



2023

Annual Report

Air Change International Limited

ACN: 087 737 068

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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
Principal & Registered Office:	11 Broadhurst Road Ingleburn NSW 2565 Tel: (02) 8774 1400 e-mail: invest@airchange.com.au Web site: www.airchange.com.au
Share Registrar:	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115
Auditors:	BDO 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

Your directors present the Air Change International Limited ("Company" or "Group") annual report for the financial year ended 30 June 2023.

We described 2022 FY as "Annus Horribilis" with Group product sales falling by 21% from the previous year because of the impact of Covid 19, in particular the scarcity of component parts needed to complete the manufacture of the Group's complex HVAC products.

The supply chain problems eased in this last financial year. Parts and components became more readily available in late July and early August 2022 which allowed production to return to near normal levels.

The Group continued to record monthly losses in early 22/23 FY until parts became more readily available.

Sales for this past year were up 26% from \$16.77 million recorded in 2022 to \$21.13 million which has enabled the Group to report a profit for the year of \$1.19 million compared to a loss of \$1.52 million for FY 2022.

Average delivery times have fallen as supply chain problems have eased to the more normal period of 14 – 16 weeks compared with over 26 weeks experienced in 2022 due to the combined effects of the pandemic.

1.0 Operations

(i) Australian Operations

The effects of the Covid 19 pandemic would now appear to be behind us.

Component and part supply has returned to normal levels, shipping services are more regular and reliable and container pricing has come back to pre-pandemic levels, lower than pre-pandemic costs for some services.

Delays in receipt of products and components from China have now ceased but there are still delays in the availability of a small number of European sourced components.

Skilled and semi-skilled production labour in Australia has always been, and continues to be, a problem.

This labour shortage is now evident across the whole economy with particular emphasis on skilled engineering labour.

There is an extreme shortage of engineers who are suitably qualified and experienced to design and detail the complex HVAC products which are the Group's main revenue source.

This has forced the Group to employ engineers without the necessary engineering skills and experience and train them inhouse to design and detail these HVAC and refrigeration systems.

Newly recruited design engineers have been selected as much for their home address and likely future stability as their present engineering design skills.

The lease of the new factory in Ingleburn, NSW commenced in March 2022 on a 5 year lease with a 5 year option.

The move to these new premises was completed in June 2022 and is now having a positive impact on production activities.

The Ingleburn factory is sufficient for present and planned Australian manufacturing and testing operations.

Unfortunately, the move has caused a number of staff resignations where the additional travel burden became untenable for some employees.

Most stayed for the first 9 months after the move but they have now resigned as commuting times increased with increased traffic after the pandemic and suitable employment options opening up closer to their place of residence.

The move caused an overall staff loss of about 10% of the total Milperra workforce.

Semi-skilled production labour employed since the move have displayed more stability than those that were hired at Milperra.

(ii) South East Asian Operations

Covid 19 has had minimal impact on the Group's Malaysian manufacturing operations this past financial year.

Malaysia has become an essential part of the Group's ability to manufacture the range and quantity of products it now sells in the HVAC market.

Labour productivity has increased significantly this past year due to investment in new capital equipment, a recruitment drive, increased incentive payments and the introduction of expatriate shop floor supervision.

The Malaysian factory floor area was reduced by approximately 25% when the present premises were leased in late 2020.

At that time, the full effects of Covid 19 on future sales and manufacturing operations were not known and thus downsizing was taken as a precautionary step.

The other major factor in this decision was the exceptionally high container prices at that time which offset the cost advantages of offshore manufacturing.

The present Malaysian factory lease expires in December 2023 and we are currently reviewing whether to remain in this smaller premises or move to a larger facility and expand manufacturing operations.

The present factory is now at capacity and incapable of further operational expansion.

Improvements in labour productivity, container pricing and product quality have all caused a reassessment of the Malaysian manufacturing operation.

An expansion of the Malaysian operation would involve increased production of HVAC products and producing components and undertaking operations that are presently outsourced.

A decision will be made in September 2023 when the present factory lease option is due to be exercised.

2.0 Product Demand & Sales

Project enquiries slowed in late 2022 and early 2023. This slowing enquiry trend reversed in March which has seen increased order intake volumes in June and July 2023.

Forward orders were \$10.35 million at the time of writing this report in late July 2023.

This slow down then rapid rise in order intake has strained the engineering capacity of the Group and created an engineering backlog.

Deliveries in the first quarter of the 23/24 FY will be impacted as engineering has to be completed and approved before manufacturing can commence.

Order intake in South East Asia is in line with normal levels but we have been working on several project enquiries in Vietnam and Malaysia which may result in increased activity later in this FY.

It is interesting to note that heat and energy recovery products, which were the backbone of the company's foundation and early operations now account for less than 35% of Group revenue with the growth in other product types.

There has been significant growth in requests for specialised climate control systems that can cool and dehumidify in the hotter summer months but heat and humidify in the cooler winter period. These units are used for specialised manufacturing facilities, data centres, laboratory make up air and climate controlled storage facilities.

Looking forward, demand for these complex systems is forecast to increase if design and manufacturing capacity is available.

