

# Air Change International Limited

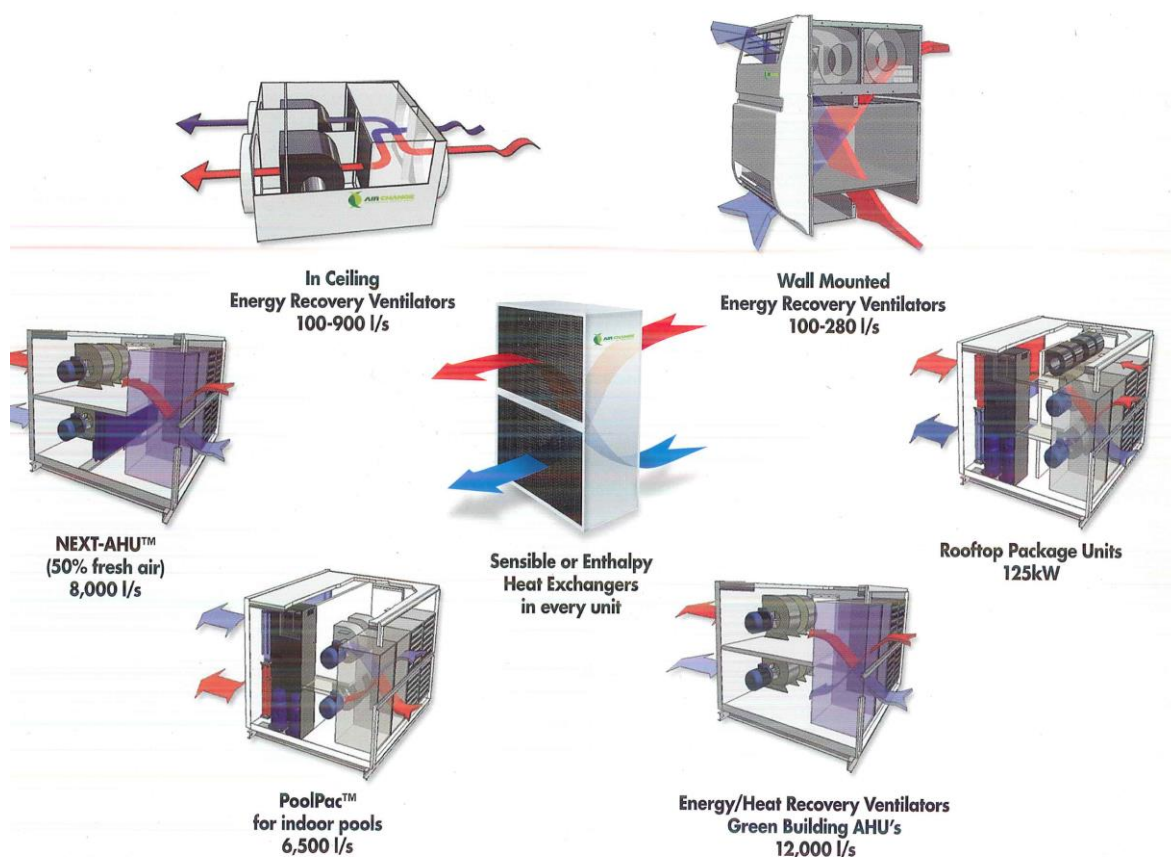
ACN 087 737 068

## INFORMATION MEMORANDUM



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## Energy Efficient HVAC for buildings that breathe



**2.1 Memorandum Overview**

This Information Memorandum (IM) has been prepared by **Air Change International Limited (ACN 087 737 068)** (Company) in connection with its intention to apply for a compliance listing on the National Stock Exchange of Australia (NSX). No copy of this information memorandum has been lodged with the Australian Securities and Investments Commission (ASIC) as this is not a prospectus or other disclosure document required to be lodged with ASIC under the Corporations Act.

Neither ASIC or the NSX take responsibility for the contents of this Information Memorandum. This Information Memorandum does not constitute, or form part of an offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any shares in the Company in any jurisdiction nor shall it, or any part of it, or the fact of its publication form the basis of, or be relied on in connection with or act as any inducement to enter into any contract. Therefore this information memorandum may be withdrawn at any time before the proposed listing and is specifically subject to the terms described in this information memorandum.

The shares of the Company have not been registered with or approved or disapproved by the NSX, nor has the NSX or any regulatory authority of any state passed upon or endorsed the merits of this listing or the accuracy or adequacy of this information memorandum. Any representation to the contrary has not been authorized by the company, its directors or its management.

**2.2 Nominated Advisor**

NSX Listing Rule 2.4(1) requires that each listed issuer appoint a nominated advisor. Listing Rule 2.4(1) (iii) states:

“The issuer may appoint as nominated advisor:

with the consent of the Exchange, if the Exchange is of the opinion that the issuer has sufficient resources available to it, two members of the issuer’s senior management ordinarily resident in Australia”

The Company will seek NSX’s consent to the appointment of two of the Company’s senior management to act as the nominated advisor in this instance.

In making an investment decision, investors must rely on their own examinations of the company and the terms of this information memorandum. Moreover, the contents of this information memorandum are

not to be construed as legal business or tax advice. Each prospective investor is urged to consult its own legal advisor, business or tax advisor for legal, business or tax advice.

### **2.3 Application for Listing**

Application will be made for listing of the Company's securities to the NSX. The fact that the NSX may list the securities of the Company is not to be taken in any way as an indication of the merits of the Company or the listed securities. The NSX takes no responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon any part of the contents of this document. It is expected that trading of the shares on the stock market conducted by the NSX will commence as soon as practical after approval for admission to the official list of the NSX is granted and all conditions (if any) applicable thereto have been satisfied for official quotation.

### **2.4 Disclosure of Information**

This information memorandum does not contain the information that would be contained in a prospectus or other disclosure document prepared under the Corporations Act. While this information memorandum should be read in its entirety it does not contain all the information that a prospective investor may require in investigating the shares and the Company. Prospective investors should carry out their own independent investigations and analysis and obtain independent financial, taxation and other professional advice as needed in respect of the shares and the Company and the information referred to in this information memorandum and other matters that may be relevant to their investment decision.

Each prospective investor considering an investment in the shares must make, and will be taken to have made, their own independent investigation and analysis of the information in this information memorandum and should consult their own advisors before investing in the company.

Prospective investors may contact the Company to obtain a copy of the Company's constitution.

### **2.5 Unauthorised Representations**

No person has authority to give any information or make any representation in connection with the shares or the Company that is not contained in this information memorandum. Any information not incorporated by express reference or set out in this information

memorandum may not be relied upon as having been authorized by the Company.

## **2.6 Restrictions**

The distribution of this information memorandum in certain jurisdictions may be restricted by law. Persons, into whose possession this information memorandum comes, are required, by the company to inform themselves about and to observe such restrictions. This information memorandum does not constitute an offer or invitation to buy or sell shares or other marketable securities of the Company, whether in Australia or in any other jurisdiction.

