sup> , Gary Washington <sup>(2)</sup> |
| Remuneration and Nomination | Darryl Abotomey <sup>(3)</sup> | Glenn Davis <sup>(4)</sup> , Donald McGurk, Gary Washington                  |

(1) Mr Abotomey was appointed a committee member on 11 April 2023 until 25 August 2023 subsequent to his appointment as interim CEO on 15 August 2023

(2) Mr Washington resigned from the committee on 2 June 2023

(3) Mr Abotomey was appointed member on 11 April 2023 and appointed Chairman of the committee on 2 June 2023 until 25 August 2023 subsequent to his appointment as interim CEO on 15 August 2023

(4) Mr Davis resigned as Chairman of the committee and became a member of the committee on 2 June 2023

### Remuneration report (audited)

The remuneration report details the key management personnel (KMP) remuneration arrangements for the consolidated group for the financial year ended 30 June 2023, in accordance with the requirements of the Corporations Act 2001 (Cth) and its Regulations. It has been audited and forms part of the Directors' Report.

### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors. They include the Company's non-

executive directors (NED), executive director (ED) and executive KMP and are listed in the table below.

#### Directors and executive KMP covered in this report

| Name                           | Position                                                 | Period as KMP during the year |
|--------------------------------|----------------------------------------------------------|-------------------------------|
| <b>Non-executive directors</b> |                                                          |                               |
| Glenn Davis                    | Independent non-executive chairman;                      | All of FY23                   |
|                                | Member of the Audit and Risk Committee;                  | All of FY23                   |
|                                | Member of the Remuneration and Nomination Committee; and | All of FY23                   |
|                                | Chairman of the Remuneration and Nomination Committee    | Until 2 June 2023             |
| Donald McGurk                  | Independent non-executive director;                      | All of FY23                   |
|                                | Chairman of the Audit and Risk Committee; and            | All of FY23                   |
|                                | Member of the Remuneration and Nomination Committee      | All of FY23                   |
| Darryl Abotomey <sup>(1)</sup> | Independent non-executive director;                      | Appointed 11 April 2023       |
|                                | Member of the Audit and Risk Committee;                  | Appointed 11 April 2023       |
|                                | Member of the Remuneration and Nomination Committee; and | Appointed 11 April 2023       |
|                                | Chairman of the Remuneration and Nomination Committee    | Appointed 2 June 2023         |
| <b>Executive director</b>      |                                                          |                               |
| Gary Washington                | Executive director;                                      | All of FY23                   |
|                                | Member of the Audit and Risk Committee; and              | Until 2 June 2023             |
|                                | Member of the Remuneration and Nomination Committee      | All of FY23                   |
| <b>Executive KMP</b>           |                                                          |                               |
| Don Cormack                    | Chief Executive Officer                                  | All of FY23                   |
| Jamie Baensch                  | General Manager Air Radiators                            | All of FY23                   |
| Branko Stojakovic              | General Manager Air Radiators Industrial                 | All of FY23                   |
| Rod Hyslop                     | Chief Financial Officer                                  | Appointed                     |
|                                | Joint Company Secretary                                  | 1 December 2022               |
| <b>Former executive KMP</b>    |                                                          |                               |
| Chris Newman                   | Chief Financial Officer                                  | Until 24 January 2023         |
|                                | Joint Company Secretary                                  | Until 24 January 2023         |

(1) Reflects Mr Abotomey's responsibilities and position during the year ended 30 June 2023 prior to his appointment as Interim CEO on 15 August 2023

#### Principles used to determine the nature and amount of remuneration

The Board is responsible for determining and reviewing directors and executive KMP compensation arrangements. The Board assesses the appropriateness of the nature and amount of remuneration of KMP yearly by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and executive team. The expected outcome of this remuneration structure is to retain and motivate KMP aligned with the Company's strategic and business objectives.

The Board has adopted a formal Remuneration and Nomination Committee Charter as part of its Corporate

Governance Policies. Currently, the entire Board performs the function of the Remuneration Committee. The remuneration structure adopted by the Company consists of the following components:

- Fixed remuneration being annual base salary and associated benefits (annual leave, long service leave and superannuation); and
- At risk remuneration being short term and long term incentives in the form of cash bonuses and performance rights.

The Board is responsible for setting and assessing performance against KPIs and determining short term (STI) and long term (LTI) incentives to be paid, if any.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

#### **Non-executive directors' remuneration**

Under the Constitution, the Board decides the total amount paid to each non-executive director as remuneration for their services as a director. However, under the ASX Listing Rules, the total amount of fees paid to all directors for their services (excluding, for these purposes, the salary of any executive director) must not exceed in aggregate in any financial year the amount fixed by the Company's shareholders in general meeting. This amount has been fixed initially via a shareholder's resolution passed in accordance with the Company's Constitution at \$600,000 per annum in aggregate and may be varied by further ordinary resolution in general meeting.

The Chairman's fees are determined independently of the fees of non-executive Directors based on comparative roles in the external market.

Non-executive directors do not receive performance-based pay.

#### **Executive director's remuneration**

The remuneration of the executive director is set by the directors and is paid by way of a fixed salary.

The executive director is not entitled to receive any additional compensation, including performance rights, in his capacity as a director.

#### **Retirement allowances for directors**

Superannuation contributions are made as required under the Australian Superannuation Guarantee Legislation.

#### **Executive remuneration**

The Company's compensation policies and practices are designed to:

- align executive remuneration with shareholder interests;
- retain, motivate and reward appropriately qualified executive talent for the benefit of the Company;
- to achieve a level of remuneration that reflects the competitive market in which the Company operates;
- to ensure that individual remuneration is linked to performance criteria where appropriate; and
- to ensure that executives are rewarded for both financial and non-financial performance.

The Board aims to satisfy these objectives by adopting a compensation program for executive KMP that combines base remuneration, which is market-related, with performance-based remuneration, which is determined annually.

Remuneration assessments are based on the Board's knowledge and experience in executive compensation matters. The Company did not retain a remuneration consultant in determining the remuneration of any of the KMP.

Overall remuneration decisions are subject to the discretion of the Board. They can be changed to reflect competitive

and business conditions in the Company's and shareholders' interests. KMP remuneration and other terms of employment are reviewed annually by the Board regarding the performance and relevant comparative information.

### **Compensation components**

Executive KMP compensation currently consists primarily of three elements: fixed remuneration being base salary in the form of cash plus superannuation, STIs and LTIs. Each element of compensation is described in more detail below.

#### ***Fixed remuneration***

The primary element of the Company's fixed remuneration is base salary plus superannuation. The Company believes a competitive base salary is necessary to attract and retain qualified executive KMP. Accordingly, the amount payable to an executive KMP is determined based on the scope of their responsibilities and prior experience while considering an informal evaluation of competitive market compensation for similar positions and overall market demand for such executives at the time of hire.

Base salaries are reviewed annually and increased for merit reasons, based on the executive KMP's success in meeting or exceeding Company and individual objectives. Additionally, base salaries can be adjusted as warranted throughout the year to reflect promotions or other changes in the scope or breadth of the executive KMP's role or responsibilities and market competitiveness.

#### ***At risk remuneration***

Short term incentives: Executive KMP are entitled to an annual STI benefit of up to a maximum gross value of 25% of their base salary amount for each financial year during which they are employed. 50% of the STI benefit is in the form of a cash bonus and 50% of the STI benefit is in the form of performance rights issued under the terms and conditions of the Company's Performance Rights Plan.

Any STI benefit will be determined according to the Board's assessment of the level of achievement of performance metrics for each financial year to be established annually by the Board.

During the year ended 30 June 2023 no STI benefits were paid or declared.

Long-term incentives: Equity based awards are a variable element of compensation that allows executive KMP to be rewarded for their sustained contributions to the Company's overall performance. LTIs reward continued employment by executive KMP, with an associated benefit of attracting employees, continuity and retention.

Executive KMP may be entitled to a LTI benefit of up to a maximum value of 25% of their base salary. Any LTI benefit will be in the form of performance rights and determined according to the Board's assessment of the level of achievement of personal and Company performance metrics for each financial year to be established by the Board.

The performance metrics for assessment of any LTI benefit from time to time will be determined by the Board having regard to considerations of long-term shareholder value creation.

Any LTI benefit must be determined by the Board, within a reasonable period of the end of the relevant financial year as determined by the Board.

During the year ended 30 June 2023, 260,000 Initial Performance Rights have been granted to executive KMP under the terms and conditions of the Performance Rights Plan. The Initial Performance Rights have been issued as a specific and stand-alone issue in connection with the successful Admission of the Company to the Official List

of the ASX on 30 September 2022. Refer to the Initial Performance Rights section of this report for further details of the granting of Initial Performance Rights.

### Details of Remuneration

Details of the Company's remuneration of KMP are set out in the following tables. During FY23 there was no remuneration to KMP that was directly linked to the financial performance of the company. The value of remuneration received or receivable by KMP for the financial year is as follows:

#### Director and executive KMP remuneration details

|                                | Short term benefits               | Share based payments <sup>(1)</sup> | Long term benefits                |                  |             |               |               |                        |
|--------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|------------------|-------------|---------------|---------------|------------------------|
|                                | Fixed remuneration <sup>(2)</sup> | Performance rights                  | Long service leave <sup>(3)</sup> | Total            | Total fixed | At risk - LTI | At risk - STI | Total issued in equity |
| 2023                           | \$                                | \$                                  | \$                                | \$               | %           | %             | %             | %                      |
| <b>Non-executive directors</b> |                                   |                                     |                                   |                  |             |               |               |                        |
| Glenn Davis <sup>(4)</sup>     | 150,000                           | -                                   | -                                 | 150,000          | 100%        | -             | -             | -                      |
| Donald McGurk                  | 100,700                           | -                                   | -                                 | 100,700          | 100%        | -             | -             | -                      |
| Darryl Abotomey <sup>(5)</sup> | 26,113                            | -                                   | -                                 | 26,113           | 100%        | -             | -             | -                      |
| <b>Executive director</b>      |                                   |                                     |                                   |                  |             |               |               |                        |
| Gary Washington                | 112,105                           | -                                   | 668                               | 112,773          | 100%        | -             | -             | -                      |
| <b>Executive KMP</b>           |                                   |                                     |                                   |                  |             |               |               |                        |
| Don Cormack                    | 605,201                           | 150,000                             | 14,500                            | 769,701          | 81%         | 19%           | -             | 19%                    |
| Jamie Baensch                  | 411,014                           | 90,000                              | (2,865)                           | 498,149          | 82%         | 18%           | -             | 18%                    |
| Branko Stojakovic              | 308,142                           | 11,433                              | 12,176                            | 331,751          | 97%         | 3%            | -             | 5%                     |
| Rod Hyslop <sup>(6)</sup>      | 184,525                           | -                                   | -                                 | 184,525          | 100%        | -             | -             | -                      |
| <b>Former executive KMP</b>    |                                   |                                     |                                   |                  |             |               |               |                        |
| Chris Newman <sup>(7)</sup>    | 70,531                            | -                                   | 7,420                             | 77,951           | 100%        | -             | -             | -                      |
| <b>Total</b>                   | <b>1,968,331</b>                  | <b>251,433</b>                      | <b>31,899</b>                     | <b>2,251,663</b> |             |               |               |                        |

(1) In accordance with the requirements of the Australian Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The fair value of equity instruments is determined as at the grant date and then progressively expensed over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individuals may ultimately realise should the rights vest. The fair value of the rights as at the date of their grant has been determined in accordance with principles set out in the Fair value of performance rights section of this report.

(2) Fixed remuneration comprises base salary, superannuation, annual leave and other contractual payments treated as remuneration where applicable. It reflects the movement in the relevant annual leave entitlement provision during the year.

(3) This amount represents the movement in the relevant leave entitlement provision during the year

(4) No superannuation contributions were made on behalf of Mr Davis. Director's fees for Mr Davis are paid to a related entity. Mr Davis does not receive additional fees for committee work.

(5) Mr Abotomey was appointed Non-Executive Director on 11 April 2023 and the amounts of remuneration reported reflect the period from his appointment on 23 April 2023 to 30 June 2023. Mr Abotomey was appointed interim CEO from 15 August 2023.

(6) Mr Hyslop was appointed Chief Financial Officer on 1 December 2022 and the amounts of remuneration reported reflect the period from his appointment to 30 June 2023.

(7) Mr Newman resigned as Chief Financial Officer on 24 January 2023 and the amounts of remuneration reported reflect the period from 1 July 2022 to 24 January 2023.

### Performance rights held by KMP

Prior to listing on the ASX in September 2023, the Company established a Performance Rights Plan to align the interests of eligible employees with shareholders through the sharing of a personal interest in the future growth and development of the Company and to provide a means of attracting and retaining skilled and experienced eligible persons.

The number of performance rights offered to an eligible participant will be specified in any invitation made by the Board to that eligible participant.

Each performance right carries a right to receive a share (subject to satisfaction of any performance criteria within any performance period as set by the Board).

Performance rights granted become exercisable if certain performance requirements are achieved. A performance right will only vest if the Board determines that the performance criteria (if any) have been satisfied within the performance period.

### Initial Performance Rights

During the year the Company granted 259,999 Initial Performance Rights under the Company's Performance Rights Plan.

The specific terms and conditions of the Initial Performance Rights are set out below:

| Term                  | Description                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Entitlement:          | Subject to the terms and conditions of the Performance Rights Plan, each Initial Performance Right, once vested, entitles the holder to receive one share.                                                                                                                                                                                                                                         |
| Performance Criteria: | <p>The Initial Performance Rights will vest on the first anniversary of the date of the Company's Admission, subject to:</p> <ul style="list-style-type: none"> <li>the Company being admitted to the Official List of the ASX on or before 31 October 2022; and</li> <li>the holder remaining employed by the Company on the first anniversary of the date of the Company's Admission.</li> </ul> |
| Allocation of Shares: | If the above performance criteria are satisfied, the Initial Performance Rights will vest and the Company will allocate Shares to the holder.                                                                                                                                                                                                                                                      |
| Consideration:        | The Initial Performance Rights were granted for nil cash consideration and no consideration will be payable upon the issue of Shares after vesting.                                                                                                                                                                                                                                                |
| Expiry:               | <p>The Initial Performance Rights will lapse on the first to occur of:</p> <ul style="list-style-type: none"> <li>the Company not being admitted by 31 October 2022; and</li> <li>the holder ceasing employment,</li> </ul> <p>or as otherwise set out in the Performance Rights Plan rules.</p>                                                                                                   |

The Initial Performance Rights have been issued as a specific and stand-alone issue in connection with the successful Admission of the Company to the Official List of the ASX on 30 September 2022.

