AIR CHANGE
INTERNATIONAL

2019
ANNUAL REPORT

Air Change International Limited

ACN 087 737 068

ACI

AIR CHANGE INTERNATIONAL LIMITED

ACN 087 737 068

Annual Report 2019

Content

Corporate Directory

Directors:	Alan S Jones (Non-executive Chairman) John M Langley (Non-executive Director) Neil R Fimeri (Managing Director)
Secretary:	Robert Lees
Principal & Registered Office:	2 Ashford Avenue Milperra NSW 2214 Tel: (02) 8774 1400 Fax: (02) 9792 2740 e-mail: invest@airchange.com.au Web site: www.airchange.com.au
Share Registrar:	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115
Auditors:	BDO East Coast Partnership ("BDO") Level 11, 1 Margaret Street Sydney NSW 2000
Bankers:	ANZ Level 4, 20 Smith Street Parramatta NSW 2150
Solicitors:	Addisons Lawyers 60 Carrington Street Sydney NSW 2000
Stock Exchange Listing:	Air Change International Ltd shares are listed on the National Stock Exchange of Australia Limited (Code: ordinary shares "AC1")
Company Number:	ACN 087 737 068 ABN 14 087 737 068

Your directors present the Air Change International Limited ("Company" or "Group") annual report for the financial year ended 30 June 2019.

An Overview of The Past Year
Whilst the Group again reported a loss for the past financial year, there were some very encouraging elements to report.

Firstly, the pre-tax loss decreased from $619,598 in 2018 to $377,455 in 2019, an improvement of $242,143.
After a poor start to the year with the Company recording a pre-tax loss of $377,000 to December 31 2018, it broke even in the second half despite expensing $230,000 in depreciation and amortisation expense for the period.
The Company recorded a profit in the fourth quarter.

The improvement in second half earnings reflected an increase in gross profit margin earned on the Air Change product range, particularly in the fourth quarter, which resulted from increased sales of new dehumidification products and a small price increase for the traditional heat exchange product group.

Group sales for the year were up $551,000 but this was disappointing given the increased sales that resulted from the Dunnair acquisition.
Sale of Air Change products produced in Australia could have again been higher by over $500,000 but manufacturing and thus deliveries were delayed by the availability of component parts and skilled labour. This, as we have reported previously, is an ongoing problem.

The Malaysian factory operation remains vital to meet existing production requirements but there are some products that must be manufactured in Australia because of their size and complexity.

Sales of the Group's dehumidification products increased during the year by approximately 15% with orders for the precise temperature and humidity products particularly strong in this segment of the market.

Orders for the Group's fresh air dedicated outdoor air units incorporating heat and enthalpy exchange were either flat or marginally down for the year.

It is encouraging to report that the Group is starting to experience replacement demand for Air Change products that are nearing the end of their economic life cycle.
Orders for a small number of pool heating systems were received during the year with enquires for other older projects now under consideration.

Competition in the energy recovery ventilator market remains very strong with several new entrants importing smaller ERV units negatively impacting the price of this product group. The Company remains price competitive for larger ERV units that are manufactured in Australia.

The Group's Fan Coil Industries division which manufactures and sells fan coil and air handling units recorded a sales increase of approximately 20% for the year but gross profit margin earned in this division was down from its historical average principally due to cost overruns on one large project. This market segment remains very competitive with numerous vendors importing product for sale.
Fan Coil Industries manufacturing remains focused on niche bespoke ventilation units that are not offered by the importers.

Industrial cooling chiller sales for the year were half that recorded in 2018. This again is a niche operation and subject to orders for specialised chillers not generally available from imported sources.
Forward orders at this time are poor but the division offers strategic advantages in the development of direct exchange air conditioning products.
Despite the extreme variability in annual sales, the chiller operation has made a positive contribution to Group overheads in every year since its acquisition.

As reported in last year's annual report, the Group completed the acquisition of the Dunnair HVAC business operation in April 2018.
Dunnair source and sell air and water cooled packaged air conditioning systems from overseas.

Dunnair sales for the year were marginally below that achieved by the business in the year immediately before its acquisition, principally due to a decision by Company management not to actively promote the product range until a detailed

engineering and quality assessment of the existing product range could be completed.
This review is now complete and after some minor changes to the design and componentry used, Dunnair products are now being actively marketed in all Eastern states of Australia.
Marketing to the South Australia and Western Australian territories will commence later in this next financial year.
Despite this small decrease in sales volume, the Dunnair operation made a positive contribution to the Group during this last year and offers further sales opportunities.

As forecast in last year's annual report, we are exploring additional design changes to extend the Dunnair product range beyond its current base by incorporating improved energy efficiency and control options.

Expansion of the marketing program to all Australian states and product design changes are forecast to grow the Dunnair division sales substantially next financial year

The Group is negatively impacted by project delays, which seem to be occurring more frequently.
Contractors order units on a projected building program which is inevitably delayed, resulting in the product having to be stored after manufacture.
In most cases, the contractor does not have the resources to pay for the units until they are incorporated in the works which has a negative impact on Group cashflow.

The past two annual reports have documented a dispute regarding a chiller supply contract in Western Australia.
In 2017/18 the accounts provided for a doubtful debt of $175,168 because events and legal actions against the Purchaser by its client and other suppliers made it extremely unlikely that a full recovery of the debt would be possible.
Given the circumstances, the matter was settled for a payment to the Company of $22,000 during the year.

Group Operation Overview
Air Change International Limited, through its various subsidiary companies, is principally involved in the design and manufacture of products to provide:

- space temperature and humidity control in commercial, institutional and industrial buildings; and
- industrial process cooling.

The Group strategy is to design and manufacture products that precisely control temperature and humidity in the enclosed space which are energy efficient and provide a whole of life cost effective heating and cooling solution for its customers.

In addition to its standard product lines, the Group develops individual bespoke heating and cooling solutions to suit specific customer applications.

At present, all product design and engineering is undertaken in Milperra, NSW, with all Group products, except Dunnair products, manufactured in either the Groups Milperra or Malaysian manufacturing facilities.
Dunnair products are designed in Australia but sourced from an overseas third party OEM.

The Group has its own sales and engineering support staff in New South Wales, Queensland, Victoria and Singapore with sales distribution representatives in all other Australian states, and overseas representatives in New Zealand, Malaysia, Indonesia and Thailand.
Additional country representatives are being sought.

In this past year, Air Change Group products have been sold in Australia, New Zealand, Singapore and Thailand.

Financial Performance
Revenue and Profit
Revenue generated from Group operational activities was $18.301 million in this last financial year, up 3.1% from $17.751 million in 2017/18, and recorded a loss before tax of $377,475.
This operating loss included depreciation and amortisation charges for the year of $467,803.

The Group reported a loss after income tax of $460,679 having recorded a tax expense of $83,204.

Accounting for the reversal of past deferred tax assets has resulted in an income tax expense of $83,204 despite the Company recording an operating loss.
It should be noted that no tax is payable.

Past Income Tax Losses
The Group presently retains income tax benefits arising from losses incurred by the Company, which are not recorded in the accounts.

Some of these earlier tax losses do not presently satisfy the Australian Tax Office same business test but do satisfy the ATO modified continuity of ownership test.

The Company does not recognise any future benefit from these past losses as their use depends upon a substantial continuity of the present ownership of the Company's shares, which is beyond its own control and which cannot be guaranteed.

These tax losses have been, and continue to be beneficial to the Company in gaining a benefit from the Australian Government Research and Development program.

Acquisitions
There were no acquisitions contemplated or completed during the year.

Operational Review
Australian Heating, Ventilation & Air Conditioning (HVAC) Operations
Overall HVAC sales (defined as sales of energy recovery ventilators, air conditioners, close control dehumidification systems, air handling and fan coil units) increased by 6.7% from 2017/18.

Sales of the Company's core energy recovery ventilation systems decreased by 17.0% from the previous year whilst sales of new dehumidification and precise control products increased by 11%.
Swimming pool heating systems remain a positive contributor to sales growth.

Sale of the newly acquired Dunnair range of products more than offset the fall in sales of traditional energy recovery ventilation systems to post an overall increase in Group HVAC sales.

Fancoil and air handling unit sales had declined by 45% in 2017/18 from the previous year but recovered by 41% in the year under review.
This fluctuation in annual sales exemplifies the need for the Group to offer a diverse range of products.

Recent research and development activity has been directed at control of refrigeration circuitry to deliver precise air temperature and humidity control for mission critical applications.

Sales of the precision HVAC units generated from this research continues to grow and are expected to increase further in the next financial year.

This research and knowledge is now being applied to the Dunnair product range to develop a greater range of products with increased energy efficiency and control options

The technologies needed to deliver this precise system control are more difficult to copy or emulate than typical energy recovery ventilators without significant expenditure on R&D, giving the Group a short term strategic product advantage.

Operational Review
South East Asia HVAC
Sales in the South East Asian region were down again this past year.
Enquiry levels remain strong with the Group quoting for several large projects during the year but this has yet to be converted to new orders.
Converting enquiry opportunity into sales success has been elusive in this market.