## **2.7 Forward Looking Statements**

This information memorandum contains forward-looking statements which are identified by words such as "believes", "estimates", "expects", "intends", "may", "will", "would", "could", or "should" and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this information memorandum, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors many of which are beyond the control of the Company, the directors and management of the company. The actual results and future achievements may be materially different from that expressed or implied by such forward-looking statements. Investors are cautioned not to place undue reliance on such forward-looking statements.

## **2.8 Suitability of Investment and Risk Factors**

Before deciding to invest in the Company by purchase of shares on market, following admission of the Company to the official list of the NSX, prospective investors should read this entire information memorandum. Prospective investors should carefully consider all factors in the light of their personal circumstances (including financial and taxation issues) and seek professional advice from their accountant, stockbroker, lawyer and other professional adviser before deciding to invest. The Company and its officers are unable to advise any prospective investor on the suitability or otherwise of an investment in the Company. For such advice, each prospective investor must contact their own independent professional adviser(s).

On behalf of my fellow Directors, it gives me great pleasure to introduce you to Air Change International Limited and its subsidiary companies (the “Group”) and give you an overview of its products, capabilities and business operations.

The Air Change Group specialise in the design and manufacture of energy efficient heating, ventilation and air conditioning (“HVAC”) equipment for commercial, industrial and institutional buildings and as well as the design and manufacture of equipment for industrial process cooling applications. The common link between these businesses is our expertise in the vapour compression refrigeration cycle.

As you will read, the Group is focused on research and product development, combining our own patented proprietary heat exchange technology with the best refrigeration and control system technologies available.

This research and development has led to the Company being recognised as the Australian leader in heat and energy recovery products for the air conditioning industry. Not only do we specialise in energy efficient heat recovery systems, we design and manufacture equipment for mission critical applications that require precise control of temperature and humidity in the building or industrial enclosure.

The Company has expanded internationally by setting up a sales and manufacturing operation in South East Asia. As a new start-up operation, sales penetration in this region have been difficult but, after three years of significant establishment costs, credibility has slowly been established and at the time of writing this IM, the Company has over \$3.5 million in forward orders from the region.

Over the past 5 years, the Group has established an engineering, sales and administration infrastructure that is a sound foundation for future growth.

This investment in research, product and organisational development has been a long and costly exercise, particularly for an organisation of our size, but I believe that it has been worthwhile and will contribute significantly to shareholder value in the longer term. It has negatively impacted profitability over this period and been challenging at times, but careful cashflow management has ensured that it has been achieved without the need to raise additional capital.

The Group is focused on delivering growth through a range of strategies including new product development, expanding further into international markets and acquiring companies with business operations which would complement and enhance the Group’s existing product range, technical and manufacturing expertise and geographical spread. This Information Memorandum offers you the opportunity to understand an innovative Australian company with proven expertise, technology and products.

I encourage you to read this document carefully to understand our products, capabilities and aspirations.

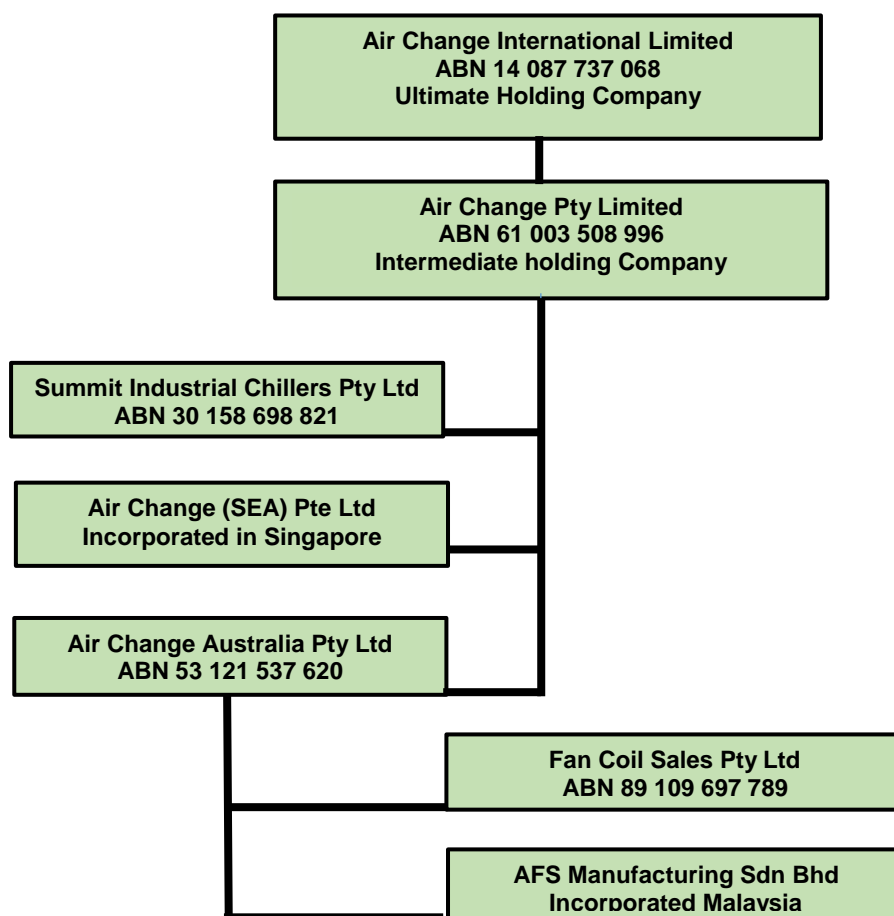
**Neil Fimeri**

Director & CEO



## 4.1 Corporate Structure

The Air Change International Group corporate structure is shown below.



***Air Change International Limited (ACI)*** is the ultimate holding company of the Air Change Group of companies which consists of:

***Air Change Pty Ltd (ACPL)***

ACPL is a 100% owned subsidiary of Air Change International Limited and was acquired by ACI in April 2010. It acts as an intermediate holding company and is the beneficial owner of all patents within the Group. It does not trade. ACPL owns 100% of the shares in:

***Air Change Australia Pty Ltd (ACA)***

ACA was acquired as a subsidiary of ACPL in April 2010 and is the main operating company for the manufacture and sale of Air Change products in Australia. ACA employ all of the Australian engineering and manufacturing workforce and manufactures products for both Summit and FCS. ACA owns 100% of the shares of Fan Coil Sales Pty Ltd and AFS Manufacturing Sdn Bhd.

***Summit Industrial Chillers Pty Ltd (Summit)***

The shares of Summit were acquired in October 2012. Summit contracts and sells industrial process cooling systems, generally in Australia, but occasionally overseas. The design and manufacture of all Summit products is carried out by ACA on their behalf.

***Air Change (SEA) Pte Ltd (ACSEA)***

ACSEA is a Singapore registered company which was established in 2012 to sell Group products in the South East Asian region. It acts as the South East Asian sales agent for ACA.

***Fan Coil Sales Pty Ltd (FCS)***

ACA purchased the business and assets of Fan Coil Industries in November 2013. FCS sells fan coil and air handling units in the Australian market under the Fan Coil name. The design and manufacture of all Fan Coil products is carried out by ACA.