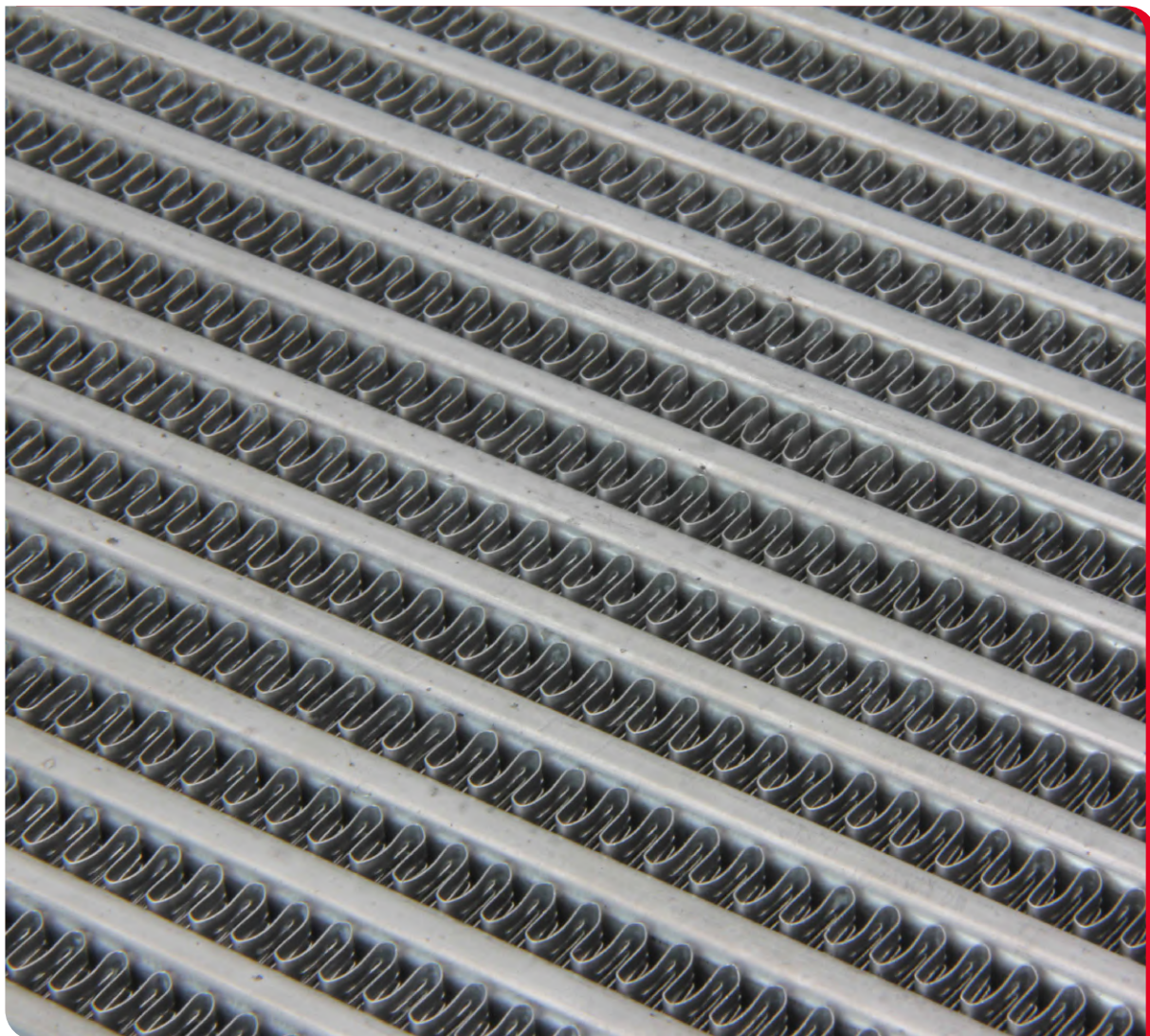
Other than the Initial Performance Rights granted, no other performance rights were granted during the year ending 30 June 2023.

Any future offers of performance rights will be made pursuant to the terms and conditions of the Company's Performance Rights Plan as part of executive KMP's LTI incentive schemes.

The following table shows the movements during the reporting period in performance rights over ordinary shares in the Company held directly, indirectly or beneficially by each KMP and their related entities.

## Director and executive KMP performance rights movements

| Name                           | Year granted | Balance at start of the year | Granted during year | Vested | Lapsed | Balance at end of the year |
|--------------------------------|--------------|------------------------------|---------------------|--------|--------|----------------------------|
|                                |              | #                            | #                   | #      | #      | #                          |
| <b>Non-executive directors</b> |              |                              |                     |        |        |                            |
| Glenn Davis                    |              | -                            | -                   | -      | -      | -                          |
| Donald McGurk                  |              | -                            | -                   | -      | -      | -                          |
| Darryl Abotomey                |              | -                            | -                   | -      | -      | -                          |
| <b>Executive director</b>      |              |                              |                     |        |        |                            |
| Gary Washington                |              | -                            | -                   | -      | -      | -                          |
| <b>Executive KMP</b>           |              |                              |                     |        |        |                            |
| Don Cormack                    | 2023         | -                            | 133,333             | -      | -      | 133,333                    |
| Jamie Baensch                  | 2023         | -                            | 80,000              | -      | -      | 80,000                     |
| Branko Stojakovic              | 2023         | -                            | 46,666              | -      | -      | 46,666                     |
| Rod Hyslop                     |              | -                            | -                   | -      | -      | -                          |
| <b>Former executive KMP</b>    |              |                              |                     |        |        |                            |
| Chris Newman                   |              | -                            | -                   | -      | -      | -                          |
| <b>Total</b>                   |              | -                            | <b>259,999</b>      | -      | -      | <b>259,999</b>             |



Specific details of the number of performance rights granted, vested and lapsed in FY23 for KMP are set out in the table below.

#### Director and executive KMP performance rights details

|                                | Grant date | Fair value per right at grant date | Granted during year | Vested | Lapsed | Rights on issue at end of the year | Date rights vest and become exercisable | Value expensed this year <sup>(1)</sup> |
|--------------------------------|------------|------------------------------------|---------------------|--------|--------|------------------------------------|-----------------------------------------|-----------------------------------------|
| Name                           |            | \$                                 |                     |        |        |                                    |                                         | \$                                      |
| <b>Non-executive directors</b> |            |                                    |                     |        |        |                                    |                                         |                                         |
| Glenn Davis                    |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total</b>                   |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total \$</b>                |            |                                    | -                   | -      | -      | -                                  |                                         | -                                       |
| Donald McGurk                  |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total</b>                   |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total \$</b>                |            |                                    | -                   | -      | -      | -                                  |                                         | -                                       |
| Darryl Abotomey                |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total</b>                   |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total \$</b>                |            |                                    | -                   | -      | -      | -                                  |                                         | -                                       |
| <b>Executive director</b>      |            |                                    |                     |        |        |                                    |                                         |                                         |
| Gary Washington                |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total</b>                   |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total \$</b>                |            |                                    | -                   | -      | -      | -                                  |                                         | -                                       |
| <b>Executive KMP</b>           |            |                                    |                     |        |        |                                    |                                         |                                         |
| Don Cormack                    | 30-Sep-22  | 1.50                               | 133,333             | -      | -      | 133,333                            | 30-Sep-23                               |                                         |
| <b>Total</b>                   |            |                                    | 133,333             | -      | -      | 133,333                            |                                         |                                         |
| <b>Total \$</b>                |            |                                    | 200,000             | -      | -      | 200,000                            |                                         | 150,000                                 |
| Jamie Baensch                  | 30-Sep-22  | 1.50                               | 80,000              | -      | -      | 80,000                             | 30-Sep-23                               |                                         |
| <b>Total</b>                   |            |                                    | 80,000              | -      | -      | 80,000                             |                                         |                                         |
| <b>Total \$</b>                |            |                                    | 120,000             | -      | -      | 120,000                            |                                         | 90,000                                  |
| Branko Stojakovic              | 15-Jun-23  | 0.98                               | 46,666              | -      | -      | 46,667                             | 30-Sep-23                               |                                         |
| <b>Total</b>                   |            |                                    | 46,666              | -      | -      | 46,667                             |                                         |                                         |
| <b>Total \$</b>                |            |                                    | 45,733              | -      | -      | 45,733                             |                                         | 11,433                                  |
| Rod Hyslop                     |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total</b>                   |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total \$</b>                |            |                                    | -                   | -      | -      | -                                  |                                         | -                                       |
| <b>Former executive KMP</b>    |            |                                    |                     |        |        |                                    |                                         |                                         |
| Chris Newman                   |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total</b>                   |            |                                    | -                   | -      | -      | -                                  |                                         |                                         |
| <b>Total \$</b>                |            |                                    | -                   | -      | -      | -                                  |                                         | -                                       |

(1) The fair value of equity instruments is determined as at the grant date and then progressively expensed over the vesting period.

Performance rights granted carry no dividend or voting rights. All performance rights were granted over unissued fully paid ordinary shares in the Company. Performance rights vest based on the vesting period, whereby the executive becomes beneficially entitled to the performance rights on the vesting date. Performance rights are exercisable by the holder from the vesting date. There has not been any alteration to the terms or conditions of the grant since the grant date. No amounts are paid or payable by the recipient regarding granting such performance rights.

### Fair value of performance rights

The Company has employed the Black-Scholes Valuation Model to determine the fair value of the performance rights which takes into consideration where applicable the exercise price, the term of the vesting period, the share price at grant date, expected volatility of the underlying shares, expected dividend yield and the risk free interest rate of the term over the vesting period. The fair value of performance rights granted is amortised and disclosed as part of remuneration on a straight line basis over the vesting period.

## Shareholdings of KMP

The following table details the movements during the reporting period in ordinary shares in the Company held directly, indirectly or beneficially by each KMP and their related entities.

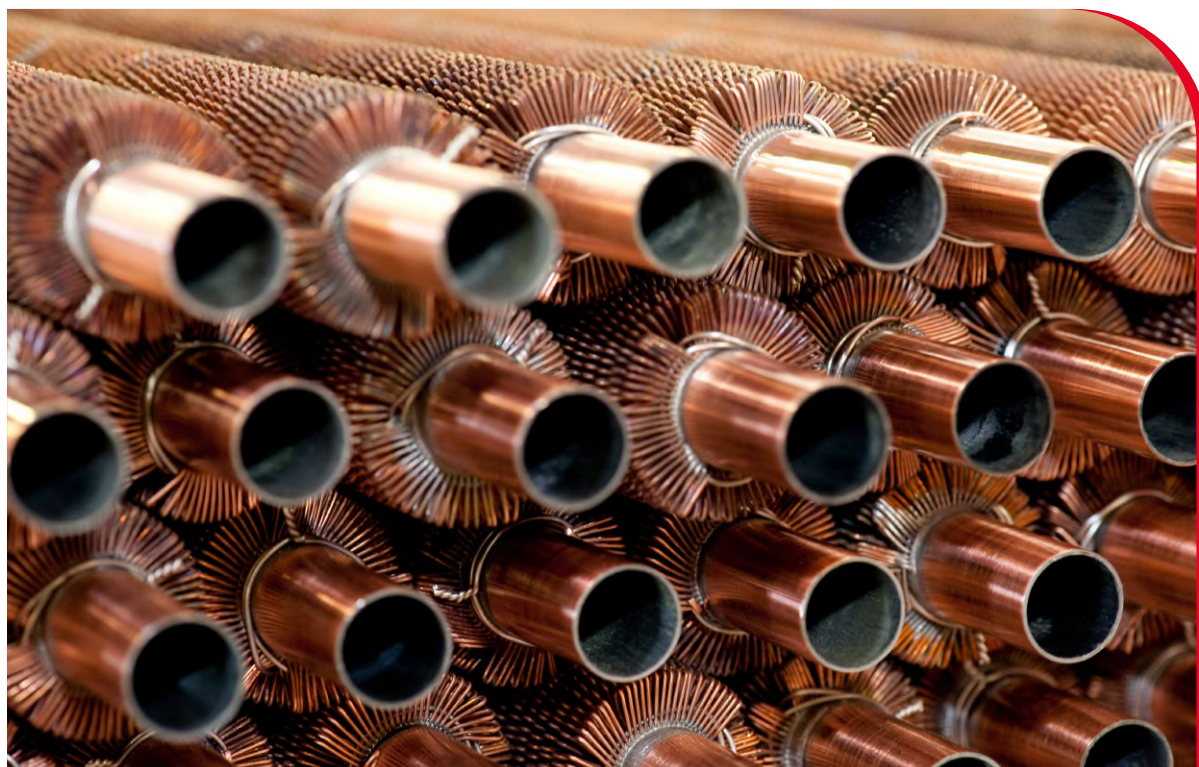
### Director interest in ordinary shares

|                                | Balance at start of the year | Issued during the year (prior to IPO) <sup>(1)</sup> | Purchased | Sold               | Balance at end of the year |
|--------------------------------|------------------------------|------------------------------------------------------|-----------|--------------------|----------------------------|
| 2023                           | #                            | #                                                    | #         | #                  | #                          |
| <b>Non-executive directors</b> |                              |                                                      |           |                    |                            |
| Glenn Davis                    | -                            | -                                                    | -         | -                  | -                          |
| Donald McGurk                  | -                            | -                                                    | -         | -                  | -                          |
| Darryl Abotomey                | -                            | -                                                    | -         | -                  | -                          |
| <b>Executive director</b>      |                              |                                                      |           |                    |                            |
| Gary Washington <sup>(2)</sup> | 3,750,761                    | 50,236,020                                           | -         | (4,666,667)        | 49,320,114                 |
| <b>Total</b>                   | <b>3,750,761</b>             | <b>50,236,020</b>                                    | <b>-</b>  | <b>(4,666,667)</b> | <b>49,320,114</b>          |

(1) On 26 August 2022 as part of the preparations for an Initial Public Offering (IPO) which transpired on 30 September 2022, the Company issued 50,236,020 shares to Mr Washington for nil consideration. 4,666,667 shares were subsequently transferred to SaleCo and made available to the public at IPO.

(2) Held by entities in which a relevant interest is held.

No ordinary shares were issued to directors and other KMP as part of compensation during the year ended 30 June 2023.



## Employment and service agreements

### Non executive directors

The Company has entered into a director appointment agreement with DMAW Lawyers Pty Ltd (DMAW Lawyers), of which the Chairman, Mr Davis is a principal, under which the Company pays DMAW Lawyers Pty Ltd \$150,000 plus GST to procure the appointment of Mr Davis as the Chair of the Board.

Other non-executive directors enter into appointment letter agreements with the Company confirming the terms of appointment and their roles and responsibilities. The appointment letter agreements are otherwise on standard commercial terms. Non-executive directors receive fees of \$90,000 per annum (exclusive of superannuation) as at the reporting date and are subject to periodic re-election at shareholder meetings.

Additional fees may be payable to directors in consideration of their role as Chair of a Board Committee or membership on a Committee. As at the reporting date, the Chair of the Remuneration and Nomination Committee and Audit and Risk Committee respectively receive an additional \$10,000 per annum (exclusive of superannuation) while members of the Committees receive an additional \$5,000 per annum (exclusive of superannuation).

### Executive director and executive KMP

It is the Company's policy that employment agreements for the Executive Director and executive KMP are unlimited in term but capable of termination on one to three months' notice, and that the Company retains the right to terminate the agreement immediately by making payment in lieu of notice. The Company has entered into an employment agreement with the Executive Director and each executive KMP. The Executive Director and executive KMP are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, as well as any entitlement to incentive payments and superannuation benefits.

A summary of employment arrangements is as follows:

#### Executive director and executive KMP contractual arrangements

| Position                  | Fixed remuneration <sup>(1)</sup><br>\$ | Duration  | Termination<br>notice period |
|---------------------------|-----------------------------------------|-----------|------------------------------|
| <b>Executive director</b> |                                         |           |                              |
| Executive director        | \$90,000                                | Unlimited | 1 month                      |
| <b>Executive KMP</b>      |                                         |           |                              |
| CEO                       | \$580,000                               | Unlimited | 3 months                     |
| Other executive KMP       | \$215,300 to \$354,500                  | Unlimited | 3 months                     |

(1) Salary or fee exclusive of superannuation, annual and long service leave entitlements, allowances, and value of fringe benefits

## Other transactions with KMP

DMAW Lawyers has also provided legal services to the Company. Those services were not provided specifically in connection with the Offer but were provided in relation to the Company's ongoing operations, including employment arrangements with its employees. The fees paid by the Company to DMAW Lawyers for such legal services have, to date, not been material. The Company may engage DMAW Lawyers after Admission for the provision of similar legal services from time to time but is not party to any ongoing retainer or other agreement with DMAW Lawyers.

The Company has entered into the following related party transactions:

(a) letters of appointment with each of its non-executive directors on standard arm's length terms, and legal fees paid to DMAW Lawyers, of which Mr Davis is a principal;

(b) deeds of indemnity, access and insurance with each of its directors and executive KMP on standard arm's length;



- (c) an employment agreement with Mr Washington in relation to his appointment as Executive Director;
- (d) an employment agreement with Mrs Washington, the wife of Mr Washington, in relation to her appointment as Co-Founder Relationship Manager;
- (e) supply arrangements with Harrop Engineering Australia Pty Ltd ACN 134 196 080 (Harrop Engineering). Harrop Engineering is controlled by Mr and Mrs Washington; and
- (f) various leases with Harlaxton Pty Ltd ACN 058 185 760 (Harlaxton) and Arlyngton Pty Ltd (ACN 058 716 573) (Arlyngton), both of which are controlled by Mr and Mrs Washington, who are directors and controlling shareholders of each entity.

There have been no loans to KMP or their related parties during the financial year.