A review of this operation is planned for late 2019 which will consider both the economic and strategic development advantage of remaining in the region.
Products developed for the SEA market remain strong sellers in Australia.

As reported previously, during 2015/16 the Company manufactured and trialled a large dehumidification system in Thailand for a major international retail operation.
It has been monitored continuously since installation and shown to significantly lower air conditioning energy consumption while improving customer amenity by lowering store humidity.

Indications are that more orders for these units could now be forthcoming, possibly in this next financial year, although exact timing is unknown.

Operational Review
Industrial Process Cooling
Sales of industrial cooling chillers fell 60% during the year compared to 2017/18.
Orders on hand were low at year end but there are several enquiries that might become projects later in the coming year.
The Company has minimal investment in this business operation and only seeks work where complex cooling solutions are required and the project is not price competitive.

Manufacturing Operations
Manufacturing is carried out in Milperra, New South Wales and Johor, Malaysia.
Product is sourced from each factory based on plant capacity and capability.

Dunnair products are manufactured by an OEM supplier in China to engineering designs developed in Australia.

As detailed above, both skilled and non skilled manufacturing labour is difficult to source in Australia and Malaysia

Research & Development
Research and product development ("R&D") continued over this past year.
Research emphasis was again directed at energy efficient, close control space temperature and humidity systems where the Company continues to grow sales and maintain a technological edge.

We anticipate that there will be further sales growth of dehumidification systems because there has been a shift in the sensible to latent heat load ratio which impacts on the ability of traditional building air conditioning systems to deliver dehumidified air at an acceptable space temperature.

As noted earlier, this research knowledge is now being applied to the Dunnair product range to improve its overall energy efficiency.

Group R&D expenditure will continue to fall unless new product developments are identified.

Future Strategy & Outlook
The Group is well regarded and recognised for its technical expertise and innovation.

To deliver this design and technical capability requires a substantial investment in engineering and administrative infrastructure which is not often fully understood by a market that wants lower pricing.

Being able to get an acceptable price for the engineering input remains the Group's greatest challenge.

Increased sales are required to distribute this overhead and thus avoid increasing or contain product prices, but this is difficult in the limited Australian market.

The Dunnair acquisition is designed to add sales and hence gross margin with no further growth in this support infrastructure.
If the anticipated Dunnair sales can be achieved without further overhead cost, then the Company should return to profitability.

Further geographical expansion is planned because of the limited opportunities in the Australian market but personnel and capital constraints limit the rate of this expansion.

Neil Fimeri
Managing Director

Your directors present their report on the Air Change International Limited ("ACI" or "the Group"), consisting of Air Change International Limited ("the Company" or "parent entity") and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors and officers

The following persons were directors of the Company during the financial year and up to the date of this report:

Alan Stephen Jones (Non-Executive Non- Independent Chairman)
John Michael Langley (Non-Executive Independent Director)
Raymond Neil Fimeri (Managing Director)

Principal activities

During the year, the principal activity of the Group consisted of the design, manufacture and sales of heating, cooling and ventilation equipment for industrial, commercial and institutional buildings and processes.

Review of operations

Refer to the Managing Director's Report on pages 2 – 5 herein. A summary of consolidated revenues and results by significant business segments is set out below:

	2019	2018	2019	2018
	$	$	$	$
Heating, cooling, & ventilation equipment	18,301,981	17,751,359	(377,475)	(619,598)
(Loss) before income tax (expense)/ benefit			(377,475)	(619,598)
(Loss) after income tax (expense)/ benefit			(460,679)	(597,057)
Net (loss) attributable to members of ACI Limited			**(460,679)**	**(597,057)**

Dividends

The directors do not recommend the payment of a dividend at this time and no dividend has been paid or declared during the financial year.

Significant Changes in the State of Affairs

During the year there were no significant changes in the Group's state of affairs.

Likely developments and expected results of operations

Likely developments or matters that may affect the Group or its operations are included in the Managing Director's report.

Disclosure of matters that are commercial in confidence or may prejudice the Group are not included.

Significant events after the reporting period

No matter or circumstance than otherwise disclosed in this report has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years
(b) the results of those operations in future financial years
(c) the Group's state of affairs in future financial years.

DIRECTORS' INTERESTS

INFORMATION ON DIRECTORS

			Particulars of directors' interests at date of this report
Director	**Experience**	**Special responsibilities**	**Securities held**
Alan S Jones	Mr Jones was appointed as a Non-Executive Director and Chairman of Air Change International Limited on 23 July 2007. Mr Jones is a chartered accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. He is a Non-Executive Director of Mulpha Australia Limited, Sun Hung Kai & Co. Limited (Hong Kong), Allied Group Limited (Hong Kong) and Allied Properties Limited (Hong Kong) and Mount Gibson Iron Limited.	Non-executive non-independent Chairman	938,000 ordinary shares
John M Langley	Mr Langley has a background in mining and resources and just recently retired from White Energy Company Limited, a company developing state of the art clean coal upgrading technologies. He was a Director and General Manager of the Base Resources Ltd Group and Director and Chief Executive Officer of Keldan Technology Ltd. He was also a General Manager in the White Industries Australia Group. He has been responsible for constructing, commissioning and operating pilot plants and large scale demonstration plants, which includes numerous liaisons with domestic and international governments, resource bodies and other related entities. His specialty lies in analysis of new opportunities across technology and other related industries. He was appointed as a director on 14 February 2003.	Non-executive independent Director	17,000 ordinary shares
Neil Fimeri	Mr Fimeri has a degree in civil engineering. From 1985 to 2007, Mr Fimeri held a senior management position at Mulpha Australia Limited, a property investment and development company, leading the acquisition and development of over one billion dollars of real estate projects. Mr Fimeri's expertise lies in the identification and acquisition of strategic investment opportunities with an engineering bias.	Managing Director	4,800,000 ordinary shares

DIRECTORS' INTERESTS

INFORMATION ON DIRECTORS (continued)

			Particulars of directors' interests at date of this report
Director	**Experience**	**Special responsibilities**	**Securities held**
Robert Lees	Robert Lees is the Company secretary for a number of ASX listed entities and public companies. He has also served as Chief Financial Officer ("CFO") and as a public company director. He is a Chartered Accountant and a Fellow of the Governance Institute of Australia. He holds a Bachelor of Business (Accounting) and a Graduate Diploma in Data Processing from UTS as well as a Graduate Diploma in Applied Corporate Governance from GIA. He provides Company Secretarial and CFO services to small listed public companies and has done so since 2000.	Company Secretary	Nil

Directors' Benefits

With the exception of the matters referred to below, no director in the Group has, since the end of the financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors as shown in the financial statements) by reason of a contract made by the Company or related body corporate with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial financial interest.

Meetings of Directors

There were four directors' meetings (2018: four) and two Audit, Finance, Risk and Compliance Committee meetings (2018: two) and nil Remuneration Committee meeting (2018: nil) held during the year ended 30 June 2019.

The number of directors' meetings and audit committee meetings held in the period each director held office during the year and the numbers of meetings attended by each director were:

	Meetings					
	Directors		Audit, Finance, Risk and Compliance Committee		Remuneration Committee	
	Number held	Number attended	Number held	Number attended	Number held	Number attended
Alan S Jones	4	4	2	2	-	-
John M Langley	4	4	2	2	-	-
Neil Fimeri	4	4	*	*	*	*

* Not a member of the relevant committee

Indemnification and Insurance of Officers and Auditors

During the financial year Air Change International Limited paid a premium to insure the Directors, Secretary and senior managers of the Company. Directors' and Officers' Liability Insurance cover has been placed from 6 April 2005. The Directors' and Officers' Insurance expires on 30 November 2019.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

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 these proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave to the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Company may decide to employ BDO ("the auditor") on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out in Note 18 to the accounts.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Finance, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in Accounting Professional and Ethical Standards (APES) 110 *Code of Ethics for Professional Accountants*.

Shares under option

There were no options issued during the year ended 30 June 2019 (2018: Nil).

Shares Issued on the Exercise of Options

No options or shares were issued to key management personnel for whole or part of the financial year ended 30 June 2019 (2018: Nil).

Remuneration report - Audited

The Remuneration Committee comprising members of the Board makes recommendations and approves:

- Non-executive director fees
- Remuneration of executive directors and other executives

Members of the Remuneration Committee are Alan Jones (Non-executive chairman) and John M Langley (Independent director).

The objective is to ensure the remuneration and reward practices are fair and competitive.

Non-executive remuneration

Fees and payments to directors reflect the demands which are made on, and the responsibilities of, the directors. The current base fee of $30,000 per annum, payable quarterly, for each non-executive director remained the same as the prior year. The base fee is fixed and exclusive of superannuation. The Remuneration Committee determines remuneration of non-executive directors from time to time.

Executive and senior management remuneration

All Executives and Senior Management have rolling contracts. The Group may terminate the employment agreement by providing one month's written notice or providing payment in lieu of the notice period with the exception of the Executive Director who has a twelve month notice period and the Group General Manager who has a three month written notice period. The Group may terminate these contracts at any time without notice if serious misconduct has occurred. Similar notice periods are required from the Employees. Where termination with cause occurs, the Employee is only entitled to that portion of remuneration that is fixed and only up to the date of termination.