***AFS Manufacturing Sdn Bhd (AFS)***

AFS is a Malaysian registered company established in July 2014 to undertake manufacture of Group products and is located in Johor, Malaysia.

The business operations of each of these companies is described in Section 6 of this IM

**4.2 History of the Company**

Air Change International Limited is a listed Australian public company which was incorporated in NSW on 25 May 1999.

It originally listed on the Australian Stock Exchange (ASX) in August 2000 as E-Star Online Limited, an on-line share trading service. It was subsequently renamed Infracorp Limited and then IFC Capital Limited undertaking residential land and other property developments.

In early 2010, the Company decided to pursue opportunities in the HVAC industry.

On 6 April 2010, a General Meeting of Shareholders approved a share placement to raise additional capital, a change in the nature of the Company's business from property development to industrial manufacturing by purchasing all of the shares in Air Change Pty Limited and a change in the Company name to Air Change International Limited to reflect this change in business focus.



The ASX requires an entity to meet the requirements of Chapters 1 & 2 of the Listing Rules as if it were applying for new admission following a change in the nature or scale of its activities. As a result of this change in business activity, the ASX suspended trading in all securities of the Company from the General Meeting on 6 April 2010, pending the Company's re-compliance with Chapters 1 & 2 of the Listing Rules.

In particular, the Company needed to achieve a minimum 'spread' of 400 Shareholders, each having a parcel of securities in the Company with a value of at least \$2,000, where unrelated parties hold at least 25% of the Company's securities ("spread requirements"). Because of the Company's previously incurred losses, there were insufficient existing shareholders holding a parcel of shares with the minimum \$2,000 value and therefore the Company could not comply with this requirement unless it raised new equity from either existing or new shareholders

Attempts to raise new equity from existing shareholders were unsuccessful and hence the Company's shares have remained suspended.

The Directors believed that the most equitable course of action was for sufficient existing shareholders to top up their shareholding in order that the Company meet the ASX spread test. The Directors deemed that offering shares to new shareholders at a discount price to achieve the required spread was not justifiable given that the Company did not need additional equity at the time. Furthermore, since existing shareholders had value in their existing equity, they would need to contribute less funding to increase their shareholding value the necessary level.

Although its shares were suspended from trading, the Company has continued to comply with the other ASX Listing Rules.

It is now proposed to list ACI on the National Stock Exchange of Australia (NSX) which has a lower spread threshold than the ASX.



**MINE SITE PROCESS COOLING PLANT**

### 5.1 Some Background Information

Every building needs a constant supply of fresh air to keep its inhabitants healthy and comfortable. Insufficient fresh air leads to mold and bacteria build up which causes what is termed sick building syndrome. It has been shown in numerous studies that the health and productivity of building inhabitants is better when more fresh air is supplied into the building. This air supply is either too hot or too cold depending upon the season to maintain a comfortable indoor condition and so must be heated or cooled by the building air conditioning system.

A HVAC system is subject to two identifiable loads generally known as the *building load* and the *fresh air load*. The building load is due to the heat generated inside the building by the occupants and activities like computers, lighting, copiers, phones etc, as well as the heat transmitted through the building structure to or from the internal space.

The fresh air load is the cooling or heating capacity required to condition the outside air introduced into the building. The problem with providing more fresh air is that it results in significantly increased energy consumption to heat, cool and dehumidify it.

It is estimated that nearly half of global energy production is consumed in buildings of which half of that energy is used for the air conditioning system. Since the fresh air load can represent up to 50% of the total building air conditioning load, there are considerable energy savings if it can be reduced.

The Group designs and manufactures products to satisfy both the building load and the fresh air load but it specializes in the reduction of energy used for the fresh air load.

At the core of this energy saving is an air to air heat exchanger that is used to pretreat the fresh air before it reaches the building air conditioning system. This is done by promoting heat and moisture to transfer from the hot and humid outside air entering the building to the cool dry stale air that is being exhausted from the building. Because this fresh air is now colder (hotter) and dryer than before it entered the heat exchanger, it needs less mechanical energy to condition it to its specified condition before entering the building.



## 6.1 History of the Air Change Group

The Air Change business was started to commercialise an air to air heat exchanger invented by Mr John Urch in 2000. The Company grew and increased its product lines incorporating heat exchange and in 2010 was acquired by ACI.

Up until its acquisition, Air Change's sole business focus was to produce products that decreased energy consumed in conditioning the fresh air supply by pre-treating it with air to air heat exchange. Air Change was, and remains, a pioneer and market leader in Australia for the use of heat and enthalpy exchange to decrease the fresh air load.

Since acquiring the Air Change business in 2010, ACI recognised the limited market opportunities to expand the Company in Australia by relying solely on products that incorporated the original heat exchange technology and sought to expand sales into other geographic areas and add other HVAC product categories to its product range.

To help this product diversification, the Company acquired the shares of Summit in October 2012 and the business of Fan Coil (FCS) in November 2013.

To spread its geographical sales area, the Group in 2012 established a regional sales office in Singapore to explore the market opportunities in the ASEAN region.

## 6.2 Present Business Operations

### Air Change Products

The Air Change business is still the largest part of the Group's operations accounting for approximately  $\frac{2}{3}$  of revenue in the 2014/15 financial year. As detailed above, Air Change specialise in the design and manufacture of HVAC products to provide energy efficient fresh air for commercial, institutional and industrial buildings using air to air heat exchange technology.

The Air Change heat exchanger can precool, preheat and dehumidify outside air by exploiting the temperature and humidity difference between the exhaust air and the fresh supply air. Heat and moisture transfer through the separation media between the two air streams reducing the amount of mechanical energy necessary to condition the incoming air stream.

Air Change manufacture a range of dedicated outdoor air systems (DOAS) incorporating this heat exchange technology

#### *Packaged air-conditioners*

Packaged air-conditioners incorporate all the components necessary to heat or cool air using a vapour compression refrigeration system in a single package unit. Air Change combines its heat exchanger with the refrigeration system in a single package to reduce overall energy consumption. These units are used where high fresh air volumes are specified.

## *Air handling units (AHU's) with heat exchange*

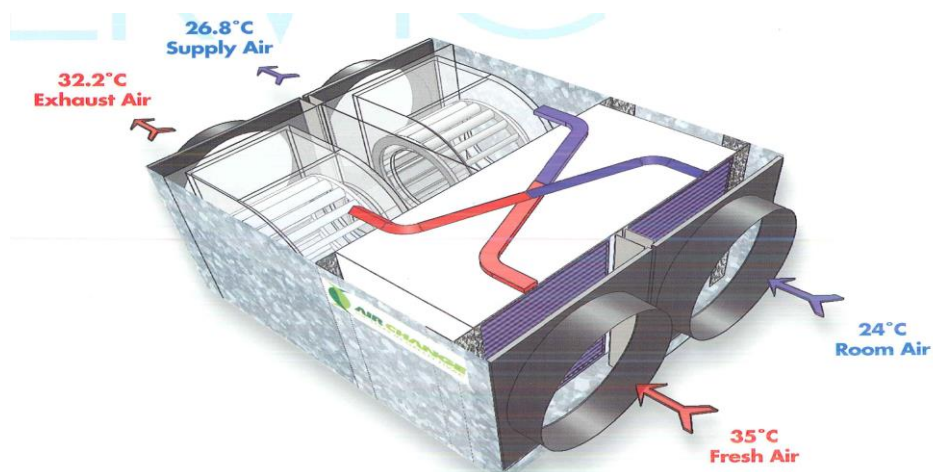
Air handling units heat or cool the air in a building but provide no source of heating or cooling. Instead, heating and cooling is supplied by hot or cold water from another source flowing through a heat and cooling coils in the AHU. Air Change installs its heat exchanger in its AHU's to reduce overall energy consumption.



