

ACI

AIR CHANGE INTERNATIONAL LIMITED

ACN 087 737 068

**Annual Report
2013**

Corporate Directory

Directors:

Alan S Jones (Non-executive Chairman)
John M Langley (Non-executive Director)
Neil R Fimeri (Managing Director)

Secretary:

Robert Lees

Principal & Registered Office:

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Sydney NSW 2000

Tel: (02) 9994 0240

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Web site: www.airchange.com.au

Share Registrar:

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 1115

Auditors:

BDO East Coast Partnership ("BDO")
Level 11, 1 Margaret Street
Sydney NSW 2000

Bankers:

ANZ
Level 4, 20 Smith St
Parramatta NSW 2150

Solicitors:

Addisons Lawyers
60 Carrington Street
Sydney NSW 2000

Stock Exchange Listing:

Air Change International Ltd shares are listed on the
Australian Stock Exchange Limited
(Code: ordinary shares "AHJ")

Company Number:

ACN 087 737 068
ABN 14 087 737 068

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Air Change International Limited

Chairman and Managing Director's report

We are pleased to present the annual report of Air Change International Limited ("company") for the year ended 30 June 2013..

It is pleasing to report that the Company was again profitable last year, meaning it has been profitable in each reporting period since changing its business direction and focus.

This has occurred despite the difficult economic and trading conditions in Australia during the period and the investment made to build a company that can grow into the future while operating in a diverse, competitive and challenging environment.

Overview

Air Change International Limited through its subsidiary companies (the Group) is principally involved in the design and manufacture of heating, cooling and ventilation equipment to provide either:

- air conditioning for commercial, institutional and industrial buildings; or
- supply cooling for industrial processes.

The Group aims to provide efficient, cost effective, engineered solutions using energy efficient technologies for each application, including using its own internationally patented air to air heat exchanger where appropriate.

Products in which the Group specialises are:

- Commercial rooftop air conditioners incorporating energy recovery;
- Heat and energy recovery ventilators;
- Air handling units with and without heat and energy recovery;
- Efficient indoor pool heating and ventilation systems;
- Dedicated outdoor air de-humidification and air pre-treatment systems; and
- Process cooling chilled water units.

The Group has sales representation in Australia, New Zealand, Singapore, Malaysia, Indonesia and Thailand.

Financial Performance

Revenue and Profit

Revenue from operations increased from \$13,422,455 in the 2011/12 to \$19,678,372 this last year due primarily to the acquisition of Summit Industrial Chillers Pty Limited (Summit) which is discussed below.

Net profit after tax (NPAT) was \$1,223,873 which was 44% higher than the previous financial year and in line with the result for the first half to 31 December 2012.

This profit was arrived at after recognition of the following major items:

- a \$600,000 expense in respect of the premium on contracts held by Summit at the date of acquisition;
- a \$150,000 expense for the estimated additional contingent consideration due to the Vendors of Summit arising from the Vendors share of profits earned by Summit. In accordance with the Share Sale and Purchase Agreement, the Vendors of Summit are due additional consideration if profits earned by the company in the two financial years following the acquisition exceed certain hurdles. This amount is in addition to the provisional contingent consideration allowed for as at 31 December 2012. (purchase consideration recognised after the acquisition date is not recognised as an investment but expensed to the profit and loss pursuant to AASB 3);
- a cash tax refund of \$217,134 received in respect of research and development expenditure in the 2011/12 financial year. R&D costs for the year just completed were higher than for the previous year, so that provided there is no change in government policy, the tax refund arising from this last financial year's research and development spending should exceed the amount received last year.
- past tax loss benefits of \$505,437 that were not previously recognised.

Group Taxation

The Group continues to utilise tax benefits arising from losses incurred by the Company prior to April 2010 on its past business operations.

Since the Company changed its business direction, it has been using the available carry forward tax losses. The remaining tax losses arising are not recognised as a future tax benefit because they depend upon the continuity of ownership of the shares in the Company which is beyond its control.

If recognised, these tax losses would amount to a future income tax benefit of \$2,275,988.

Cashflow

To date, the Group has been able to fund the additional working capital required by its expanded operations and the acquisitions it has made from its operational cash flow and its increased borrowing capacity.

The Group's available credit facilities have remained undrawn during the last financial year, other than to secure property rental guarantees.