Details of remuneration

The key management personnel ("KMP") of ACI are the directors of the Group and Company. Details of the remuneration of each director of the Company and the consolidated entities are set out in the following tables:

Key management personnel of Air Change International Limited

2019	Short term employee benefits		Post-employment	Long-term benefits		
Name	Cash salary and fees $	Cash bonus $	Superannuation $	Long service leave $	Termination benefits $	Total $
Non-executive directors						
Alan S Jones – Chairman	30,000	-	2,850	-	-	32,850
John M Langley	30,000	-	2,850	-	-	32,850
Executive director						
Neil R Fimeri Managing Director	^382,301	-	25,000	6,328	-	413,629
Total KMP remuneration	**442,301**	**-**	**30,700**	**6,328**	**-**	**479,329**

^Includes annual leave accrued of $29,202

2018	Short term employee benefits		Post-employment	Long-term benefits		
Name	**Cash salary and fees** $	**Cash bonus** $	**Superannuation** $	**Long service leave** $	**Termination benefits** $	**Total** $
Non-executive directors						
Alan S Jones – Chairman	30,000	-	2,850	-	-	32,850
John M Langley	30,000	-	2,850	-	-	32,850
Executive director						
Neil R Fimeri Managing Director	^380,841	-	25,000	6,328	-	412,169
Total KMP remuneration	**440,841**	**-**	**30,700**	**6,328**	**-**	**477,869**

^Includes annual leave accrued of $29,202

Equity instrument disclosures relating to key management personnel

(i) Option holdings

There were no options over ordinary shares in the Company held during the financial year by any director of Air Change International Limited and other key management personnel of the Group, including their personally related parties.

The numbers of unlisted options in the Company held at balance date by each director and executives of Air Change International Limited, including their personally-related entities, are nil.

(ii) Share holdings

The numbers of shares in the Company held at balance date by each director and executive of Air Change International Limited, including their personally-related entities, are set out below:

2019 **Name of Directors of Air Change International Limited**	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Alan S Jones	938,000	-	-	938,000
Neil Fimeri	4,800,000	-	-	4,800,000
John M Langley	17,000	-	-	17,000

Loans to directors/ key management personnel

No loans to directors have been made during the year ended 30 June 2019 (2018: Nil).

Material contracts with directors

The Company has not entered into any material contracts with Directors.

End of audited remuneration report

Corporate governance

Refer to pages 14 to 18 of this report for the Corporate Governance Statement.

Shares under option

At the date of this report, the unissued ordinary shares of Air Change International Limited under option are nil (2018: Nil).

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

Environmental regulation

The Company has reviewed all the significant environmental regulations which apply to it and has determined that it complies with the relevant codes and practices.

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

Neil Fimeri
Managing Director

Sydney
5 September 2019

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY RYAN POLLETT TO THE DIRECTORS OF AIR CHANGE INTERNATIONAL LIMITED

As lead auditor of Air Change International Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Air Change International Limited and the entities it controlled during the year.

Ryan Pollett

Ryan Pollett
Partner

BDO East Coast Partnership

Sydney, 5 September 2019

Corporate governance statement

The Board is committed to maintaining and achieving the highest standards of accountability and transparency and see the continued maintenance of a cohesive set of corporate governance policies as fundamental to the successful growth of the Group. As its base, the Board believes that corporate governance is about having a set of values and behaviours that underpin the group's everyday activities and protect the interests of stakeholders. The directors are responsible to the shareholders for the performance of the Company. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Company and its controlled entities are properly managed.

In developing Air Change International Limited's corporate governance practices, the Board has been guided by Annexure 1 of Practice Note 14 promoted by the National Stock Exchange of Australia (NSX) and 'Corporate Governance Principles and Recommendations' published by the ASX Corporate Governance Council. This statement outlines the main corporate governance practices in place throughout the financial year.

A description of the Company's main corporate governance practices is set out below.

THE BOARD OF DIRECTORS

BOARD ROLE AND RESPONSIBILITY

The Board's primary role is the protection and enhancement of long-term shareholder value. It is also required to:

- review and approve corporate strategies and financial plans
- oversee and monitor organisational performance and the achievement of the Company's strategic goals and objectives
- monitor financial performance including approval of the annual and half-year financial reports and liaise with the Company's auditors
- appoint and assess the performance of the Managing Director and the members of the senior management team
- ensure there are effective management processes in place and approving major corporate initiatives
- enhance and protect the reputation of the organisation
- ensure significant risks facing the Company and its controlled entities have been identified, and appropriate adequate control monitoring and reporting mechanisms are in place
- report to shareholders

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and senior management. Responsibilities are delineated by formal authority delegations. The performance of senior executives is reviewed annually by the Managing Director. The performance of the Managing Director is reviewed annually by the Chairman.

Board committees

To assist in the execution of its responsibilities, the Board has established an Audit, Finance, Risk and Compliance Committee (AFRCC) and a Remuneration Committee. The committees have a written mandate and operating procedures, which are reviewed on a regular basis. The Board does not have a Nominations Committee as this function is undertaken by the Board. The structure and membership of each committee is reviewed from time to time.

The Board has elected not to establish a Nominations Committee on the basis that it is only a relatively small board and is able to efficiently carry out the functions that would otherwise be delegated to the Nominations Committee.

Board Composition

The Board believes that its membership should comprise directors with an appropriate mix of skills, experience and personal attributes that allow the directors individually, and the Board collectively to:

- discharge their duties and responsibilities under the law efficiently and effectively
- understand the business of the Group and the environment within which the Group operates so as to be able to agree with management, the objectives, goals and strategic direction to maximize shareholder value
- assess the performance of management in meeting those objectives.

The current membership of the Board and each individual voting director's background are set out in the Directors' Report.

Directors' independence

The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgement. Directors are considered to be independent if they are not a member of management and if they meet the following criteria:

- not a substantial shareholder of ACI or of a company holding more than 5% of ACI voting stock or an officer of or otherwise associated directly with a shareholder holding more than 5% of the ACI voting stock
- have not within the last 3 years been employed in an executive capacity by the Group or a controlled entity, or been a director after ceasing to hold any such employment
- have not within the last 3 years been a principal of a material professional adviser or a material consultant to the Group or a controlled entity or an employee materially associated with the service provided
- not a material supplier or customer of the Group or a controlled entity, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must not have contractual relationship with the Group or a controlled entity other than as a director of the Group
- not been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group.

Chairman and Managing Director

The Chairman is responsible for leading the Board, ensuring that Board activities are organized and efficiently conducted and for ensuring directors are properly briefed for meetings. The Managing Director is responsible for implementing the Group's strategies and policies. The Board Charter specifies that these are separate roles are not to be undertaken by the same individual. In recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman and other non-executive directors meet regularly with the Executive Director to discuss strategic issues and to review the performance of senior management. Due to the size of the Company and the fact that there are only two non-executive directors it is not practical or cost effective to employ the services of an external party to review their performance. In addition, each of the non-executive directors come up for re-election at the Annual General Meeting ("AGM") every two years.

Avoidance of conflicts of interest by a director

In accordance with the *Corporations Act 2001*, any director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter.

Independent professional advice

Directors and the Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this is not unreasonably withheld.

Meetings of the board and their conduct

The Board meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. The Chairman and the Managing Director establish meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year. In addition to its formal meetings, the Board is encouraged to undertake regular and relevant workshops.

Directors are always encouraged to participate with a robust exchange of views and to bring their independent judgements to bear on the issues and decisions at hand. Executive management regularly attend Board meetings and are also available to be contacted by directors between meetings.

Board access to information and advice

All directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. The Group's Company Secretary provides directors with ongoing guidance on issues such as corporate governance, ACI Group's Constitution and the law. The Chairman and other non-executive directors also regularly consult with the Executive Director and other senior management may consult with, and request additional information from, any ACI Group employee. The Board collectively, and each Director individually, has the right to seek independent professional advice at ACI's expense to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in its absence, Board approval may be sought.

Term of office

The Company's Constitution specifies that all directors (with the exception of the Managing Director) must retire from office no later than the third AGM following their last election. Where eligible, a director may stand for re-election.

In addition, the Board seeks to ensure that the membership at any point in time represents an appropriate balance between directors with experience and knowledge of the Company and directors with an external or fresh perspective.

Audit, Finance, Risk and Compliance Committee (AFRCC or the Committee)

The AFRCC has a documented charter, approved by the Board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

The AFRCC consists of the following directors:

- Alan Jones (Non-executive Chairman)
- John Langley (Independent Director).

The AFRCC comprises two members, all of whom are non-executive directors.

The external auditors and the Managing Director are invited to AFRCC meetings at the discretion of the Committee. The Committee meets a minimum of two times during the year. The Managing Director declared in writing to the Board that the Company's financial reports for the year ended 30 June 2019 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually and is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

The AFRCC members have appropriate financial expertise and all members have a working knowledge of the financial services industry in which the Group operates.