### AIR HANDLING UNIT WITH HEAT EXCHANGE

## *Energy recovery ventilators (ERV)*

Energy recovery ventilators do not have the capacity to heat or cool air, they simply supply fresh air ventilation to a room or building using heat exchange to recover a proportion of the energy contained in the exhaust air. Heating and cooling of the air is provided by another independent unit of air conditioning plant, either an air conditioner, fan coil or air handling unit.



### TYPICAL SMALL ERV COOLING CAPABILITY



*Indoor swimming pool heating*

Indoor swimming pools require high fresh air change rates to avoid the build up of toxic corrosive chemicals in the air. The energy required to constantly heat swimming pool air is intensive and therefore expensive. Air Change manufacture specialised equipment to heat indoor swimming pool environments effectively and efficiently using its heat exchanger and dehumidification technologies. Swimming pools also lose heat from the pool water by evaporation. Air Change has recently designed and manufactured a combined pool air and water heating system that is more energy efficient than competing products.

**COMBINED POOL AIR & WATER HEATING SYSTEM***Data centre “free cooling” systems*

Air Change design and manufacture specialist data centre air conditioning systems which are equipped with a “free cooling” option for times when outdoor air conditions are low enough to permit cooling using the difference in temperature between the inside and outside air.

There is design and manufacturing work presently underway to manufacture an indirect evaporative cooling system for large industrial uses, particularly data centre cooling.

*Specialised Dehumidification Systems*

Air Change has been designing and manufacturing specialised dehumidification systems for approximately 4 years. Whereas a normal air conditioner would turn off once the desired room temperature was reached, a dehumidifier must run continuously to provide a constant supply of fresh air. Since dehumidification is accomplished by cooling the air below its dew point, it is often too cold to be put into the room without reheating.

Air Change pass the incoming hot air through a heat exchanger to precool it using the air that has already been cooled. Precooling the incoming air in the heat exchanger whilst simultaneously heating the supply air saves energy for both the cooling and reheating functions as it saves considerable mechanical cooling and eliminates the need for another heat source.

*Close Control Temperature and Humidity Systems*

Air Change have recently designed and manufactured a precisely controlled temperature and dehumidification system combining the elements of a dehumidification system with precise temperature control. This unit has been installed in a university laboratory in Singapore and is achieving temperature and humidity control within 3% of the desired set point condition.

*General*

Air Change has traditionally built HVAC equipment with direct exchange (DX) as the heating and cooling source. In a DX system, the air is heated and cooled directly by refrigerant in a refrigerant condenser or evaporator coil whereas a chilled water system uses the refrigeration cycle to cool water that is then used in a water coil to cool the air.

**Fan Coil**

FCS design and manufacture air handling units and fan coil units for the building services industry that use chilled and hot water as the principal heating and cooling source. FCS, like Air Change, occupy a niche market in the HVAC industry, generally designing and manufacturing nonstandard air handling and fan coil units that are not readily available from other sources.



**SMALL FAN COIL UNITS**



**FAN COIL AIR HANDLING UNIT**



## Summit

Summit design and manufacture chilled water plants for industrial process cooling.

Typical applications include cooling for major plant items in the mining industry such as ball mills, crushers, pumps etc, potable water cooling on remote mining and oil and gas installations, cooling for the plastics industry, chilled water for food and drink processing systems and cooling for the concrete batching industry. Generally, Summit do not build chilled water units for the building HVAC industry unless there is a requirement for a specialised non-standard system that is not readily available from others.

Summit usually manufacture complete cooling systems incorporating the refrigeration system, water storage tanks and water pumps that have an integral control unit to match cooling load with cooling capacity.

Summit have produced cooling systems with temperatures ranging from +25°C down to -25°C



**MINE SITE POTABLE WATER COOLING SYSTEM**



**CHILLED WATER SYSTEMS IN TRANSIT**

**Air Change (SEA) Pte Ltd (ACSEA)**

ACSEA was formed to explore the market opportunities for the Group in the South East Asian region. It is based in Singapore and presently seeks sales opportunities in Singapore, Malaysia, Thailand and Indonesia. It is staffed by two sales engineers and has agency agreements in both Thailand and Malaysia.

During the three years since its establishment, ACSEA has arranged sales in Singapore, Thailand and Indonesia.

It has recently arranged the largest order in the Group's history, a A\$3.0 million order for specialised air handling units for a large office development in Jakarta.

ACSEA has been unprofitable since its establishment, but we believe that market credibility is now being established and that sales will increase as a result. This is supported by the sales orders taken in the first quarter of the 2016 financial year which have exceeded \$500,000 which has been accompanied by an increased level of enquiry. In addition to its sales function, ACSEA has served a strategic function for the Group. It has been able to identify niche market opportunities and achieve orders for equipment delivering close temperature and humidity control which has allowed development testing of design concepts in a high temperature, high humidity environment. The feedback from these operating units has been used in the Group's research and development activities.

**AFS Manufacturing Sdn Bhd (AFS)**

AFS has been established to manufacture the Group's products in the Southern Malaysian state of Johor, less than 10 km by road from Singapore travelling over the second crossing between Singapore and Malaysia.

Factory set up and establishment commenced in late August 2015 and first production is scheduled to commence in late October 2015 for shipment to Jakarta in December 2015. It is expected that this facility will not be fully operational and at capacity until at least mid 2016.

This Malaysian manufacturing operation has been established for a number of reasons, some of which are:

- the contract for supply of AHU's to the Jakarta project had to be manufactured in the ASEAN region because of trade tariffs and restrictions. Manufacturing in Malaysia satisfies this requirement;
- after 3 years of marketing in the ASEAN region, the biggest remaining impediment to sales growth is product delivery and price. Manufacturing costs and delivery times from Australia are a major impediment to greater sales volumes in the region;

- in Australia, the Group could expand into the manufacture and sales of generic HVAC products lines presently sourced from Asia, particularly China. A Malaysian manufacturing operation will make the Group more competitive in these product lines; and
- several major component inputs are already sourced from Malaysia suppliers. These inputs can be further processed before delivery to Australia for final assembly at substantially lower cost.

Malaysia and more particularly Johor were chosen over other competing locations as the manufacturing site because it :

- is centrally located in the ASEAN region;
- is close to the regional Singapore office;
- is near to the Group's insulated panel supply source;
- has a good direct shipping service to Australia;
- has a low cost labour structure; and
- the exchange rate of the Malaysian Ringgit to the Australian dollar has remained within a narrow band over a long time period.