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:

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

In addition to its standard range of heat and energy recovery products, the Group designs and develops individual bespoke heating, cooling and dehumidification solutions to suit specific customer applications.

At present, all product development, design, engineering and administration is undertaken at the Group's head office and factory in Ingleburn, NSW,

with most manufacturing of Air Change and Fancoil products carried out at either the Group's Ingleburn or Malaysian manufacturing facilities.

Dunnair and Summit branded products are designed, partially assembled, programmed, tested and completed in Ingleburn 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, Victoria and Queensland with distributors in all other Australian states.

The Group has overseas distribution representatives in New Zealand, Singapore, Malaysia and Indonesia. It is presently negotiating with a potential distributor in Vietnam.

The Thai distribution agreement has been cancelled due to an inability of the distributor to pay its debts.

In this past year, Air Change Group products have been sold in Australia, New Zealand and Singapore. Manufacture of products destined for American Samoa and Tonga have commenced with first deliveries due in July 2023.

(i) Air Change Division

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

DOAS systems are designed to deal with outside air conditions rather than recirculated air from the building space.

The majority of Air Change revenue is now sourced from the sale of dehumidification solutions for commercial, industrial and institutional applications.

These sales continue to grow in the Australian market because of changing ambient air conditions and the changed air conditioning requirements of modern buildings.

Competition in the traditional heat and energy recovery ventilator market continues to increase which depresses margins in this market segment.

Sales of the Company's small split make up air unit designed to control humidity and temperature in

smaller non critical applications, commenced in 2019/20 and continue to grow.

The Company introduced a specialised packaged unit for these smaller noncritical applications in the past 12 months.

(ii) Fan Coil Industries

The Group's Fan Coil Industries (FCI) division designs, manufactures and sells fan coil and air handling units in Australia.

Large bespoke AHUs are produced in Australia with smaller FCUs sourced from overseas.

Competition in this market segment is very strong with most competing product being imported. Given the present Australian labour shortages, FCI only quote complex units that are difficult to manufacture and costly to import, if they are available.

This division continues to make a small but positive contribution to the Group result.

(iii) Summit Industrial Chillers

Process and industrial cooling sales were strong again this last financial year.

Sales revenue varies significantly year on year because of fluctuating demand in the mining and process industries.

As a result it is difficult to find and retain qualified professional engineering and trades staff to support this operation, particularly with these large variations in demand.

The industrial cooling operation has again made a positive contribution this last year.

Spare part sales remain a consistent source of income and earnings for this division.

(iv) Dunnair Division

Dunnair manufacture and sell air and water cooled packaged air conditioning products which are designed in Australia but either partially or totally manufactured overseas.

All Dunnair units are programmed and tested upon receipt in Australia.

Sales of this product type were down approximately 10% from the 2021/22 year.

Dunnair operations continue to make a positive contribution to Group earnings and help in sourcing components and parts from China.

(v) South East Asia

The Singapore distributor appointed in 2019 continues to source opportunities that were unavailable to the Company before this appointment. Sales in Singapore this last financial year were similar to the 2021/22 financial year.

Present enquiry levels in the region remain strong.

4.0 Future Strategy & Outlook

(i) Sales

Enquiry levels remain very strong.

The group has built up an engineering capacity that gives it a distinct advantage over its competitors where complex cooling and dehumidification solutions are required.

Project consulting engineers rely on this knowledge when specifying these complex HVAC systems.

The Company has become the preferred supplier of certain HVAC systems by a number of major Australian corporate clients which require tight heat and humidity control.

Future growth, is and will be, constrained by a shortage of specialist engineers and manufacturing staff.

(ii) Employment Costs

Staff retention is increasingly difficult.

Employment costs have risen significantly over the past year and will continue to rise as engineering and trade staff become increasingly difficult to source in a very competitive employment environment.

(iii) Liquidity and Cashflow

Cashflow has been positively impacted this past year as units that were waiting parts in 2021/22 were finished and shipped.

The high number of builder and associated trade bankruptcies is a problem that is being monitored closely but we have yet to have a major client failure.

Project delays caused by labour shortages continue to impact product deliveries and therefore cashflow.

This next year may be impacted by costs to set up and equip the larger factory in Malaysia, if that decision is taken.

The Group has not breached any debt funding or other financial covenant or legal obligation and has not been advised of any major change to its terms of trade with its suppliers.

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

(iv) A\$ Value Impact

The Australian dollar has traded in the range of US0.62 to US\$ 0.70 during this past financial year which was just within our expected trading range.

Although transacting significant foreign currency amounts, the Company does not hedge this exposure as transaction timing is random and unknown.

This poses a currency risk as assumptions on the future value of the A\$ are made when quoting months before a product order is received and the foreign currency purchase settled.

(v) Research & Development

Research and new product development ("R&D") has almost ceased. Detailed engineering and product improvement of DOAS and dehumidification solutions continue but there was no new R&D during the year.

These product improvements focused on energy efficient and close control space temperature and humidity systems with emphasis on intelligent controls and programming.



Neil Fimeri
Managing Director

Air Change International Limited

Directors' report for year ended 30 June 2023

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 2023.