At the date of this report, no other material transactions with related parties or directors' interests exist of which the directors are aware, other than those disclosed in this report.

## Changes since the end of the reporting period

Mr Don Cormack has resigned as CEO, with Mr Darryl Abotomey appointed interim CEO from 15 August 2023.

**This concludes the remuneration report, which has been audited.**

### Indemnity and insurance of directors and officers

The Company has indemnified the directors and executives of the Company for costs incurred in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith. During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against liability to the extent permitted by the Corporations Act 2001. The insurance contract prohibits disclosure of the liability's nature and the premium's amount.

**Auditor**

Grant Thornton Audit Pty Ltd

**Non-audit services**

There was a total of \$242,532 in non-audit services provided during the financial year by the auditor (30 June 2022: \$1,208,232). The directors are satisfied that the provision of non-audit services during the financial year by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermines the general principles relating to auditor independence as set out in APES 110 – Part 4A of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

**Indemnity of auditor**

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

**Matters subsequent to the end of the financial year**

On 15 August 2023 Mr Darryl Abotomey was appointed interim CEO replacing incumbent CEO, Mr Don Cormack who resigned effective this date.

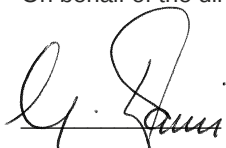
No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the consolidated group's operations, the results of those operations, or the consolidated group's state of affairs in future financial years.

**Auditors' independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a director's resolution pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Glenn Davis

Chair

28 August 2023





# Auditor's Independence Declaration

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 T +61 3 8320 2222

## 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 audit of Adrad Holdings Limited for the year ended 30 June 2023, 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 audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd  
 Chartered Accountants

E W Passaris  
 Partner – Audit & Assurance  
 Melbourne, 28 August 2023

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# Financial Statements

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## Statement of profit or loss and other comprehensive income

|                                                                      |      | Consolidated |              |
|----------------------------------------------------------------------|------|--------------|--------------|
|                                                                      | Note | 2023<br>\$   | 2022<br>\$   |
| <b>Revenue</b>                                                       |      |              |              |
| Sales revenue                                                        | 5    | 141,129,082  | 122,833,267  |
| Other income                                                         | 6    | 1,742,392    | 1,363,341    |
| <b>Expenses</b>                                                      |      |              |              |
| Raw materials and consumables expenses                               |      | (70,143,942) | (58,097,600) |
| Employee expenses                                                    |      | (37,669,371) | (33,828,721) |
| Depreciation expenses                                                | 7    | (7,018,520)  | (5,673,732)  |
| Other expenses                                                       | 8    | (15,457,633) | (13,967,018) |
| Share-based payment                                                  |      | (288,937)    | -            |
| <b>Operating profit</b>                                              |      | 12,293,071   | 12,629,537   |
| Finance income                                                       |      | 196,956      | 38,829       |
| Finance costs                                                        | 9    | (3,027,817)  | (5,075,228)  |
| <b>Net finance cost</b>                                              |      | (2,830,861)  | (5,036,399)  |
| <b>Profit before income tax expense from continuing operations</b>   |      | 9,462,210    | 7,593,138    |
| Income tax expense                                                   | 10   | (3,856,595)  | (3,197,152)  |
| Profit after income tax expense from continuing operations           |      | 5,605,615    | 4,395,986    |
| Profit after income tax expense from discontinued operations         | 11   | -            | 2,664,650    |
| <b>Profit after income tax expense for the year</b>                  |      | 5,605,615    | 7,060,636    |
| <b>Other comprehensive income</b>                                    |      |              |              |
| <i>Items that may be reclassified subsequently to profit or loss</i> |      |              |              |
| Exchange differences on translation of foreign operations            |      | 294,307      | (551,130)    |
| Other comprehensive income for the year, net of tax                  |      | 294,307      | (551,130)    |
| <b>Total comprehensive income for the year</b>                       |      | 5,899,922    | 6,509,506    |
| Profit for the year is attributable to:                              |      |              |              |
| Non-controlling interest                                             |      | -            | 287,856      |
| Owners of Adrad Holdings Limited                                     |      | 5,605,615    | 6,772,780    |
|                                                                      |      | 5,605,615    | 7,060,636    |
| Total comprehensive income for the year is attributable to:          |      |              |              |
| Continuing operations                                                |      | 5,899,922    | 3,844,856    |
| Discontinued operations                                              |      | -            | 2,664,650    |
| Owners of Adrad Holdings Limited                                     |      | 5,899,922    | 6,509,506    |
| <b>Total comprehensive income for the year</b>                       |      | 5,899,922    | 6,509,506    |

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

|                                                                                                                        | Note | Cents | Cents  |
|------------------------------------------------------------------------------------------------------------------------|------|-------|--------|
| <b>Earnings per share for profit from continuing operations attributable to the owners of Adrad Holdings Limited</b>   |      |       |        |
| Basic earnings per share                                                                                               | 37   | 8.46  | 176.77 |
| Diluted earnings per share                                                                                             | 37   | 8.43  | 176.77 |
| <b>Earnings per share for profit from discontinued operations attributable to the owners of Adrad Holdings Limited</b> |      |       |        |
| Basic earnings per share                                                                                               | 37   | -     | 107.15 |
| Diluted earnings per share                                                                                             | 37   | -     | 107.15 |
| <b>Earnings per share for profit attributable to the owners of Adrad Holdings Limited</b>                              |      |       |        |
| Basic earnings per share                                                                                               | 37   | 8.46  | 272.35 |
| Diluted earnings per share                                                                                             | 37   | 8.43  | 272.35 |

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

## Statement of financial position

|                                             |      | Consolidated       |                    |
|---------------------------------------------|------|--------------------|--------------------|
|                                             | Note | 2023<br>\$         | 2022<br>\$         |
| <b>Assets</b>                               |      |                    |                    |
| <b>Current assets</b>                       |      |                    |                    |
| Cash and cash equivalents                   | 12   | 13,931,145         | 3,477,672          |
| Trade and other receivables                 | 13   | 21,493,220         | 18,233,881         |
| Inventories                                 | 14   | 54,257,513         | 46,724,312         |
| Total current assets                        |      | <u>89,681,878</u>  | <u>68,435,865</u>  |
| <b>Non-current assets</b>                   |      |                    |                    |
| Property, plant and equipment               | 16   | 15,042,078         | 13,643,953         |
| Right-of-use assets                         | 15   | 43,308,154         | 45,998,016         |
| Intangible assets                           | 17   | 36,965,654         | 36,974,869         |
| Deferred tax asset                          | 10   | 4,591,115          | 4,357,636          |
| Total non-current assets                    |      | <u>99,907,001</u>  | <u>100,974,474</u> |
| <b>Total assets</b>                         |      | <u>189,588,879</u> | <u>169,410,339</u> |
| <b>Liabilities</b>                          |      |                    |                    |
| <b>Current liabilities</b>                  |      |                    |                    |
| Trade and other payables                    | 18   | 14,374,523         | 13,529,259         |
| Borrowings and interest-bearing liabilities | 19   | 2,140,963          | 26,868,053         |
| Lease liabilities                           | 20   | 3,620,095          | 3,089,030          |
| Provisions                                  | 21   | 9,079,227          | 3,996,624          |
| Total current liabilities                   |      | <u>29,214,808</u>  | <u>47,482,966</u>  |
| <b>Non-current liabilities</b>              |      |                    |                    |
| Borrowings and interest-bearing liabilities | 19   | 731,305            | 897,995            |
| Lease liabilities                           | 20   | 42,396,573         | 44,400,699         |
| Provisions                                  | 21   | 359,979            | 4,602,180          |
| Total non-current liabilities               |      | <u>43,487,857</u>  | <u>49,900,874</u>  |
| <b>Total liabilities</b>                    |      | <u>72,702,665</u>  | <u>97,383,840</u>  |
| <b>Net assets</b>                           |      | <u>116,886,214</u> | <u>72,026,499</u>  |
| <b>Equity</b>                               |      |                    |                    |
| Contributed equity                          | 22   | 42,986,191         | 3,750,761          |
| Reserves                                    | 23   | (2,297,544)        | (2,880,789)        |
| Retained profits                            |      | <u>76,197,567</u>  | <u>71,156,527</u>  |
| <b>Total equity</b>                         |      | <u>116,886,214</u> | <u>72,026,499</u>  |

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

## Statement of changes in equity

| Consolidated                                                                | Contributed<br>Equity<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Common<br>Control<br>Acquisition<br>Reserve<br>\$ | Acquisition<br>of Non-<br>Controlling<br>Reserve<br>\$ | Retained<br>Profits<br>\$ | Non-<br>controlling<br>Interest * | Total<br>Equity<br>\$ |
|-----------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|---------------------------|-----------------------------------|-----------------------|
| Balance at 1<br>July 2021                                                   | 1                           | (1,807,473)                                         | -                                                 | -                                                      | 64,149,664                | 1,946,227                         | 64,288,419            |
| Profit after<br>income tax<br>expense for<br>the year                       | -                           | -                                                   | -                                                 | -                                                      | 6,772,780                 | 287,856                           | 7,060,636             |
| Other<br>comprehensive<br>income for the<br>year, net of tax                | -                           | (551,130)                                           | -                                                 | -                                                      | 104,809                   | (104,809)                         | (551,130)             |
| Total<br>comprehensive<br>income for the<br>year                            | -                           | (551,130)                                           | -                                                 | -                                                      | 6,877,589                 | 183,047                           | 6,509,506             |
| <i>Transactions<br/>with owners in<br/>their capacity as<br/>owners:</i>    |                             |                                                     |                                                   |                                                        |                           |                                   |                       |
| Contributions of<br>equity, net of<br>transaction costs<br>(note 22)        | 3,750,760                   | -                                                   | -                                                 | -                                                      | -                         | -                                 | 3,750,760             |
| Discount on<br>Purchase of Net<br>Assets from<br>Adcore Holdings<br>Pty Ltd | -                           | -                                                   | 4,804,650                                         | -                                                      | -                         | -                                 | 4,804,650             |
| Purchase of Air<br>Radiators<br>(Thailand) Ltd                              | -                           | -                                                   | -                                                 | (5,326,836)                                            | 2,129,274                 | (2,129,274)                       | (5,326,836)           |
| Dividends paid                                                              | -                           | -                                                   | -                                                 | -                                                      | (2,000,000)               | -                                 | (2,000,000)           |
| Balance at 30<br>June 2022                                                  | <u>3,750,761</u>            | <u>(2,358,603)</u>                                  | <u>4,804,650</u>                                  | <u>(5,326,836)</u>                                     | <u>71,156,527</u>         | <u>-</u>                          | <u>72,026,499</u>     |

\* The consolidated entity held 66% (34% non-controlling interested) in Air Radiators (Thailand) Limited prior to 1 November 2021. The remaining 34% shares were purchased on 31 October 2021.

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

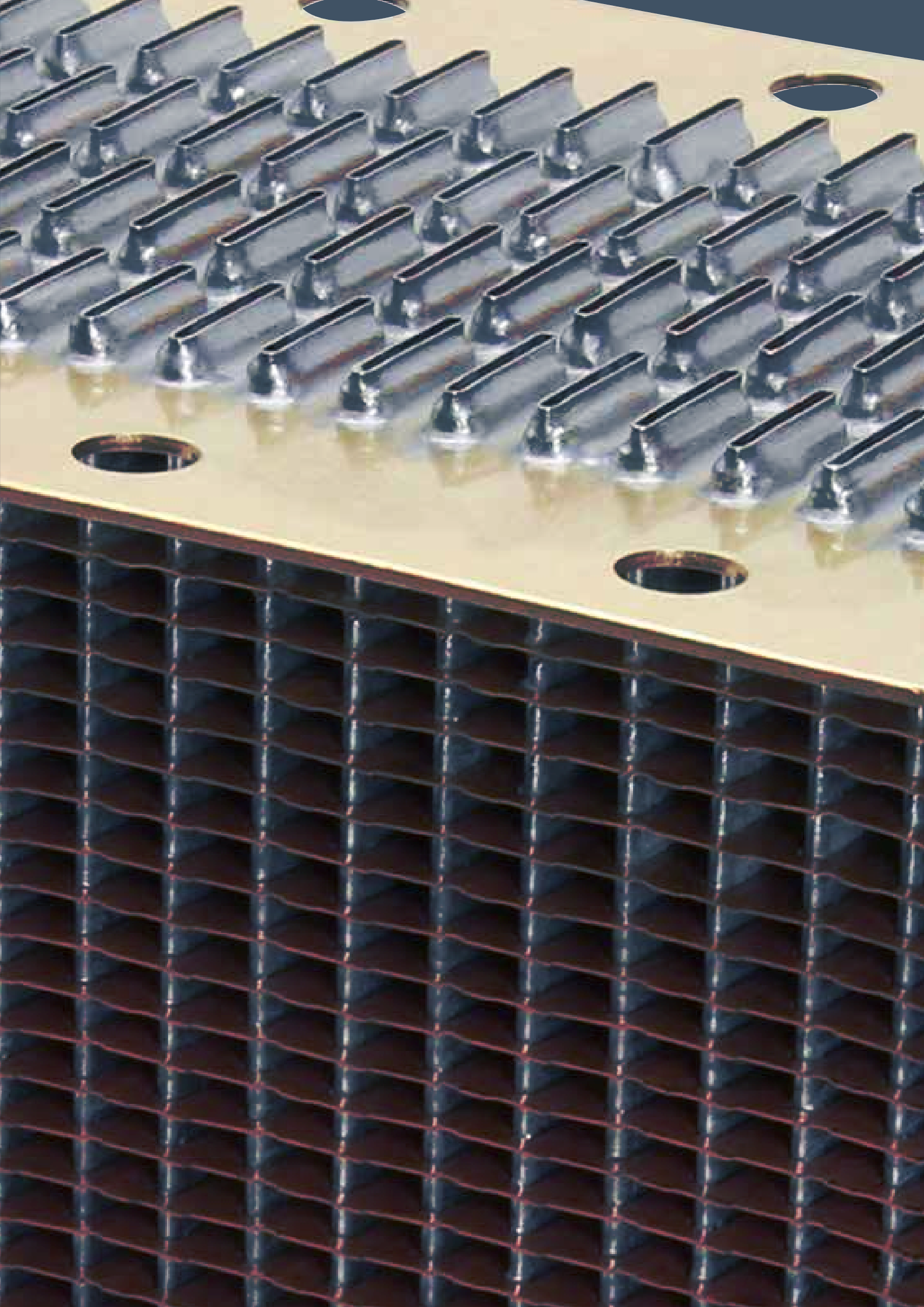
| Consolidated                                                         | Contributed<br>Equity<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Common<br>Control<br>Acquisition<br>Reserve<br>\$ | Acquisition<br>of Non-<br>Controlling<br>Reserve<br>\$ | Share<br>based<br>Payment<br>Reserve<br>\$ | Retained<br>Profits<br>\$ | Total<br>Equity<br>\$ |
|----------------------------------------------------------------------|-----------------------------|-----------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|--------------------------------------------|---------------------------|-----------------------|
| Balance at 1 July 2022                                               | 3,750,761                   | (2,358,603)                                         | 4,804,650                                         | (5,326,836)                                            | -                                          | 71,156,527                | 72,026,499            |
| Profit after income tax<br>expense for the year                      | -                           | -                                                   | -                                                 | -                                                      | -                                          | 5,605,615                 | 5,605,615             |
| Other comprehensive<br>income for the year,<br>net of tax            | -                           | 294,307                                             | -                                                 | -                                                      | -                                          | -                         | 294,307               |
| Total comprehensive<br>income for the year                           | -                           | 294,307                                             | -                                                 | -                                                      | -                                          | 5,605,615                 | 5,899,922             |
| <i>Transactions with<br/>owners in their<br/>capacity as owners:</i> |                             |                                                     |                                                   |                                                        |                                            |                           |                       |
| Contributions of equity,<br>net of transaction costs<br>(note 22)    | 39,235,430                  | -                                                   | -                                                 | -                                                      | -                                          | -                         | 39,235,430            |
| Share-based payments<br>(note 38)                                    | -                           | -                                                   | -                                                 | -                                                      | 288,937                                    | -                         | 288,937               |
| Dividends Paid (note<br>24)                                          | -                           | -                                                   | -                                                 | -                                                      | -                                          | (564,574)                 | (564,574)             |
| Balance at 30 June<br>2023                                           | <u>42,986,191</u>           | <u>(2,064,296)</u>                                  | <u>4,804,650</u>                                  | <u>(5,326,836)</u>                                     | <u>288,937</u>                             | <u>76,197,568</u>         | <u>116,886,214</u>    |

