

ACI

AIR CHANGE INTERNATIONAL LIMITED

ACN 087 737 068

**Annual Report
2020**

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Corporate Directory

Directors:	Alan S Jones (Non-executive Chairman) Peter A Curry (Non-executive Director) Neil R Fimeri (Managing Director)
Secretary:	Robert Lees
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Share Registrar:	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115
Auditors:	BDO Audit Pty Ltd (“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

Air Change International Limited

Managing Director's report

Your directors present the Air Change International Limited ("Company" or "Group") annual report for the financial year ended 30 June 2020.

The Covid 19 pandemic has impacted Group operations, and thus its profitability in the second half of this past financial year (as detailed more fully below) but it is pleasing to report that its impact has been manageable and has not yet negatively affected the Group to the same extent as it has many other companies operating in other industries.

Despite the pandemic and the loss of a container whilst being shipped, the Group recorded a profit of \$798k for the full year having reported a profit of \$423k (after tax) for the first half year to 31 December 2019.

A review of the 2019/20 year is detailed below, including the effect of the pandemic on the Group finances and operations.

1.0 The Covid 19 Impact

1.1 Operational Impact to date

The Covid 19 virus has impacted the Group's operating divisions during the second half of the year in different ways.

(i) Dunnair

Firstly, the factory in China that supplies most of the Dunnair product range and components was closed from late January to late-March because of the restrictions imposed by the Chinese Government to control the virus, even though the factory was not close to the epicentre of the virus in Wuhan.

This closure delayed Dunnair product deliveries scheduled to be completed in the period March to June 2020.

In most, but not all cases, customers were not badly affected by the delay because they were experiencing other operational delays resulting from the virus which meant that this equipment was no longer critical to their installation program.

The China factory has now been operating normally since early April and had cleared the backlog of orders resulting from the shutdown by early July.

Some of these products are still in store in Sydney and are now scheduled for delivery before September 2020.

The overall impact of the China factory shutdown on Dunnair sales for the year can only be estimated as many customers probably would have deferred delivery for their own reasons and circumstances.

Approximately \$250k of product originally scheduled for delivery before 30 June 2020 has been deferred to the first quarter of the new financial year.

(ii) Malaysian Operation

Secondly, the Group's Malaysian factory was closed for 7 weeks from March to May by the Malaysian Government's movement control restrictions.

Air Change products scheduled for manufacture and delivery to Australia in May were delayed for about 8 weeks but arrived in Australia and were delivered just before June 30.

This closure also resulted in product and components normally manufactured in Malaysia being transferred to Australia which had cost and timing implications.

The Malaysian factory closure also impacted \$320k in sales that were scheduled to be delivered to projects in Singapore and Thailand during the fourth quarter of the 2019/20 financial year.

This delay has caused minimal disruption to both customers as the two countries had similar Government lockdowns during this same period.

Deliveries to Thailand are now scheduled for the first quarter of the 2020/21 financial year whereas the Singapore deliveries will be delayed even further due to the second corona virus wave in that country. Singapore deliveries are now scheduled to start late in August and be completed before December 2020. The exact timing of deliveries to Singapore is still not resolved.

The Malaysian Government mandated that all employees be paid during the shutdown and although it has given some very minimal wage support, the cost recovery is less than 10% of the costs incurred during the shutdown period.

Air Change International Limited

Managing Director's report

There was no rent relief or rent deferment program in Malaysia. The direct cost of the Malaysian factory shut down was approximately A\$190k.

There is an ongoing impact of the Malaysian lockdown with shortages of components and raw materials as not all companies have yet recovered from the enforced shutdown.

This situation is slowly improving.

(iii) Australian Operations

Lastly, the Australian manufacturing and support operation was not severely impacted by the virus. The factory and state offices remained open during the entire period with only minor operational changes implemented to ensure safe distancing in the workplace.

Most of the Australian office and factory staff attended work from March to June with the exception of 4 people who were directed to work from home as they travelled to work by public transport. All staff had returned to the workplace by end May 2020.

Orders received in the 3 months from April to June 2020 averaged the same as the same period in other years.

1.2 Delivery Deferrals

(i) Australia

There have been no order cancellations to date as a result of the pandemic.

The major disruption to the Australian operation was customer delivery deferrals during April and May but 90% of the planned deliveries for the fourth quarter were complete by financial year end.

Approximately \$150k of Air Change product scheduled for delivery before June 30 was not delivered as a result of the product delivery deferrals.

Deliveries in Australia were also disrupted by the loss of containers from the APL England off the NSW coast.

A container with finished goods and component parts was not lost overboard but was severely damaged and unloaded in Brisbane.

Delivery was delayed by 7 weeks delaying deliveries totalling \$200k.

(ii) South East Asia

In addition to the impact on South East Asian order deliveries caused by the Malaysian factory shutdown, there have been delays to potential orders that were being negotiated at the outbreak of the pandemic.

Two large projects (which have Air Change products specified) that were in discussion and scheduled to be finalised before the end of this last financial year will now not be negotiated until later in 2020 or early 2021.

On this basis, planned deliveries will be deferred by up to 6 months.

There is no guarantee that these projects will result in orders but there is a reasonable probability when the products are specified by name and by the design engineer.

1.3 Government Assistance

As all Group employees have to date been, and remain fully employed, the Group has not applied for the Job Keeper payment supplement program.

The Group has been aided by the Australian Government's cashflow boost program which has provided benefits totalling approximately \$184k to various Group companies in the year to June 30. Because of timing and other influences, full payment of this benefit had not been received at year end.

As there has been minimal disruption to Group operations to date, we have not sought rent relief from any landlords in Australia.

In Malaysia, where there was a negative impact because of the virus lockdown, there is no rent relief program.

The Malaysian Government have made a cash payment of A\$22k to the Malaysian subsidiary to offset part of the costs incurred during the lockdown.

Payroll tax reductions implemented by Australian states have amounted to a saving of \$54k.

1.4 Impact on Liquidity and Cashflow

There has clearly been an impact on Group cashflow as a result of this pandemic.

The biggest impact is caused by delivery deferrals where goods have been manufactured and stored for up to 8 weeks before eventual delivery. This has increased funding costs.

The shutdown in Malaysia has had both a negative cost and cashflow impact.

However, despite these negative effects, the Group has maintained a relatively strong liquidity position because of its improved profitability, the Australian Government's cashflow boost program and the deferral of capital expenditure that had been planned for this last half year.

The Group has not breached any debt funding or other financial covenant or legal obligation as a result of the pandemic.