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)

Peter Anthony Curry (Non-Executive Independent Director)

Raymond Neil Fimeri (Managing Director)

Principal activities

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

Review of operations

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

	2023	2022
	\$	\$
Revenue – heating, cooling, & ventilation equipment	21,129,930	16,770,447
Profit/ (loss) before income tax	1,131,002	(1,518,980)
Profit/ (loss) after income tax	1,185,422	(1,521,965)
Net profit/ (loss) attributable to members of ACI Limited	1,185,422	(1,521,965)

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 2023 that has significantly affected, or may significantly affect:

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

Air Change International Limited
Directors' report for year ended 30 June 2023

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 Mount Gibson Iron Limited.	Non-executive non-independent Chairman	938,000 ordinary shares
Peter A 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 extensive of professional and business experience 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 2023

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 (2022: four) and two Audit, Finance, Risk and Compliance Committee meetings (2022: two) and nil Remuneration Committee meeting (2022: nil) held during the year ended 30 June 2023.

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:

	Directors		Meetings 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	-	-
Peter A Curry	4	4	2	2	-	-
Neil Fimeri	4	4	*	*	*	*

* Not a member of the relevant committee

Indemnification and Insurance of Officers and Auditors

During the financial year Air Change International Limited paid a premium to insure the Directors, Secretary and senior managers of the Company. Directors' and Officers' Liability Insurance cover has been placed from 6 April 2005. The Directors' and Officers' Insurance expires on 30 November 2023.

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 2023 (2022: 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 2023 (2022: Nil).

Air Change International Limited

Directors' report for year ended 30 June 2023

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 2023 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

2023	Short term employee benefits		Post-employment	Long-term benefits		
Name	Salary and fees	Cash bonus	Superannuation	Long service leave	Termination benefits	Total
	\$	\$	\$	\$	\$	\$
Non-executive directors						
Alan S Jones – Chairman	30,000	-	3,188	-	-	33,188
Peter A Curry	30,000	-	3,188	-	-	33,188
Executive director						
Neil R Fimeri Managing Director	^388,354	-	27,500	6,247	-	422,101
Total KMP remuneration	448,354	-	33,876	6,247	-	488,477

^ Includes annual leave accrued of \$28,826

Air Change International Limited
Directors' report for year ended 30 June 2023

2022	Short term employee benefits		Post-employment	Long-term benefits		
Name	Salary and fees	Cash bonus	Superannuation	Long service leave	Termination benefits	Total
	\$	\$	\$	\$	\$	\$
Non-executive directors						
Alan S Jones – Chairman	30,000	-	3,000	-	-	33,000
Peter A Curry	30,000	-	3,000	-	-	33,000
Executive director						
Neil R Fimeri Managing Director	^397,038	-	27,500	6,275	-	430,813
Total KMP remuneration	457,038	-	33,500	6,275	-	496,813

^Includes annual leave accrued of \$28,958

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:

2023	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
Name of Directors of Air Change International Limited				
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 2023 (2022: Nil).

Material contracts with directors

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

End of audited remuneration report

Corporate governance

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

Shares under option

At the date of this report, the unissued ordinary shares of Air Change International Limited under option are nil (2022: Nil).

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

Auditors' independence declaration

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

Environmental regulation

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

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



Neil Fimeri
Managing Director

Sydney
4 September 2023

DECLARATION OF INDEPENDENCE BY IAN HOOPER TO THE DIRECTORS OF AIR CHANGE INTERNATIONAL LIMITED

As lead auditor of Air Change International Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

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

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



Ian Hooper
Director

BDO Audit Pty Ltd

Sydney, 4 September 2023

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, one of the non-executive directors comes 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 2023 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 \$66,376; 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 previous engagement partner has been the engagement partner since December 2017 and therefore rotation of the engagement partner took place 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 2023**

		2023	2022
	Note	\$	\$
Revenue	4	21,129,930	16,770,447
Other income	5	62,657	486,694
Changes in inventories		(519,131)	942,830
Raw materials and consumables used		(11,306,492)	(11,663,420)
Occupancy costs		(207,786)	(254,227)
Employee benefits expenses		(5,712,083)	(5,662,641)
Depreciation of plant and equipment		(133,992)	(161,673)
Depreciation of right-of-use assets		(621,192)	(690,514)
Amortisation of patents		(83)	(76,100)
Other expenses		(1,063,995)	(1,042,373)
Finance costs		(496,831)	(168,003)
Profit/ (loss) before income tax	6	1,131,002	(1,518,980)
Income tax benefit/ (expense)	7	54,420	(2,985)
Profit/ (loss) after tax for the year		1,185,422	(1,521,965)
Net profit/ (loss) for the year		1,185,422	(1,521,965)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations	19	19,882	(5,423)
Other comprehensive income/ (loss) for the year, net of tax		19,882	(5,423)
Total comprehensive income/ (loss) for the year attributable to members of Air Change International Limited		1,205,304	(1,527,388)
Earnings per share attributable to members of Air Change International Limited			
Basic earnings per share	24	0.067	(0.086)
Diluted earnings per share	24	0.067	(0.086)