Acquisitions

Your Company is engaged in a specialised niche market. To grow, it needs to expand into other areas of ventilation and refrigeration technology.

The Group is continually examining opportunities to acquire companies and business operations that would offer strategic and synergistic benefits in engineering and manufacturing.

Summit Industrial Chillers

The Group acquired the shares of Summit in early October 2012. Summit design and manufacture cold water chilling plants for removing waste heat generated in industrial and mining process operations. This industrial cooling operation is complementary to the existing air conditioning and air handling business because both use similar engineering skills, refrigeration technology and input components to transfer or remove heat.

The addition of the Summit business helps to diversify the Group's earnings base as it is exposed to the chemical, mining and industrial process industries. Air Change ventilation and air conditioning products are sold to the building industry.

Summit was earnings accretive to the Group during this past financial year to an extent that is unlikely to be replicated in the immediate future.

The carrying value of this investment recognises Summit's estimated future contribution to the Group earnings rather than the contribution gained during this last year.

Air Movement & Filtration Business

The Company entered into a non binding heads of agreement to purchase a Singapore company in January 2013 after eight months of extensive negotiations to agree commercial conditions. In March 2013, the Vendor notified its intention to withdraw from the proposed sale transaction unless the agreed purchase price was increased. Your Board concluded that the transaction should not proceed at the new purchase price that the Vendor indicated.

The costs associated with this failed acquisition were expensed during the year.

Other Opportunities

Your Board and management continue to seek acquisition opportunities that are sensibly priced and synergistic with the existing Group operations.

Operational Review

Air Conditioning & Ventilation

Revenue and profit from air conditioning sales were down from the previous year but this was offset by the addition of the process cooling operations.

This decrease in air conditioning and ventilation sales was principally due to the tight conditions in the building and construction industry, particularly in the first 9 months of the financial year.

Sales orders increased during the 3 months to June 30 with these deliveries generally due to be made from July to November 2013.

As a result of this increased order intake, forward air conditioning orders were at a record level at the end of June 2013.

Generally, demand for air conditioning and ventilation equipment has fallen in Australia over the past three years as the building and construction industry contracted.

Without the introduction of new products, particularly the development of de-humidification equipment, revenue would have fallen more significantly.

Sales through the South East Asian office have grown from a zero base to over \$300,000 in the past 12 months. This market revenue is forecast to more than double this financial year.

The South East Asian operation are yet to make a net contribution to the Group but is expected to almost break even this coming year as sales increase.

Enquiry levels for the Group's air conditioning and de-humidification products in this regional market has been strong, but this has yet to be converted to sales revenue.

Industrial Process Cooling

Summit undertook a very large process cooling project for the mining industry during the year which raised its revenue and profitability above its normal level.

This contract had been negotiated, although not executed, and design commenced, at the time of the Summit acquisition by the Group.

Going forward, we anticipate that the Summit operations will contribute to the Group performance but not to the extent that it did this past year.

Summit is now better placed to negotiate, design and manufacture large complex projects due to the experience it gained on this large mining contract and

the availability of greater technical and manufacturing resources of the combined Group.

Manufacturing Operations Consolidation

The air conditioning, ventilation and industrial process operations achieve synergy because they share the same or similar:

- refrigeration technology;
- plant and equipment requirements;
- component part inputs; and
- engineering, trades and labour skills.

To maximise this synergy, the Group's operations will be consolidated from three separate factory premises at present, (two in Taren Point and one in Alexandria, Sydney) to a single larger premises in Milperra, western Sydney.

As a result of this consolidation, the Group will have a stronger combined engineering and manufacturing base and future cost savings arising from the elimination of functions that are presently duplicated at each location.

Furthermore, it is anticipated that a combined operation will be better placed to achieve savings when purchasing component supplies.

Research & Development

Research and product development ("R&D") has again been a priority of the Company.

The Group continues to seek gains in energy and heat recovery efficiency by designing and testing new geometric designs for heat exchangers with different transfer media.

Whilst the government assistance program for R&D is helpful, the monies expended and not recovered from this R&D effort are considerable, and this unrecovered expenditure impacts the Group's profitability.

As noted earlier, during this past financial year the Company received a cash tax refund of \$217,000 in respect of research and development expenditure made during the 2011/12 financial year and the Group is expecting another tax refund in the 2013/14 financial year in respect of R&D expenses incurred during 2012/13. Going forward, as Group revenue surpass \$20 million, cash tax refunds will be suspended and replaced by a reduction in income tax payable. Group revenue was only marginally below this \$20 million threshold last year, and we anticipate that this revenue threshold is likely to be breached in the coming financial year.