The Group has not been advised of any major change to its terms of trade with its suppliers and has imposed no more onerous terms of trade on its customers than has been its previous policy position. Credit requests are scrutinized given the impact on the industry and some customers.

To date, there has been no deferment or change to the salaries or remuneration arrangements of any employee or service provider.

The Group has not disposed of any asset to raise cash to mitigate the impact of the pandemic on its operations.

1.5 A\$ Value Impact

A material impact of the pandemic was its effect on the exchange rate of the Australian \$ which fell from US\$0.70 in December 2019 to a low of US\$0.55 in March 2020.

It has now almost recovered to its December 2019 value.

During this period, it also fell sharply against the Euro, a currency to which the Group is also exposed, although to a lesser extent than our exposure to the US\$.

This extremely low A\$ valuation increased the cost of imported goods and components over a two month period and thus impacted profitability by an estimated \$60k during this last half year as project lead times are generally long in nature and pricing had been established on the expectation of a higher A\$ value.

1.6 Overseas Freight & Travel Impact

A little published impact of the pandemic is its effect on international freight services, both air and sea freight.

Container services from both China and South East Asia have been reduced because of decreased demand which has resulted in higher freight rates for containers that are still being shipped.

Container freight rates have risen over 40% since the outbreak of the pandemic.

Airfreight has been even more severely impacted. With the cancellation of almost all passenger services to Australia, there are now only dedicated air freight services bringing goods into the country.

As a result, air freight rates have more than doubled and are now almost prohibitively expensive except where time constraints eliminate all other possible options.

This impacts the supply of specialised parts and components from both Asia and Europe.

The reduction in air freight capacity has had a secondary impact. As smaller freight parcels have moved from air freight to sea freight, the demand for LCL (less than container loads) has risen substantially. This has resulted in price increases for LCL services and in some cases a delay in delivery as the next scheduled LCL service is often fully booked.

Prior to the pandemic, it was planned to have an Australian engineer work in the China factory which supplies most Dunnair products to improve product delivery and design.

He was originally deployed in November 2019 and returned in December with the plan to return mid-February after the Chinese New Year shutdown. This arrangement has now been terminated.

This has caused minor disruption but has been manageable.

Travel restrictions are impacting Australian management's ability to visit Malaysia, Singapore and China and have also prevented South East Asian sales staff from leaving the factory in Malaysia to visit Singapore, Thailand and Indonesia. This is being managed with internet communication but it has prevented further progress on the appointment of other South East Asian distributors.

1.7 Summary of Financial Impact

It is estimated that the overall direct financial impact of the Covid 19 virus and the APL England incident on the Group in the past half year is approximately \$450k resulting from a loss of profit on delayed sales, currency fluctuations and the cost of maintaining the Malaysian factory during the lockdown.

Since there have been no product cancellations to date, only delivery deferrals, then part of this loss will be recovered in the 2020/21 financial year.

Because of the relatively mild impact of the virus on the Group operations to date, it has not been deemed necessary to impair the value of any stock, goodwill or other asset other than in the ordinary course.

The impact of this loss of earnings has been partially offset by the Australian Government's cashflow boost program and payroll tax rebates.

The net effect on profitability of the Covid pandemic and the APL England incident is approximately \$200k.

1.8 Likely Future Impact

It is very difficult to predict the future of any business at any time but this uncertainty has been heightened because of this pandemic.

We presently estimate that there will be minimal impact on Group operations during the first quarter of the new financial year but it is impossible to predict what will occur beyond this period.

The impact of the virus on Group operations over the 2020/21 financial year will depend on its impact on

the overall Australian economy and its ability and timing to bounce back to pre-pandemic levels. This clearly depends on the ability to stem the spread of the virus, any Government stimulus spending that may be forth coming, and any capital expenditure deferral by the private sector.

There are both positive and negative indicators at the present time.

Enquiry and quotation volumes in both Australia and South East Asia have been high during June and July 2020 but these projects have not yet commenced and thus have not converted into sales orders.

However, although the pandemic has had only a slight negative impact on the Group in the 2019/20 financial year, this has not been the case across the entire industry.

As a result, we are witnessing two worrying trends. Firstly, contractors are quoting lower tender prices for projects on the expectation that suppliers will similarly discount their prices to secure the work. Secondly, there is increased competition from overseas suppliers that have had a larger downturn in their local markets and are thus seeking to secure work in Australia at very low prices to maintain their operations.

In the longer term, demand for Group products may be impacted by a change in Australian business working habits with companies implementing a shift to part or total work from home arrangements for their employees.

This will impact the demand for office space and thus effect future air conditioning sales in this segment of the market.

We do not have an accurate allocation of HVAC sales to new office projects with an estimate of up to 15% in any year but this change in work arrangements may also present an opportunity as landlords refurbish existing office stock to attract tenants looking for smaller and better equipped space.

Apart from product demand and increased competition, there is another worrying trend that is likely to impact the Group cost structure going forward.

There is a trend by credit insurers to reduce customer bad debt coverage and generally reassess the credit worthiness of all companies.

This is expected to result in less credit insurance coverage for debt default coupled with an associated increase in the premium rate.

Similarly, it is estimated that there will be significant increases in premiums for all classes of insurance used by the Group because of the bushfires and other major losses that have impacted the insurance industry over the past 12 months.

The impact of insurance rates and coverage will be reviewed in the last quarter of 2020 when all existing policies expire.

2.0 An Overview of The Past Year

The Group reported a profit principally due to an increase in operating revenue from \$18.30 million achieved in 2019 to \$19.95 million in 2020 and an increase in gross profit margin.

This increase in revenue has resulted from the growth in Dunnair sales since acquisition and a continuing demand for dehumidification systems which provide higher margins because of their specialised and complex nature.

As detailed above, both revenue and profit would have been higher without the impact of the Covid 19 pandemic which has been only partially offset by the Government's cashflow boost program.

In addition to the pandemic and APL incident, there was another abnormal event that impacted Group profitability.

The earnings result includes an amount of \$162k arising from the lower contingent consideration paid to the vendor of the Dunnair business than had been originally estimated.

This lower earnout amount was in part due to the delayed sales of Dunnair equipment during the second year of ownership resulting from the effects of the pandemic in both China and Australia and the delay in sales caused by the container damage.

However, because the underlying performance of the Dunnair business is strong and still improving with earnings that justify the original estimate, there was

no need to impair the carrying value of this investment.

The years result has continued the underlying trend of improvement that started in January 2019. Increased revenue from the Dunnair operation and better margins on higher value Air Change products has improved Group profitability.