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 2023**

	Note	2023 \$	2022 \$
Current assets			
Cash & cash equivalents	8	219,342	85,596
Trade & other receivables	9(a)	3,855,807	2,502,461
Inventories	10	3,669,468	4,198,729
Total current assets		7,744,617	6,786,786
Non-current assets			
Plant, equipment, fixtures and fittings	11	478,163	529,880
Right-of-use assets	12	3,911,337	4,492,112
Rental bonds & term deposit		308,853	309,901
Intangible assets	13	2,912,299	2,908,072
Deferred tax assets	14	431,291	376,871
Other receivables		-	102,661
Total non-current assets		8,041,943	8,719,497
TOTAL ASSETS		15,786,560	15,506,283
Current liabilities			
Trade & other payables	15	2,394,336	3,362,754
Borrowings	26	1,252,760	817,447
Lease liabilities	16	372,904	421,153
Employee entitlements	17	1,209,618	1,157,478
Total current liabilities		5,229,618	5,758,832
Non-current liabilities			
Other payables	15	8,223	26,451
Borrowings	26	-	3,151
Lease liabilities	16	3,762,101	4,132,804
Employee entitlements	17	35,185	38,916
Make good provision for right-of-use assets		12,500	12,500
Total non-current liabilities		3,818,009	4,213,822
TOTAL LIABILITIES		9,047,627	9,972,654
Net Assets		6,738,933	5,533,629
Equity			
Contributed equity	18	7,104,700	7,104,700
Reserves	19	118,728	98,846
Accumulated (losses)		(484,495)	(1,669,917)
TOTAL EQUITY		6,738,933	5,533,629

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 2023**

		Contributed equity	Reserves	Accumulated (losses)	Total
	Notes	\$	\$	\$	\$
Balance at 1 July 2021		7,104,700	104,269	(147,952)	7,061,017
(Loss) for the year		-	-	(1,521,965)	(1,521,965)
Other comprehensive (loss)	19	-	(5,423)	-	(5,423)
Total comprehensive (loss) for the year		-	(5,423)	(1,521,965)	(1,527,388)
Balance at 30 June 2022		7,104,700	98,846	(1,669,917)	5,533,629
Balance at 1 July 2022		7,104,700	98,846	(1,669,917)	5,533,629
Profit for the year		-	-	1,185,422	1,185,422
Other comprehensive income	19	-	19,882	-	19,882
Total comprehensive income for the year		-	19,882	1,185,422	1,205,304
Balance at 30 June 2023		7,104,700	118,728	(484,495)	6,738,933

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 2023**

	Note	2023 \$	2022 \$
Cash flows from operating activities			
Receipts from customers		20,735,265	20,839,261
Payments to suppliers, employees and creditors		(19,944,115)	(20,516,391)
Interest received		218	195
Finance costs		(496,831)	(164,833)
Income tax paid		(982)	(1,218)
Net cash inflow from operating activities	23	293,555	157,014
Cash flows from investing activities			
Purchase of plant, equipment, fixtures & fittings	11	(130,451)	(276,706)
Payment for patents & intellectual property	13	(4,310)	-
Proceeds on disposal of plant & equipment		2,000	-
Net cash (outflow) from investing activities		(132,761)	(276,706)
Cash flows from financing activities			
Proceeds from borrowings		18,976,647	15,227,367
Repayment of borrowings		(18,544,485)	(14,666,093)
Payment of lease liabilities		(459,126)	(628,596)
Net cash (outflow) from financing activities		(26,964)	(67,322)
Net increase/ (decrease) in cash held		133,830	(187,014)
Cash & cash equivalents at the beginning of the financial year		85,596	275,555
Exchange differences on cash & cash equivalents		(84)	(2,945)
Cash & cash equivalents at the end of the financial year	8	219,342	85,596

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 2023

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:

11 Broadhurst Road
Ingleburn NSW 2565

The financial statements were authorised for issue by the directors on 4 September 2023. 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 2023 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 2023

(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.

(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.

Notes to the financial statements for the year ended 30 June 2023

(e) Revenue recognition (continued)

(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.

(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.

Notes to the financial statements for the year ended 30 June 2023

(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.

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 2023

(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. The majority of patents have expired at reporting date.

(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.

Other than the amount payable later than 12 months in respect of an item of plant, 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 2023

(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 2023

(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 25 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.

(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 2023. 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 2023

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:

	2023 \$	2022 \$
Financial assets		
Cash and cash equivalents	219,342	85,596
Trade and other receivables	3,724,552	2,389,963
	<u>3,943,894</u>	<u>2,475,559</u>
Financial liabilities		
Current		
Trade & other payables	2,394,336	3,362,754
Borrowings	1,252,760	817,447
Lease liabilities	372,904	421,153
	<u>4,020,000</u>	<u>4,601,354</u>
Non-current		
Other payables	8,223	26,451
Borrowings	-	3,151
Lease liabilities	3,762,101	4,132,804
	<u>3,770,324</u>	<u>4,162,406</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 2023, had the Australian dollar weakened/ strengthened by 10% (2022: 10%) against these currencies with all other variables held constant, the impact on the profit would have been \$2,907 higher/ \$2,639 lower (2022: \$2,236 higher/ \$2,065 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 2023, 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 \$6,019 higher/lower (2022: \$1,551). 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 (2022: 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 (2022: nil).