### 6.3 Group Capabilities

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

In most sales opportunities, Group customers require either a modification to a standard product item or a complete new product or system design.

To ensure that the Group is capable of designing and supporting its product range and creating innovative solutions for its customers, it presently employs 20 professionally qualified engineers and 8 technical officers in Australia, Singapore and Malaysia.

Overall, the Group presently employs an average of 80 persons spread across its engineering, manufacturing, sales and administration functions.

Currently, all design, engineering and manufacturing is undertaken in Milperra, NSW, but this capability will be expanded by adding the new manufacturing facility now being established in Malaysia.

The Group has either its own sales engineers or sales representatives in all Australian states, New Zealand, Singapore, Malaysia, Indonesia and Thailand.





MILPERRA MANUFACTURING FACILITY

### 7.1 An Innovative Past

Air Change has always been a leader in Australia for the development of efficient low energy consuming HVAC products. This commitment is best illustrated by the numerous industry awards that Air Change has received since it was established.

Year	Award	Product Category
2002	SEDA Green Globe Award	General
2003	AIRAH Award for Excellence in HVAC	Energy Recovery Ventilator
2003	SEDA Green Globe Award	General
2006	AIRAH Award for Excellence in HVAC	Rooftop Package Unit
2010	ARBS HVAC Product Excellence Award	Green Building Air Handling Unit
2011	AIRAH Award for Excellence in Innovation	Air Change Dehumidification Unit
2013	AIRAH Award for Excellence in Innovation	Air Change Data Centre Unit

SEDA – Sustainable Energy Development Authority

AIRAH - Australian Institute of Refrigeration, Air-conditioning and Heating

ARBS - Air-conditioning, Refrigeration and Building Services Industry Association



Research and development have been an important part of the Company's past and we expect it remain so in the future.

Air Change has so far been granted no less than 18 patents, some of which remain active and some of which have expired or been allowed to lapse due to new research and alternate designs.

Patents still held by the Air Change are:

Country	Type	Patent / Design number	Proprietor	Client's reference
Australia	Patent	2004215315	AIR CHANGE PTY LIMITED	A/C APPARATUS - AU
Australia	Patent	2004203424	AIR CHANGE PTY LIMITED	HEAT EXCHANGER
Australia	Patent	2004203425	AIR CHANGE PTY LIMITED	HEAT EXCHANGER
U.S.A.	Patent	6829900	AIR-CHANGE PTY LIMITED	HEAT EXCHANGER - US
Australia	Patent	2015202973	AIR CHANGE PTY LIMITED	High Pressure Ceiling Heat Recovery Ventilator
Australia	Patent	2012905195	AIR CHANGE PTY LIMITED	Straight Plate Heat Exchanger
U.S.A.	Patent	14/089421	AIR CHANGE PTY LIMITED	Straight Plate Heat Exchanger

The Company has recently applied for a provisional patent for a large scale dehumidifier. and has another development that might lead to a further patent application if successful.

The Company's research and development expertise was further evidenced by the Australian Federal Government's award of a research grant under its climate ready program in 2009 to help develop new energy efficient air conditioning systems.

## 7.2 An Innovative Future

Research and development is at the core of the Group's ability to compete against local and international competitors by providing new and unique air conditioning solutions that are highly specialized and energy efficient.

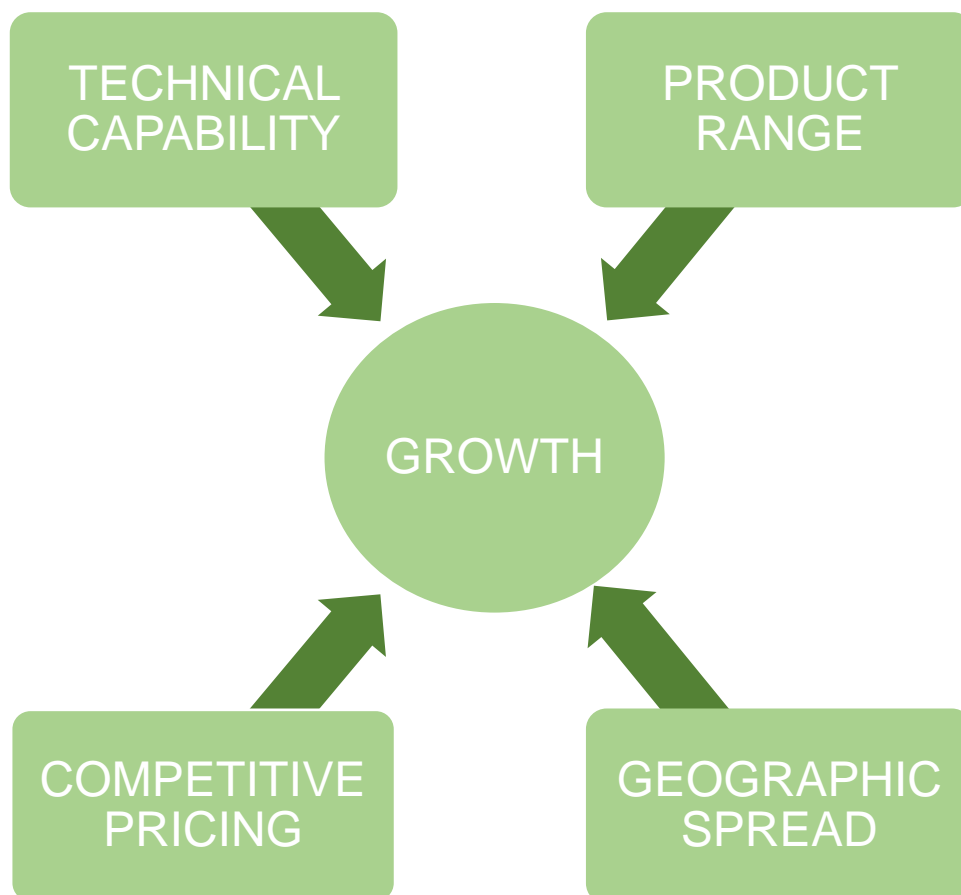
Heat and enthalpy exchange continues to be the principal focus of research and development. In the past few years, we have researched a larger more efficient heat and enthalpy exchange system that could be used for larger scale projects. In addition, we research the latest refrigeration and controls technologies to marry with the heat exchange system to deliver the lowest operating cost dedicated outdoor air systems for improved efficiency and performance.

### 8.1 Strategy

Air Change was established to pursue a niche market in the design and manufacture of dedicated outdoor air systems (DOAS) using an air to air heat exchanger. The Company's Board of Directors has maintained the view that an Australian Company cannot survive as a mass manufacturer of standard HVAC products and must pursue niche markets that are uneconomic for the recognised major manufacturers.

To be able to compete effectively, grow and prosper, the Group must be able to deliver three key benefits to the maximum possible customer base.

To summarise this strategy, to grow, the Group needs to be able to produce a well engineered quality product that fulfils a specific market need for a geographically diverse customer base at a price that is competitive with the available alternatives.