3.0 Group Operational Review

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 an enclosed space which are both 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 research, design, engineering and administration is undertaken at the Group's head office and factory in Milperra, NSW, with all manufacturing, except most Dunnair products, carried out at either the Group's Milperra or Malaysian manufacturing facilities.

Dunnair and Summit products are designed, partially assembled, tested and modified in Milperra with major component assemblies sourced from overseas third party OEM's.

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, Singapore, Malaysia, Indonesia and Thailand.

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

Air Change International Limited

Managing Director's report

3.1 Air Change Division

Air Change pioneered the development and sale of Dedicated Outdoor Air Ventilation Systems (DOAS) in Australia and remain a major player in this segment of the HVAC market.

More recently, Air Change has researched and now manufactures and sell dehumidification solutions for industrial and institutional applications.

Sales of this element of the Group's products continue to grow in both the Australian and South East Asian markets.

Sales of Air Change DOAS and dehumidification products were up 17% over 2019.

Dehumidification sales increased over 230% from the previous year because of products developed in the company's R&D program.

Competition in the traditional heat and energy recovery ventilator segment remains strong which has depressed margins in this product range.

The Company has developed a small split make up air unit to control humidity and temperature in the ventilation air supply. Sales of these units commenced in this past financial year and it is hoped that they will contribute to sales growth in the years ahead.

As reported last year, Air Change is starting to experience product replacements as some early installations now exceed 15 years in operation. It is anticipated that this will aid in sales growth in future years.

3.2 Fan Coil Industries

The Group's Fan Coil Industries division designs, manufactures and sells fan coil and air handling units. Large bespoke AHUs are produced in Australia with smaller FCUs being increasingly sourced from overseas.

Over the past year, FCI recorded a significant sales decline over the previous year but gross profit margin was only marginally lower.

Competition in this market segment has increased as the number of importers bringing fan coil and ahu products into Australia has risen.

There has been a reluctance to allocate limited production resources to the manufacture of AHUs and FCUs in Australia where it would displace the manufacture of higher margin products.

Despite lower sales this past year, this division made a positive contribution to the Group result.

3.3 Summit Industrial Chillers

Process and industrial cooling sales for the year were marginally lower to that recorded in 2019.

Again, this is a niche operation and subject to orders for specialised cooling systems not generally available from imported sources in Australia.

Enquiry levels have picked up in the last half but forward orders have not yet resulted.

This division offers strategic advantages in the research and development of direct exchange air conditioning products and controls technology.

Despite the extreme variability in annual sales, the chiller operation has again made a positive contribution to Group profitability, which it has done in every year since its acquisition.

3.4 Dunnair

As previously reported, 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, principally from China.

Since Dunnair was acquired by the Air Change Group this modus operandi has changed.

All products are now designed and specified in Australia by the Group's engineers.

Units are then either fully or partly manufactured overseas and sent to Sydney for completion and factory acceptance testing.

Manufacturing is now generally undertaken by one manufacturer rather the past practice of sourcing from multiple suppliers.

This has resulted in a better technical and quality relationship with the manufacturer.

Air Change International Limited Managing Director's report

All control programming is completed and installed in the Milperra factory.

Dunnair sales for the year were 40% above that recorded in the previous year and continue to grow as a result of an increase in the model range and design modifications and improvements.

Dunnair again made a positive contribution to the Group result during this last year.

3.5 South East Asia

Sales in the South East Asian region were up from the previous year following the appointment of a new Singapore distributor in December 2019.

As noted above, deliveries and thus sales were impacted by the shutdown of the Singapore and Malaysian economies caused by the pandemic. Similarly, units destined for Thailand were delayed because of the closure of the Malaysian factory and operating restraints in Thailand.

As a result, there is an order backlog of approximately \$750k due for delivery between July and December 2020.

New enquiries and quotes have been very strong since December 2019 because of opportunities sourced by the new distributor.

If we are successful in winning several of these large projects, which are currently postponed because of the pandemic, additional capacity will need to be added to the Malaysian factory operation.

This will include a factory relocation as the existing Lessor has indicated that it requires the present factory for its own operations and therefore will not extend the existing lease when it expires in 2021. They have offered an early termination of the existing lease which will probably be accepted as moving at the present expiry date in June 2021 will be inconvenient.

The opportunities in Singapore have improved considerably with the appointment of the new distributor.

3.6 Manufacturing Operations

Manufacturing is carried out in the Group's factories 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 overseas OEM to engineering designs developed in Australia. All Dunnair products are tested in Sydney before dispatch to their final destination. In some cases, manufacturing of Dunnair products is completed in Australia.

As previously reported, both skilled and non-skilled manufacturing labour had been difficult to source in Australia and Malaysia. This shortage of skilled labour is improving in both locations as a result of the pandemic.

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. With the present order volume and increasing opportunity in South East Asia, the Malaysian factory viability is increasing.

4.0 Financial Performance

4.1 Revenue and Profit

Operations revenue generated from Group activities in the 2019/20 financial year was \$19.95 million, up 6% from \$18.30 million reported in 2018/19.

The Company recorded a profit after tax of \$798,000 for the 2019/20 year.

4.2 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 applicable to public companies.

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 cannot be guaranteed.

Air Change International Limited

Managing Director's report

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.

4.3 Acquisitions

There were no acquisitions contemplated or completed during the year.

5.0 Research & Development

Research and product development ("R&D") continued over this past year, again at a slower pace than the year before.

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 continues to be a shift in the sensible to latent heat load ratio which impacts on the ability of traditional building air conditioning systems to maintain room humidity at an acceptable space temperature.

The Group's BLDC compressor technology research knowledge has been applied to the Dunnair product range to improve its overall energy efficiency and code compliance.

Dunnair sales of variable speed BLDC products has grown from nothing at acquisition to approximately 25% of sales this past year.

Other than R&D costs already committed, any additional R&D expenditure will depend on identifying new product concepts.

6.0 Future Strategy & Outlook

Sales in this last year would have been in excess of \$20 million but for the Corona virus impact and the loss of product shipped on the APL England. It has always been managements intention to grow sales to around \$23 - \$25 million, which is considered necessary to support the engineering and administration costs associated with operating a technically competent organisation that can support its customer base and remain profitable.

The Dunnair acquisition was designed to aid in this revenue growth. It has added sales with only a marginal increase in Group overhead cost.

The immediate future is uncertain as no one knows how this pandemic will impact the Australian economy.