Notes to the financial statements for the year ended 30 June 2023

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 (2022: \$2,500,000). This facility may be drawn at any time and maybe terminated by either party with 90 days notice (note 26).

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 2023	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	1,788,327	578,699	27,310	8,223	2,402,559	2,402,559
Borrowings	1,252,760	-	-	-	-	1,252,760
Lease liabilities	132,280	55,751	184,873	3,762,101	4,135,005	4,135,005
Total non-derivative	3,173,367	634,450	212,183	3,770,324	7,790,324	7,790,324

Group – at 30 June 2022

Non derivatives

Trade & other payables	1,993,312	1,328,103	41,339	26,451	3,389,205	3,389,205
Borrowings	809,408	1,961	6,078	3,151	820,598	820,598
Lease liabilities	116,623	60,232	244,298	4,132,804	4,553,957	4,553,957
Total non-derivative	2,919,343	1,390,296	291,715	4,162,406	8,763,760	8,763,760

Fair value

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

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

3. Critical accounting estimates and judgements

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

The following are significant management judgements in applying the accounting policies of the Group that may have a significant effect of the financial statements.

Estimation of useful lives of assets

The 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 2023**

4. Revenue

	2023	2022
	\$	\$
Sales revenue		
Sale of goods	20,986,788	16,710,528
Services	143,142	59,919
Total revenue	21,129,930	16,770,447

5. Other income

	2023	2022
	\$	\$
Interest	218	195
Government (note (a))	16,576	416,645
Other	43,863	8,974
Net foreign exchange gain	-	1,104
Net gain on disposal of plant and equipment	2,000	379
Gain on lease modification	-	59,397
Total other income	62,657	486,694

(a) Government

In 2023, there were no major payments from the government. In 2022, this primarily consisted of jobsaver of \$388,182 and export market development grant of \$24,364.

6. Expenses

	2023	2022
	\$	\$
Profit before income tax includes the following specific expenses:		
Lease rental payments	29,176	48,656
Defined contribution superannuation payments	445,457	428,416
Net foreign exchange loss	86,175	-
Doubtful debt expense	866	50,000

Notes to the financial statements for the year ended 30 June 2023

7. Income tax expense

(a) Income tax expense

	2023 \$	2022 \$
Current tax expense/ (benefit)	290,268	(554,353)
Deferred tax – origination and reversal of temporary differences	(54,420)	1,996
Income tax paid for previous year – overseas entity	-	100
Current year income tax – overseas entity	-	889
Benefit of tax losses previously not recognised	(345,270)	-
Current year tax losses not recognised	55,002	554,353
Aggregate current income tax (benefit)/ expense	(54,420)	2,985
Deferred tax included in income tax expense comprises:		
(Increase)/ decrease in deferred tax assets	(54,420)	1,996
Deferred tax – origination and reversal of temporary differences	(54,420)	1,996

(b) Reconciliation of effective tax rate

	2023 \$	2022 \$
Profit/ (loss) before income tax expense	1,131,002	(1,518,980)
Income tax calculated at 25% (2022 – 25%)	282,750	(379,745)
Tax effect of amounts which are not (taxable) in calculating taxable income:		
Jobsaver	-	(97,046)
Other	(50,966)	(78,244)
Subtotal	231,784	(555,035)
Previously unrecognised tax losses now utilised to reduce current tax expense	(345,270)	-
Net taxable losses not recognised	55,002	554,353
Income tax paid for previous year – overseas entity	-	100
Current year income tax – overseas entity	-	889
Temporary differences not recognised	939	2,678
Previously unrecognised temporary difference now recognised	3,125	-
Income tax (benefit)/ expense	(54,420)	2,985

Notes to the financial statements for the year ended 30 June 2023

8. Cash and cash equivalents

	2023 \$	2022 \$
Cash at bank and on hand	219,342	85,596
	219,342	85,596

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

9. Trade and other receivables

	2023 \$	2022 \$
(a) Current assets		
Trade receivables	3,510,716	2,121,656
Less: Allowance for expected credit losses	(85,000)	(130,000)
Net trade receivables	3,425,716	1,991,656
Term deposits in respect of guarantees	54,654	241,841
Other debtors	244,182	156,466
Prepayments	131,255	112,498
	3,855,807	2,502,461

Allowance for expected credit losses

The Group retains an allowance of \$85,000 (2022: \$130,000) in respect of future expected credit losses.

(b) Past due not impaired trade receivables

As at 30 June 2023 there were current trade receivables of the Group with a nominal value of \$144,475 that were past due (2022: \$53,379) but not impaired. The amount of the allowance was \$85,000 (2022: \$130,000).

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:

	2023 \$	2022 \$
Not past due	3,281,241	1,938,277
Past due 2-3 months	143,660	7,513
Past due over 3 months	815	45,866
Total	3,425,716	1,991,656

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

	2023 \$	2022 \$
At 1 July	130,000	80,000
Provision recognised during the year	866	50,000
Receivables written off during the year	(45,866)	-
Balance at 30 June	85,000	130,000

Notes to the financial statements for the year ended 30 June 2023

(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.