The AFRCC operates in accordance with a separate charter. The main responsibilities of the Committee are to:

- review, assess and approve the annual report and the half-year financial report
- assist the Board in reviewing the effectiveness of the organisation's internal control
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditors on an ongoing basis
- review and monitor related party transactions and assess their propriety
- monitor the current and forecast liquidity and cash flow of the Group
- report to the Board on matters relevant to the roles and responsibilities of the AFRCC

In fulfilling its responsibilities, the AFRCC:

- receives regular reports from management and external auditors
- meets with the external auditors at least twice a year or more frequently if necessary

The AFRCC has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party. The Committee's charter is reviewed annually and updated as necessary. The charter is available to shareholders on request.

Remuneration committee

The role of the Remuneration Committee is to ensure that the remuneration policies and outcomes are an appropriate balance between the ACI shareholders and rewarding and motivating executives and employees in order to achieve their long term commitment to the Company. The remuneration of senior management consists of base remuneration, allowances and superannuation.

The Remuneration Committee consists of the following directors:

- Alan Jones (Non-executive Chairman)
- John Langley (Independent Director)

The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, Senior Executives and Non-executive Directors.

Each member of the Senior Management team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights and responsibilities.

Senior management remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to personal and corporate performance, contribution to long-term growth, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages may include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits.

The Remuneration Committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors.

Non-executive directors are paid an annual fee for their service on the Board and committees which is determined by the Remuneration Committee. Total remuneration for all non-executive directors is not to exceed $400,000 per annum. The non-executive directors' total fees for the year were $65,700; these fees include statutory superannuation. Non-executive directors do not receive bonuses.

Risk management

Oversight of the risk management system

Management has established and implemented a fully comprehensive formal Risk Management System for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group.

External auditors

The Group's policy is to appoint external auditors who demonstrate quality and independence. The performance of the external auditors is reviewed annually. BDO was appointed as the external auditor in 23 November 2012 in response to an expression of interest. It is BDO's policy to rotate engagement partners on listed company audits in accordance with the requirements of the Corporations Act. The current engagement partner has been the engagement partner since December 2017 and therefore rotation of the engagement partner will be required for the year ended 30 June 2023.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in note 18 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the AFRCC. For more information please review the Group's Audit Independence Policy.

Code of conduct

The Group has developed a Code of Conduct (Code) which has been endorsed by the Board and applies to all directors and employees of the Group. The Code requires that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of both the law and Group policies.

A director or employee of the Company may only deal in the Company's securities if that director or employee is not in possession of information that he or she knows or ought reasonably to know is unpublished price sensitive information in relation to the Company's securities and the prior clearance of the Board has been provided.

In addition to obtaining prior clearance of the Board, a director or employee who deals in the Company's securities must immediately notify the Board of the details of the dealing.

The Company must keep a register of all dealings in its securities by directors or employees that are notified to it.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

Diversity Statement

The Company welcomes gender diversity and is committed to equality at all levels of the organisation but the Company does not have a formal policy in relation to gender diversity.

The Company's policy is to hire and promote staff on the basis of finding the person best qualified to fill the available position. The technical skill requirements of the Company's engineering and manufacturing operations results in an employee gender mix with a male bias even though women occupy senior roles in the support operations of finance, accounting, engineering and marketing. As the Group operations continue to expand, there will be greater opportunities available for the appointment and advancement of women within the organisation.

There are presently no female directors on the Board of three members.

Continuous disclosure and shareholder communication

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters on a timely basis that may have a material effect on the price of the Company's securities, ensuring the matters are factual and expressed in a clear and factual way, notifying the NSX, posting them on the Company's website, and issuing media releases. The Company Secretary is accountable for ensuring adherence to the Continuous Disclosure Policy. Details of the policy are available on the Company's website www.airchange.com.au.

Consistent with the Continuous Disclosure Policy, ACI is committed to communicating with shareholders in an effective and timely manner, so as to provide them with ready access to information relating to the Company.

Shareholders are encouraged to attend and participate in general meetings of the Company. Shareholders are provided with details of any proposed meetings well in advance of the relevant dates. The external auditor will attend any Annual General Meeting and be available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2019

	Note	2019 $	2018 $
Revenue	4	**18,301,981**	17,751,359
Other income	5	**570,231**	464,072
Changes in inventories of finished goods		**(43,060)**	39,915
Raw materials and consumables used		**(10,594,589)**	(9,887,859)
Occupancy costs		**(1,132,884)**	(1,109,944)
Employee benefits expenses		**(5,900,032)**	(6,160,786)
Depreciation of plant and equipment		**(219,059)**	(182,154)
Amortisation of patents		**(248,744)**	(387,947)
Other expenses		**(995,013)**	(1,054,335)
Finance costs		**(116,306)**	(91,104)
Acquisition cost		**-**	(815)
(Loss) before income tax	6	**(377,475)**	**(619,598)**
Income tax (expense) / benefit	7	**(83,204)**	22,541
(Loss) after tax for the year		**(460,679)**	**(597,057)**
Net (loss) for the year		**(460,679)**	**(597,057)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations	17	**(14,613)**	(100,024)
Other comprehensive (loss)/ income for the year, net of tax		**(14,613)**	**(100,024)**
Total comprehensive (loss) for the year attributable to members of Air Change International Limited		**(475,292)**	**(697,081)**
Earnings per share attributable to members of Air Change International Limited			
Basic earnings per share	23	**(0.026)**	(0.034)
Diluted earnings per share	23	**(0.026)**	(0.034)

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

Consolidated statement of financial position as at 30 June 2019

	Note	2019 $	2018 $
Current assets			
Cash & cash equivalents	8	**58,584**	88,130
Trade & other receivables	9(a)	**4,367,736**	4,044,255
Inventories	10	**2,611,079**	2,654,140
Total current assets		**7,037,399**	**6,786,525**
Non-current assets			
Plant, equipment and leasehold improvements	11	**439,923**	628,742
Rental bonds & term deposit		**68,297**	66,822
Intangible assets	12	**3,456,821**	3,852,911
Deferred tax assets	13	**372,703**	455,907
Other receivables		**-**	29,736
Total non-current assets		**4,337,744**	**5,034,118**
TOTAL ASSETS		**11,375,143**	**11,820,643**
Current liabilities			
Trade & other payables	14	**3,226,187**	3,166,379
Borrowings	25	**1,144,442**	932,821
Employee entitlements	15	**751,235**	815,068
Total current liabilities		**5,121,864**	**4,914,268**
Non-current liabilities			
Other payable	14	**-**	237,000
Employee entitlements	15	**181,449**	122,253
Total non-current liabilities		**181,449**	**359,253**
TOTAL LIABILITIES		**5,303,313**	**5,273,521**
Net Assets		**6,071,830**	**6,547,122**
Equity			
Contributed equity	16	**7,104,700**	7,104,700
Reserves	17	**(19,113)**	(4,500)
Retained earnings		**(1,013,757)**	(553,078)
TOTAL EQUITY		**6,071,830**	**6,547,122**

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

Consolidated statement of changes in equity for the year ended 30 June 2019

	Notes	Contributed equity $	Reserves $	Retained earnings $	Total $
Balance at 1 July 2017		7,104,700	95,524	43,979	7,244,203
(Loss) for the year		-	-	(597,057)	(597,057)
Other comprehensive income	17	-	(100,024)	-	(100,024)
Total comprehensive income/ (loss) for the year		-	(100,024)	(597,057)	(697,081)
Balance at 30 June 2018		7,104,700	(4,500)	(553,078)	6,547,122
Balance at 1 July 2018		**7,104,700**	**(4,500)**	**(553,078)**	**6,547,122**
(Loss) for the year		-	-	(460,679)	(460,679)
Other comprehensive (loss)	17	-	(14,613)	-	(14,613)
Total comprehensive income/ (loss) for the year		**-**	**(14,613)**	**(460,679)**	**(475,292)**
Balance at 30 June 2019		**7,104,700**	**(19,113)**	**(1,013,757)**	**6,071,830**

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

Consolidated statement of cash flows
for the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		**20,405,532**	18,812,861
Payments to suppliers, employees and creditors		**(20,514,113)**	(19,457,851)
Interest received		**4,284**	4,184
Transaction cost relating to acquisition of business		**-**	(815)
Finance costs		**(116,306)**	(91,104)
Income tax paid		**(13)**	(696)
Net cash (outflow) from operating activities	22	**(220,616)**	**(733,421)**
Cash flows from investing activities			
Payment on acquisition of business	26	**-**	(10,000)
Purchase of plant, equipment & leasehold improvements	11	**(27,640)**	(37,888)
Payment for patents & intellectual property	12	**(250)**	(783)
Proceeds on disposal of plant & equipment		**7,272**	-
Net cash (outflow) from investing activities		**(20,618)**	**(48,671)**
Cash flows from financing activities			
Proceeds from borrowings		**12,085,000**	12,945,000
Repayment of borrowings		**(11,873,379)**	(12,315,412)
Net cash inflow from financing activities		**211,621**	**629,588**
Net increase/(decrease) in cash held		**(29,613)**	**(152,504)**
Cash & cash equivalents at the beginning of the financial year		**88,130**	**239,965**
Exchange differences on cash & cash equivalents		**67**	**669**
Cash & cash equivalents at the end of the financial year	8	**58,584**	**88,130**

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

These financial statements are the consolidated financial statements for the Group consisting of Air Change International Limited and its subsidiaries. The financial statements are presented in Australian dollars.