South East Asian sales were stronger this last year than they have been for the past 3 years and will hopefully contribute substantially in the next 18 months if projects that have been specified with Air Change equipment eventuate.

New opportunities are being identified by the Group's new distributor in Singapore which will lead to a sustained operation rather than the peak and trough sales levels that we have experienced to date.

Competition remains strong from both imports and domestic sources that do not experience the costs of developing the market.

Geographical expansion remains an objective but this is difficult in this new post pandemic world.

New product development has been critical to the Company's success. It will remain a management priority over this next year.

Neil Fimeri
Managing Director

Air Change International Limited

Directors' report for year ended 30 June 2020

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 2020.

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) – Resigned on 3 October 2019

Peter Anthony Curry (Non-Executive Independent Director) – Appointed on 3 October 2019

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 – 9 herein. A summary of consolidated revenues and results by significant business segments is set out below:

	2020	2019
	\$	\$
Heating, cooling, & ventilation equipment	19,951,537	18,301,981
Profit/ (loss) before income tax benefit/ (expense)	772,645	(377,475)
Profit/ (loss) after income tax benefit/ (expense)	797,546	(460,679)
Net profit/ (loss) attributable to members of ACI Limited	797,546	(460,679)

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 2020 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years
- the results of those operations in future financial years
- the Group's state of affairs in future financial years.

Air Change International Limited
Directors' report for year ended 30 June 2020

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
Peter Curry – B Com LLB	Mr Curry was appointed as a Non-Executive Director of Air Change International Limited on 3 October 2019. Mr. Curry has had a broad range of professional and business experience over 45 years in a range of industries including natural resources, property and financial services. He has acted as a director of a number of private and public companies and has been involved in a range of public and private capital raisings, mergers and acquisitions as well as providing corporate and financial advisory services in relation to a variety of business transactions. Mr Curry (B Com LLB) holds Bachelor of Commerce and Bachelor of Laws degrees from the University of NSW. He is a Chartered Accountant and was admitted as a non-practising barrister to the Supreme Court of NSW. Mr Curry is a Non-Executive Director of Sun Hung Kai & Co. Limited (Hong Kong) and Tian An Australia Limited.	Non-executive independent Director	Nil
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

Air Change International Limited
Directors' report for year ended 30 June 2020

DIRECTORS' INTERESTS

INFORMATION ON DIRECTORS (continued)

			Particulars of directors' interests at date of this report
Director	Experience	Special responsibilities	Securities held
Robert Lees	<p>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.</p> <p>He provides Company Secretarial and CFO services to small listed public companies and has done so since 2000.</p>	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 (2019: four) and two Audit, Finance, Risk and Compliance Committee meetings (2019: two) and nil Remuneration Committee meeting (2019: nil) held during the year ended 30 June 2020.

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	
	<u>Number held</u>	<u>Number attended</u>	<u>Number held</u>	<u>Number attended</u>	<u>Number held</u>	<u>Number attended</u>
Alan S Jones	4	4	2	2	-	-
John M Langley	2	2	1	1	-	-
Peter A Curry	2	2	1	1	-	-
Neil Fimeri	4	4	*	*	*	*

* Not a member of the relevant committee

Air Change International Limited

Directors' report for year ended 30 June 2020

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 2020.

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 20 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 2020 (2019: 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 2020 (2019: Nil).

Air Change International Limited

Directors' report for year ended 30 June 2020

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 at 30 June 2020 are Alan Jones (Non-executive chairman) and Peter A Curry (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

2020 Name	Short term employee benefits		Post-employment	Long-term benefits	Termination benefits	Total
	Cash salary and fees	Cash bonus	Superannuation	Long service leave		
	\$	\$	\$	\$	\$	\$
Non-executive directors						
Alan S Jones – Chairman	30,000	-	2,850	-	-	32,850
John M Langley	5,500	-	522	-	-	6,022
Peter A Curry	22,500	-	2,138	-	-	24,638
Executive director						
Neil R Fimeri Managing Director	^393,982	-	25,000	6,328	-	425,310
Total KMP remuneration	451,982	-	30,510	6,328	-	488,820

Air Change International Limited
Directors' report for year ended 30 June 2020

2019 Name	Short term employee benefits		Post-employment	Long-term benefits		Total
	Cash salary and fees \$	Cash bonus \$	Superannuation \$	Long service leave \$	Termination benefits \$	
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

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:

2020 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

Loans to directors/ key management personnel

No loans to directors have been made during the year ended 30 June 2020 (2019: Nil).

Material contracts with directors

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

End of audited remuneration report

Air Change International Limited

Directors' report for year ended 30 June 2020

Corporate governance

Refer to pages 18 to 22 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 (2019: 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 17.

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
7 September 2020

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 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- 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
Partner

BDO Audit Pty Ltd
Sydney, 7 September 2020

Corporate governance statement

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.

Corporate governance statement

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.

Corporate governance statement

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)
- Peter Curry (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 2020 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.

Corporate governance statement

The Remuneration Committee consists of the following directors:

- Alan Jones (Non-executive Chairman)
- Peter Curry (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 \$63,510; 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 20 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.

Corporate governance statement

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 2020

	Note	2020 \$	2019 \$
Revenue	4	19,951,537	18,301,981
Other income	5	541,032	570,231
Changes in inventories of finished goods		645,438	(43,060)
Raw materials and consumables used		(12,044,144)	(10,594,589)
Occupancy costs		(535,131)	(1,132,884)
Employee benefits expenses		(5,763,041)	(5,900,032)
Depreciation of plant and equipment		(130,884)	(219,059)
Depreciation of right-of-use assets		(508,688)	-
Amortisation of patents		(249,245)	(248,744)
Other expenses		(1,124,890)	(995,013)
Finance costs		(171,918)	(116,306)
Contingent consideration written back	28	162,579	-
Profit/ (loss) before income tax	6	772,645	(377,475)
Income tax benefit/ (expense)	7	24,901	(83,204)
Profit/ (loss) after tax for the year		797,546	(460,679)
Net profit/ (loss) for the year		797,546	(460,679)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations	19	33,989	(14,613)
Other comprehensive income/ (loss) for the year, net of tax		33,989	(14,613)
Total comprehensive income/ (loss) for the year attributable to members of Air Change International Limited		831,535	(475,292)
Earnings per share attributable to members of Air Change International Limited			
Basic earnings per share	25	0.045	(0.026)
Diluted earnings per share	25	0.045	(0.026)