10. Inventories

	2023 \$	2022 \$
Current Assets		
Raw materials	1,633,465	1,907,280
Work in progress	1,216,538	1,218,071
Finished goods	659,251	593,573
Stock in transit	160,214	479,805
	<u>3,669,468</u>	<u>4,198,729</u>

(a) Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2023 amounted to \$46,874 (30 June 2022: \$nil).

**Notes to the financial statements
for the year ended 30 June 2023**

11. Plant, equipment, fixtures and fittings

	Plant & Equipment	Fixtures & Fittings	Leasehold Improvements	Total
At 1 July 2021	\$	\$	\$	\$
Cost	1,266,976	110,276	269,579	1,646,831
Accumulated depreciation	(993,127)	(84,429)	(230,255)	(1,307,811)
Net book amount	273,849	25,847	39,324	339,020
Year ended 30 June 2022				
Opening net book amount	273,849	25,847	39,324	339,020
Additions**	237,832	121,412	-	359,244
Disposals	(11,178)	-	-	(11,178)
Depreciation charge	(115,628)	(15,032)	(31,013)	(161,673)
Net exchange difference	4,026	170	271	4,467
Closing net book amount	388,901	132,397	8,582	529,080
At 30 June 2022				
Cost	1,198,006	160,512	10,267	1,368,785
Accumulated depreciation	(809,105)	(28,115)	(1,685)	(838,905)
Net book amount	388,901	132,397	8,582	529,880
Year ended 30 June 2023				
Opening net book amount	388,901	132,397	8,582	529,880
Additions**	81,971	2,388	-	84,359
Depreciation charge	(116,127)	(16,835)	(1,030)	(133,992)
Net exchange difference	(1,872)	(72)	(140)	(2,084)
Closing net book amount	352,873	117,878	7,412	478,163
At 30 June 2023				
Cost	1,263,882	162,675	10,072	1,436,629
Accumulated depreciation	(911,009)	(44,797)	(2,660)	(958,466)
Net book amount	352,873	117,878	7,412	478,163

** In 2023, there were no additions through payment by instalments (2022: \$115,966).

Notes to the financial statements for the year ended 30 June 2023

12. Right-of-use assets

	2023	2022
	\$	\$
Properties – right-of-use	4,906,356	4,873,494
Accumulated depreciation	(995,019)	(381,382)
Net book amount	3,911,337	4,492,112

Additions to the right-of-use assets during the year were \$41,887 (2022 - \$4,372,184).

The Group leases various properties and the rental contracts are typically made for fixed periods of 2 to 10 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.

**Notes to the financial statements
for the year ended 30 June 2023**

13. Intangible assets

Year ended 30 June 2022	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
Carrying value at 1 July 2021	20,000	71,460	2,817,222	75,490	2,984,172
Disposal	-	(610)	-	-	(610)
Amortisation charge	-	-	-	(75,490)	(75,490)
Carrying value at 30 June 2022	20,000	70,850	2,817,222	-	2,908,072
At 30 June 2022					
Cost	20,000	70,850	2,817,222	3,616,465	6,524,537
Accumulated amortisation	-	-	-	(3,616,465)	(3,616,465)
Net book amount	20,000	70,850	2,817,222	-	2,908,072
Year ended 30 June 2023	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
Carrying value at 1 July 2022	20,000	70,850	2,817,222	-	2,908,072
Addition	-	-	-	4,310	4,310
Amortisation charge	-	-	-	(83)	(83)
Carrying value at 30 June 2023	20,000	70,850	2,817,222	4,227	2,912,299
At 30 June 2023					
Cost	20,000	70,850	2,817,222	3,620,774	6,528,846
Accumulated amortisation	-	-	-	(3,616,547)	(3,616,547)
Net book amount	20,000	70,850	2,817,222	4,227	2,912,299

Notes to the financial statements for the year ended 30 June 2023

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 2023.

	Heating Cooling & Ventilation \$
Year ended 30 June 2023	
Goodwill and intangibles	2,912,299

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 12.6% (2022– 12.5%), a 3% per annum projected revenue growth rate based on revenue of \$21m starting from 2024 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 95 percent or the gross margin decrease by 7.6 percent or the revenue to decrease by 11.1 percent before the estimated recoverable amount approximates the carrying amount.

14. Deferred tax assets

	2023 \$	2022 \$
The balance comprises temporary differences attributable to:		
Deferred tax assets / (liabilities)		
Employee benefits	305,539	293,401
Tax losses	58,249	58,249
Other	118,065	82,456
Depreciation and amortisation	(28,062)	(34,735)
Intangibles	(22,500)	(22,500)
Total deferred tax assets at 25% (2022 - 25%)	431,291	376,871
Deferred tax assets expected to be recovered within 12 months at 25% (2022 - 25%)	365,496	331,393
Deferred tax assets expected to be recovered after more than 12 months at 25% (2022 - 25%)	65,795	45,478