Air Change International Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

2 Ashford Avenue
Milperra NSW 2214

The financial statements were authorised for issue by the directors on 5 September 2019. The directors have the power to amend and reissue the financial statements.

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Air Change International Limited and its subsidiaries.

Air Change International Limited is a for profit entity for the purposes of preparing the financial statements.

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*.

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board.

Going Concern

The financial statements of the Company have been prepared on a going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Group has a Confidential Debtor Finance Facility that is necessary to finance its working capital requirements. The term of this facility has now expired and can therefore be withdrawn at one month's notice. A two year extension to this facility has been offered and accepted and documentation is now being completed.

Without this facility, the entity's ability to continue as a going concern would be in significant doubt, and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

At the date of this report, the Directors are of the opinion that there are reasonable grounds to expect that the facility extension will be completed by end September 2019.

Historical cost convention

These financial statements have been prepared on an accrual basis and are based on the historical cost convention.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Air Change International Limited as at 30 June 2019 and the results of all subsidiaries for the year then ended. Air Change International Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

(b) Principles of consolidation (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group 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 Group.

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 Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(c) Segment reporting

The Group is reported as one operating segment comprising heating, ventilation & air conditioning to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") other than where an entity's operation is an extension of another group entity and it does not operate with any degree of autonomy. The consolidated financial statements are presented in Australian dollars ("AUD"), which is the functional and presentation currency of Air Change International Limited.

(ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

(iii) Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AUD are translated into AUD upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Income and expenses have been translated into AUD at the rate applicable at the transaction date. Exchange differences are charged/ credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

(a) Bespoke goods made to order

The Group manufactures and sells bespoke heating, cooling and ventilation products. Revenue from the sales of bespoke goods are recognised at the point in time when the manufacturing of the goods is completed, tested and ready for delivery.

(b) Goods stocked for sale.

The Group designs, sources and sells generic heating, cooling and ventilation products that it carries as stock for immediate sale. Revenue from the sales of these goods is recognised at the point in time when the customer accepts delivery of the goods and may include bill and hold arrangements.

(ii) Rendering of services

The Group derives revenues from the delivery, commissioning and after-sales service of heating, cooling and ventilation products. Receipts for those services are initially deferred, included in other liabilities and are recognised as revenue over time as the service is performed.

(f) Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income or loss based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting taxable profit or loss.

Deferred income tax is determined by using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and the tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

Air Change International Limited ("the Head Entity") and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under such operating leases (net of any incentives received from the Lessor) are charged to the profit or loss on a straight line basis over the period of the lease.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, 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. Borrowings are shown within borrowings in current liabilities on the statement of financial position.

(i) Trade receivables

Trade receivables are recognised initially at invoiced value less allowance for expected credit losses. Trade receivables are generally due for settlement within 60 days. The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial

The amount of the expected credit loss is recognised in the profit or loss within impairment of assets. When a trade receivable for which an expected credit loss allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against impairment of assets in the profit or loss.

(j) Government grants

Grants including refundable R&D tax incentives from the government are recognised as received or at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

(k) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Plant and equipment

Plant, equipment, furniture, fittings and leasehold improvements are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of items. All repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Plant, equipment, furniture, fittings and leasehold improvements are depreciated over a 2 to 15 year period depending on their estimated life using straight line method as appropriate. The assets' residual values and useful lives are reviewed and if appropriate adjusted at each reporting date.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

(m) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortization method or period. Amortisation is calculated based on projected future sales method to allocate the cost of the patents over their remaining estimated useful lives. Presently the majority of patents will expire in approximately 2 years.

(iii) Agency Agreements and Design & Intellectual Property

These items have an indefinite useful life and are carried at cost less any impairment loss.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(o) Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

All borrowings are current as reflected in the accounts at reporting date.

(p) Finance costs

Finance costs in relation to borrowings are expensed.

(q) Employee entitlements

(i) Wages and salaries, annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(q) Employee entitlements (continued)

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as 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 cost method. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefits obligations

Contributions to a defined contribution fund are recognised as an expense as they become payable.

(r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of the new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit and loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, 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 year.

(ii) 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.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of 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 taxation authority, is included with other receivables or payables in the statement of financial position.

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

(u) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(v) Research and Development

Research and development costs are expensed as incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably.

(w) Parent entity financial information

The financial information for the parent entity, Air Change International Limited, disclosed in note 24 has been prepared on the same basis as the consolidated financial statements, except investments in subsidiaries are accounted for at cost in the financial statements of Air Change International Limited.

(x) New, revised or amended Accounting Standards or Interpretation adopted

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

There was no material impact from the adoption of AASB 9 and 15.

(y) New accounting standards issued but not yet effective and not been adopted early by the Group

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

AASB 16 Leases - This standard is applicable to annual reporting periods beginning on or after 1 January 2019

This Standard will replace AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new Standard include recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets), depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components, variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date, by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease and additional disclosure requirements. The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application. The Group currently has operating lease commitments in relation to property, plant & equipment and on adoption, the net present value of minimum lease payments will be brought on balance sheet, resulting in an increase to non-current assets and current and non-current liabilities for the future lease payments, as a result of the right-to-use asset. This asset will subsequently be depreciated over the lease term. The Group will adopt this standard from 1 July 2019 and its impact on adoption is estimated to result in total assets and liabilities increasing by $413,600.

2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. Risk management is carried out by the Executive Team.

The Group and the parent entity hold the following financial instruments:

	2019 $	2018 $
Financial assets		
Cash and cash equivalents	**58,584**	88,130
Trade and other receivables	**4,300,943**	3,962,324
	4,359,527	4,050,454
Financial liabilities		
Trade & other payables	**3,226,187**	2,986,379
Borrowings	**1,144,442**	932,821
	4,370,629	3,919,200

(a) Market risk

(i) Foreign currency risk

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Air Change International Limited. At the date of this report, the Group has exposure to Singapore dollars, US dollars and Malaysian Ringgit in respect of financial assets. Based on the financial instruments held at 30 June 2019, had the Australian dollar weakened/ strengthened by 10% (2018: 10%) against these currencies with all other variables held constant, the impact on the profit would have been $36,878 higher/ $28,434 lower (2018:$33,738 higher/ $26,403 lower), mainly as a result of foreign exchange gains/ losses on translation of these foreign currencies denominated financial instruments. The percentage of 10% has been determined based on the market rate movements in exchange rates in the previous 12 months.

(ii) Price risk

The Group is not exposed to equity securities price risk or to commodity price risk.

(iii) Interest rate risk

The Group has a Debtors Finance Facility which has an interest rate that is the 30 day BBSY rate plus a fixed margin. The interest rate risk of this facility is shown in the sensitivity analysis below.

Group sensitivity

During the year ended 30 June 2019, if the average 30 day BBSY interest rate had changed by -/+ 50 basis points from the actual interest rates incurred within the year, with all other variables held constant, the impact on the profit/loss would have been $4,610 higher/lower (2018: $2,665). In respect of the trade receivables and trade payables there would be no impact on the net profit/loss of a +/- 50 basis points change in interest rates (2018: nil). In respect of cash on deposit, the impact on the profit/loss of a +/- 50 basis points change in interest rates would have been immaterial as the average cash balance on deposit is immaterial (2018: nil).

2. Financial risk management (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents and outstanding receivables. Cash is held with reputable financial institutions with high quality external credit ratings. Senior management managed the risk of impairment of receivables by reviewing credit limits, undertaking external credit checks and use of credit insurance.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group had access to a debtor financing facility of $1,300,000. This facility may be drawn at any time and maybe terminated by either party with 90 days notice (note 25).

Maturities of financial liabilities

The tables below analyze the Group's financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Interest payable on the loan has been disclosed in the table below.

Group – at 30 June 2019	Less than 4 months	4-6 months	6-12 months	Between 1 and 5 years	Total contractual cash flows	Carrying amount
Non derivatives						
Trade & other payables	2,788,767	183,724	253,696	-	3,226,187	3,226,187
Borrowings	1,144,442	-	-	-	1,144,442	1,144,442
Total non-derivative	3,933,209	183,724	253,696	-	4,370,629	4,370,629

Group – at 30 June 2018	Less than 4 months	4-6 months	6-12 months	Between 1 and 5 years	Total contractual cash flows	Carrying amount
Non derivatives						
Trade & other payables	2,815,033	155,274	16,072	-	2,986,379	2,986,379
Borrowings	932,821	-	-	-	932,821	932,821
Total non-derivative	3,747,854	155,274	16,072	-	3,919,200	3,919,200

Fair value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Trade and other payables include an amount of $237,000 in respect of contingent consideration payable in respect of a past acquisition as detailed in note 26 which will be due in June 2020.

This is a level 3 financial liability.

The carrying value of trade receivables and trade payables is assumed to approximate their fair values due to their short term nature.

3. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.
The following are significant management judgements in applying the accounting policies of the Group that may have a significant effect of the financial statements.

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

Goodwill
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(m)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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

4. Revenue

	2019 $	2018 $
Sales revenue		
Sale of goods	18,107,882	17,599,392
Services	194,099	151,967
Total revenue	**18,301,981**	17,751,359

5. Other income

	2019 $	2018 $
Interest	4,284	4,184
Government grants (note (a))	508,317	411,025
Net foreign exchange gain	-	21,215
Other	52,104	27,648
Net gain on disposal of plant and equipment	5,526	-
Total other income	**570,231**	464,072

(a) Government grants

In 2019 and 2018, this primarily consisted of R&D refundable tax offset of $438,870 (2018: $348,534) and export market development grant of $55,748 (2018: $59,991).

6. Expenses

	2019 $	2018 $
(Loss) before income tax includes the following specific expenses:		
Lease rental payments	842,064	861,070
Defined contribution superannuation payments	452,875	466,462
Net foreign exchange loss	10,923	-
Net loss on disposal of plant & equipment	-	20,151
Doubtful debt expense	(22,000)	-

7. Income tax expense

(a) Income tax expense

	2019 $	2018 $
Current tax (benefit)	(302,306)	(251,307)
Deferred tax – origination and reversal of temporary differences	83,204	(22,306)
Income tax (overprovision)/ paid for previous years – overseas entity	-	(235)
Benefit of current tax losses not recognised	302,306	251,307
Aggregate current income tax expense/ (benefit)	83,204	(22,541)
Deferred tax included in income tax expense comprises:		
Decrease/ (increase) in deferred tax assets	83,204	(22,306)
Deferred tax – origination and reversal of temporary differences	83,204	(22,306)

(b) Reconciliation of effective tax rate

	2019 $	2018 $
(Loss) before income tax expense	**(377,475)**	(619,598)
Income tax calculated at 27.5% (2018 – 27.5%)	(103,806)	(170,390)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research & development refundable tax offset	(120,689)	(95,847)
Other	10,182	1,515
Subtotal	**(214,313)**	(264,722)
Net taxable losses not recognised	302,306	251,307
Income tax (overprovision)/ paid for previous years – overseas entity	-	(235)

(b) Reconciliation of effective tax rate (continued)		
Temporary differences not recognised	(4,789)	1,546
Recoupment of foreign subsidiaries tax losses not previously recognised	-	(10,437)
Income tax expense/ (benefit)	**83,204**	(22,541)

8. Cash and cash equivalents

	2019 $	2018 $
Cash at bank and on hand	58,584	88,130
	58,584	88,130

The Group's exposure to interest rate risk is discussed in note 2.

9. Trade and other receivables

	2019 $	2018 $
(a) Current assets		
Trade receivables	3,699,496	3,717,186
Less: Allowance for expected credit losses	(70,279)	(275,168)
Net trade receivables	3,629,217	3,442,018
Rental and security bonds	863	3,723
Term deposits in respect of guarantees	218,213	214,024
Other debtors	452,650	302,559
Prepayments	66,793	81,931
	4,367,736	4,044,255

Allowance for expected credit losses

The Group retains an allowance of $70,279 (2018: $275,168) in respect of future expected credit losses.

(b) Past due not impaired trade receivables

As at 30 June 2019 there were current trade receivables of the Group with a nominal value of $571,142 that were past due (2018: $272,443) but not impaired. The amount of the allowance was $70,279 (2018:$275,168).

The Group does not hold any collateral in relation to these receivables but insures these receivables against insolvency of the debtor.

The ageing of these receivables is as follows*:*

	2019 $	2018 $
Not past due	3,058,075	3,169,575
Past due 2-3 months	538,692	109,532
Past due over 3 months	32,450	162,911
Total	**3,629,217**	3,442,018

Movements in the allowance for expected credit losses are as follows:

	2019 $	2018 $
At 1 July	275,168	275,168
Receivables written off during the year	(204,889)	-
Balance at 30 June	**70,279**	275,168

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amounts approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

The creation and release of the allowance for impaired receivables has been included in 'other expenses' in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(d) Trade Receivable - dispute

In 2017 the Company made an allowance of $175,168 against a trade receivable that was subject to dispute. The Company has now settled the claim for a payment of $22,000 because the estimated cost of litigation could not be justified against the residual claim amount.

In 2019, the Company commenced proceedings to recover an amount of $48,264 that was deducted from a payment owing because of a dispute with respect to late delivery of the goods and work scope.

10. Inventories

	2019 $	2018 $
Current Assets		
Raw materials	1,157,112	1,300,864
Work in progress	1,040,537	1,016,623
Finished goods	413,430	336,653
	2,611,079	2,654,140

(a) Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2019 amounted to $62,786 (30 June 2018: $32,000).

11. Plant, equipment and leasehold improvements

	Plant & Equipment	Furniture & Fixtures	Leasehold Improvements	Total
At 1 July 2017	**$**	**$**	**$**	**$**
Cost	1,511,212	123,069	198,515	1,832,796
Accumulated depreciation	(936,313)	(61,556)	(64,201)	(1,062,070)
Net book amount	574,899	61,513	134,314	770,726
Year ended 30 June 2018				
Opening net book amount	574,899	61,513	134,314	770,726
Additions	36,097	1,791	-	37,888
Disposals	(20,151)	-	-	(20,151)
Depreciation charge	(150,680)	(11,418)	(20,056)	(182,154)
Net exchange differences	18,865	1,714	1,854	22,433
Closing net book amount	459,030	53,600	116,112	628,742
At 30 June 2018				
Cost	1,543,287	126,920	200,771	1,870,978
Accumulated depreciation	(1,084,257)	(73,320)	(84,659)	(1,242,236)
Net book amount	**459,030**	**53,600**	**116,112**	**628,742**
Year ended 30 June 2019				
Opening net book amount	459,030	53,600	116,112	628,742
Additions	22,435	5,205	-	27,640
Disposals	(1,746)	-	-	(1,746)
Depreciation charge	(114,669)	(11,400)	(92,990)	(219,059)
Net exchange differences	3,598	363	385	4,346
Closing net book amount	368,648	47,768	23,507	439,923
At 30 June 2019				
Cost	1,495,203	132,627	201,313	1,829,143
Accumulated depreciation	(1,126,555)	(84,859)	(177,806)	(1,389,220)
Net book amount	**368,648**	**47,768**	**23,507**	**439,923**

12. Intangible assets

Year ended 30 June 2018	Agency Agreements $	Design & Intellectual Property $	Goodwill $	Patents $	Total $
Carrying value at 1 July 2017	20,000	71,210	2,524,067	1,184,047	3,799,324
Additions	-	-	-	783	783
Addition through acquisition	-	-	440,751	-	440,751
Impairment charge	-	-	-	-	-
Amortisation charge	-	-	-	(387,947)	(387,947)
Carrying value at 30 June 2018	20,000	71,210	2,964,818	796,883	3,852,911
At 30 June 2018					
Cost	20,000	71,210	2,964,818	3,589,796	6,645,824
Accumulated amortisation & impairment	-	-	-	(2,792,913)	(2,792,913)
Net book amount	**20,000**	**71,210**	**2,964,818**	**796,883**	**3,852,911**

Year ended 30 June 2019	Agency Agreements $	Design & Intellectual Property $	Goodwill $	Patents $	Total $
Carrying value at 1 July 2018	20,000	71,210	2,964,818	796,883	3,852,911
Additions	-	250	-	-	250
Adjustment to acquisition value (note 26)	-	-	(147,596)	-	(147,596)
Impairment charge	-	-	-	-	-
Amortisation charge	-	-	-	(248,744)	(248,744)
Carrying value at 30 June 2019	20,000	71,460	2,817,222	548,139	3,456,821
At 30 June 2019					
Cost	20,000	71,460	2,817,222	3,589,796	6,498,478
Accumulated amortisation & impairment	-	-	-	(3,041,657)	(3,041,657)
Net book amount	**20,000**	**71,460**	**2,817,222**	**548,139**	**3,456,821**

Impairment tests for intangible assets

Intangibles are allocated to the Group's cash generating unit (CGU) identified according to operating segment.

A segment level summary of the intangible assets allocation is presented below for the year ended 30 June 2019.

	Heating Cooling & Ventilation $
Year ended 30 June 2019	
Goodwill and intangibles	**2,908,682**
Patents	**548,139**

The recoverable amount of a CGU is determined based on value in use calculations. These calculations are a discount of future projected operational cash flows using a pre-tax discount rate of 13.9% (2018– 15%), a 3% per annum projected revenue growth rate and 3% per annum rate increase in overhead costs.

Goodwill, intangibles and patent carrying values are tested using a net present value calculation using the above assumptions and an enterprise value method calculation. The net present value model uses a 1 year budget and a 4 year forecast with a terminal value based on past experience of three and half times estimated EBITDA at year five. The enterprise value model assumes a four and a half times estimated EBITDA for the next year.

The growth rate is based on best estimates of revenue in preparing the 1 year budget and the discount rate reflects the market and interest rate risks.