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 2020**

	Note	2020 \$	2019 \$
Current assets			
Cash & cash equivalents	8	51,337	58,584
Trade & other receivables	9(a)	3,155,048	4,367,736
Inventories	10	3,256,517	2,611,079
Total current assets		6,462,902	7,037,399
Non-current assets			
Plant, equipment and leasehold improvements	11	363,801	439,923
Right-of-use assets	12	1,478,711	-
Rental bonds & term deposit		71,486	68,297
Intangible assets	13	3,233,745	3,456,821
Deferred tax assets	14	398,148	372,703
Total non-current assets		5,545,891	4,337,744
TOTAL ASSETS		12,008,793	11,375,143
Current liabilities			
Trade & other payables	15	2,246,289	3,226,187
Borrowings	27	295,792	1,144,442
Lease liabilities	16	711,609	-
Employee entitlements	17	965,607	751,235
Total current liabilities		4,219,297	5,121,864
Non-current liabilities			
Lease liabilities	16	826,194	-
Employee entitlements	17	59,937	181,449
Total non-current liabilities		886,131	181,449
TOTAL LIABILITIES		5,105,428	5,303,313
Net Assets		6,903,365	6,071,830
Equity			
Contributed equity	18	7,104,700	7,104,700
Reserves	19	14,876	(19,113)
Retained earnings		(216,211)	(1,013,757)
TOTAL EQUITY		6,903,365	6,071,830

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 2020**

		Contributed equity	Reserves	Retained earnings	Total
	Notes	\$	\$	\$	\$
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)	19	-	(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
Balance at 1 July 2019		7,104,700	(19,113)	(1,013,757)	6,071,830
Profit for the year		-	-	797,546	797,546
Other comprehensive income	19	-	33,989	-	33,989
Total comprehensive income for the year		-	33,989	797,546	831,535
Balance at 30 June 2020		7,104,700	14,876	(216,211)	6,903,365

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 2020**

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		23,527,625	20,405,532
Payments to suppliers, employees and creditors		(21,954,929)	(20,514,113)
Interest received		3,265	4,284
Finance costs		(163,067)	(116,306)
Income tax paid		-	(13)
Net cash inflow/ (outflow) from operating activities	24	1,412,894	(220,616)
Cash flows from investing activities			
Contingent consideration payment	28	(32,404)	-
Purchase of plant, equipment & leasehold improvements	11	(55,409)	(27,640)
Payment for patents & intellectual property	13	(26,169)	(250)
Proceeds on disposal of plant & equipment		1,636	7,272
Net cash (outflow) from investing activities		(112,346)	(20,618)
Cash flows from financing activities			
Proceeds from borrowings		18,242,900	12,085,000
Repayment of borrowings		(19,091,550)	(11,873,379)
Payment of lease liabilities		(459,145)	-
Net cash (outflow)/ inflow from financing activities		(1,307,795)	211,621
Net (decrease) in cash held		(7,247)	(29,613)
Cash & cash equivalents at the beginning of the financial year		58,584	88,130
Exchange differences on cash & cash equivalents		-	67
Cash & cash equivalents at the end of the financial year	8	51,337	58,584

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

Notes to the financial statements for the year ended 30 June 2020

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 7 September 2020. 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.

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 2020 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.

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.

Notes to the financial statements for the year ended 30 June 2020

(b) Principles of consolidation (continued)

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.

Notes to the financial statements for the year ended 30 June 2020

(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 profit or 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.

Notes to the financial statements for the year ended 30 June 2020

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received. Right of use assets are depreciated on a straight-line basis over the period of the lease. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

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

In 2019, 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.

Notes to the financial statements for the year ended 30 June 2020

(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 1 year.

(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) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments and variable lease payments that depend on an index or a rate.

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

(q) Finance costs

Finance costs in relation to borrowings are expensed.

Notes to the financial statements for the year ended 30 June 2020

(r) 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.

(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.

(s) 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.

(t) 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.

(u) 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.

Notes to the financial statements for the year ended 30 June 2020

(v) 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.

(w) 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.

(x) Parent entity financial information

The financial information for the parent entity, Air Change International Limited, disclosed in note 26 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.

(y) 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.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. Refer note 12 for the impact of adoption of AASB 16 leases and the reconciliation to lease commitments opening balance.

(z) 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 but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Notes to the financial statements for the year ended 30 June 2020

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:

	2020 \$	2019 \$
Financial assets		
Cash and cash equivalents	51,337	58,584
Trade and other receivables	3,052,734	4,300,943
	<u>3,104,071</u>	<u>4,359,527</u>
Financial liabilities		
Current		
Trade & other payables	2,246,289	3,226,187
Borrowings	295,792	1,144,442
Lease liabilities	711,609	-
	<u>3,253,690</u>	<u>4,370,629</u>
Non-current		
Lease liabilities	826,194	-
	<u>826,194</u>	<u>-</u>

(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 2020, had the Australian dollar weakened/ strengthened by 10% (2019: 10%) against these currencies with all other variables held constant, the impact on the profit would have been \$9,917 higher/ \$8,467 lower (2019: \$36,878 higher/ \$28,434 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 2020, 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 \$3,021 higher/lower (2019: \$4,610). 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 (2019: 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 (2019: nil).

Notes to the financial statements for the year ended 30 June 2020

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 \$2,500,000 (2019: \$1,300,000). This facility may be drawn at any time and maybe terminated by either party with 90 days notice (note 27).

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 2020	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	1,951,045	280,684	14,560	-	2,246,289	2,246,289
Borrowings	295,792	-	-	-	295,792	295,792
Lease liabilities	246,109	75,371	390,129	826,194	1,537,803	1,537,803
Total non-derivative	2,492,946	356,055	404,689	826,194	4,079,884	4,079,884
Group – at 30 June 2019						
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

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 \$74,421 (2019: \$237,000) in respect of contingent consideration payable in respect of a past acquisition as detailed in note 28.

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.

Notes to the financial statements for the year ended 30 June 2020

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 Group 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 Group 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 Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

**Notes to the financial statements
for the year ended 30 June 2020**

4. Revenue

	2020	2019
	\$	\$
Sales revenue		
Sale of goods	19,788,931	18,107,882
Services	162,606	194,099
Total revenue	19,951,537	18,301,981

5. Other income

	2020	2019
	\$	\$
Interest	3,265	4,284
Government (note (a))	481,248	508,317
Net foreign exchange gain	-	-
Other	54,883	52,104
Net gain on disposal of plant and equipment	1,636	5,526
Total other income	541,032	570,231

(a) Government

In 2020 and 2019, this primarily consisted of R&D refundable tax offset of \$267,271 (2019: \$438,870), export market development grant of \$nil (2019: \$55,748) and cash flow boost of \$184,204 (2019: \$nil).