The Group is working on additional new product developments which incorporate technologies from all parts of the operation.

New products from this effort will be available in late 2013 and we are hopeful that the first sales of these units will occur before the end of the 2013/14 financial year.

The Group is constantly trying to identify new or existing technologies that can be of benefit to its client base.

Thermal Energy Storage

Thermal energy storage (TES) involves making ice in off peak electricity periods when tariffs and carbon emissions are lowest and melting that ice during periods of peak cooling demand to provide air conditioning or process cooling when energy prices are highest.

This technology is in use overseas, particularly in the United States, and is promoted by the electricity generating companies to reduce peak electricity demand.

The Group has carried out substantial R&D on thermal energy storage systems during 2011/12 and in the early part the 2012/13 financial year to understand its limitations and benefits.

After building and trialling the process, it was concluded that the technology had merit but the Australian market size did not justify the manufacturing investment required.

The Group has now sought, and been granted, a licence to import and distribute TES systems from a United States company who has many years experience in manufacturing and use of this technology.

Future Strategy & Outlook

Group revenue has almost doubled over the past 3 years due to a combination of product development, geographical expansion and strategic acquisition. This has occurred without raising new capital.

While profits have risen over the same period, they have not grown to the extent of revenue growth principally due to the continuing investment in the business.

The Company's strategy to grow and remain profitable is based on a view that Australian based manufacturing cannot be competitive in mass produced products, and must therefore concentrate on offering specialised innovative solutions and products for unique applications that deliver the lowest life cycle cost to its clients.

To be able to fulfil this role, the Group must have a very strong engineering and technical skills base and

Air Change International Limited Chairman and Managing Director's report

to this end the Group's technical team has increased by more than doubled over the past 3 years. 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.

Neil Fimeri
Managing Director

In conclusion, we would like to thank all of the staff for their efforts over the past year and look forward with optimism to the future.

Alan Jones
Chairman

Air Change International Limited

Directors report for year ended 30 June 2013

Your directors present their report on the Air Change International Limited ("ACI" or "the Group") 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 2013.

Directors and officers

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

Alan Stephen Jones (Non-Executive Non- Independent Chairman)

John Michael Langley (Non-Executive Independent Director)

Raymond Neil Fimeri (Managing Director)

Principal activities

During the year, the principal activity of the ACI 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 Chairman and Managing Director's Report on pages 2 – 4 herein. A summary of consolidated revenues and results by significant business segments is set out below:

	Segment revenues		Segment results	
	2013	2012	2013	2012
	\$	\$	\$	\$
Heating, cooling, & ventilation equipment	19,678,373	13,422,455	775,479	896,667
Profit before income tax benefit			775,479	896,667
Profit after income tax benefit			1,223,873	847,388
Net profit attributable to members of ACI Limited			1,223,873	847,388

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

Other than an expansion of operations with the acquisition of Summit Industrial Chillers Pty Ltd, there were no significant changes in the Company's state of affairs.

Likely developments and expected results of operations

Likely developments or matters that may effect the Group or its operations are included in the Chairman and Managing Director 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 2013 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 2013

DIRECTORS' INTERESTS

INFORMATION ON DIRECTORS

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

Air Change International Limited
Directors report for year ended 30 June 2013

Robert Lees	<p>Robert Lees is company secretary for a number of ASX/NSX 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 an Associate of the Australian Institute of Chartered Secretaries. 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.</p> <p>He was appointed as Company Secretary and Financial Controller for a small cap company that completed its initial public offering in 1998 before going out in 2000 as a contract Company Secretary & CFO for a number of public and small caps ASX listed companies.</p>	Company Secretary	Nil
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Directors' Benefits

With the exception of the matters referred to below, no director in the consolidated entity 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 (2012: four) and two Audit Committee meetings (2012: two) and zero Remuneration Committee meeting (2012: zero) held during the year ended 30 June 2013.

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 are:

Directors	Meetings				Remuneration Committee	
	<u>Number held</u>	<u>Number attended</u>	<u>Number held</u>	<u>Number attended</u>	<u>Number held</u>	<u>Number attended</u>
Alan S Jones	4	4	2	2	-	-
John M Langley	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 June 2014.