The pre-tax discount rate value would need to increase by 87 percent or the gross margin decrease by 10.0 percent or the revenue to decrease by 10 percent before the estimated recoverable amount approximates the carrying amount.

13. Deferred tax assets

	2019 $	2018 $
The balance comprises temporary differences attributable to:		
Deferred tax assets / (liabilities)		
Employee benefits	253,956	250,044
Tax losses	64,074	64,074
Other	50,468	116,751
Depreciation and amortisation	28,955	49,788
Intangibles	(24,750)	(24,750)
Total deferred tax assets at 27.5%	**372,703**	**455,907**
Deferred tax assets expected to be recovered within 12 months at 27.5%	**283,481**	**382,964**
Deferred tax assets expected to be recovered after more than 12 months at 27.5%	**89,222**	**72,943**

13. Deferred tax assets (continued)

Movements	Employee Benefits	Tax Losses	Other	Depreciation amortisation	Intangibles	Total
	$	$	$	$	$	$
At 1 July 2017	**236,723**	**64,074**	**126,240**	**31,314**	**(24,750)**	**433,601**
(Charged)/credited						
- to profit or loss	13,321	-	(9,489)	18,474	-	22,306
- to other comprehensive income	-	-	-	-	-	-
At 30 June 2018 at 27.5%	**250,044**	**64,074**	**116,751**	**49,788**	**(24,750)**	**455,907**
(Charged)/credited						
- to profit or loss	3,911	-	(66,282)	(20,833)	-	(83,204)
- to other comprehensive income	-	-	-	-	-	-
At 30 June 2019 at 27.5%	**253,955**	**64,074**	**50,469**	**28,955**	**(24,750)**	**372,703**

Tax Losses Not Recognised Unused tax losses for which no deferred tax asset has been recognised	**2019** **$**		**2018** **$**
Opening balance	**5,215,492**		5,274,997
Current tax losses not recognised	**955,651**		890,448
Subtotal	**6,171,143**	^	6,165,445
R&D accounting (expenditure) per income tax return	**-**		(1,008,897)
Other adjustments per income tax return	**-**		58,944
Closing balance	**6,171,143**	^^	5,215,492
Potential tax benefit at 27.5%	**1,697,064**		1,434,260

Controlled Foreign Companies (CFC) losses Not Recognised Unused CFC losses for which no deferred tax asset has been recognised	**2019** **$**		**2018** **$**
Opening balance	**301,184**		316,141
Current recoupment of CFC loss not previously recognised	**-**		(37,952)
Current CFC losses not recognised	**143,641**		28,032
Subtotal	**444,825**	^	306,221
Other adjustments per income tax return	**-**		(5,037)
Closing balance	**444,825**	^^	301,184
Potential tax benefit at 27.5%	**122,327**		82,826

^ Balance per 2018 financial statements
^^ Adjusted closing balance based on lodged 2018 income tax return

14. Trade & other payables

	2019 $	2018 $
Current		
Trade payables	2,117,225	2,310,531
Contingent consideration (note 26)	237,000	180,000
Other payables	871,962	675,848
	3,226,187	3,166,379
Non-current payables		
Contingent consideration (note 26)	-	237,000
	-	237,000

15. Employee entitlements

	2019 $	2018 $
Current		
Employee entitlements (note (a))	751,235	815,068
	751,235	815,068
Non-current		
Employee entitlements – long service leave	**181,449**	122,253

(a) Amounts not expected to be settled within the next 12 months

The entire amount of the annual leave provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations and it is expected to be paid within the next 12 months.

16. Contributed equity

	2019 Number	2018 Number	2019 $	2018 $
Share Capital				
Ordinary shares, fully paid	**17,714,009**	17,714,009	**7,104,700**	7,104,700

Movements in ordinary share capital

Date	Details	Number of shares	$
01 July 2017	Opening balance	17,714,009	7,104,700
30 June 2018	Movement during year	-	-
30 June 2018	Balance	17,714,009	7,104,700
30 June 2019	Movement during year	-	-
30 June 2019	Balance	**17,714,009**	**7,104,700**

16. Contributed equity (continued)

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid up on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Options

At reporting date, there were no listed and unlisted options (2018: Nil) on issue.

(c) Capital risk management

The Group manages capital to safeguard its ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders. It aims to maintain an optimal capital structure to reduce the overall cost of capital having regard to the operational and market risks.

The Group's debt and capital include ordinary shares.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, increase borrowings or sell assets.

There are no externally imposed capital requirements on the Group.

17. Reserves

	Share Option $	Foreign Currency Translation $	Total Reserves $
At 1 July 2017	89,960	5,564	95,524
Exchange differences on translating foreign operations	-	(100,024)	(100,024)
At 30 June 2018	**89,960**	**(94,460)**	**(4,500)**
At 1 July 2018	**89,960**	**(94,460)**	**(4,500)**
Exchange differences on translating foreign operations	-	(14,613)	(14,613)
At 30 June 2019	**89,960**	**(109,073)**	**(19,113)**

18. Remuneration of auditors

	2019 $	2018 $
During the year the following fees were paid or payable for services provided by the auditor of the parent entity:		
BDO East Coast Partnership		
Audit and other assurance services		
Audit and review of financial statements	77,289	73,230
Other services		
R&D tax concession services	15,000	12,000
	92,289	85,230

19. Commitments for expenditure

	2019 $	2018 $
Rental lease commitments in respect of property, plant & equipment under operating lease		
Future rental lease commitments contracted for at balance date but not provided for in the financial statements:		
- Payable no later than one year	550,353	351,710
- Payable later than 1 year but not later than 5 years	221,280	484,541
Total operating lease liability	**771,633**	836,251

20. Contingent liabilities

Contingent liabilities at balance date, not provided in the financial statements are as follows:

(a) In 2019 and 2018, bank guarantees provided in relation to operating lease rental agreements entered in the normal course of business $164,036 (2017: $145,750), $30,000 in relation to the commercial credit card and $24,177 in relation to operating license all are supported by term deposits.

(b) Performance guarantee provided in respect of a contract and supported by term deposit amounting to $nil (2018: $14,000).

21. Related party information

(a) Details of directors related party information is as follows:

During the year 2019, there was no transaction between any directors and members of the Group (2018 – Nil).

(b) Key management personnel disclosure

	2019 $	2018 $
Aggregate compensation		
Short term employee benefits	442,301	440,841
Post employment benefits	30,700	30,700
Long term benefits	6,328	6,328
	479,329	477,869

Details of directors' remuneration are set out in the Directors' Report. The Company does not pay directors' retirement benefits other than the Company's superannuation contribution for the superannuation guarantee.

22. Reconciliation of cash flows from operating activities

	2019 $	2018 $
(Loss) after income tax	(460,679)	(597,057)
Depreciation and amortisation	467,803	570,101
Doubtful debt	(22,000)	-
Net exchange differences	(30,427)	(132,279)
Net (gain)/ loss on disposal of non-current assets	(5,526)	20,151
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	(165,199)	(799,818)
(Increase) in other receivables & prepayments	(70,882)	(73,319)
(Increase) in guarantee deposits	(3,629)	(14,035)
Decrease/ (increase) in inventories	43,061	(39,915)
Decrease/ (increase) in deferred tax assets	83,204	(22,306)
(Decrease)/ increase in trade payables	(225,710)	370,656
Increase/ (decrease) in other payables	174,019	(51,725)
(Decrease)/ increase in provisions	(4,638)	37,056
(Decrease) in income tax provision	(13)	(931)
Net cash (outflow) from operating activities	**(220,616)**	(733,421)

23. Earnings per share

	2019 $	2018 $
Basic earnings per share from continuing operations	**(0.026)**	(0.034)
Diluted earnings per share from continuing operations	**(0.026)**	(0.034)

Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and alternative basic earnings per share	**17,714,009**	17,714,009
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share and alternative diluted earnings per share	**17,714,009**	17,714,009

Reconciliations of earnings used in calculating earnings per share	**$**	$
Basic and diluted earnings per share		
(Loss)/ attributable to the ordinary equity holders of the Company:		
from continuing operations	**(460,679)**	(597,057)
Earnings used in calculating basic and diluted earnings per share	**(460,679)**	(597,057)

24. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2019 $	2018 $
Statement of financial position		
Current assets	**12,034**	143,519
Total assets	**7,861,365**	7,986,010
Current liabilities	**264,413**	264,267
Total liabilities	**339,576**	330,523
Shareholders' equity		
Issued capital	**7,104,700**	7,104,700
Reserves	**89,960**	89,960
Retained earnings	**327,129**	460,827
Total shareholders' equity	**7,521,789**	7,655,487
Profit/(loss) for the year	**(133,698)**	(987,228)
Total comprehensive income for the year	**(133,698)**	(987,228)

24. Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

	2019	2018
	$	$
Carrying amount included in current liabilities	-	-

(c) Contingent liabilities of the parent entity

The parent entity has provided corporate guarantee and indemnity in respect of bank guarantees provided to subsidiary companies.