6. Expenses

	2020	2019
	\$	\$
Profit/ (loss) before income tax includes the following specific expenses:		
Lease rental payments - note 1(y)	316,841	842,064
Defined contribution superannuation payments	429,221	452,875
Net foreign exchange loss	63,142	10,923
Doubtful debt expense	67,122	(22,000)

**Notes to the financial statements
for the year ended 30 June 2020**

7. Income tax expense

(a) Income tax expense

	2020	2019
	\$	\$
Current tax expense/ (benefit)	91,133	(302,306)
Deferred tax – origination and reversal of temporary differences	(25,445)	83,204
Current year income tax – overseas entity	544	-
Benefit of tax losses previously not recognised	(122,564)	-
Current year tax losses not recognised	31,431	302,306
Aggregate current income tax (benefit)/ expense	<u>(24,901)</u>	<u>83,204</u>
Deferred tax included in income tax expense comprises:		
(Increase)/ decrease in deferred tax assets	(25,445)	83,204
Deferred tax – origination and reversal of temporary differences	<u>(25,445)</u>	<u>83,204</u>

(b) Reconciliation of effective tax rate

	2020	2019
	\$	\$
Profit/ (loss) before income tax expense	772,645	(377,475)
Income tax calculated at 27.5% (2019 – 27.5%)	212,477	(103,806)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research & development refundable tax offset	(73,500)	(120,689)
Cash flow boost	(50,656)	-
Contingent consideration	(44,709)	-
Other	24,445	10,182
Subtotal	68,057	(214,313)
Previously unrecognised tax losses now utilised to reduce current tax expense	(122,564)	-
Net taxable losses not recognised	31,431	302,306
Current year income tax – overseas entity	544	-
Temporary differences not recognised	2,799	(4,789)
Recoupment of foreign subsidiaries tax losses not previously recognised	(5,168)	-
Income tax expense/ (benefit)	<u>(24,901)</u>	<u>83,204</u>

Notes to the financial statements for the year ended 30 June 2020

8. Cash and cash equivalents	2020	2019
	\$	\$
Cash at bank and on hand	51,337	58,584
	<u>51,337</u>	<u>58,584</u>

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

9. Trade and other receivables	2020	2019
	\$	\$
(a) Current assets		
Trade receivables	2,777,232	3,699,496
Less: Allowance for expected credit losses	(80,000)	(70,279)
Net trade receivables	2,697,232	3,629,217
Rental and security bonds	2,000	863
Term deposits in respect of guarantees	229,081	218,213
Other debtors	124,421	452,650
Prepayments	102,314	66,793
	<u>3,155,048</u>	<u>4,367,736</u>

Allowance for expected credit losses

The Group retains an allowance of \$80,000 (2019: \$70,279) in respect of future expected credit losses.

(b) Past due not impaired trade receivables

As at 30 June 2020 there were current trade receivables of the Group with a nominal value of \$42,470 that were past due (2019: \$571,142) but not impaired. The amount of the allowance was \$80,000 (2019: \$70,279).

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:

	2020	2019
	\$	\$
Not past due	2,654,762	3,058,075
Past due 2-3 months	41,844	538,692
Past due over 3 months	626	32,450
Total	<u>2,697,232</u>	<u>3,629,217</u>

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

	2020	2019
	\$	\$
At 1 July	70,279	275,168
Provision recognised during the year	68,109	-
Receivables written off during the year	(58,388)	(204,889)
Balance at 30 June	<u>80,000</u>	<u>70,279</u>

Notes to the financial statements for the year ended 30 June 2020

(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 2019, the Company commenced proceedings to recover monies in dispute. This matter was settled in June 2020 with the settlement exceeding the amount in dispute. The loss on this settlement was provided for during the year.

10. Inventories

	2020 \$	2019 \$
Current Assets		
Raw materials	1,174,778	1,157,112
Work in progress	914,122	1,040,537
Finished goods	665,851	413,430
Stock in transit	501,766	-
	<u>3,256,517</u>	<u>2,611,079</u>

(a) Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2020 amounted to \$nil (30 June 2019: \$62,786).

**Notes to the financial statements
for the year ended 30 June 2020**

11. Plant, equipment and leasehold improvements

	Plant & Equipment	Furniture & Fixtures	Leasehold Improvements	Total
At 1 July 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	<u>459,030</u>	<u>53,600</u>	<u>116,112</u>	<u>628,742</u>
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 difference	3,598	363	385	4,346
Closing net book amount	<u>368,648</u>	<u>47,768</u>	<u>23,507</u>	<u>439,923</u>
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	<u>368,648</u>	<u>47,768</u>	<u>23,507</u>	<u>439,923</u>
Year ended 30 June 2020				
Opening net book amount	368,648	47,768	23,507	439,923
Additions	4,923	520	49,966	55,409
Depreciation charge	(104,058)	(11,000)	(15,826)	(130,884)
Net exchange difference	(412)	(114)	(121)	(647)
Closing net book amount	<u>269,101</u>	<u>37,174</u>	<u>57,526</u>	<u>363,801</u>
At 30 June 2020				
Cost	1,472,039	130,460	250,969	1,853,468
Accumulated depreciation	(1,202,938)	(93,286)	(193,443)	(1,489,667)
Net book amount	<u>269,101</u>	<u>37,174</u>	<u>57,526</u>	<u>363,801</u>

Notes to the financial statements for the year ended 30 June 2020

12. Right-of-use assets

	2020	2019
	\$	\$
Properties – right-of-use	1,988,097	-
Accumulated depreciation	(508,688)	-
Net exchange difference	(698)	-
Net book amount	1,478,711	-
At 30 June 2020		
Right-of-use assets recognised on adoption	416,969	-
Lease arrangements entered during the year	1,571,128	-
Amortisation charge	(508,688)	-
Net exchange difference	(698)	-
Closing net book amount	1,478,711	-

Additions to the right-of-use assets during the year were \$1,988,097.