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

## Statement of cash flows

|                                                                  | Note | Consolidated             |                         |
|------------------------------------------------------------------|------|--------------------------|-------------------------|
|                                                                  |      | 2023                     | 2022                    |
|                                                                  |      | \$                       | \$                      |
| <b>Cash flows from operating activities</b>                      |      |                          |                         |
| Receipts from customers (inclusive of GST)                       |      | 153,703,704              | 146,029,940             |
| Payments to suppliers, employees and others (inclusive of GST)   |      | (140,567,728)            | (132,806,939)           |
| Finance cost                                                     |      | (235,906)                | (1,705,053)             |
| Interest income                                                  |      | 196,956                  | -                       |
| Income tax paid                                                  |      | <u>(6,340,505)</u>       | <u>(3,457,323)</u>      |
| Net cash from operating activities                               | 35   | <u>6,756,521</u>         | <u>8,060,625</u>        |
| <b>Cash flows from investing activities</b>                      |      |                          |                         |
| Payments for property, plant & equipment                         |      | (4,014,424)              | (4,177,292)             |
| Proceeds from disposal of shares, net of cash held               | 11   | -                        | 4,434,881               |
| Acquisition of shares, net of cash received                      | 23   | -                        | (5,326,836)             |
| Acquisition of business operations, net of cash received         | 32   | -                        | (15,539,584)            |
| Proceeds from disposal of property, plant and equipment          |      | <u>152,267</u>           | <u>-</u>                |
| Net cash used in investing activities                            |      | <u>(3,862,157)</u>       | <u>(20,608,831)</u>     |
| <b>Cash flows from financing activities</b>                      |      |                          |                         |
| Proceeds from issue of shares                                    | 22   | 15,000,000               | 3,750,760               |
| Share issue transaction costs                                    | 22   | (764,570)                | -                       |
| Proceeds from convertible notes                                  |      | -                        | 20,000,000              |
| Proceed from Sale of Assets, net of cash                         |      | 31,530                   | -                       |
| Payments to related parties                                      |      | -                        | (9,882,355)             |
| Dividends paid                                                   | 24   | (564,574)                | (2,000,000)             |
| Proceeds from borrowings                                         |      | -                        | 3,328,124               |
| Repayment of borrowings                                          |      | (1,485,476)              | -                       |
| Repayment of lease liabilities                                   |      | <u>(4,657,801)</u>       | <u>(4,013,564)</u>      |
| Net cash from financing activities                               |      | <u>7,559,109</u>         | <u>11,182,965</u>       |
| Net increase/(decrease) in cash and cash equivalents             |      | 10,453,473               | (1,365,241)             |
| Cash and cash equivalents at the beginning of the financial year |      | <u>3,477,672</u>         | <u>4,842,913</u>        |
| Cash and cash equivalents at the end of the financial year       | 12   | <u><u>13,931,145</u></u> | <u><u>3,477,672</u></u> |

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





# Notes to the Financial Statements

## 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 (collectively "consolidated entity") at the end of, or during, the 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 and listed on Australian Securities Exchange ("ASX"). The principal activities of the Company during the year ended 30 June 2023 were the design and manufacture of heat transfer solutions for OE customers globally and the manufacture, importation and distribution of automotive parts for the aftermarket.

The registered office and principal place of business of Adrad Holdings Limited is located at 26 Howards Road, Beverley SA 5009.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 28 August 2023. The Directors have the power to amend and reissue the financial statements.

## 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.

### 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.

### Basis of preparation

The financial statements have been prepared in accordance with 'Accounting Standards (including Australian Accounting Interpretations)' issued by the Australian Accounting Standards Board and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements are presented in Australian dollars, which is also the consolidated entity's functional currency.

### 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 2023 and the results of all subsidiaries for the 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.

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 principle 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 principle are recognised as a refund liability.

### ***Sale of goods – automotive aftermarket (Adrad)***

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 – heat transfer solutions (Air Radiators)***

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.

### ***Construction revenue***

The contractual terms and the way in which the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. Due to the high degree of independence between the various elements of these projects, they are accounted for as a single performance obligation. Contracted revenue is recognised over time by comparing costs incurred in total estimated costs required to deliver the project to measure progress. Estimated costs are reviewed on a monthly basis. The requirements of over time measurement are met as the construction creates assets with no alternative use to the Group and there is an enforceable right to payment for performance completed.

Contract variations are assessed to determine whether they represent a separate contract with the customer or are modifications to the original contract.

### ***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.

**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 income**

Other income 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 group. The group notified the Australian Taxation Office on 5 December 2007 that it had formed an income tax consolidated group to apply from the date of incorporation of the company. The tax consolidated group has entered into tax sharing and tax funding agreements whereby each company in the group contributes to the income tax payable in proportion to their contribution to the taxable profit of the tax consolidated group.

**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.

### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested half-yearly 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.

### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

### Convertible debt

The proceeds received on issue of the Company's convertible debt are allocated into their liability and equity components and presented separately in the Statements of Financial Position. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert. The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited directly to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate. Transactions costs that relate to the issue of the instruments are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

### 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:

#### ***Estimation of useful lives of assets***

The consolidated entity determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation 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. Refer to note 16 for accounting policy of depreciation of property, plant and equipment.

#### ***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***

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### ***Impairment of non-financial assets other than goodwill and other indefinite life intangible assets***

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

### ***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.

### ***Employee benefits provision***

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

### ***Construction contracts***

Construction contract revenue is recognised over the life of the contract on a percentage of completion basis. Estimations are made of the final contract value including the likelihood of unapproved variations being accepted. Estimating the percentage of completion requires an estimate of the costs to fulfil the contract.

## **Note 4. Operating segments**

### ***Identification of reportable operating segments***

The consolidated entity is organised into two operating segments based on differences in products and services provided: automotive aftermarket parts and heat transfer solutions (original equipment (OE)) manufacturing. 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.

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:

|                         |                                  |
|-------------------------|----------------------------------|
| Automotive Aftermarket  | Automotive aftermarket parts     |
| Heat Transfer Solutions | Original equipment manufacturing |

**Operating segment information****Consolidated - 2023**

|                                                | <b>Automotive<br/>Aftermarket<br/>\$</b> | <b>Heat<br/>Transfer<br/>Solutions<br/>\$</b> | <b>Total<br/>\$</b> |
|------------------------------------------------|------------------------------------------|-----------------------------------------------|---------------------|
| <b>Revenue</b>                                 |                                          |                                               |                     |
| Sales to external customers                    | 69,642,367                               | 71,486,715                                    | 141,129,082         |
| Total segment revenue                          | <u>69,642,367</u>                        | <u>71,486,715</u>                             | <u>141,129,082</u>  |
| <b>Total revenue</b>                           | <u>69,642,367</u>                        | <u>71,486,715</u>                             | <u>141,129,082</u>  |
| <b>EBITDA</b>                                  | 10,151,175                               | 13,126,500                                    | 23,277,675          |
| Corporate EBITDA                               | -                                        | -                                             | (3,966,085)         |
| Depreciation and amortisation                  | -                                        | -                                             | (7,018,520)         |
| Interest revenue                               | -                                        | -                                             | 196,957             |
| Finance costs                                  | -                                        | -                                             | (3,027,817)         |
| <b>Profit/(loss) before income tax expense</b> | <u>10,151,175</u>                        | <u>13,126,500</u>                             | <u>9,462,210</u>    |
| Income tax expense                             |                                          |                                               | (3,856,595)         |
| <b>Profit after income tax expense</b>         |                                          |                                               | <u>5,605,615</u>    |
| <b>Assets</b>                                  |                                          |                                               |                     |
| Segment assets                                 | <u>43,207,218</u>                        | <u>43,503,244</u>                             | 86,710,462          |
| Corporate assets                               |                                          |                                               | 6,948,497           |
|                                                |                                          |                                               | <u>93,658,959</u>   |
| <i>Unallocated assets:</i>                     |                                          |                                               |                     |
| Cash and cash equivalents                      |                                          |                                               | 8,931,145           |
| Right-of-use assets                            |                                          |                                               | 43,308,154          |
| Land and buildings                             |                                          |                                               | 2,133,852           |
| Intangible assets                              |                                          |                                               | 36,965,654          |
| Deferred tax asset                             |                                          |                                               | 4,591,115           |
| <b>Total assets</b>                            |                                          |                                               | <u>189,588,879</u>  |
| <b>Liabilities</b>                             |                                          |                                               |                     |
| Segment liabilities                            | <u>4,700,489</u>                         | <u>8,006,156</u>                              | 12,706,645          |
| Corporate liabilities                          |                                          |                                               | 10,796,156          |
|                                                |                                          |                                               | <u>23,502,801</u>   |
| <i>Unallocated liabilities:</i>                |                                          |                                               |                     |
| Lease liabilities                              |                                          |                                               | 46,016,668          |
| Provision for income tax                       |                                          |                                               | 310,928             |
| Bank loans                                     |                                          |                                               | 2,872,268           |
| <b>Total liabilities</b>                       |                                          |                                               | <u>72,702,665</u>   |

**Consolidated - 2022**

|                                               | <b>Automotive<br/>Aftermarket<br/>\$</b> | <b>Heat<br/>Transfer<br/>Solutions<br/>\$</b> | <b>Total<br/>\$</b> |
|-----------------------------------------------|------------------------------------------|-----------------------------------------------|---------------------|
| <b>Revenue</b>                                |                                          |                                               |                     |
| Sales to external customers                   | 53,519,271                               | 69,313,996                                    | 122,833,267         |
| Total segment revenue                         | <u>53,519,271</u>                        | <u>69,313,996</u>                             | <u>122,833,267</u>  |
| <i>Unallocated revenue:</i>                   |                                          |                                               |                     |
| Discontinued operations revenue               |                                          |                                               | 9,064,514           |
| <b>Total revenue</b>                          |                                          |                                               | <u>131,897,781</u>  |
| <b>EBITDA</b>                                 | 7,008,739                                | 13,249,190                                    | 20,257,929          |
| Corporate EBITDA                              | -                                        | -                                             | (1,954,660)         |
| Discontinued operations EBITDA                | -                                        | -                                             | 3,588,496           |
| Depreciation and amortisation                 | -                                        | -                                             | (5,899,762)         |
| Interest revenue                              | -                                        | -                                             | 38,829              |
| Finance costs                                 | -                                        | -                                             | (5,152,186)         |
| <b>Profit(loss) before income tax expense</b> | <u>7,008,739</u>                         | <u>13,249,190</u>                             | <u>10,878,646</u>   |
| Income tax expense                            |                                          |                                               | (3,818,010)         |
| <b>Profit after income tax expense</b>        |                                          |                                               | <u>7,060,636</u>    |
| <b>Assets</b>                                 |                                          |                                               |                     |
| Segment assets                                | <u>41,516,507</u>                        | <u>34,507,200</u>                             | 76,023,707          |
| Corporate assets                              |                                          |                                               | (1,546,326)         |
| Discontinued operations assets                |                                          |                                               | 1,987,418           |
|                                               |                                          |                                               | <u>76,464,799</u>   |
| <i>Unallocated assets:</i>                    |                                          |                                               |                     |
| Cash and cash equivalents                     |                                          |                                               | 3,477,672           |
| Right-of-use assets                           |                                          |                                               | 45,998,016          |
| Land and buildings                            |                                          |                                               | 2,137,347           |
| Intangible assets                             |                                          |                                               | 36,974,869          |
| Deferred tax asset                            |                                          |                                               | 4,357,636           |
| <b>Total assets</b>                           |                                          |                                               | <u>169,410,339</u>  |
| <b>Liabilities</b>                            |                                          |                                               |                     |
| Segment liabilities                           | <u>7,496,045</u>                         | <u>9,992,076</u>                              | 17,488,121          |
| Corporate liabilities                         |                                          |                                               | 2,078,583           |
|                                               |                                          |                                               | <u>19,566,704</u>   |
| <i>Unallocated liabilities:</i>               |                                          |                                               |                     |
| Lease liabilities                             |                                          |                                               | 47,489,729          |
| Provision for income tax                      |                                          |                                               | 2,561,359           |
| Convertible notes                             |                                          |                                               | 23,408,304          |
| Bank loans                                    |                                          |                                               | 4,357,744           |
| <b>Total liabilities</b>                      |                                          |                                               | <u>97,383,840</u>   |

**Accounting policy for operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

## Note 5. Revenue

### Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

|                                                 | Automotive<br>Aftermarket<br>\$ | Heat<br>Transfer<br>Solutions<br>\$ | Total<br>\$        |
|-------------------------------------------------|---------------------------------|-------------------------------------|--------------------|
| <b>Consolidated - 2023</b>                      |                                 |                                     |                    |
| <i>Timing of transfer of goods and services</i> |                                 |                                     |                    |
| Transferred at a point in time                  | 69,642,367                      | 1,371,102                           | 121,013,468        |
| Transferred over time                           | -                               | 0,115,613                           | 19,115,613         |
|                                                 | <u>69,642,367</u>               | <u>71,486,715</u>                   | <u>141,129,082</u> |
|                                                 |                                 |                                     |                    |
|                                                 | Automotive<br>\$                | Heat<br>Transfer<br>\$              | Total<br>\$        |
| <b>Consolidated - 2022</b>                      |                                 |                                     |                    |
| <i>Timing of transfer of goods and services</i> |                                 |                                     |                    |
| Transferred at a point in time                  | 53,519,271                      | 48,941,392                          | 102,460,663        |
| Transferred over time                           | -                               | 20,372,604                          | 20,372,604         |
|                                                 | <u>53,519,271</u>               | <u>69,313,996</u>                   | <u>122,833,267</u> |

## Note 6. Other income

|                                                       | Consolidated     |                  |
|-------------------------------------------------------|------------------|------------------|
|                                                       | 2023<br>\$       | 2022<br>\$       |
| Profit from disposal of property, plant and equipment | -                | 51,129           |
| Rental income                                         | 42,881           | -                |
| Grant income                                          | -                | 6,200            |
| Management fees                                       | -                | 370,297          |
| Reimbursement of IPO costs from related party         | 1,038,438        | -                |
| Other income                                          | <u>661,073</u>   | <u>935,715</u>   |
| Other income                                          | <u>1,742,392</u> | <u>1,363,341</u> |

## Note 7. Depreciation

|                                             | Consolidated     |                  |
|---------------------------------------------|------------------|------------------|
|                                             | 2023             | 2022             |
|                                             | \$               | \$               |
| Depreciation expenses                       | 2,344,133        | 1,531,131        |
| Depreciation expense on right-of-use assets | 4,674,387        | 4,142,601        |
|                                             | <u>7,018,520</u> | <u>5,673,732</u> |

Impairment losses in plant equipment recognised in accordance with AASB 136 during financial periods was \$325,593.