The liabilities insured are legal costs that maybe incurred in defending civil or criminal proceedings that maybe 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 willful 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.

Proceedings on behalf of the Company

Air Change International Limited

Directors report for year ended 30 June 2013

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 consolidated entities are important.

Details of the amounts paid or payable to the auditor (2013: BDO; 2012: Non-BDO) for audit and non-audit services provided during the year are set out below and 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 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*.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2013	2012
	\$	\$
Tax Compliance Services		
BDO	-	-
Non-BDO (2012 - incl. write back of over-accrual re 2011 of \$4,049)	15,251	5,951
Other Services		
Due diligence - BDO	15,000	-
Due diligence - Non-BDO	-	11,423
	<u>30,251</u>	<u>17,374</u>

Shares under option

There were no options issued during the year ended 30 June 2013 (2012: 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 2013 (2012: Nil).

Air Change International Limited

Directors report for year ended 30 June 2013

Remuneration report - Audited

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

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

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

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

Non-executive director fees

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 remuneration

Executive remuneration and other terms of employment are reviewed annually having regard to performance and relevant comparative information. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Group's operations. The remuneration and other terms of employment for executives are formalized in service agreements. There is no relationship between payments to key management personnel and group performance.

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

2013	Short term employee benefits		Post-employment		
Name	Cash salary and fees \$	Cash Bonus \$	Super-annuation \$	Termination benefits \$	Total \$
Non-executive directors					
Alan S Jones – Chairman	30,000	-	2,700	-	32,700
John M Langley	30,000	-	2,700	-	32,700
Executive director					
Neil R Fimeri Managing Director	404,336	-	24,873	-	[^] 429,209
Total KMP remuneration	464,336	-	30,273	-	494,609

[^]Includes annual leave accrued of \$29,209.

Air Change International Limited
Directors report for year ended 30 June 2013

2012	Short term employee benefits		Post-employment		
Name	Cash salary and fees \$	Cash Bonus \$	Super-annuation \$	Termination benefits \$	Total \$
Non-executive directors					
Alan S Jones – Chairman	30,000	-	2,700	-	32,700
John M Langley	30,000	-	2,700	-	32,700
Executive director					
Neil R Fimeri Managing Director	376,820	-	49,467	-	^426,287
Total KMP remuneration	436,820	-	54,867	-	491,687

[^]Includes annual leave accrued and not taken of \$26,287.

Service agreements

The major provisions of the agreements relating to remuneration for full time employment is set out below.

Neil Fimeri, Managing Director

Base salary including superannuation \$400,000 per annum. The service agreement commenced 19 April 2010. The Company may terminate Mr. Fimeri's employment at any time with cause on 12 months notice and without cause at any time after the expiry of a minimum 2 year commitment period. In the event ACI terminates Mr Fimeri's employment without cause during the minimum 2 year commitment period, ACI will be obliged to pay Mr Fimeri in lieu of notice his remuneration package for the period from the date of termination until the end of the 2 year minimum commitment period.

Mr Fimeri may terminate his employment at any time with cause and on 90 days without cause at any time after the expiry of the minimum 2 year commitment period. Mr Fimeri's contract of employment was approved by shareholders in extra ordinary meeting on the 6th April 2010 and was dependent upon the acquisition and financing of the Group.

Remuneration and retirement benefits

Details of directors' remuneration are set out in the Directors' Report and in Note 19 – Key Management Personnel Disclosures. The Company does not pay directors' retirement benefits other than the Company's superannuation contribution for the SGL.

End of audited remuneration report

Air Change International Limited

Directors report for year ended 30 June 2013

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 4,000,000 options granted on 6 April 2010, expiry date 19 April 2014, exercise price \$0.80 per share.

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
23 September 2013

DECLARATION OF INDEPENDENCE BY ARTHUR MILNER TO THE DIRECTORS OF AIR CHANGE INTERNATIONAL LIMITED

As lead auditor of Air Change International Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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



Arthur Milner

Partner

BDO East Coast Partnership

Sydney, 23 September 2013

Corporate governance statement

Corporate governance statement

In developing Air Change International Limited's corporate governance policies, the Board has been guided by the '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, and the extent to which ACI follows the Best Practice Recommendation. Where the Company has not followed a recommendation, the recommendation is identified and the reasons are given for not following it.