The Group leases various properties and the rental contracts are typically made for fixed periods of 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The lease payments are discounted using the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Impact of adoption – AASB 16 Leases

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	1 July 2019
	\$
Operating lease commitments as at 1 July 2019 (AASB 117)	771,633
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5% (AASB 16)	(28,111)
Short-term leases not recognised as a right-of-use asset (AASB 16)	(330,081)
Exchange difference	3,528
Right-of-use assets (AASB 16)	416,969
Lease liabilities - current (AASB 16)	(215,664)
Lease liabilities - non-current (AASB 16)	(201,305)
Reduction in opening retained profits as at 1 July 2019	-
Total lease liabilities as at 1 July 2019	(416,969)

**Notes to the financial statements
for the year ended 30 June 2020**

13. Intangible assets

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 28)	-	-	(147,596)	-	(147,596)
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
Year ended 30 June 2020	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
Carrying value at 1 July 2019	20,000	71,460	2,817,222	548,139	3,456,821
Additions	-	-	-	26,169	26,169
Amortisation charge	-	-	-	(249,245)	(249,245)
Carrying value at 30 June 2020	20,000	71,460	2,817,222	325,063	3,233,745
At 30 June 2020					
Cost	20,000	71,460	2,817,222	3,615,965	6,524,647
Accumulated amortisation	-	-	-	(3,290,902)	(3,290,902)
Net book amount	20,000	71,460	2,817,222	325,063	3,233,745

Notes to the financial statements for the year ended 30 June 2020

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 2020.

	Heating Cooling & Ventilation
	\$
Year ended 30 June 2020	
Goodwill and intangibles	2,908,682
Patents	325,063

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 11.66% (2019– 13.9%), 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 30 percent or the gross margin decrease by 3.7 percent or the revenue to decrease by 3.3 percent before the estimated recoverable amount approximates the carrying amount.

14. Deferred tax assets

	2020	2019
	\$	\$
The balance comprises temporary differences attributable to:		
Deferred tax assets / (liabilities)		
Employee benefits	278,418	253,956
Tax losses	64,074	64,074
Other	72,506	50,468
Depreciation and amortisation	7,900	28,955
Intangibles	(24,750)	(24,750)
Total deferred tax assets at 27.5%	398,148	372,703
Deferred tax assets expected to be recovered within 12 months at 27.5%	342,341	283,481
Deferred tax assets expected to be recovered after more than 12 months at 27.5%	55,807	89,222

**Notes to the financial statements
for the year ended 30 June 2020**

14. Deferred tax assets (continued)

Movements	Employee Benefits	Tax Losses	Other	Depreciation amortisation	Intangibles	Total
	\$	\$	\$	\$	\$	\$
At 1 July 2018	250,044	64,074	116,751	49,788	(24,750)	455,970
(Charged)/credited						
- to profit or loss	3,912	-	(66,283)	(20,833)	-	(83,204)
- to other	-	-	-	-	-	-
comprehensive income						
At 30 June 2019 at 27.5%	253,956	64,074	50,468	28,955	(24,750)	372,703
(Charged)/credited						
- to profit or loss	24,462	-	22,038	(21,055)	-	25,445
- to other	-	-	-	-	-	-
comprehensive income						
At 30 June 2020 at 27.5%	278,418	64,074	72,506	7,900	(24,750)	398,148

Tax Losses Not Recognised	2020	2019
	\$	\$
Unused tax losses for which no deferred tax asset has been recognised		
Opening balance	5,494,530	5,215,492
Current recoupment of tax losses not previously recognised	(445,689)	-
Current tax losses not recognised	-	955,651
Subtotal	5,048,841	[^] 6,171,143
R&D accounting (expenditure) per income tax return	-	(614,417)
Other adjustments per income tax return	-	(62,196)
Closing balance	5,048,841	^{^^} 5,494,530
Potential tax benefit at 27.5%	1,388,431	1,510,996

Controlled Foreign Companies (CFC) losses Not Recognised	2020	2019
	\$	\$
Unused CFC losses for which no deferred tax asset has been recognised		
Opening balance	443,366	301,184
Current recoupment of CFC loss not previously recognised	(18,791)	-
Current CFC losses not recognised	114,294	143,641
Subtotal	538,869	[^] 444,825
Other adjustments per income tax return	-	(1,459)
Closing balance	538,869	^{^^} 443,366
Potential tax benefit at 27.5%	148,189	121,926

[^] Balance per 2019 financial statements

^{^^} Adjusted closing balance based on lodged 2019 income tax return

**Notes to the financial statements
for the year ended 30 June 2020**

15. Trade & other payables

	2020	2019
	\$	\$
Current		
Trade payables	1,375,074	2,117,225
Contingent consideration (note 28)	74,421	237,000
Other payables	796,794	871,962
	2,246,289	3,226,187

16. Lease liabilities

	2020	2019
	\$	\$
Current		
Lease liabilities	711,609	-
	711,609	-
Non-current		
Lease liabilities	826,194	-
	826,194	-

17. Employee entitlements

	2020	2019
	\$	\$
Current		
Employee entitlements (note (a))	965,607	751,235
	965,607	751,235
Non-current		
Employee entitlements – long service leave	59,937	181,449

(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.

Notes to the financial statements for the year ended 30 June 2020

18. Contributed equity

	2020 Number	2019 Number	2020 \$	2019 \$
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 2018	Opening balance	17,714,009	7,104,700
30 June 2019	Movement during year	-	-
30 June 2019	Balance	17,714,009	7,104,700
30 June 2020	Movement during year	-	-
30 June 2020	Balance	17,714,009	7,104,700

(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 (2019: 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.

19. Reserves

	Share Option \$	Foreign Currency Translation \$	Total Reserves \$
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)
At 1 July 2019	89,960	(109,073)	(19,113)
Exchange differences on translating foreign operations	-	33,989	33,989
At 30 June 2020	89,960	(75,084)	14,876

Notes to the financial statements for the year ended 30 June 2020

20. Remuneration of auditors

	2020	2019
	\$	\$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity: BDO Audit Pty Ltd (2019 – BDO East Coast Partnership)*		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	77,903	77,289
<i>Other services</i>		
R&D tax concession services	12,000	15,000
	<u>89,903</u>	<u>92,289</u>

* The BDO entity performing the audit of the Group transitioned from BDO East Coast Partnership to BDO Audit Pty Ltd on 7 July 2020. The disclosures include amounts received or due and receivable by BDO East Coast Partnership, BDO Audit Pty Ltd and their respective related entities.

21. Commitments for expenditure

	2020	2019
	\$	\$
Rental lease commitments in respect of property, plant & equipment under operating lease		
For 2020, refer Note 1(y) AASB 16 - Leases		
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
- Payable later than 1 year but not later than 5 years	-	221,280
Total operating lease liability	<u>-</u>	<u>771,633</u>

22. Performance Guarantees

Performance guarantees supported by term deposits at balance date were:

- (a) property rental agreements \$165,000 (2019: \$164,036);
- (b) commercial credit card facility \$30,000 (2019: \$30,000); and
- (c) operating licences \$34,081 (2019: \$24,177)

Notes to the financial statements for the year ended 30 June 2020

23. Related party information

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

During the year 2020, there was no transaction between any directors and members of the Group (2019 – Nil).