## Note 8. Other expenses

|                                 | Consolidated      |                   |
|---------------------------------|-------------------|-------------------|
|                                 | 2023              | 2022              |
|                                 | \$                | \$                |
| Advertising Expenses            | 358,512           | 396,207           |
| IT & Communications             | 1,617,521         | 1,269,549         |
| Freight Expenses                | 6,418,574         | 4,145,268         |
| Motor Vehicle Expenses          | 564,088           | 371,851           |
| Professional Fees               | 1,500,703         | 1,653,871         |
| Insurance expenses              | 1,234,245         | 959,969           |
| Repairs & maintenance to assets | 568,163           | 254,125           |
| Occupancy expenses              | 139,278           | 178,267           |
| Energy Costs                    | 503,036           | 280,405           |
| Foreign exchange loss           | 271,115           | 599,835           |
| IPO Related- Expenses           | 1,465,302         | 2,330,433         |
| Other Expenses                  | 633,543           | 1,527,238         |
| ASX related Expenses            | 183,553           | -                 |
|                                 | <u>15,457,633</u> | <u>13,967,018</u> |

## Note 9. Finance costs

|                                                        | Consolidated     |                  |
|--------------------------------------------------------|------------------|------------------|
|                                                        | 2023             | 2022             |
|                                                        | \$               | \$               |
| Interest and finance charges paid                      | 235,906          | 435,640          |
| Interest and finance charges paid on lease liabilities | 1,200,215        | 1,231,283        |
| Finance costs - convertible notes                      | 1,591,696        | 3,408,305        |
|                                                        | <u>3,027,817</u> | <u>5,075,228</u> |

## Note 10. Income tax

|                                                                                                                     | Consolidated     |                   |
|---------------------------------------------------------------------------------------------------------------------|------------------|-------------------|
|                                                                                                                     | 2023             | 2022              |
|                                                                                                                     | \$               | \$                |
| <i>Income tax expense</i>                                                                                           |                  |                   |
| Current tax                                                                                                         | 4,090,074        | 5,127,520         |
| Deferred tax                                                                                                        | (233,479)        | (1,309,510)       |
| Aggregate income tax expense                                                                                        | <u>3,856,595</u> | <u>3,818,010</u>  |
| Income tax expense is attributable to:                                                                              |                  |                   |
| Profit from continuing operations                                                                                   | 3,856,595        | 3,197,152         |
| Profit from discontinued operations                                                                                 | -                | 620,858           |
| Aggregate income tax expense                                                                                        | <u>3,856,595</u> | <u>3,818,010</u>  |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate for the relevant jurisdictions.</i> |                  |                   |
| Profit before income tax expense from continuing operations                                                         | 9,462,210        | 7,593,138         |
| Profit before income tax expense from discontinued operations                                                       | -                | 3,285,508         |
|                                                                                                                     | <u>9,462,210</u> | <u>10,878,646</u> |
| Tax at the statutory tax rate of 30%                                                                                | 2,838,663        | 3,263,594         |
| Convertible note non-deductible interest                                                                            | 477,509          | 1,022,491         |
| Non-assessable / non-deductible items                                                                               | 16,126           | (468,075)         |
| Share based payment non-deductible                                                                                  | 86,681           | -                 |
| Derecognised tax asset                                                                                              | 846,214          | -                 |
| Differences in overseas tax rates                                                                                   | (408,598)        | -                 |
| Income tax expense                                                                                                  | <u>3,856,595</u> | <u>3,818,010</u>  |

**Consolidated**  
**2023**                      **2022**  
**\$**                              **\$**

*Deferred tax assets recognised*

Deferred tax assets recognised comprises temporary differences attributable to:

|                                      |                         |                         |
|--------------------------------------|-------------------------|-------------------------|
| Allowance for expected credit losses | 7,662                   | 6,341                   |
| Employee benefits                    | 2,289,701               | 2,245,699               |
| Leases                               | 808,729                 | 447,514                 |
| Provision for warranties             | 258,084                 | 123,352                 |
| Accrued expenses                     | 323,291                 | 1,206,859               |
| Deferred Revenue                     | 178,806                 | -                       |
| Plant and equipment                  | (142,759)               | (79,895)                |
| Blackhole S40 880 expenses           | <u>867,601</u>          | <u>407,766</u>          |
| Total deferred tax assets recognised | <u><u>4,591,115</u></u> | <u><u>4,357,636</u></u> |

**Accounting policy for 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 group 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 group. The group notified the Australian Taxation Office on 5 December 2007 that it had formed an income tax consolidated group to apply from the date of incorporation of the company. The tax consolidated group has entered into tax sharing and tax funding agreements whereby each company in the group contributes to the income tax payable in proportion to their contribution to the taxable profit of the tax consolidated group.

## Note 11. 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<br>2022<br>\$ |
|--------------------------------------------------------------|----------------------------|
| Revenue                                                      | 9,064,514                  |
| Other revenue                                                | 67,250                     |
| Total revenue                                                | <u>9,131,764</u>           |
| Expenses                                                     | <u>(7,034,655)</u>         |
| Total expenses                                               | <u>(7,034,655)</u>         |
| Profit before income tax expense                             | 2,097,109                  |
| Income tax expense                                           | <u>(620,858)</u>           |
| Profit after income tax expense                              | <u>1,476,251</u>           |
| Profit from sale                                             | 1,188,399                  |
| Income tax expense                                           | <u>-</u>                   |
| Gain on disposal after income tax expense                    | <u>1,188,399</u>           |
| Profit after income tax expense from discontinued operations | <u><u>2,664,650</u></u>    |

*Carrying amounts of assets and liabilities disposed*

|                               | <b>Consolidated<br/>31 Oct 2021<br/>\$</b> |
|-------------------------------|--------------------------------------------|
| 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            | 186,746                                    |
| Total assets                  | <u>19,359,142</u>                          |
| Trade and other payables      | 12,767,097                                 |
| Interest-bearing liabilities  | 1,454,047                                  |
| Provisions                    | 1,305,453                                  |
| Lease liabilities             | 97,826                                     |
| Current Tax Liabilities       | 3,118                                      |
| Other Liabilities             | -                                          |
| Total liabilities             | <u>15,627,541</u>                          |
| <b>Net assets</b>             | <u><u>3,731,601</u></u>                    |

|                                        | <b>Consolidated<br/>30 June 2022<br/>\$</b> |
|----------------------------------------|---------------------------------------------|
| Total sale consideration               | 4,920,000                                   |
| Carrying amount of net assets disposed | <u>(3,731,601)</u>                          |
| Gain on disposal before income tax     | 1,188,399                                   |
| Income tax expense                     | -                                           |
| Gain on disposal after income tax      | <u><u>1,188,399</u></u>                     |

## Note 12. Cash and cash equivalents

|              | Consolidated      |                  |
|--------------|-------------------|------------------|
|              | 2023              | 2022             |
|              | \$                | \$               |
| Cash on hand | 5,042             | 12,108           |
| Cash at bank | 8,926,103         | 3,465,564        |
| Term deposit | 5,000,000         | -                |
|              | <u>13,931,145</u> | <u>3,477,672</u> |

### Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position. Term deposit at 2.05%p.a.

## Note 13. Trade and other receivables

|                                            | Consolidated      |                   |
|--------------------------------------------|-------------------|-------------------|
|                                            | 2023              | 2022              |
|                                            | \$                | \$                |
| <i>Current</i>                             |                   |                   |
| Trade debtors                              | 17,878,375        | 16,031,003        |
| Less: Allowance for expected credit losses | <u>(29,746)</u>   | <u>(24,490)</u>   |
|                                            | <u>17,848,629</u> | <u>16,006,513</u> |
| Other receivables                          | 1,063,906         | 834,547           |
| Prepayments                                | <u>1,830,685</u>  | <u>642,821</u>    |
|                                            | <u>2,894,591</u>  | <u>1,477,368</u>  |
| Security deposit                           | <u>750,000</u>    | <u>750,000</u>    |
|                                            | <u>21,493,220</u> | <u>18,233,881</u> |

### Allowance for expected credit losses

The consolidated entity has recognised a loss of \$29,746 (2022: \$24,490) in profit or loss in respect of the expected credit losses for the year ended 30 June 2023.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

|                       | Expected credit loss rate |       | Carrying amount   |                   | Allowance for expected credit losses |               |
|-----------------------|---------------------------|-------|-------------------|-------------------|--------------------------------------|---------------|
|                       | 2023                      | 2022  | 2023              | 2022              | 2023                                 | 2022          |
| Consolidated          | %                         | %     | \$                | \$                | \$                                   | \$            |
| Not overdue           | -                         | -     | 12,076,585        | 6,411,435         | -                                    | -             |
| 0 to 3 months overdue | 0.54%                     | 0.21% | 5,507,283         | 9,213,100         | 29,746                               | 19,591        |
| 3 to 6 months overdue | -                         | 1.95% | 294,507           | 253,475           | -                                    | 4,899         |
| Over 6 months overdue | -                         | -     | -                 | 152,993           | -                                    | -             |
|                       |                           |       | <u>17,878,375</u> | <u>16,031,003</u> | <u>29,746</u>                        | <u>24,490</u> |

#### Accounting policy for 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 30-60 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 approach, the consolidated entity uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

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

## Note 14. Inventories

|                                | Consolidated       |                   |
|--------------------------------|--------------------|-------------------|
|                                | 2023               | 2022              |
|                                | \$                 | \$                |
| <i>Current</i>                 |                    |                   |
| Raw materials                  | 16,851,161         | 15,178,513        |
| Finished goods                 | 24,988,411         | 20,634,035        |
| Work in progress               | <u>6,949,438</u>   | <u>5,392,346</u>  |
|                                | <u>48,789,010</u>  | <u>41,204,894</u> |
| Less: Provision for impairment | <u>(1,325,284)</u> | <u>(982,832)</u>  |
| Stock in transit - at cost     | <u>6,793,787</u>   | <u>6,502,250</u>  |
|                                | <u>54,257,513</u>  | <u>46,724,312</u> |

#### Accounting policy for inventories

Raw materials are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method, after deducting any purchase settlement discount, rebates and including delivery costs incurred in bringing the inventories to their present location and condition. Finished goods and work in progress include costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

## Note 15. Right-of-use assets

|                                    | Consolidated       |                    |
|------------------------------------|--------------------|--------------------|
|                                    | 2023               | 2022               |
|                                    | \$                 | \$                 |
| <i>Non-current assets</i>          |                    |                    |
| Land and buildings - right-of-use  | 52,709,446         | 51,059,650         |
| Less: Accumulated depreciation     | <u>(9,593,332)</u> | <u>(5,175,515)</u> |
|                                    | <u>43,116,114</u>  | <u>45,884,135</u>  |
| Plant and equipment - right-of-use | 252,038            | 130,164            |
| Less: Accumulated depreciation     | <u>(59,998)</u>    | <u>(16,283)</u>    |
|                                    | <u>192,040</u>     | <u>113,881</u>     |
|                                    | <u>43,308,154</u>  | <u>45,998,016</u>  |

The consolidated entity leases land and buildings for its offices, warehouses and retail outlets under agreements of between 1 to 15 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The consolidated entity also leases plant and equipment under agreements of between 1 to 5 years.

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated                                      | Plant<br>Equipment<br>\$ | Buildings<br>\$    | Total<br>\$        |
|---------------------------------------------------|--------------------------|--------------------|--------------------|
| Balance at 1 July 2021                            | 16,875                   | 7,079,948          | 7,096,823          |
| Additions                                         | 92,850                   | 43,069,636         | 43,162,486         |
| Additions through business combinations (note 32) | 17,784                   | -                  | 17,784             |
| Disposals from shares sales                       | (5,157)                  | (100,362)          | (105,519)          |
| Revaluation increments                            | -                        | 878                | 878                |
| Revaluation decrements                            | -                        | (23,364)           | (23,364)           |
| Depreciation expense                              | <u>(8,471)</u>           | <u>(4,142,601)</u> | <u>(4,151,072)</u> |
| Balance at 30 June 2022 and 1 July 2022           | 113,881                  | 45,884,135         | 45,998,016         |
| Additions                                         | 121,874                  | 3,625,447          | 3,747,321          |
| Reduction in lease term options                   | -                        | (1,724,332)        | (1,724,332)        |
| Revaluation increments                            | -                        | 5,251              | 5,251              |
| Revaluation decrements                            | -                        | -                  | -                  |
| Depreciation expense                              | <u>(43,715)</u>          | <u>(4,674,387)</u> | <u>(4,718,102)</u> |
| Balance at 30 June 2023                           | <u>192,040</u>           | <u>43,116,114</u>  | <u>43,308,154</u>  |

**Accounting policy for 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.

## Note 16. Property, plant and equipment

|                                  | Consolidated        |                     |
|----------------------------------|---------------------|---------------------|
|                                  | 2023                | 2022                |
|                                  | \$                  | \$                  |
| <i>Non-current</i>               |                     |                     |
| Land and buildings - at cost     | 3,155,675           | 3,049,977           |
| Less: Accumulated depreciation   | <u>(1,051,822)</u>  | <u>(912,630)</u>    |
|                                  | <u>2,103,853</u>    | <u>2,137,347</u>    |
| Leasehold improvements - at cost | 938,340             | 1,067,909           |
| Less: Accumulated depreciation   | <u>(536,987)</u>    | <u>(803,971)</u>    |
|                                  | <u>401,353</u>      | <u>263,938</u>      |
| Plant and equipment - at cost    | 17,960,575          | 16,841,217          |
| Less: Accumulated depreciation   | <u>(11,530,685)</u> | <u>(10,770,698)</u> |
|                                  | <u>6,429,890</u>    | <u>6,070,519</u>    |
| Fixtures and fittings - at cost  | 1,020,222           | 683,912             |
| Less: Accumulated depreciation   | <u>(371,697)</u>    | <u>(303,278)</u>    |
|                                  | <u>648,525</u>      | <u>380,634</u>      |
| Motor vehicles - at cost         | 1,621,552           | 2,145,451           |
| Less: Accumulated depreciation   | <u>(669,739)</u>    | <u>(1,222,837)</u>  |
|                                  | <u>951,813</u>      | <u>922,614</u>      |
| Office equipment - at cost       | 4,253,077           | 6,458,289           |
| Less: Accumulated depreciation   | <u>(3,390,810)</u>  | <u>(5,535,799)</u>  |
|                                  | <u>862,267</u>      | <u>922,490</u>      |
| Product Development - Cost       | 665,138             | 562,991             |
| Less: Accumulated depreciation   | <u>(79,868)</u>     | <u>(51,608)</u>     |
|                                  | <u>585,270</u>      | <u>511,383</u>      |
| Capital work-in-progress         | <u>3,059,107</u>    | <u>2,435,028</u>    |
|                                  | <u>15,042,078</u>   | <u>13,643,953</u>   |

**Reconciliations**

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

|                                           | Land & Buildings | Leasehold Improvements | Plant & Equipment | Office Equipment | Furniture and fittings | Motor vehicles | Product Development | Capital work in progress | Total       |
|-------------------------------------------|------------------|------------------------|-------------------|------------------|------------------------|----------------|---------------------|--------------------------|-------------|
| Consolidated                              | \$               | \$                     | \$                | \$               | \$                     | \$             | \$                  |                          | \$          |
| Balance at 1 July 2021                    | 2,093,930        | 338,646                | 7,701,564         | 306,437          | 59,333                 | 429,574        | 539,533             | 1,491,607                | 12,960,624  |
| Additions                                 | 142,990          | 222,563                | 498,381           | 1,021,437        | 370,419                | 1,154,104      | -                   | 945,525                  | 4,355,419   |
| Additions from common control acquisition | -                | -                      | 3,281,044         | -                | -                      | -              | -                   | -                        | 3,281,044   |
| Disposals                                 | -                | (233,079)              | (4,369,346)       | (58,879)         | (14,200)               | (481,261)      | -                   | -                        | (5,156,765) |
| Exchange differences                      | (19,621)         | (92)                   | (15,010)          | (41)             | (258)                  | (2,080)        | -                   | (2,104)                  | (39,206)    |
| Depreciation expense                      | (79,952)         | (64,100)               | (1,026,114)       | (346,464)        | (34,660)               | (177,723)      | (28,150)            | -                        | (1,757,163) |
| Balance at 30 June 2022 and 1 July 2022   | 2,137,347        | 263,938                | 6,070,519         | 922,490          | 380,634                | 922,614        | 511,383             | 2,435,028                | 13,643,953  |
| Additions                                 | 43,978           | 51,494                 | 2,334,939         | 161,625          | 337,976                | 276,784        | 102,346             | 705,282                  | 4,014,424   |
| Disposals                                 | -                | (15,710)               | (280,918)         | (36,456)         | (5,466)                | (78,537)       | -                   | -                        | (417,087)   |
| Exchange differences                      | 65,181           | (15)                   | 40,206            | 6,523            | 1,652                  | 6,848          | -                   | 24,527                   | 144,922     |
| Transfers in/(out)                        | -                | 227,446                | (239,791)         | 97,091           | 461                    | 20,523         | -                   | (105,730)                | -           |
| Depreciation expense                      | (112,653)        | (125,800)              | (1,495,065)       | (289,006)        | (66,732)               | (226,419)      | (28,459)            | -                        | (2,344,134) |
| Balance at 30 June 2023                   | 2,133,853        | 401,353                | 6,429,890         | 862,267          | 648,525                | 921,813        | 585,270             | 3,059,107                | 15,042,078  |

**Accounting policy for property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives.

| <b>Asset Categories</b> | <b>Straight Line Depreciation Rates</b> |
|-------------------------|-----------------------------------------|
| Land & Buildings        | 2.5%-5.0%                               |
| 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%                              |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**Note 17. Intangible assets**

|                           | <b>Consolidated</b> |                   |
|---------------------------|---------------------|-------------------|
|                           | <b>2023</b>         | <b>2022</b>       |
|                           | <b>\$</b>           | <b>\$</b>         |
| <i>Non-current assets</i> |                     |                   |
| Goodwill                  | <u>36,965,654</u>   | <u>36,974,869</u> |

Goodwill acquired through business combinations have been allocated to the following cash-generating units:

|                               | <b>Consolidated</b> |                   |
|-------------------------------|---------------------|-------------------|
|                               | <b>2023</b>         | <b>2022</b>       |
|                               | <b>\$</b>           | <b>\$</b>         |
| Heat Transfer Solutions (HTS) | 20,705,927          | 20,705,927        |
| Automotive Aftermarket        | <u>16,259,727</u>   | <u>16,268,942</u> |
|                               | <u>36,965,654</u>   | <u>36,974,869</u> |

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 3 year projection period approved by management and extrapolated for a further 2 years, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the HTS division:

- Post tax discount rate of 10.5%
- 3% of revenue for forecasting capital expenditure
- Average annual revenue growth over the five-year period of approximately 8%
- 2.5% cash flow terminal growth rate

The discount rate of 10.5% post-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the HTS division, the risk free rate and the volatility of the share price relative to market movements.