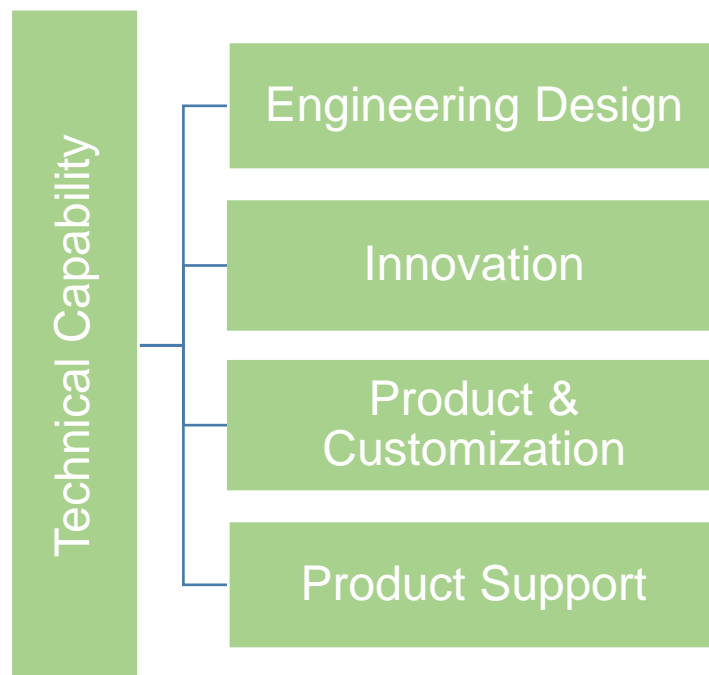


**Technical Capability**

Firstly, the organisation must be technically competent so that it can produce good engineering design, tailor a product or process to meet a specific need, support the product post production and develop new and innovative design options.

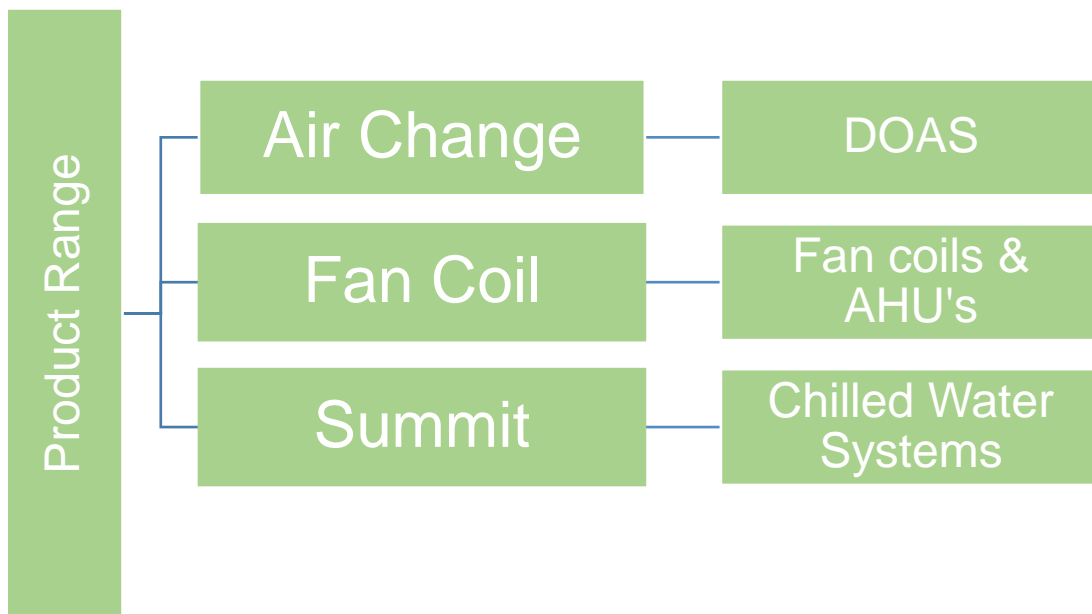
Over the past 4 years, the Group has made a substantial investment in its technical capabilities by more than doubling its technical staff to now include 20 professionally qualified engineers and 8 technical support staff.

A good example of the benefits of this technical capability is the Group's recent \$3.0 million contract to supply AHU's to a Jakarta office tower project. It was approached by an Indonesian based consulting engineer to develop a design that minimized energy consumption and fit within a small space footprint. The contract award followed 18 months of detailed design development with the consultant to meet his specific project requirements.

**Product Range**

The second essential element of this strategy is to develop a wide range of products. The Group now has expertise in several areas including DOAS using either direct exchange or hot & cold water coils, fan coils & ahu's, and chilled water cooling systems.

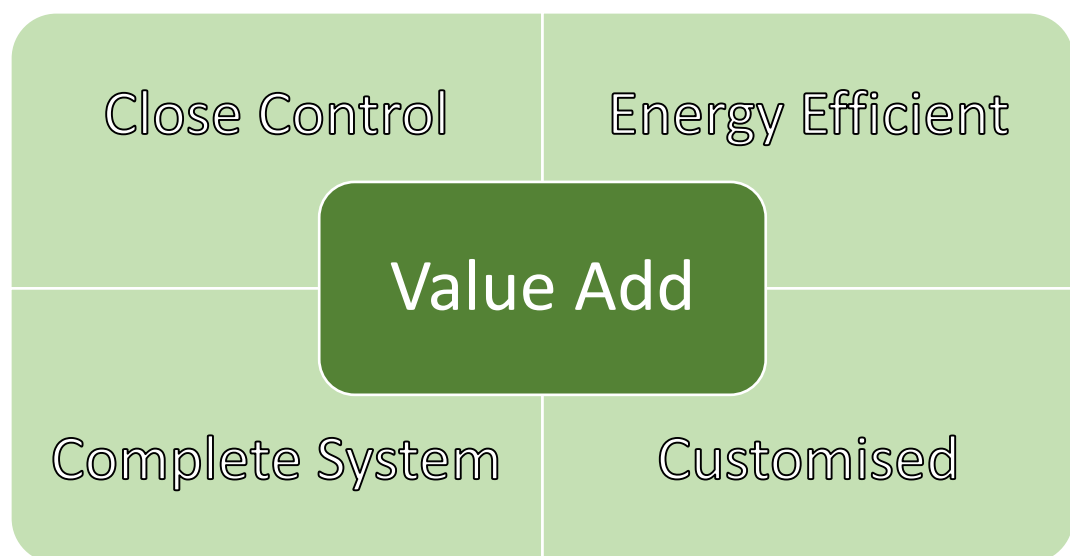




The Group has not attempted to enter the residential market. Although it is the largest single market for HVAC products, it is generally regarded as too competitive with a generic range of products and therefore it is unlikely that the Group would achieve success.

There are niche markets for specialised high rise apartment ventilation systems that the Group has been investigating that may in the future be a source of sales revenue.

In addition to maintaining a large range of products, the Group seeks to add additional value by engineering its products so as to be energy efficient, closely control space temperature and humidity, be a complete plug & play problem solution and be customised for every customer's specific need.