(b) Key management personnel disclosure

	2020	2019
	\$	\$
Aggregate compensation		
Short term employee benefits	451,982	442,301
Post employment benefits	30,510	30,700
Long term benefits	6,328	6,328
	<u>488,820</u>	<u>479,329</u>

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.

24. Reconciliation of cash flows from operating activities

	2020	2019
	\$	\$
Profit/ (loss) after income tax	797,546	(460,679)
Depreciation and amortisation	888,817	467,803
Doubtful debts	67,122	(22,000)
Net exchange differences	37,004	(30,427)
Net (gain) on disposal of non-current assets	(1,636)	(5,526)
Increase in interest on lease liabilities	8,851	-
Changes in assets and liabilities		
Decrease/ (increase) in trade receivables	864,863	(165,199)
Decrease/ (increase) in other receivables & prepayments	291,327	(70,882)
(Increase) in guarantee deposits	(11,514)	(3,629)
(Increase)/ decrease in inventories	(645,438)	43,061
(Increase)/ decrease in deferred tax assets	(25,445)	83,204
(Decrease) in trade payables	(709,747)	(225,710)
(Decrease)/ increase in other payables	(79,682)	174,019
(Decrease) in contingent consideration	(162,579)	-
Increase/ (decrease) in provisions	92,861	(4,638)
Increase/ (decrease) in income tax provision	544	(13)
Net cash inflow/ (outflow) from operating activities	<u>1,412,894</u>	<u>(220,616)</u>

Notes to the financial statements for the year ended 30 June 2020

25. Earnings per share

	2020	2019
	\$	\$
Basic earnings per share from continuing operations	0.045	(0.026)
Diluted earnings per share from continuing operations	0.045	(0.026)

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		
Profit/ (loss) attributable to the ordinary equity holders of the Company:		
from continuing operations	797,546	(460,679)
Earnings used in calculating basic and diluted earnings per share	797,546	(460,679)

26. Parent entity financial information

(a) Summary financial information

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

	2020	2019
	\$	\$
Statement of financial position		
Current assets	423,749	12,034
Total assets	8,280,397	7,861,365
Current liabilities	343,455	264,413
Total liabilities	351,031	339,576
<i>Shareholders' equity</i>		
Issued capital	7,104,700	7,104,700
Reserves	89,960	89,960
Retained earnings	734,706	327,129
Total shareholders' equity	7,929,366	7,521,789
Profit/(loss) for the year	407,577	(133,698)
Total comprehensive income for the year	407,577	(133,698)

Notes to the financial statements for the year ended 30 June 2020

26. Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

	2020	2019
	\$	\$
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.

27. Financing Arrangements

At reporting date, the Group had the following financing facilities:

	2020	2019
	\$	\$
Total facilities available		
Debtor financing liability*	2,500,000	1,300,000
Indemnity/guarantee facilities	213,081	202,213
Commercial credit card facilities	30,000	30,000
	2,743,081	1,532,213
Used at the reporting date		
Debtor financing liability	295,792	1,144,442
Indemnity/guarantee facilities	199,081	188,213
Commercial credit card facilities	28,000	23,000
	522,873	1,355,655

*The business has renewed its revolving facility secured against approved trade Debtors less than 90 days past due in September 2019 for two years. This facility has a present limit of \$2,500,000 (2019: \$1,300,000) and was drawn down as required during the year ended 30th June 2020. 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 of \$42,494 for the financial year (2019: \$33,867). Interest paid in the financial year on the facility was \$42,502 (2019: \$76,853).

Security

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

Notes to the financial statements for the year ended 30 June 2020

28. Contingent Consideration

In 2018, the Company entered into an agreement to buy the business assets relating the manufacture and sale of Dunnair branded air conditioning products.

The consideration for this business acquisition was dependent on sales and profitability achieved during the two years after acquisition.

In 2019, planned product design and engineering reviews took longer than originally anticipated. This meant that product promotion was delayed negatively impacting sales of Dunnair products in the first year.

As a result, the original contingent consideration estimate was reduced by \$147,596 to \$269,404 and a payment of \$32,404 made in respect of the first year.

In 2020, the Covid pandemic and the APL England incident (refer to Managing Directors Report) impacted Dunnair sales resulting in a year 2 earn out payment amount due of \$74,421 (refer note 15) with the difference between the carrying value of the remaining contingent consideration at June 2019 of \$162,579 being credited to the profit and loss account.

Directors' declaration for the financial year ended 30 June 2020

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 2020 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
7 September 2020

INDEPENDENT AUDITOR'S REPORT

To the members of Air Change International Limited

Report on the Financial Report

We have audited the accompanying financial report of Air Change International Limited, which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the disclosing entity 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Air Change International Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

INDEPENDENT AUDITOR'S REPORT (Continued)

Continued BDO Independence auditor's report to the member of Air Change International Ltd

Opinion

[In our opinion:

- (a) the financial report of Air Change International Limited 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 2020 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

BDO Audit Pty Ltd

Ryan Pollett

Partner

Sydney, 7 September 2020

Air Change International Limited
Additional Information for National Stock Exchange of Australia
as at 14 August 2020

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 (%) 2020	Percentage Owned (%) 2020
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	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
Profit / (loss)	797,546	(460,679)	(597,057)	(1,704,577)	(704,094)
Assets	12,008,793	11,375,143	11,820,643	11,157,103	12,914,205
Liabilities	5,105,428	5,303,313	5,273,521	3,912,900	3,968,223

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%
HSBC Custody Nominees (Australia) Limited	762,360	4.30%
Phoenix Properties International Pty Ltd	261,087	1.47%
Estate Late Christopher Lindsay Biggins	215,530	1.22%
Mr Gregory Creighton Sproule	174,207	0.98%

Air Change International Limited
Additional Information for National Stock Exchange of Australia
as at 14 August 2020

4. SHAREHOLDER DISTRIBUTION TABLE

Fully paid ordinary shares

Range	Total holders	Units	% Units
1 – 1,000	440	225,798	1.27
1,001 – 5,000	183	388,835	2.20
5,001 – 10,000	29	212,948	1.20
10,001 – 100,000	44	1,374,798	7.76
100,001 – 9,999,999,999	17	15,511,630	87.57
	713	17,714,009	100