There were no other key assumptions for the HTS division.

Based on the above, the recoverable amount of the HTS division exceeded the carrying amount

The following key assumptions were used in the discounted cash flow model for the Automotive Aftermarket division:

- Post tax discount rate of 10.5%
- 2% of revenue for forecasting capital expenditure
- Average annual revenue growth over the five-year period of approximately 15%
- 2.5% cash flow terminal growth rate

The discount rate of 10.5% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the computer distribution division, the risk free rate and the volatility of the share price relative to market movements.

There were no other key assumptions for the Aftermarket division.

Based on the above, the recoverable amount of the Aftermarket division exceeded the carrying amount.

### **Sensitivity**

As disclosed in note 3, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- A decrease of 10% or less in the EBIT for the Aftermarket division would not result in goodwill needing to be impaired, with all other assumptions remaining constant.
- An increase of 10% or less in the discount rate for the Aftermarket division would not result in goodwill needing to be impaired, with all other assumptions remaining constant
- A decrease of 10% or less in the EBIT for the OEM division would not result in goodwill needing to be impaired, with all other assumptions remaining constant
- An increase of 10% or less in the discount rate for the OEM division would not result in goodwill needing to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of Aftermarket and OEM division's goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

### **Accounting policy for intangible assets**

#### **Goodwill**

Goodwill 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.

## Note 18. Trade and other payables

|                              | Consolidated      |                   |
|------------------------------|-------------------|-------------------|
|                              | 2023              | 2022              |
|                              | \$                | \$                |
| <i>Current</i>               |                   |                   |
| Trade creditors and accruals | 10,323,419        | 8,818,200         |
| Other creditors              | 4,051,104         | 4,711,059         |
|                              | <u>14,374,523</u> | <u>13,529,259</u> |

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

### **Accounting policy for trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30-60 days of recognition.

## Note 19. Borrowings and interest-bearing liabilities

|                                      | Consolidated     |                   |
|--------------------------------------|------------------|-------------------|
|                                      | 2023             | 2022              |
|                                      | \$               | \$                |
| <i>Current liabilities</i>           |                  |                   |
| Convertible notes at FVPL            | -                | 23,408,304        |
| Trade refinance- secured             | 1,912,467        | 3,333,138         |
| Equipment finance liability- secured | 228,496          | 126,611           |
|                                      | <u>2,140,963</u> | <u>26,868,053</u> |
| <i>Non-current liabilities</i>       |                  |                   |
| Equipment Finance Liability- Secured | 731,305          | 897,995           |
|                                      | <u>2,872,268</u> | <u>27,766,048</u> |

Convertible notes were unsecured and were issued on 15 December 2021 with a maturity date of 1 year from the issue date. 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 were agreed 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

Convertible notes are measured at fair value through profit or loss. The difference between the consideration received of \$20m and its fair value of \$25m, is recognised on a straight line basis over the estimated period from initial recognition until expected conversion on IPO.

On 30 September 2022 the Company listed on the ASX whereupon 16,666,704 shares were issued on conversion of the convertible notes at a valuation of \$1.20 being 80% of the offer price of \$1.50.

The trade refinance is at 6.91%p.a. up to 180 days terms.

Pursuant to a Facility Agreement dated 13 December 2021 between the Company and BankSA, a division of Westpac Banking Corporation (Financier), a number of banking facilities were established (Facility Agreement).

The Facility Agreement included the following facilities:

- (a) Multi-Option, Trade Refinance, Letter of Credit and Overdraft Facilities (MO Facilities);
- (b) Bank Bill Business Loan Facility (BBBL Facility) which was repaid and closed during the year ending 30 June 2023;
- (c) Letter of Credit Facility (LC Facility);
- (d) Equipment Finance Facility (Equipment Facility);
- (e) Visa Business Card Facility (Visa Facility);
- (f) Currency Exposure Management Facility (Currency Facility); and
- (g) Direct Debit Facility (Debit Facility).

The key terms of the Facility Agreement are summarised below.

The aggregate facility limit under the MO Facilities is \$4,300,000 and the total aggregate limits of all facilities established under the Facility Agreement is \$10,235,000.

The limits of the individual facilities under the Facility Agreement are set out in the table below:

| Facility           | Limit        | Note                                       |
|--------------------|--------------|--------------------------------------------|
| MO Facilities      | \$4,300,000  |                                            |
| LC Facility        | \$1,500,000  |                                            |
| Equipment Facility | \$1,500,000  |                                            |
| Visa Facility      | \$50,000     |                                            |
| Currency Facility  | \$2,500,000  | Or its equivalent in any foreign currency. |
| Debit Facility     | \$385,000    |                                            |
| Total              | \$10,235,000 |                                            |

| Facility           | Repayment Date                                                                                                             |
|--------------------|----------------------------------------------------------------------------------------------------------------------------|
| MO Facilities      | Subject to annual review or such earlier time as notified by the Financier and for Overdraft facility repayable on demand. |
| BBBL Facility      | 30 November 2022 (Repaid and closed during the year ended 30 June 2023).                                                   |
| LC Facility        | Subject to annual review or such earlier time as notified by the Financier.                                                |
| Equipment Facility | Subject to annual review or such earlier time as notified by the Financier.                                                |
| Visa Facility      | On demand.                                                                                                                 |
| Currency Facility  | Subject to annual review or such earlier time as notified by the Financier.                                                |
| Debit Facility     | Subject to annual review or such earlier time as notified by the Financier.                                                |

**Permitted use of funds**

The MO Facilities and the BBBL Facility must be used to refinance various facilities provided to the Company and to ensure that the Company has sufficient working capital.

The LC Facility must be used to secure the issue of bank guarantees and performance bonds as required from time to time in accordance with the Company's ordinary course of business.

The Equipment Facility must be used to assist the acquisition of equipment for the Company.

The Visa Facility must be used to assist with the day to day working capital requirements.

The Currency Facility is to settle and hedge the Company's foreign currency exposure.

The Debit Facility is to allow drawing of monthly franchise fees.

**Securities**

The Company has entered into general security deeds for each Group entity in favour of the Financier. Each Group company has also provided a guarantee and indemnity in favour of each other Group entity under the Facility Agreement.

Where relevant, the Company has entered into specific security deeds over all plant, equipment and vehicles finances under the Equipment Facility.

The Company has also entered into a flawed asset arrangement in respect of a \$750,000 term deposit held with the Financier.

**Accounting policy for borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method

**Note 20. Lease liabilities**

|                                | Consolidated |            |
|--------------------------------|--------------|------------|
|                                | 2023         | 2022       |
|                                | \$           | \$         |
| <i>Current liabilities</i>     |              |            |
| Lease liability                | 3,620,095    | 3,089,030  |
| <i>Non-current liabilities</i> |              |            |
| Lease liability                | 42,396,573   | 44,400,699 |
|                                | 46,016,668   | 47,489,729 |

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

| Lease                         | Commencement Date | Lease Term |
|-------------------------------|-------------------|------------|
| 136 Robinson Rd, Geebung, QLD | 1 August 2022     | 10 years   |
| 5 Kelham Pl, Glendenning, NSW | 1 July 2022       | 10 years   |

Refer to note 28 for further information on financial instruments.

*Accounting policy for 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.

## Note 21. Provisions

|                    | <b>Consolidated</b>     |                         |
|--------------------|-------------------------|-------------------------|
|                    | <b>2023</b>             | <b>2022</b>             |
|                    | <b>\$</b>               | <b>\$</b>               |
| <i>Current</i>     |                         |                         |
| Employee benefits  | 8,031,354               | 3,422,926               |
| Warranty           | 1,038,489               | 566,346                 |
| Other provisions   | 9,384                   | 7,352                   |
|                    | <u>9,079,227</u>        | <u>3,996,624</u>        |
| <i>Non-current</i> |                         |                         |
| Employee benefits  | <u>359,979</u>          | <u>4,602,180</u>        |
|                    | <u><u>9,439,206</u></u> | <u><u>8,598,804</u></u> |

**Warranties**

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

Movements in warranty provision during the current financial year is set out below:

|                                          | <b>2023</b>             |
|------------------------------------------|-------------------------|
|                                          | <b>\$</b>               |
| Carrying amount at the start of the year | 566,346                 |
| Additional provisions recognised         | 2,044,067               |
| Amounts used                             | <u>(1,571,924)</u>      |
| Carrying amount at the end of the year   | <u><u>1,038,489</u></u> |

**Accounting policy for provisions**

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

## Accounting policy for employee benefits

### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

### Other long-term employee benefits

The liability for long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### Termination benefits

Termination benefits are recognised when a detailed plan of termination has been communicated to affected employees. They are measured as short-term employee benefits when expected to be settled wholly within 12 months of the reporting date or as long-term benefits when not expected to be settled within 12 months of the reporting date.

### Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

## Note 22. Contributed equity

|                              | Consolidated |           |            |           |
|------------------------------|--------------|-----------|------------|-----------|
|                              | 2023         | 2022      | 2023       | 2022      |
|                              | Shares       | Shares    | \$         | \$        |
| Ordinary shares - fully paid | 80,653,485   | 3,750,761 | 42,986,191 | 3,750,761 |

### Movements in ordinary share capital

| Details                                   | Date              | Shares     | Issue price | \$         |
|-------------------------------------------|-------------------|------------|-------------|------------|
| Balance                                   | 1 July 2022       | 3,750,761  |             | 3,750,761  |
| Issued shares - fully paid                | 26 August 2022    | 50,236,020 | \$0.00      | -          |
| Issued shares - fully paid (IPO)          | 30 September 2022 | 10,000,000 | \$1.50      | 15,000,000 |
| Issued shares - fully paid @ fair value   | 30 September 2022 | 16,666,704 | \$1.50      | 25,000,000 |
| Share issue transaction costs, net of tax |                   | -          | \$0.00      | (764,570)  |
| Balance                                   | 30 June 2023      | 80,653,485 |             | 42,986,191 |

### 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.

### Share buy-back

There is no current on-market share buy-back.

**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.

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.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

**Note 23. Reserves**

|                                                 | <b>Consolidated</b> |                    |
|-------------------------------------------------|---------------------|--------------------|
|                                                 | <b>2023</b>         | <b>2022</b>        |
|                                                 | <b>\$</b>           | <b>\$</b>          |
| Foreign currency translation reserve            | (2,064,295)         | (2,358,603)        |
| Acquisition of non-controlling interest reserve | (5,326,836)         | (5,326,836)        |
| Common control acquisition reserve              | 4,804,650           | 4,804,650          |
| Share-based payment reserve                     | 288,937             | -                  |
|                                                 | <u>(2,297,544)</u>  | <u>(2,880,789)</u> |

The foreign currency translation 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 30 for the acquisition details.

Share-based payments reserve is used to record the options issued to Adelaide Equity Partners Ltd as part of the IPO, which amounts to \$37,504. It is also to record the Initial Performance Rights to be issued to Key Management Personnel (KMP) as one-off non-recurring recognition of the successful IPO, which amounts to \$251,433.

## Note 24. Dividends

On 24 February 2023, the Directors declared a fully franked interim dividend of \$0.007 (0.7 cents) per ordinary share. A total of \$564,574 was paid on 29 March 2023.

The Directors declared a fully franked final dividend of \$0.0163 (1.63 cents) per ordinary share with a record date of 15 September 2023 to be paid on 29 September 2023. The final dividend represents 35% of NPAT for the six month period ending 30 June 2023; the total distribution of \$1.3 million is based on the number of shares outstanding as at 25 August 2023. The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2023.

The final dividend takes total dividends declared in relation to FY23 to 0.0233 cents per share, fully franked, representing 33.5% of NPAT for the full year ending 30 June 2023 and which is consistent with the Company's stated dividend payout policy of 30% to 40% of full year NPAT.

### Franking credits

|                                                                                      | Consolidated |        |
|--------------------------------------------------------------------------------------|--------------|--------|
|                                                                                      | 2023         | 2022   |
|                                                                                      | \$'000       | \$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 34,966       | 29,918 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date.
- Franking debits that will arise from the payment of declared dividends recognised as a liability at the reporting date.

## Note 25. Key management personnel disclosures

### Directors

The following persons were directors of Adrad Holdings Limited during the financial year:

|                     |                                                              |
|---------------------|--------------------------------------------------------------|
| Mr. Gary Washington | Executive Director                                           |
| Mr. Glenn Davis     | Independent Non-Executive Director and Chairman              |
| Mr. Donald McGurk   | Independent Non-Executive Director                           |
| Mr. Darryl Abotomey | Independent Non-Executive Director - appointed 11 April 2023 |

### Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

|                           |                                                                                                                |
|---------------------------|----------------------------------------------------------------------------------------------------------------|
| Mr. Don Cormack           | Chief Executive Officer                                                                                        |
| Mr. Christopher Newman    | Chief Financial Officer and Joint Company Secretaries - Resigned on 24 January 2023                            |
| Mr. Roderick Hyslop       | Chief Financial Officer - appointed 1 December 2022; and Joint Company Secretaries - appointed 24 January 2023 |
| Ms. Kaitlin Smith         | Joint Company Secretaries                                                                                      |
| Mr. Kevin (Jamie) Baensch | General Manager - Air Radiators                                                                                |
| Mr. Branko Stojakovic     | General Manager - Air Radiators Industrial                                                                     |

### Compensation

Detailed remuneration disclosures are provided in the remuneration report on pages 13-21. The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

|                              | Consolidated     |                  |
|------------------------------|------------------|------------------|
|                              | 2023             | 2022             |
|                              | \$               | \$               |
| Short-term employee benefits | 1,968,331        | 1,818,968        |
| Long-term benefits           | 31,899           | 739,520          |
| Share-based payments         | 251,433          | -                |
|                              | <u>2,251,663</u> | <u>2,558,488</u> |

## Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the Company:

|                                                                  | Consolidated   |                  |
|------------------------------------------------------------------|----------------|------------------|
|                                                                  | 2023           | 2022             |
|                                                                  | \$             | \$               |
| <i>Audit services - Grant Thornton Audit Pty Ltd</i>             |                |                  |
| Audit or review of the financial statements                      | <u>276,300</u> | <u>263,000</u>   |
| <i>Other services - Grant Thornton Audit Pty Ltd</i>             |                |                  |
| Preparation of the tax return and tax effect accounting guidance | 62,000         | 46,860           |
| Due diligence services                                           | 162,032        | 1,161,372        |
| Other consultancy advice                                         | 18,500         | -                |
| <i>Audit services - Grant Thornton Limited</i>                   |                |                  |
| Audit or review of the financial statements - Thailand           | <u>33,646</u>  | <u>30,909</u>    |
|                                                                  | <u>276,178</u> | <u>1,239,141</u> |
|                                                                  | <u>552,478</u> | <u>1,502,141</u> |

## Note 27. Contingent liabilities

In addition to the security provided for related entities as outlined in the consolidated statement of financial position's provisions account, the consolidated entity has given bank guarantees as at 30 June 2023, \$925,485 to various landlords and \$61,620 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.