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.

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 approval of corporate strategies and financial plans
- oversee and monitoring 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 liaison with the Company's auditors
- appointment and assessment of 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 protecting 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 executives. 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 (Best Practice Recommendation 2.4 as set by the ASX Corporate Governance Council) 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

Membership

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.

Board composition directors' independence

ASX Best Practice Recommendation 2.1 is that the Board should comprise a majority of independent directors. During the reporting period the ACI board comprised of two non-executive directors and one executive director, only one of whom is independent. The Board would ideally wish to have a majority of independent directors; however it has to determine the composition of the Board, subject to the limits imposed by ACI's Constitution and the financial implications for a company of ACI's size.

The Board believes that the current non-executive directors bring the appropriate perspective to the Board's consideration of strategic, risk and performance matters and are well placed to exercise appropriate judgement and review and constructively challenge the performance of management.

During the reporting period, the Chairman of the Company, Mr Alan Jones was a non-executive and non-independent director. ASX Best Practice Recommendation 2.2 is that the Chairperson of the Board should be independent, however the Board believed that its composition is appropriate. Mr Jones brings extensive experience in the property and investment. In addition appropriate conflict of interest policies are in place to ensure material personal interests are disclosed and dealt with appropriately.

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
- has 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
- has not within the last 3 years been a principal of a material professional adviser or a material consultant to the Group or a controlled entity or an employee materially associated with the service provided
- not a material supplier or customer of the Group or a controlled entity, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must not have contractual relationship with the Group or a controlled entity other than as a director of the Group
- not been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group

Chairman and Managing Director

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

Avoidance of conflicts of interest by a director

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

Corporate governance statement

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

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

Board access to information and advice

All directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. The Group's Company Secretary provides directors with ongoing guidance on issues such as corporate governance, ACI Group's Constitution and the law. The Chairman and other non-executive (independent) directors also regularly consult with the Executive Director and other executives 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 subject to the following limitations:

- no director (other than the Managing Director) may serve more than four terms (twelve years)

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 consolidated entity.

The AFRCC consists of the following directors:

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

The AFRCC comprises two members all of whom are non-executive directors. However it is not in line with ASX Best Practice Recommendation 4.3 set by the ASX Corporate Governance Council as there is not a majority being independent and the Chairman of the AFRCC is the Chairman of the Board. Due to the size of the Company, the number of non-executive directors and the number of committees that board members are required to serve on it is currently not possible to comply with Recommendation 4.3.

The external auditors, 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 2013 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

Corporate governance statement

- 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 achieve 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 executives consists of base remuneration, allowances and superannuation.

The Remuneration Committee consists of the following directors:

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

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

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

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

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

Non-executive directors are paid an annual fee for their service on the Board and committees which is determined by the Remuneration Committee. Total remuneration for all non-executive directors is not to exceed \$400,000 per annum. The non-executive directors' total fees for the year were \$65,400, 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 consolidated entity.

External auditors

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

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in 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.

Corporate governance statement

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.

However, the Company does not have a formal policy in relation to gender diversity, and hence does not comply with ASX best practice recommendations 3.2, 3.3 and 3.4.

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 and marketing. As the Group operations continue to expand, there will be greater opportunities available for the appointment and advancement of women within the organisation.

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

Continuous disclosure and shareholder communication

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters on a timely basis that may have a material effect on the price of the Company's securities, ensuring the matters are factual and expressed in a clear and factual way, notifying the ASX, 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 income statement and other comprehensive income
for the year ended 30 June 2013**

	Note	2013 \$	2012 \$
Revenue	5	19,698,733	13,445,490
Other income	6	97,819	102,205
Changes in inventories of finished goods		75,994	(164,319)
Raw materials and consumables used		(8,961,483)	(5,556,260)
Occupancy costs		(763,866)	(531,463)
Employee benefits expenses		(6,310,230)	(4,810,335)
Depreciation of plant and equipment		(178,777)	(136,750)
Amortisation of patents		(266,188)	(242,619)
Intangible – Premium on contracts acquired	28	(600,000)	-
Contingent consideration (additional)/written back	28	(150,000)	182,000
Other expenses		(1,823,720)	(1,323,827)
Acquisition costs		(26,574)	(42,609)
Finance costs		(16,229)	(24,846)
Profit before income tax	7	775,479	896,667
Income tax (expense)/benefit	8	448,394	(49,279)
Profit/(loss) from continuing operations		1,223,873	847,388
Net profit for the year		1,223,873	847,388
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to members of Air Change International Limited		1,223,873	847,388
Earnings per share for profit from continuing operations attributable to members of Air Change International Limited			
Basic earnings per share	25	0.069	0.048
Diluted earnings per share	25	0.056	0.039