25. Financing Arrangements

At reporting date, the Group had the following lines of credit:

	2019	2018
Total facilities available	**$**	**$**
Bank overdraft	-	-
Debtor financing liability*	1,300,000	1,300,000
Indemnity/guarantee facilities	202,213	197,617
Commercial credit card facilities	30,000	30,000
	1,532,213	1,527,617
Used at the reporting date		
Debtor financing liability	1,144,442	932,821
Indemnity/guarantee facilities	188,213	183,367
Commercial credit card facilities	23,000	28,000
	1,355,655	1,144,188

*The business has a revolving facility (see note 1a) secured against approved trade Debtors less than 90 days past due. This facility has a present limit of $1,300,000 and was drawn down as required during the year ended 30th June 2019. Not all Group Debtors are covered by this facility. The interest applicable is based on the floating 30 day Bank Bill Swap rate plus a fixed margin. The facility incurred a service fee on eligible debtors of $33,867 for the financial year (2018: $40,197). Interest paid in the financial year on the facility was $76,853 (2018: $46,211).

Security

The financing facility is secured by general security deed over the Australian Group entities assets.

26. Contingent Consideration & Business Combination

2018

On 9 April 2018, the subsidiary entity, Dunnac Pty Limited acquired the Dunnair air conditioning business which sources and sells air and water cooled packaged air conditioning systems in Australia which resulted in total estimated contingent consideration of $417,000 based on a formula which included sales and net profit margins achieved in each of the two years following acquisition. The 2018 accounts included the statements

" *In the event that revenue exceeds certain predetermined amounts in the two years following the Dunnair acquisition on 9 April 2018, additional consideration will be payable in cash.*

Based on estimated revenue and gross margin in these two years, the contingent consideration is estimated to be $417,000.
Current within 1 year $180,000
Non Current $237,000"

and

"The Group has 12 months from the date of acquisition to finalise the accounting to reflect any new information

2019

Planned product design and engineering review and resulting changes took longer than originally anticipated. This has meant that product promotion was delayed negatively impacting sales of Dunnair products in the first year.

As a result, the original contingent consideration estimate has been reduced by $147,596 to $269,404 of which $32,404 was due in respect of the first years earn out leaving $237,000 in respect of the second year earn out consideration.

This estimated contingent payment of $237,000 is dependent upon the sales and margins achieved in the year 1 May 2019 to 30 April 2020 and will vary depending on the actual results achieved.

The reduction in estimated consideration of $147,596 has been applied against the original goodwill of $440,751 to a revised book value of $293,155.

Directors' declaration
for the financial year ended 30 June 2019

The directors of the Company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and accompanying notes, are in accordance with the Corporations Act 2001 and:
   (a) comply with Australian Accounting Standards, the Corporations Regulations 2001 and with International Financial Reporting Standards issued by the International Accounting Standards Board and
   (b) give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer as required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Alan Jones
Chairman

Sydney
5 September 2019

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Air Change International Limited

Report on the Audit of the Financial Report

Qualified opinion

We have audited the financial report of Air Change International Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

As discussed in Note 1, the Company's financing arrangements have expired and can therefore be withdrawn at one month's notice. The Company has been unable to conclude re-negotiations or obtain replacement financing and therefore may be unable to realise its assets and discharges its liabilities in the normal course of business. This situation indicates that there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not adequately disclose this matter.

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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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. In addition to the matter described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Recoverability of intangible assets

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 12, the Group held intangible assets of $3,456,821 as at 30 June 2019. The recoverability of intangibles was identified as a key audit matter because of the extent of judgement involved by management in considering the recoverability of the assets as at the reporting date. This included estimates surrounding future growth rates of the business, discount rates applied to future cash flow forecasts and sensitivities of inputs and assumptions used in the net present value model and enterprise value model prepared by management.	Our audit procedures to address the key audit matter included the following: • Assessing the appropriateness of the identified CGU's; • Obtaining the Group's net present value model and analysing discounted cash flows against historical trends and future expectations; • Corroborating the assumptions for the key inputs in the net present value model such as forecast revenue, costs, discount rates and terminal growth rates; • Performing tests over the mathematical accuracy of the model and the underlying calculations; • Assessing the appropriateness of the EBITDA multiple used in managements' enterprise value model calculation for industry comparability including discussions with our internal valuation experts; • Performing sensitivity analysis to identify the model's robustness to changes in key underlying assumptions; and • Discussing and analysing management's assessment of the recoverability of the intangibles, with specific reference to recent trading performance.

Other information

The directors are responsible for the other information. The other information comprises the information in the Managing Directors' Report, Director's Report (excluding the audited Remuneration Report section), Corporate Governance Statement and Additional Information for the National Stock Exchange of Australia, for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon, which we obtained prior to the date of this auditor's report.

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 Company 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 ability of the group 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 has 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 (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar1.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 9 and 10 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Air Change International Limited, for the year ended 30 June 2019, 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.

BDO East Coast Partnership

BDO

Ryan Pollett

Ryan Pollett
Partner

Sydney, 5 September 2019

Air Change International Limited
Additional Information for National Stock Exchange of Australia
as at 16 August 2019

Additional information required by the NSX Listing Rules clause 6.9 and not disclosed elsewhere in this report is set out below.

1. COMPOSITION OF THE GROUP

Subsidiaries	Principal place of business/ Country of Incorporation	Main Business	Percentage Owned (%) 2019	Percentage Owned (%) 2019
Air Change Pty Limited	Australia	Intermediate holding company & patent holder	100	100
Air Change Australia Pty Limited	Australia	Design, manufacture and sales of HVAC equipment	100	100
Summit Industrial Chillers Pty Limited	Australia	Sale of process cooling equipment	100	100
Air Change (SEA) Pte Limited	Singapore	Represent Air Change Group in South East Asia	100	100
Fan Coil Sales Pty Limited	Australia	Sale of air handler and fan coil	100	100
AFS Manufacturing Sdn Bhd	Malaysia	HVAC manufacturer	100	100
Dunnac Pty Limited (Established 7 March 2018)	Australia	Sale of air & water cooler packaged air conditioning systems & parts	100	100

2. HISTORICAL SUMMARY TABLE

Item	2019 $	2018 $	2017 $	2016 $	2015 $
Profit / (Loss)	(460,679)	(597,057)	(1,704,577)	(704,094)	(713,103)
Assets	11,375,143	11,820,643	11,157,103	12,914,205	12,274,062
Liabilities	5,303,313	5,273,521	3,912,900	3,968,223	2,626,752

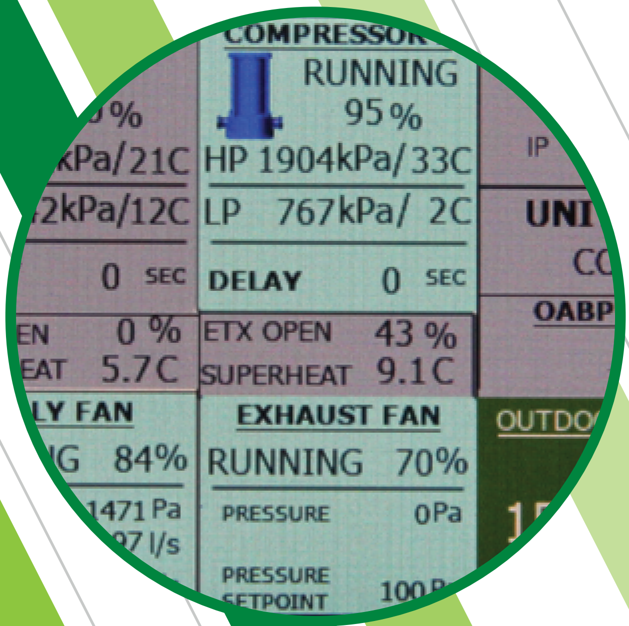
3. TEN LARGEST SHAREHOLDERS

Name	No. of Ordinary Shares Held	Percentage of Issued Shares
Sun Hung Kai Investment Services Ltd – Client a/c	4,904,277	27.69%
Mr Raymond Neil Fimeri	2,566,500	14.49%
Neilor Nominees Pty Ltd	2,233,500	12.61%
Sebsax Pty Ltd	1,625,143	9.17%
Mr Alan Jones	938,000	5.30%
DMM Investments (NSW) Pty Ltd	913,537	5.16%
Citicorp Nominees Pty Limited	757,650	4.28%
Phoenix Properties International Pty Ltd	261,087	1.47%
Mr Christopher Lindsay Biggins	215,530	1.22%
Mr Gregory Creighton Sproule	174,207	0.98%

4. SHAREHOLDER DISTRIBUTION TABLE

Fully paid ordinary shares

Range	Total holders	Units	% Units
1 – 1,000	439	225,298	1.27
1,001 – 5,000	185	395,195	2.23
5,001 – 10,000	29	211,798	1.20
10,001 – 100,000	44	1,374,798	7.76
100,001 – 9,999,999,999	17	15,506,920	87.54
	714	**17,714,009**	**100**



AIR CHANGE

FAN COIL SALES
EXCELLENCE IN AIR

DUNNAIR

SUMMIT
INDUSTRIAL CHILLERS

www.airchange.com.au