Air Radiators has been notified by one of its customers of a defect in certain products supplied by Air Radiators to that customer. The defect relates to a failing sealing mechanism used in a radiator assembly. The issue is isolated to Heat Transfer Solutions products manufactured for and supplied to this particular customer and does not affect the consolidated entity's broader Automotive Aftermarket product range or other Heat Transfer Solutions customers.

Air Radiators is working with the customer to undertake the required rework. The Company estimates that this rectification work will be undertaken over a period of 18 months to two years, at a cost of approximately \$0.7 million to the consolidated entity.

The consolidated entity maintains a Public and Products Liability insurance policy. Air Radiators proposes to make a claim under this policy in relation to the costs associated with the above rectification work, and is in the process of compiling that insurance claim. If the claim is accepted by the consolidated entity's insurer, the consolidated entity's exposure would be reduced from \$0.7 million to the excess payable under that insurance policy, being \$0.2 million.

## Note 28. Financial instruments

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

### Market risk

#### Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

|       | Assets |      | Liabilities |           |
|-------|--------|------|-------------|-----------|
|       | 2023   | 2022 | 2023        | 2022      |
| AUD * | -      | -    | 8,676       | 261       |
| CAD   | 571    | 546  | 468,678     | 674,074   |
| GBP   | -      | -    | 6,068       | 8,170     |
| EUR   | -      | -    | 362,395     | 205,190   |
| JPY   | -      | -    | 66,058      | 39,034    |
| USD   | 104    | 279  | 2,182,860   | 2,338,977 |

\* Foreign entities' exposure to AUD

**Price risk**

The consolidated entity is not exposed to any significant price risk.

**Interest rate risk**

The consolidated entity's exposure to interest risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities, arises from working capital facilities including overdraft and trade finance which are subject to variable interest rates. The amounts subject to cash flow interest rate risk are in the statement of financial position at carrying amounts of these items. Long term borrowings are at fixed interest rate. The consolidated entity does not hedge against its interest risks.

**2023****Financial assets**

|                               | Variable<br>interest<br>rate<br>\$ | Fixed<br>interest<br>rate<br>\$ | Non-<br>interest<br>bearing<br>\$ | Total<br>\$       |
|-------------------------------|------------------------------------|---------------------------------|-----------------------------------|-------------------|
| Cash and cash equivalents     | 8,931,145                          | 5,000,000                       | -                                 | 13,931,145        |
| Trade and other receivables   | -                                  | -                               | 21,493,220                        | 21,493,220        |
| <b>Total financial assets</b> | <b>8,931,145</b>                   | <b>5,000,000</b>                | <b>21,493,220</b>                 | <b>35,424,365</b> |

**Financial liabilities**

|                                    |          |                   |                   |                   |
|------------------------------------|----------|-------------------|-------------------|-------------------|
| Trade and other payables           | -        | -                 | 14,374,523        | 14,374,523        |
| Other financial liabilities        | -        | 2,872,268         | -                 | 2,872,268         |
| Lease liabilities                  | -        | 46,016,668        | -                 | 46,016,668        |
| <b>Total financial liabilities</b> | <b>-</b> | <b>48,888,936</b> | <b>14,374,523</b> | <b>63,263,459</b> |

| Variable<br>interest<br>rate<br>\$ | Fixed<br>interest<br>rate<br>\$ | Non-<br>interest<br>bearing<br>\$ | Total<br>\$ |
|------------------------------------|---------------------------------|-----------------------------------|-------------|
|------------------------------------|---------------------------------|-----------------------------------|-------------|

**2022****Financial Assets**

|                               |                  |          |                   |                   |
|-------------------------------|------------------|----------|-------------------|-------------------|
| Cash and cash equivalents     | 3,477,672        | -        | -                 | 3,477,672         |
| Trade and other receivables   | -                | -        | 18,233,881        | 18,233,881        |
| <b>Total financial assets</b> | <b>3,477,672</b> | <b>-</b> | <b>18,233,881</b> | <b>21,711,553</b> |

**Financial Liabilities**

|                                    |          |                   |                   |                   |
|------------------------------------|----------|-------------------|-------------------|-------------------|
| Trade and other payables           | -        | -                 | 13,529,260        | 13,529,260        |
| Other financial liabilities        | -        | 26,868,053        | -                 | 26,868,053        |
| Lease liabilities                  | -        | 45,998,016        | -                 | 45,998,016        |
| <b>Total financial liabilities</b> | <b>-</b> | <b>72,866,069</b> | <b>13,529,260</b> | <b>86,395,329</b> |

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

### Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

### Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

|                             | Weighted<br>average<br>interest<br>rate | 1 year or<br>less | Between<br>1 and 2<br>years | Between<br>2 and 5<br>years | Over<br>5 years  | Un-<br>discounted<br>contractual<br>maturities |
|-----------------------------|-----------------------------------------|-------------------|-----------------------------|-----------------------------|------------------|------------------------------------------------|
| Consolidated - 2023         | %                                       | \$                | \$                          | \$                          | \$               | \$                                             |
| <b>Non-derivatives</b>      |                                         |                   |                             |                             |                  |                                                |
| <i>Non-interest bearing</i> |                                         |                   |                             |                             |                  |                                                |
| Trade payables              | -                                       | 14,374,523        | -                           | -                           | -                | 14,374,523                                     |
| <i>Interest-bearing</i>     |                                         |                   |                             |                             |                  |                                                |
| Trade finance               | 6.38%                                   | 1,912,467         | -                           | -                           | -                | 1,912,467                                      |
| Equipment finance           | 4.84%                                   | 228,496           | 416,432                     | 314,873                     | -                | 959,801                                        |
| Lease liability             | 2.79%                                   | 19,125,099        | 15,867,926                  | 16,040,490                  | 1,876,450        | 52,909,965                                     |
| Total non-derivatives       |                                         | <u>35,640,585</u> | <u>16,284,358</u>           | <u>16,355,363</u>           | <u>1,876,450</u> | <u>70,156,756</u>                              |

| Consolidated - 2022         | Weighted average interest rate | 1 year or less    | Between 1 and 2 years | Between 2 and 5 years | Over 5 years      | Un-discounted contractual maturities |
|-----------------------------|--------------------------------|-------------------|-----------------------|-----------------------|-------------------|--------------------------------------|
|                             | %                              | \$                | \$                    | \$                    | \$                | \$                                   |
| <b>Non-derivatives</b>      |                                |                   |                       |                       |                   |                                      |
| <i>Non-interest bearing</i> |                                |                   |                       |                       |                   |                                      |
| Trade payables              | -                              | 13,529,259        | -                     | -                     | -                 | 13,529,259                           |
| <i>Interest-bearing</i>     |                                |                   |                       |                       |                   |                                      |
| Convertible notes           | 25.00%                         | 25,000,000        | -                     | -                     | -                 | 25,000,000                           |
| Trade finance               | 3.58%                          | 3,333,138         | -                     | -                     | -                 | 3,333,138                            |
| Equipment finance           | 3.58%                          | 126,611           | 745,501               | 152,494               | -                 | 1,024,606                            |
| Lease liability             | 2.71%                          | 4,270,988         | 4,203,751             | 11,810,633            | 36,005,598        | 56,290,970                           |
| Total non-derivatives       |                                | <u>46,259,996</u> | <u>4,949,252</u>      | <u>11,963,127</u>     | <u>36,005,598</u> | <u>99,177,973</u>                    |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

### **Fair value of financial instruments**

The carrying amounts of financial instruments are materially similar to their fair values.

## **Note 29. Related party transactions**

### **Parent entity**

Adrad Holdings Limited is the parent entity.

### **Subsidiaries**

Interests in subsidiaries are set out in note 33.

### **Key management personnel**

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

### **Other related parties**

The following entities are related parties of the Consolidated Entity due to being controlled by Gary and Karen Washington:

- Harrop Engineering Australia Pty Ltd (Harrop)
- Adcore Holdings Pty Ltd ATF The Gary Washington Family Trust (Adcore)
- Harlaxton Pty Ltd ATF Washington Family Trust (Harlaxton)
- Arlyngton Pty Ltd ATF Beverley Property Unit Trust (Arlyngton)

The Company and Harrop are parties to a longstanding supply arrangement under which the Company supplies certain heat exchange products to Harrop. Prior to the disposal of Harrop by the Company in October 2021 (which predated the Company's conversion from a proprietary company to a public company), the Company supplied these products to Harrop on discounted terms (at cost) under its group intercompany trading policy. The Company now supplies Harrop at cost plus basis.

The Company purchased the business operations of Adcore on 31 October 2021. Costs incurred on Adcore's behalf were recharged to Adcore, as summarised at note 6.

Harlaxton is party to six separate leases with Adrad Pty Ltd and Air Radiators Pty Ltd, which are wholly owned subsidiaries of the Company (Harlaxton Leases). Arlyngton is party to a lease with Adrad Pty Ltd (Arlyngton Lease).

The Harlaxton Leases and Arlyngton Lease relate to commercial properties used by the Company for its manufacturing and business operations.

Each of the Harlaxton Leases and the Arlyngton Lease are on substantially similar terms and in a market standard form, consistent with other commercial leases that the Company has entered into with third party lessors.

The following entity is a related party of the consolidated entity due to Glenn Davis being a principal.

- DMAW Lawyers Pty Ltd ("DMAW Lawyers")

DMAW Lawyers has provided legal services to the Company. Those services were not provided specifically in connection with the Offer but were provided in relation to the Company's ongoing operations, including employment arrangements with its employees. The fees paid by the Company to DMAW Lawyers for such legal services have, to date, not been material. The Company may engage DMAW Lawyers after Admission for the provision of similar legal services from time to time but is not party to any ongoing retainer or other agreement with DMAW Lawyers.

**Loans to/from and transactions with related parties**

The following balances are outstanding at the reporting date in relation to loans and transactions occurred during the year with related parties:

|                                                                              | Consolidated<br>2023<br>\$ | 2022<br>\$ |
|------------------------------------------------------------------------------|----------------------------|------------|
| <u>Right-of use assets (Net of depreciation):</u>                            |                            |            |
| Arlyngton ATF The Beverley Property Unit Trust                               | 5,223,152                  | 5,624,933  |
| Harlaxton Pty Ltd ATF The Washington Family Trust                            | 29,442,577                 | 33,395,202 |
| <u>Current borrowings:</u>                                                   |                            |            |
| <u>Current lease liabilities:</u>                                            |                            |            |
| Arlyngton ATF The Beverley Property Unit Trust                               | 261,979                    | 240,455    |
| Harlaxton Pty Ltd ATF The Washington Family Trust                            | 1,592,781                  | 1,423,897  |
| <u>Non-current lease liabilities:</u>                                        |                            |            |
| Arlyngton ATF The Beverley Property Unit Trust                               | 5,304,240                  | 5,566,219  |
| Harlaxton Pty Ltd ATF The Washington Family Trust                            | 29,796,839                 | 33,031,521 |
| <u>Sales Revenue:</u>                                                        |                            |            |
| Adcore Holdings Pty Ltd ATF The Gary Washington Family Trust                 | -                          | 286,607    |
| Harrop Engineering Pty Ltd (after share sale, as noted below and in note 11) | 1,036,072                  | 810,024    |
|                                                                              | 1,036,072                  | 1,096,631  |
| <u>Other Income:</u>                                                         |                            |            |
| Harrop Engineering Pty Ltd (after share sale, as noted below and in note 11) | 5,456                      | 80,721     |
| Arlyngton ATF The Beverley Property Unit Trust                               | -                          | 13,538     |
| Harlaxton Pty Ltd ATF The Washington Family Trust                            | -                          | 13,538     |
| Adcore Holdings Pty Ltd ATF The Gary Washington Family Trust                 | 1,038,438                  | -          |
|                                                                              | 1,043,894                  | 107,797    |
|                                                                              | -                          | -          |
| <u>Occupancy Expenses:</u>                                                   |                            |            |
| Arlyngton ATF The Beverley Property Unit Trust                               | 382,309                    | 316,155    |
| Harlaxton Pty Ltd ATF The Washington Family Trust                            | 2,265,673                  | 1,867,613  |
| <u>Raw materials and consumables expenses:</u>                               |                            |            |
| Harrop Engineering Pty Ltd (after share sale, as noted below and in note 11) | 7,055                      | -          |
| <u>Professional Fees:</u>                                                    |                            |            |
| DMAW Lawyers Pty Ltd                                                         | 3,966                      | -          |

**Terms and conditions**

All transactions were made on normal commercial terms and conditions and at market rates.

**Related party property leases identified at note 20****On 31 October 2021 the following related party transactions took place by Adrad Holdings (and its wholly owned subsidiaries):**

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.

Purchased 34% of the shares in Air Radiators (Thailand) Ltd for \$5,786,000 from Adcore Holdings as Trustee for the Gary Washington Family Trust to increase the Consolidated Entity's shareholdings to 100%.

Purchased the business operations of Adcore Holdings Pty Ltd as a Trustee for the Gary Washington Family Trust for \$16,101,000. The business operations acquired consists of the manufacture and importation of radiators and other automotive products for the Australian aftermarket.

## Note 30. Deed of cross guarantee

The Company and its wholly-owned subsidiaries, forming the consolidated entity, have entered into a deed of cross guarantee pursuant to ASIC Corporations Instrument 2016/785. The deed of cross guarantee was executed on 22 June 2023 and Adrad Holdings Limited is the Holding Entity pursuant to this deed. The subsidiaries are relieved from the requirement to prepare and lodge an audited financial report.

The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed. The total liabilities of the group entities party to the deed of cross guarantee as at 30 June 2023 were \$71,050,492.

## Note 31. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of profit or loss and other comprehensive income

|                                | 2023<br>\$ | Parent<br>2022<br>\$<br>Restated |
|--------------------------------|------------|----------------------------------|
| Profit/(loss) after income tax | 2,642,038  | (5,824,196)                      |
| Total comprehensive income     | 2,642,038  | (5,824,196)                      |

### Statement of financial position

|                              | 2023<br>\$  | Parent<br>2022<br>\$<br>Restated |
|------------------------------|-------------|----------------------------------|
| Total current assets         | 4,837,310   | 933,173                          |
| Total assets                 | 109,320,158 | 92,782,844                       |
| Total current liabilities    | 1,375,725   | 26,445,415                       |
| Total liabilities            | 1,380,859   | 26,445,415                       |
| Equity                       |             |                                  |
| Contributed equity           | 42,986,191  | 3,750,761                        |
| Share-based payments reserve | 288,937     | -                                |
| Retained profits             | 64,664,171  | 62,586,668                       |
| Total equity                 | 107,939,299 | 66,337,429                       |

Prior year parent entity comparative information has been restated as the disclosure in the 2022 financial statements omitted year-end tax adjustments.

**Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**

The parent entity executed deed of cross guarantee on 22 June 2023 with its Australian domicile subsidiaries.

**Contingent liabilities**

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

**Capital commitments - Property, plant and equipment**

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

**Significant accounting policies**

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 32. Common control acquisition**

On 31 October 2021, the consolidated entity acquired the business operation 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 is acquired using existing book values rather than the acquisition method in AASB 3. The 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<br>\$ |
|---------------------------------------------------------------------|------------------|
| 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 33. Controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Controlled entities that form part of the consolidated entity are: | Country of incorporation | Ownership interest |         |
|--------------------------------------------------------------------|--------------------------|--------------------|---------|
|                                                                    |                          | 2023               | 2022    |
|                                                                    |                          | %                  | %       |
| 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%            | 100.00% |
| 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% |

| Controlled entities that form part of the consolidated entity are: | Country of incorporation | Ownership interest |         |
|--------------------------------------------------------------------|--------------------------|--------------------|---------|
|                                                                    |                          | 2023               | 2022    |
|                                                                    |                          | %                  | %       |
| Adrad IT Services Pty Ltd                                          | Australia                | 100.00%            | 100.00% |
| Wingfan Pty Ltd                                                    | Australia                | 100.00%            | 100.00% |

\* Adrad Group Limited was formerly known as Natra Group Ltd and changed its name on 14 October 2021.