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

**Consolidated statement of financial position
as at 30 June 2013**

	Note	2013 \$	2012 \$
Current assets			
Cash & cash equivalents	9	946,734	2,154,946
Trade & other receivables	10	4,485,096	2,011,523
Inventories	11	1,753,210	999,034
Total current assets		7,185,040	5,165,503
Non-current assets			
Plant & equipment	12	721,881	583,260
Rental bonds		7,482	7,475
Intangible assets	13	5,863,784	4,799,399
Deferred tax asset	14	178,272	154,012
Other Receivables		332,886	-
Total non-current assets		7,104,305	5,544,146
TOTAL ASSETS		14,289,345	10,709,649
Current liabilities			
Trade & other payables	15	3,708,250	1,526,504
Hire purchase liabilities	21(b)	11,865	61,295
Other current liabilities		21,140	-
Provisions	16	458,787	270,195
Total current liabilities		4,200,042	1,857,994
Non-current liabilities			
Hire purchase liabilities	21(b)	-	11,865
Provisions	16	93,215	67,575
Total non-current liabilities		93,215	79,440
TOTAL LIABILITIES		4,293,257	1,937,434
Net Assets		9,996,088	8,772,215
Equity			
Contributed equity	17	7,104,700	7,104,700
Reserves	18	89,960	89,960
Retained earnings	18	2,801,428	1,577,555
TOTAL EQUITY		9,996,088	8,772,215

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 2013**

	Contributed equity	Reserves	Retained earnings	Total
Notes	\$	\$	\$	\$
Balance at 1 July 2011	7,104,700	89,960	730,167	7,924,827
Reported profit for the year	-	-	847,388	847,388
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	847,388	847,388
Transactions with owners in their capacity as owners:				
Share option issued	-	-	-	-
Contribution of equity net of transaction costs	-	-	-	-
Balance at 30 June 2012	7,104,700	89,960	1,577,555	8,772,215
Balance at 1 July 2012	7,104,700	89,960	1,577,555	8,772,215
Reported profit for the year	-	-	1,223,873	1,223,873
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	1,223,873	1,223,873
Transactions with owners in their capacity as owners:				
Share options issued	-	-	-	-
Contributions of equity, net of transaction costs	-	-	-	-
Balance at 30 June 2013	7,104,700	89,960	2,801,428	9,996,088

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 2013**

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Receipts from customers		15,305,181	15,339,145
Payments to suppliers, employees and creditors		(17,150,716)	(13,784,624)
Interest received		20,360	23,035
Transaction costs relating to acquisition of subsidiary		(26,574)	-
Interest paid		(16,229)	(22,730)
Income tax benefit – R&D refundable tax offset		217,134	-
Net cash (outflow)/inflow from operating activities	24	(1,650,844)	1,554,826
Cash flows from investing activities			
Payment on acquisition of subsidiary, net of cash acquired.	28(b)	737,527	-
Purchase of plant & equipment	12	(185,632)	(115,924)
Contingent consideration payment	28(a)(i)	(55,000)	(400,000)
Payment for patents	13	(3,764)	(34,146)
Proceeds on disposal of plant & equipment		7,300	-
Net cash (outflow)/inflow from investing activities		500,431	(550,070)
Cash flows from financing activities			
Payment of hire purchase obligations		(61,295)	(79,920)
Net cash (outflow) from financing activities		(61,295)	(79,920)
NET INCREASE/(DECREASE) IN CASH HELD		(1,211,708)	924,836
Cash & cash equivalents at the beginning of the financial year		2,154,946	1,228,543
Exchange differences on cash & cash equivalents		3,496	1,567
Cash & cash equivalents at the end of the financial year	9	946,734	2,154,946

Notes to the financial statements for the year ended 30 June 2013

These financial statements are the consolidated financial statements for the consolidated entity 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:

Suite 25, Level 6
58 Pitt St
Sydney NSW 2000

The financial statements were authorised for issue by the directors on 23 September 2013. 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 consolidated entity 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

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Air Change International Limited as at 30 June 2013 and the results for all subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide 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 method of accounting is used to account for business combinations by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, 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, 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 recognized 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.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into account the type of customer, the type of transaction and specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

The Group manufactures and sells a range of heating, cooling and ventilation products. Sales of goods are recognized when the customer accepts the goods which generally is taking receipt of the goods.