**Competitive Pricing**

Thirdly, all Group products need to be produced at a competitive price. The Group is cost competitive in a number of its product lines, particularly in the larger specialty units where transport costs and high levels of customization make imported product uncompetitive in price and design.

Since these larger specialty units make up only a small part of the Australian HVAC market, it is necessary for the Company to produce smaller less customised HVAC products at low cost in order to grow the Australian business. This is particularly applicable to AHU's and FCU's which are generally imported from overseas, particularly China.

The Group has sought to expand sales in these product categories over the past 2 years following the acquisition of Fan Coil Industries. This has been done even though profit margins have been low using Australian labour rates but it was undertaken to test the market in anticipation of an overseas manufacturing operation. In addition to seeking lower production costs to increase Group market share of AHU's and FCU's, there is a need to remain competitive with those that seek to copy the Group's core DOAS product range. As the Group has established and grown this DOAS market, there have been competitors that have sought to enter the market by imitating a number of Group products. Without the research and development costs, these competitors have been able to market their alternatives at a lower price than was historically available.

To overcome these pricing weaknesses, the Group is now establishing a manufacturing operation in the southern Malaysian state of Johor so that full and partial HVAC assemblies can be manufactured at a lower cost than is presently possible with production solely in Australia.

**Geographic Sales Spread**

Presently the Group produces and sells low volume specialised HVAC and industrial cooling products requiring high engineering and manufacturing input skills. Because of the limited market opportunities for these products in Australia, and indeed in any particular market, the Group needs to expand its geographical sales and distribution network to achieve the necessary product sales volumes. There is a secondary benefit to this increased geographical spread in that it cushions the impact of a downturn in any particular market.

As you have read, the Group has spent considerable funds expanding its geographical distribution but the Board believes that this investment now seems to be delivering increased sales outside Australia.

## 8.2 Success to date

The Company has pursued this strategy for the past 5 years. For the first 4 years, the strategy delivered compound sales growth of 22%.

Much of the Australian sales growth had occurred because of sales of HVAC and process cooling systems to the mining and oil and gas industries which unfortunately collapsed in the 2014/2015 financial year resulting in a decline in sales of 18%.

This downturn in the resource industries was compounded by the Australian Governments withdrawal of support for programs encouraging energy efficiency and greenhouse gas emission reductions.

Despite last year's set back, the Company has grown over the past 5 years due to a combination of technical capability, product development, geographical expansion and strategic acquisition.

## 8.3 Future Direction & Focus

Given the limited financial resources that were, and still are available to the Company, the Board has maintained the view that its growth strategy is the only way to ultimately deliver a meaningful return to shareholders.

This strategy has resulted in significant annual expenditure in research, product development, staff recruitment and geographical expansion which has to date negatively impacted the Company's profitability.

Price competitiveness has been the missing element of Company's strategy which is now being addressed with the establishment of the new factory in Malaysia. However, the cost to start-up this new operation will be detrimental to profitability in the near term until production levels rise to full capacity.

The Group requires greater sales revenue to profitably support the infrastructure it has established to meet the needs of its present operations and future development. The target is to increase sales from existing operations by 50% over the next two years.

This increase in sales is expected to come from:

- a lower price offering of certain HVAC products to be manufactured offshore;
- sale of new products either just released or about to be released to market; and
- increased sales in the South East Asian region.

The Group will continue to add to its technical skill base whenever appropriate.

This investment in people, systems, new products and research has been at a cost, but will put the Group in a position to achieve sustainable and profitable growth in the future.

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## CONSOLIDATED STATEMENTS OF PROFIT &amp; LOSS

	2015 \$	2014 \$	2013 \$	2012 \$
Revenue	15,596,981	19,003,842	19,698,733	13,445,490
Other income	743,088	532,786	97,819	102,205
Changes in inventories of finished goods	(203,029)	(285,242)	75,994	(164,319)
Raw materials and consumables used	(7,118,323)	(8,219,597)	(8,961,483)	(5,556,260)
Occupancy costs	(772,368)	(941,114)	(763,866)	(531,463)
Employee benefits expenses	(6,751,065)	(7,502,188)	(6,310,230)	(4,810,335)
Depreciation of plant and equipment	(234,370)	(202,374)	(178,777)	(136,750)
Amortisation of patents	(581,234)	(284,956)	(266,188)	(242,619)
Intangible – premium on contracts	-	(50,000)	(600,000)	-
Contingent consideration written back	-	3,230	(150,000)	182,000
Other expenses	(1,356,946)	(1,678,098)	(1,823,720)	(1,323,827)
Acquisition costs	-	(54,585)	(26,574)	(42,609)
Finance costs	(20,128)	(47,368)	(16,229)	(24,846)
(Loss)/ profit before income tax	(697,394)	274,336	775,479	896,667
Income tax (expense)/ benefit	(15,709)	89,989	448,394	(49,279)
(Loss)/ profit after tax for the year	(713,103)	364,325	1,223,873	847,388
Net (loss)/ profit for the year	(713,103)	364,325	1,223,873	847,388
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive (loss)/ income for the year attributable to members of Air Change International Limited	(713,103)	364,325	1,223,873	847,388
Earnings per share attributable to members of Air Change International Limited				
Basic earnings per share	(0.040)	0.021	0.069	0.048
Diluted earnings per share	(0.040)	0.021	0.056	0.039

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2015 \$	2014 \$	2013 \$	2012 \$
Current assets				
Cash & cash equivalents	941,757	474,857	946,734	2,154,946
Trade & other receivables	2,869,556	4,046,717	4,485,096	2,011,523
Inventories	1,572,125	1,775,154	1,753,210	999,034
Total current assets	5,383,438	6,296,728	7,185,040	5,165,503
Non-current assets				
Plant, equipment and leasehold improvements	898,428	964,402	721,881	583,260
Rental bonds & term deposit	7,108	51,506	7,482	7,475
Intangible assets	5,558,655	6,137,084	5,863,784	4,799,399
Deferred tax assets	275,901	289,590	178,272	154,012
Trade & other receivables	150,532	-	332,886	-
Total non-current assets	6,890,624	7,442,582	7,104,305	5,544,146
TOTAL ASSETS	12,274,062	13,739,310	14,289,345	10,709,649
Current liabilities				
Trade & other payables	1,932,785	2,727,802	3,708,250	1,526,504
Hire purchase liabilities	-	8,446	11,865	61,295
Other liabilities	21,170	8,140	21,140	-
Provisions	461,888	455,236	458,787	270,195
Total current liabilities	2,415,843	3,199,624	4,200,042	1,857,994
Non-current liabilities				
Other liabilities	4,490	-	-	11,865
Provisions	206,419	179,273	93,215	67,575
Total non-current liabilities	210,909	179,273	93,215	79,440
TOTAL LIABILITIES	2,626,752	3,378,897	4,293,257	1,937,434
Net Assets	9,647,310	10,360,413	9,996,088	8,772,215
Equity				
Contributed equity	7,104,700	7,104,700	7,104,700	7,104,700
Reserves	89,960	89,960	89,960	89,960
Retained earnings	2,452,650	3,165,753	2,801,428	1,577,555
TOTAL EQUITY	9,647,310	10,360,413	9,996,088	8,772,215

## NOTES

- 9.1 Group revenue increased significantly from 2012 to 2013 financial year with the acquisition of Summit Industrial Chillers. Summit had a large contract for the supply of chilled water units that were predominantly delivered in 2013 FY. Air Change revenues from HVAC sales were also up significantly due to sales to the mining and resource industries.
- 9.2 Group revenue fell 18% in 2015 due principally to a downturn in chiller and air conditioning unit sales to the mining and resource industries. This fall in resource related revenue was partially offset by increased sales of AHU's and FCU's
- 9.3 Gross margins have decreased since 2012 as sales of lower margin AHU's and FCU's have increased as a proportion of Group sales.
- 9.4 The Company has patents that it acquired as part of the Air Change acquisition in 2010. These patents were independently valued at that time and have been amortised over their remaining life based on the expected sales volume of products utilising this patented intellectual property.