**Notes to the financial statements
for the year ended 30 June 2023**

14. Deferred tax assets (continued)

Movements	Employee Benefits	Tax Losses	Other	Depreciation amortisation	Intangibles	Total
	\$	\$	\$	\$	\$	\$
At 1 July 2021	287,358	58,249	77,263	(21,503)	(22,500)	378,867
(Charged)/credited						
- to profit or loss	6,043	-	5,193	(13,232)	-	(1,996)
- to other comprehensive income	-	-	-	-	-	-
At 30 June 2022 at 25%	293,401	58,249	82,456	(34,735)	(22,500)	376,871
(Charged)/credited						
- to profit or loss	12,138	-	35,609	6,673	-	54,420
- to other comprehensive income	-	-	-	-	-	-
At 30 June 2023 at 25%	305,539	58,249	118,065	(28,062)	(22,500)	431,291

Tax Losses Not Recognised

Unused tax losses for which no deferred tax asset has been recognised

	2023	2022
	\$	\$
Opening balance	6,657,112	4,641,067
Current recoupment of tax losses not previously recognised	(1,381,082)	-
Current tax losses not recognised	-	2,015,886
Subtotal	5,276,030	[^] 6,656,953
Other adjustments per income tax return	-	159
Closing balance	5,276,030	^{^^} 6,657,112
Potential tax benefit at 25% (2022 - 25%)	1,319,008	1,664,278

Controlled Foreign Companies (CFC) losses Not Recognised

Unused CFC losses for which no deferred tax asset has been recognised

	2023	2022
	\$	\$
Opening balance	1,208,355	443,666
Current CFC losses not recognised	220,006	201,525
Subtotal	1,428,361	[^] 645,191
Other adjustments per income tax return	-	563,164
Closing balance	1,428,361	^{^^} 1,208,355
Potential tax benefit at 25% (2022 - 25%)	357,090	302,089

[^] Balance per 2022 financial statements

^{^^} Adjusted closing balance based on lodged 2022 income tax return

**Notes to the financial statements
for the year ended 30 June 2023**

15. Trade & other payables

	2023	2022
	\$	\$
Current		
Trade payables	1,023,164	1,241,453
Other payables	832,046	822,627
Customer deposits	539,126	1,298,674
	2,394,336	3,362,754
Non-current		
Other payables	8,223	26,451
	8,223	26,451

16. Lease liabilities

	2023	2022
	\$	\$
Current		
Lease liabilities	372,904	421,153
	372,904	421,153
Non-current		
Lease liabilities	3,762,101	4,132,804
	3,762,101	4,132,804

17. Employee entitlements

	2023	2022
	\$	\$
Current		
Employee entitlements (note (a))	1,209,618	1,157,478
	1,209,618	1,157,478
Non-current		
Employee entitlements – long service leave	35,185	38,916

(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 2023

18. Contributed equity

	2023 Number	2022 Number	2023 \$	2022 \$
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 2021	Opening balance	17,714,009	7,104,700
30 June 2022	Movement during year	-	-
30 June 2022	Balance	17,714,009	7,104,700
30 June 2023	Movement during year	-	-
30 June 2023	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 (2022: 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 2021	89,960	14,309	104,269
Exchange differences on translating foreign operations	-	(5,423)	(5,423)
At 30 June 2022	89,960	8,886	98,846
At 1 July 2022	89,960	8,886	98,846
Exchange differences on translating foreign operations	-	19,882	19,882
At 30 June 2023	89,960	28,768	118,728

Notes to the financial statements for the year ended 30 June 2023

20. Remuneration of auditors

	2023 \$	2022 \$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity:		
BDO Audit Pty Ltd		
Audit and other assurance services		
Audit and review of financial statements	93,389	87,353
Other services		
R&D tax concession services	-	3,888
	93,389	91,241

21. Performance Guarantees

Performance guarantees supported by term deposits at balance date were:

- (a) property rental agreements \$246,356 (2022: \$246,356)
- (b) commercial credit card facility \$30,000 (2022: \$30,000)
- (c) operating licences \$24,654 (2022: \$19,841)
- (d) performance guarantee on contract \$nil (2022: \$191,500)

22. Related party information

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

During the year 2023, there was no transaction between any directors and members of the Group (2022: \$nil).

- (b) Key management personnel disclosure

	2023 \$	2022 \$
Aggregate compensation		
Short term employee benefits	448,354	457,038
Post employment benefits	33,876	33,500
Long term benefits	6,247	6,275
	488,477	496,813

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.