\*\* Adrad Pty Ltd was formerly known as Natra Pty Ltd and changed its name on 14 October 2021.

## Note 34. Events after the reporting period

On 15 August 2023 Mr Darryl Abotomey was appointed interim Chief Executive Officer (CEO) replacing incumbent CEO, Mr Don Cormack who resigned effective this date.

No other matter or circumstance has arisen since 30 June 2023 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.

## Note 35. Reconciliation of profit after income tax to net cash from operating activities

|                                                 | Consolidated     |                  |
|-------------------------------------------------|------------------|------------------|
|                                                 | 2023             | 2022             |
|                                                 | \$               | \$               |
| Profit after income tax expense for the year    | 5,605,615        | 7,060,636        |
| Adjustments for:                                |                  |                  |
| Depreciation and amortisation                   | 7,018,520        | 5,899,761        |
| Share-based payments                            | 288,937          | -                |
| Foreign exchange differences                    | 149,385          | (551,130)        |
| Interest expense                                | 2,791,911        | 3,408,304        |
| Change in operating assets and liabilities:     |                  |                  |
| Increase in trade and other receivables         | (3,016,834)      | (258,025)        |
| Increase in inventories                         | (7,533,201)      | (9,717,763)      |
| Increase in deferred tax assets                 | (233,479)        | (1,496,254)      |
| Increase/(decrease) in trade and other payables | 3,095,696        | (1,255,766)      |
| Increase/(decrease) in provision for income tax | (2,250,431)      | 1,856,942        |
| Increase in other provisions                    | 840,402          | 3,113,920        |
| Net cash from operating activities              | <u>6,756,521</u> | <u>8,060,625</u> |

## Note 36. Changes in liabilities arising from financing activities

| Consolidated                                 | Bank<br>Financing<br>\$ | Lease<br>Liability<br>\$ | Total<br>\$       |
|----------------------------------------------|-------------------------|--------------------------|-------------------|
| Balance at 1 July 2021                       | 2,450,568               | 7,054,971                | 9,505,539         |
| Net cash from/(used in) financing activities | 1,907,176               | (13,970,347)             | (12,063,171)      |
| Acquisition of leases                        | -                       | 54,405,105               | 54,405,105        |
| Balance at 30 June 2022 and 1 July 2022      | 4,357,744               | 47,489,729               | 51,847,473        |
| Net cash used in financing activities        | (1,485,476)             | (4,657,801)              | (6,143,277)       |
| Options not to be exercised on leases        | -                       | (763,264)                | (763,264)         |
| Acquisition of leases                        | -                       | 3,948,004                | 3,948,004         |
| Balance at 30 June 2023                      | <u>2,872,268</u>        | <u>46,016,668</u>        | <u>48,888,936</u> |

## Note 37. Earnings per share

|                                                                                           | Consolidated |           |
|-------------------------------------------------------------------------------------------|--------------|-----------|
|                                                                                           | 2023         | 2022      |
|                                                                                           | \$           | \$        |
| <i>Earnings per share for profit from continuing operations</i>                           |              |           |
| Profit after income tax attributable to the owners of Adrad Holdings Limited              | 5,605,615    | 4,395,986 |
|                                                                                           | Number       | Number    |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 66,297,630   | 2,486,806 |
| Adjustments for calculation of diluted earnings per share:                                |              |           |
| Performance share rights over ordinary shares                                             | 163,981      | -         |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 66,461,611   | 2,486,806 |
|                                                                                           | Cents        | Cents     |
| Basic earnings per share                                                                  | 8.46         | 176.77    |
| Diluted earnings per share                                                                | 8.43         | 176.77    |
|                                                                                           | Consolidated |           |
|                                                                                           | 2023         | 2022      |
|                                                                                           | \$           | \$        |
| <i>Earnings per share for profit from discontinued operations</i>                         |              |           |
| Profit after income tax attributable to the owners of Adrad Holdings Limited              | -            | 2,664,650 |
|                                                                                           | Number       | Number    |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 66,297,630   | 2,486,806 |
| Adjustments for calculation of diluted earnings per share:                                |              |           |
| Performance share rights over ordinary shares                                             | 163,981      | -         |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 66,461,611   | 2,486,806 |
|                                                                                           | Cents        | Cents     |
| Basic earnings per share                                                                  | -            | 107.15    |
| Diluted earnings per share                                                                | -            | 107.15    |

|                                                                                           | Consolidated |           |
|-------------------------------------------------------------------------------------------|--------------|-----------|
|                                                                                           | 2023         | 2022      |
|                                                                                           | \$           | \$        |
| <i>Earnings per share for profit</i>                                                      |              |           |
| Profit after income tax                                                                   | 5,605,615    | 7,060,636 |
| Non-controlling interest                                                                  | -            | (287,856) |
| Profit after income tax attributable to the owners of Adrad Holdings Limited              | 5,605,615    | 6,772,780 |
|                                                                                           | Number       | Number    |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 66,297,630   | 2,486,806 |
| Adjustments for calculation of diluted earnings per share:                                |              |           |
| Performance share rights over ordinary shares                                             | 163,981      | -         |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 66,461,611   | 2,486,806 |
|                                                                                           | Cents        | Cents     |
| Basic earnings per share                                                                  | 8.46         | 272.35    |
| Diluted earnings per share                                                                | 8.43         | 272.35    |

#### **Accounting policy for earnings per share**

##### **Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to the owners of Adrad Holdings Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

##### **Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## Note 38. Share-based payments

### Options

The Company agreed to issue 403,268 options to Adelaide Equity Partners Ltd upon successful listing on the ASX, this occurred on 30 September 2022. The Options are unquoted and will be exercisable at \$2.10, being a 40% premium to the Offer Price, for a period of three years from the date of Admission.

Set out below are summaries of options granted during the year:

#### 2023

| Grant date                      | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance and exercisable at the end of the year |
|---------------------------------|-------------|----------------|----------------------------------|---------|-----------|---------------------------|------------------------------------------------|
| 30/09/2022                      | 29/09/2025  | \$2.10         | -                                | 403,268 | -         | -                         | 403,268                                        |
|                                 |             |                | -                                | 403,268 | -         | -                         | 403,268                                        |
| Weighted average exercise price |             |                | \$0.00                           | \$2.10  | \$0.00    | \$0.00                    | \$2.10                                         |

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.25 years.

### Performance rights

The Company agreed that on Admission (30 September 2022) to the ASX it would issue 213,333 Initial Performance Rights to specified Key Management Personnel (KMP) as a bonus. In addition, during the year 46,666 Initial Performance Rights were issued to other KMP as a bonus. This one-off non-recurring grant of Performance Rights was made in recognition of the significant additional work KMP have undertaken to assist the Company to achieve Admission to the Official List of the ASX. The Initial Performance Rights will vest on the first anniversary of the date of the Company's Admission.

Set out below are summaries of performance rights granted during the year:

#### 2023

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|----------------|----------------------------------|---------|-----------|---------------------------|--------------------------------|
| 30/09/2022 | 01/01/2015  | \$0.00         | -                                | 213,333 | -         | -                         | 213,333                        |
| 01/06/2023 | 01/01/2015  | \$0.00         | -                                | 46,666  | -         | -                         | 46,666                         |
|            |             |                | -                                | 259,999 | -         | -                         | 259,999                        |

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 30/09/2022 | 29/09/2025  | \$1.50                    | \$2.10         | 20.00%              | -              | 4.00%                   | \$0.093                  |

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 30/09/2022 | 01/01/2015  | \$1.50                    | \$0.00         | 20.00%              | -              | 4.00%                   | \$1.500                  |
| 01/06/2023 | 01/01/2015  | \$0.98                    | \$0.00         | 20.00%              | -              | 4.00%                   | \$0.980                  |

### **Accounting policy for share-based payments**

Equity-settled and cash-settled share-based compensation benefits are provided to employees and corporate advisor.

Equity-settled transactions are awards of shares, options or performance rights over shares, that are provided to employees and corporate advisor in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees and corporate advisor to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.





# Directors' Declaration

## Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2023 and of its performance for the financial 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'G. Davis', is written over a horizontal line.

Glenn Davis

Non-Executive Director and Chairman

28 August 2023



# **Independent Auditor's Report to the Members of Adrad Holdings Limited**



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## Independent Auditor's Report

### To the Members of Adrad Holdings Limited

#### Report on the audit of the financial report

##### Opinion

We have audited the financial report of Adrad Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Revenue recognition (Note 5)</b><br><br>Revenue recorded from the sale of products and services to customers amounted to \$141 million for the year ended 30 June 2023.<br><br>The Group enters into transactions for the sale of automotive aftermarket parts and heat transfer solutions. The total transaction price for a contract is based on their relative stand-alone selling price. The majority of revenue is recognised at a point in time when the Group satisfies the performance obligations, which is generally at the point of delivery. Revenue from the design and manufacture of industrial heat transfer solutions is recognised over time on a percentage of completion basis.<br><br>This is a key audit matter given the judgement applied to determine the appropriate recognition of revenue and the material nature of revenue to the Group's overall performance. | Our procedures included, amongst others: <ul style="list-style-type: none"> <li>• Reviewing revenue recognition policies for appropriateness in accordance with AASB 15 <i>Revenue from Contracts with Customers</i>;</li> <li>• Testing a sample of revenue transactions during the year and assessing whether revenue has been recognised in accordance with AASB 15, including: <ul style="list-style-type: none"> <li>– Reviewing the relevant contracts with customers;</li> <li>– Assessing management's determination of performance obligations within contracts and the allocation of the transaction price to those obligations;</li> <li>– Testing the timing of revenue recognition;</li> </ul> </li> <li>• Evaluating sales transactions around reporting date to assess whether revenue is recognised in the correct period;</li> <li>• Evaluating credit notes issued subsequent to year end to assess whether revenue is recognised in the correct period;</li> <li>• Performing non-substantive analytical procedures to assess revenue recognised against known business factors and investigating variances to our expectations; and</li> <li>• Assessing the adequacy of related disclosures in the financial statements.</li> </ul> |

## Goodwill impairment testing

### Note 17

Goodwill included within the Group's statement of financial position amounted to \$36.97 million at 30 June 2023.

An entity is required, per *AASB 136 Impairment of Assets*, to test goodwill at least annually for impairment.

Impairment testing of goodwill requires a high degree of estimation and judgement by management and there is subjectivity involved relating to assumptions and key inputs.

This area is a key audit matter as impairment testing of goodwill requires a high degree of estimation and judgement by management and there is subjectivity involved relating to assumptions and key inputs.

Our procedures included, amongst others:

- Assessing management's determination of the Group's cash generating units based on our understanding of the nature of the Group's business, the economic environment in which segments operate and the Group's internal reporting structure;
- Reviewing the impairment model for compliance with AASB 136;
- Testing the mathematical accuracy and appropriateness of the methodology of the underlying model calculations;
- Assessing the reasonableness of inputs and assumptions used in the model prepared by management;
- Performing a sensitivity analysis of the key assumptions in model; and
- Reviewing relevant disclosures for adequacy in the financial statements.

## Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the financial report

The Directors of the Group are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1\\_2020.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf). This description forms part of our auditor's report.

### Report on the remuneration report

#### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 11 to 20 of the Directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Adrad Holdings Limited, for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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 Australian Auditing Standards.



Grant Thornton Audit Pty Ltd  
Chartered Accountants



E W Passaris  
Partner – Audit & Assurance

Melbourne, 28 August 2023





# Shareholder Information

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## Shareholder information

The shareholder information set out below was applicable as at 15 August 2023.

### Distribution of equity securities

| Range          | Total Holders | Units             | % Units     |
|----------------|---------------|-------------------|-------------|
| 1-1,000        | 37            | 18,130            | 0.02        |
| 1,001-5,000    | 142           | 437,542           | 0.54        |
| 5,001-10,000   | 145           | 1,160,113         | 1.44        |
| 10,001-100,000 | 177           | 4,808,900         | 5.96        |
| 100,001 Over   | 17            | 74,228,800        | 92.03       |
| <b>Total</b>   | <b>518</b>    | <b>80,653,485</b> | <b>100%</b> |

| Unmarketable Parcels                         | Minimum Parcel Size | Holders | Units |
|----------------------------------------------|---------------------|---------|-------|
| Minimum \$500.00 parcel at \$0.9400 per unit | 544                 | 21      | 4,426 |

### Equity security holders

*Twenty largest quoted security holders*

| Name                                                               | Units             | % Units      |
|--------------------------------------------------------------------|-------------------|--------------|
| ADCORE HOLDINGS PTY LTD                                            | 49,320,114        | 61.15        |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                          | 6,608,993         | 8.19         |
| WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED                    | 3,750,000         | 4.65         |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                          | 2,550,002         | 3.16         |
| CITICORP NOMINEES PTY LIMITED                                      | 2,419,955         | 3.00         |
| NATIONAL NOMINEES LIMITED                                          | 2,357,467         | 2.92         |
| NATIONAL NOMINEES LIMITED                                          | 2,025,003         | 2.51         |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED                          | 1,689,799         | 2.10         |
| MAINSTREAM FUND SERVICES PTY LIMITED <ELLERSON PRE-IPO FUND A/C>   | 937,501           | 1.16         |
| HGL INVESTMENTS PTY LTD                                            | 485,397           | 0.60         |
| H&G HIGH CONVICTION LIMITED                                        | 485,000           | 0.60         |
| RUNBULLRUN PTY LTD <YCM A/C>                                       | 477,667           | 0.59         |
| WESTFERRY OPERATIONS PTY LTD <THE WESTFERRY FUND A/C>              | 359,919           | 0.45         |
| H&G INVESTMENT MANAGEMENT LTD <H&G VAIL LANE FUND A/C>             | 284,751           | 0.35         |
| BNP PARIBAS NOMS PTY LTD <DRP>                                     | 209,132           | 0.26         |
| BLACKCAT HOLDINGS PTY LTD                                          | 143,100           | 0.18         |
| GEFWEB NOMINEES PTY LTD <SUPER ANNUATION FUND A/C>                 | 125,000           | 0.15         |
| HGL INVESTMENTS PTY LTD                                            | 93,751            | 0.12         |
| ONE MANAGED INVESTMENT FUNDS LIMITED <FIFTH STATE ASSETS MGMT A/C> | 93,751            | 0.12         |
| CAPITAL J INVESTMENTS PTY LTD <AJG CAPITAL A/C>                    | 90,000            | 0.11         |
| <b>Top Twenty Holders</b>                                          | <b>74,506,302</b> | <b>92.37</b> |
| <b>Total Remaining Holders Balance</b>                             | <b>6,147,183</b>  | <b>7.63</b>  |

### Unquoted equity securities

There are 403,268 unquoted equity securities (options) issued to one holder.

There are 259,999 unquoted equity securities (performance rights) issued to three holders.

## Substantial holders

| Holder                                                                  | Number     | %      |
|-------------------------------------------------------------------------|------------|--------|
| Adcore Holdings Pty Ltd as trustee for the Gray Washington Family Trust | 49,320,114 | 61.15% |
| Ellerston Capital Limited                                               | 9,085,002  | 11.26% |
| Perennial Value Management Limited                                      | 5,835,003  | 7.23%  |

### Voluntary Escrow

| Voluntary Escrow                                | Number            | Escrow Period Ending                                                                                                                                                 |
|-------------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Escrowed Shares                                 | 23,265,046        | at the end of the trading day that is two business days after the date on which the company releases its full year results for the year ending 30 June 2023          |
| Escrowed Shares                                 | 16,440,038        | at the end of the trading day that is two business days after the date on which the company releases its half year results for the half year ending 31 December 2023 |
| <b>Total shares subject to voluntary escrow</b> | <b>39,705,084</b> |                                                                                                                                                                      |

## Voting rights

Voting rights the voting rights attached to ordinary shares are set out below.

### Ordinary shares

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.

There are no other classes of equity securities.

## Corporate governance

The company's corporate governance statement is found on the company's website at <https://adradholdings.com.au/investors/#governance>





**ADRAD**