(ii) Contract Revenue

Contract revenue includes initial amount agreed plus any variation to contract work. When the outcome of a contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. This is determined based on the percentage of completion method.

Trade and other receivables include contract receivables and retention amounts. It is measured at the contract revenue recognised less progress billings.

(iii) Rendering of services

The Group derives revenues from 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 in the period when the service is performed.

(iv) Interest

Interest revenue on cash on deposit is recognised on a time proportion basis using the effective interest method.

Notes to the financial statements for the year ended 30 June 2013

(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 national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

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

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

Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

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) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non controlling interest in the acquiree either at fair value or at the non controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair

Notes to the financial statements for the year ended 30 June 2013

(g) Business combinations (continued)

value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(h) Leases

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

(i) 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, and bank overdrafts. Bank overdrafts would be shown within borrowings in current liabilities on the statement of financial position.

(j) Trade receivables

Trade receivables are recognised initially at invoiced value less provision for doubtful debts. Trade receivables are generally due for settlement within 60 days. Collectability of trade receivables is reviewed on an ongoing basis. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or the financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the profit or loss within impairment of assets. When a trade receivable for which an impairment 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.

(k) Government grants

Grants from the government are recognised 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.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(l) 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.

(m) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income.

(n) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss and are included in other income or other expenses.

(o) Plant and equipment

Plant, equipment, furniture and fittings 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 and fittings are depreciated over a 3 to 10 year period depending on their estimated life using either straight line and diminishing value methods 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.

(p) 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.

Notes to the financial statements for the year ended 30 June 2013

(p) Intangible assets (continued)

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. Amortisation is calculated based on projected future sales method to allocate the cost of the patents over their remaining estimated useful lives. Presently all patents will expire in approximately 8 years.

(iii) Agency Agreements and Design & Intellectual Property

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

(q) 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.

(r) 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. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

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

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

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

(s) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(t) Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(i) Warranty

A provision is made based on the best estimate of the liability on products and services under warranty at the end of the reporting period.

(u) 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Retirement benefits obligations

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

(v) 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.

(w) 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.

(x) 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.

(y) 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.

(z) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(aa) Research and Development

Research and development costs are expensed as incurred.

(ab) Parent entity financial information

The financial information for the parent entity, Air Change International Limited, disclosed in note 26 has been prepared on the same basis as the consolidated financial statements, except investments in subsidiaries are accounted for at cost in the financial statements of Air Change International Limited.

(ac) New accounting standards for Application in Future Periods

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

AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

The AASB aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and their characteristic of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classifications and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting in paragraph AASB 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015. Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

AASB 10 Consolidated Financial Statements (AASB 10)

AASB 10 supersedes the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and

Notes to the financial statements for the year ended 30 June 2013

changes in control remain the same. The adoption of this standard from 1 July 2013 is not expected to significantly impact to the Group.

AASB 12 Disclosure of Interests in Other Entities (AASB 12)

AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. The adoption of this standard from 1 July 2013 is not expected to significantly impact to the Group.

AASB 13 Fair Value Measurement (AASB 13)

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

Amendments to AASB 119 Employee Benefits (AASB 119 Amendments)

The AASB 119 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the reporting period in other comprehensive income
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The amended version of AASB 119 is effective for financial years beginning on or after 1 January 2013. The amendments are not expected to significantly impact the Group.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124 Amendments)

AASB 2011-4 makes amendments to AASB 124 Related Party Disclosures to remove individual key management personnel disclosure requirements, to achieve consistency with the international equivalent (which includes requirements to disclose aggregate (rather than individual) amounts of KMP compensation), and remove duplication with the Corporations Act 2011. The amendments are applicable for annual periods beginning on or after 1 July 2013. The amendments are not expected to significantly impact the Group.