**Notes to the financial statements
for the year ended 30 June 2023**

23. Reconciliation of cash flows from operating activities

	2023	2022
	\$	\$
Profit/ (loss) after income tax	1,185,422	(1,521,965)
Depreciation and amortisation	755,267	928,287
Doubtful debts & bad debts	866	66,155
Net exchange differences	23,454	(16,380)
Net (gain) on disposal of non-current assets	(2,000)	(379)
Increase in finance costs	-	3,170
(Gain) on lease modification	-	(59,397)
Changes in assets and liabilities		
(Increase)/ decrease in trade receivables	(1,434,927)	1,110,355
(Increase) in other receivables & prepayments	(78,444)	(32,826)
Decrease/ (increase) in guarantee deposits	186,862	(260,783)
Decrease/ (increase) in inventories	529,261	(961,626)
(Increase)/ decrease in deferred tax assets	(54,420)	1,996
(Decrease) in trade payables	(218,289)	(164,816)
(Decrease)/ increase in other payables	(646,923)	1,035,455
Increase in provisions	48,408	29,997
(Decrease) in income tax provision	(982)	(229)
Net cash inflow from operating activities	293,555	157,014

Notes to the financial statements for the year ended 30 June 2023

24. Earnings per share

	2023 \$	2022 \$
Basic earnings per share from continuing operations	0.067	(0.086)
Diluted earnings per share from continuing operations	0.067	(0.086)

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	1,185,422	(1,521,965)
Earnings used in calculating basic and diluted earnings per share	1,185,422	(1,521,965)

25. Parent entity financial information

(a) Summary financial information

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

	2023 \$	2022 \$
Statement of financial position		
Current assets	725,736	172,521
Total assets	8,603,620	7,434,229
Current liabilities	520,365	434,861
Total liabilities	520,365	434,861
<i>Shareholders' equity</i>		
Issued capital	7,104,700	7,104,700
Reserves	89,960	89,960
Retained earnings	888,595	(195,292)
Total shareholders' equity	8,083,255	6,999,368
Profit/ (loss) for the year	1,083,887	(658,426)
Total comprehensive income for the year	1,083,887	(658,426)

Notes to the financial statements for the year ended 30 June 2023

25. Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

	2023	2022
	\$	\$
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.

26. Financing Arrangements

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

	2023	2022
	\$	\$
Total facilities available		
Debtor financing liability*	2,500,000	2,500,000
Asset finance facility	200,000	200,000
Indemnity/guarantee facilities	271,654	458,841
Commercial credit card facilities	30,000	30,000
	3,001,654	3,188,841
Used at the reporting date		
Debtor financing liability	1,249,609	805,580
Asset finance facility	33,000	33,000
Indemnity/guarantee facilities	271,010	457,697
Commercial credit card facilities	21,000	26,000
	1,574,619	1,322,277

*The business has a revolving facility secured against approved trade Debtors less than 90 days past due. This facility has a present limit of \$2,500,000 (2022: \$2,500,000) and was drawn down as required during the year ended 30th June 2023. 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 \$48,006 for the financial year (2022: \$48,096). Interest paid in the financial year on the facility was \$132,474 (2022: \$23,515).

Security

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

Directors' declaration for the financial year ended 30 June 2023

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 2023 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
4 September 2023

INDEPENDENT AUDITOR'S REPORT

To the members of Air Change International Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Air Change International Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

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

Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

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

Recoverability of intangible assets

Key audit matter	How the matter was addressed in our audit
<p>As disclosed in Note 13, the Group held intangible assets of \$2,912,299 as of 30 June 2023 (2022: \$2,908,072).</p> <p>The recoverability of intangibles was identified as a key audit matter because of the extent of judgement involved by management in considering the recoverability of the assets as at the reporting date.</p> <p>This included estimates surrounding future growth rates of the business, discount rates applied to future cash flow forecasts and sensitivities of inputs and assumptions used in the net present value model and enterprise value model prepared by management.</p>	<p>Our audit procedures to address the key audit matter included, but were not limited to, the following:</p> <ul style="list-style-type: none"> Assessing the appropriateness of the identified cash generating units; Obtaining the Group's net present value model and analysing discounted cash flows against historical trends and future expectations; Corroborating the assumptions for the key inputs in the net present value model such as forecast revenue, costs, discount rates and terminal growth rates; Performing tests over the mathematical accuracy of the model and the underlying calculations; Performing sensitivity analysis to identify the model's robustness to changes in key underlying assumptions; and Discussing and analysing management's assessment of the recoverability of the intangibles, with specific reference to recent trading performance.

Other information

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

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 and 11 of the Annual Report for the year ended 30 June 2023.

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

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

BDO



Ian Hooper
Director

Sydney, 4 September 2023

Air Change International Limited
Additional Information for National Stock Exchange of Australia
as at 18 August 2023

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 (%) 2023	Percentage Owned (%) 2023
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	Australia	Sale of air & water cooler packaged air conditioning systems & parts	100	100

2. HISTORICAL SUMMARY TABLE

Item	2023	2022	2021	2020	2019
	\$	\$	\$	\$	\$
Profit/ (loss)	1,185,422	(1,521,965)	68,259	797,546	(460,679)
Assets	15,786,560	15,506,283	11,896,209	12,008,793	11,375,143
Liabilities	9,047,627	9,972,654	4,835,192	5,105,428	5,303,313

3. TEN LARGEST SHAREHOLDERS

Name	No. of Ordinary Shares Held	Percentage of Issued Shares
Everbright Securities Investment Services (HK) 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	178,207	1.01%

Air Change International Limited
Additional Information for National Stock Exchange of Australia
as at 18 August 2023

4. SHAREHOLDER DISTRIBUTION TABLE

Fully paid ordinary shares

Range	Total holders	Units	% Units
1 – 1,000	438	224,398	1.27
1,001 – 5,000	184	390,235	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
	712	17,714,009	100



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