As a result of its R&D program, the Company has developed a design for a new larger air to air heat exchanger which, although it will not fully replace the existing patented heat exchanger design, it will replace the present design in certain applications and therefore reduce the number of the present design heat exchangers that are likely to be sold in the future. Recognising the likely reduction in sales led to an increase in patent amortisation from \$284,956 to \$581,234 in the 2015 FY.

**10.1 General**

Investors should carefully consider all of the information contained in this Information Memorandum, including but not limited to, the following risk factors, which may affect some or all of the Company's activities, the industry in which it operates and the securities issued. However, the risk factors described below are not the only ones that will be faced by the Company. Other risks and uncertainties, including those not currently considered material by the Company's management, may impair the Company's business. The risk factors discussed below may adversely affect the business, financial condition, operating results or cash flow of the Company.

This section describes some, but not all, of the risks associated with an investment in the Company. Each of the risks set out below could, if they eventuate, have a materially adverse impact on the Company's operating and financial performance, the value of Shares and its ability to pay dividends. In addition, potential investors should consider their personal circumstances, including financial and taxation circumstances, and seek appropriate professional advice before deciding whether to purchase shares of the Company.

**10.2 General Risks**

There are risks associated with any investment in a company or entity listed on the stock market, which may affect the volatility and share price of the Shares. In particular these general risks include

**10.2.1 Stock Market Fluctuations**

Stock market fluctuations in Australia and around the world may negatively impact the Company's share price. Factors which may influence the investment climate, which may not relate to the actual performance of the Company, include general economic outlook, movements in commodity prices, exchange rate movements, interest rates, inflation and overall developments in the debt and equity markets.

**10.2.2 Liquidity and realisation risk**

There can be no guarantee that an active market in the Company's Shares will develop or that the Share price will increase.

**10.2.3 Accounting Standards**

Changes in accounting standards or their interpretation may adversely affect the Company's reported financial performance and or financial position.



**10.2.4 General economic risk**

Australian and world economic conditions may adversely affect the Company's business and therefore its financial performance. Any protracted slowdown in economic conditions or continued weak economic performance in the world economy may negatively impact on the Company's business prospects. Inflation, currency fluctuations, interest rates and the availability of credit may adversely affect the Company's operations, earnings and financial performance.

**10.2.5 Taxation**

Changes in tax legislation and regulation or their interpretation may adversely affect the Company's earnings and the value of the Company's Shares and may affect each Shareholder differently.

**10.2.6 Force Majeure**

Force majeure is a term to refer to an event that is outside the Company's control and may include but not be limited to acts of God, terrorism, fire, flood, earthquakes, wars, strikes and the outbreak of disease. To the extent to which force majeure events occur, they may adversely impact the Company's ability to operate, its financial performance or position, and the value and price of the Company's shares.

**10.2.7 Socio-Political Risk**

ACI conducts its business operations across Australia and the South East Asian region. The political stability and government policy settings in the countries in which it manufactures and sells its products is therefore crucial for growth and sustainability of the business. Any instability or major policy change would create numerous disruptions that could affect manufacturing costs and product sales.

**10.2.8 Other Risks**

The risks discussed above are not exhaustive and the Company may encounter other risks from time to time that may materially impact the Company's financial performance or financial position.

**10.3 SPECIFIC RISKS****10.3.1 The Building & Construction Market**

The demand for new building construction and building refurbishment services is subject to demand generated by general economic activity and the availability of credit to finance construction. A continued weakness or further reduction in new and refurbished building activity negatively impacts on the demand for the Company's HVAC products.

**10.3.2 Industrial Process Cooling Market**

The demand for process cooling is subject to demand generated by general economic activity and more particularly commodity demand. A continued weakness or further reduction in new resource projects negatively impacts on the demand for the Company's process cooling products.

**10.3.3 Patents**

In some instances, The Company relies for its success on its ability to maintain patent protection for its heat exchanger technology. Even though the Company has been granted patents over its heat exchange technology, the nature of commerce is that competitors will try and design competing products that do not infringe the Company's patents.

Furthermore, the Company's patents could be partially or wholly invalidated following challenges by third parties.

**10.3.4 Infringement of third party intellectual property**

If a third party accuses the Company of infringing its intellectual property rights or if a third party commences litigation against the Company for infringement of its patent or other intellectual property rights, the Company may incur significant costs in defending the action regardless of whether that action ultimately prevails.

**10.3.5 Competition**

The Company's competitors may discover or develop competing products that would make the Company's products obsolete, redundant or uncompetitive. This would adversely affect the market for the Company's products and hence its future financial performance.

**10.3.6 Sufficiency of Funds**

In the Company's best estimation of cash flow projections and its present financial position, it has sufficient funds and borrowing capacity to maintain and organically grow its present business operations. From time to time, the Company may need to raise additional debt or equity funding to maintain or grow its business, defend its patents or third party claims, finance new product developments and their commercialisation or take advantage of other investment opportunities that may present. The Company's ability to raise additional funds will be subject to conditions and factors outside the control of the Company and its Directors. The Directors can give no assurance that future funds, if required, will be available or available on sufficiently favourable terms.

**10.3.7 Exchange rate risk**

The Company manufactures and sells products in foreign jurisdictions to enhance and grow its business. Investment in foreign currencies can result in profits and losses from fluctuations in the value of these currencies relative to the Australian dollar. Many of the Company's supply inputs are foreign sourced and priced in foreign currencies and fluctuations in the value of these currencies can result in cost differences in these supplies between the cost estimates at the time of tender and the final purchase cost.

**10.3.8 Strategy Risk**

The Company's Board of Directors sets the strategy and future direction of the Company's activities which are then implemented by the Company's management.

The future growth and profitability of the Company is partly dependent on the correctness of this strategy and management's successful execution of this strategy and direction. There is a risk that this strategy will not deliver its intended results or that management may not succeed in implementing the Company's strategy and plans.

**10.3.9 Validity of the value of Shares**

Prior to this Compliance Listing, there has been no public market for the Company's Shares. There can be no assurance that an active market for the Shares will develop or, if developed, that such market will be sustained. Investors should also be aware that the value of the Shares may be volatile and may go down as well as up.