(ad) New, revised or amended Accounting Standards or Interpretations adopted

The consolidated entity 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.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any amounts recognised in the current period or any prior period financial statements and are not likely to affect future period financial statements

Notes to the financial statements for the year ended 30 June 2013

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:

	Consolidated	
	2013	2012
	\$	\$
Financial assets		
Cash and cash equivalents	946,734	2,154,946
Trade and other receivables	4,748,500	1,959,195
	5,695,234	4,114,141
Financial liabilities		
Trade & other payables, and other liabilities	3,708,250	1,526,504
Hire purchase liabilities	11,865	73,160
	3,720,115	1,599,664

(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 in respect of financial assets. Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened/ strengthened by 10%, (2012: 4.8%) against the Singapore dollar with all other variables held constant, the impact on the profit would have been \$15,858 higher/ \$13,254 lower (2012: \$1,062 higher/ \$983 lower), mainly as a result of foreign exchange gains/ losses on translation of Singapore dollar denominated financial instruments. The percentage 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 no variable interest rate debt and therefore is not materially exposed to interest rate risk.

Group sensitivity

At 30 June 2013, if interest rates had changed by +/- 50 basis points from the year end rates, with all other variables held constant, the impact on the profit would have been immaterial as there was no loan being held (2012: \$nil). In respect of the trade receivables and trade payables there would be no impact on the net loss of a +/- 50 basis points change in interest rates (2012: nil). In respect of cash on deposit, the impact on the profit would have been \$1,600 higher/lower, mainly as a result of higher/lower interest income from cash and cash equivalents (2012: \$1,600).

(b) Credit risk

Credit risk arises from cash and cash equivalents and outstanding receivables. Cash is held with the Group's banks, ANZ, Westpac Banking Corporation and Standard Chartered Bank (Singapore). Credit limits are reviewed by senior management to manage the risk of impairment of receivables.

Notes to the financial statements for the year ended 30 June 2013

(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 an undrawn bank overdraft facility of \$745,000 expiring within one year. This facility may be drawn at any time and may be terminated by the bank without notice.

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 2013	Less than 4 months	4-6 months	6-12 months	Between 1 and 5 years	Total contractual cash flows	Carrying amount
Non derivatives						
Creditors – non-interest bearing	3,708,250				3,708,250	3,708,250
Hire purchase – liability fixed interest	1,130	1,130	10,383	-	12,643	11,865
Total non-derivative	3,709,380	1,130	10,383	-	3,720,893	3,720,115

Note: The average weighted interest rate on hire purchase liabilities in 2013 is 7.65%.

Group – at 30 June 2012

Non derivatives

Creditors – non-interest bearing	1,526,504				1,526,504	1,526,504
Hire purchase – liability fixed interest	10,991	10,991	42,760	12,643	77,385	73,160
Total non-derivative	1,537,495	10,991	42,760	12,643	1,603,889	1,599,664

Note: The average weighted interest rate on hire purchase liabilities in 2012 is 8.60%.

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

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 Group makes estimates and assumptions concerning the future. In determining the carrying value of goodwill of the investment in a subsidiary company, it has been estimated that the subsidiary revenue will increase by an average of \$1,168,000 in each of the next 5 years after which revenue will remain static. This results in a fair value estimate above the carrying value of the investment and therefore no impairment has been recorded. Similar assumptions have been used in determining and justifying the value of the patents owned by the Company.

The estimates and assumptions used in determining contingent consideration are detailed in Note 27. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Notes to the financial statements for the year ended 30 June 2013

The Group does not believe there are any estimates or assumptions that have been made that will have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group has recognised deferred tax assets relating to deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which these items can be utilised.

4. Segment information – Consolidated

(a) Description of segment

Management has determined the operating segment based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Board reviews reports based on heating, cooling and ventilation products of the Group. All customers and non-current assets are based in Australasia.

(b) Segment information provided to the Board of Directors

The segment information provided to the board for the reportable segments for the year ended 30 June 2013:

2013	Heating, Cooling & Ventilation	Total
	\$	\$
Total segment revenue	19,678,373	19,678,373
Revenue from external customers	19,678,373	19,678,373
Adjusted EBITDA	2,406,961	2,406,961
Depreciation and amortisation	443,817	443,817
Goodwill impairment	-	-
Total segment assets	14,253,773	14,253,773
Total segment liabilities	4,134,610	4,134,610

The segment information provided to the board for the reportable segment for the year ended 30 June 2012:

2012	Heating, Cooling & Ventilation	Total
	\$	\$
Total segment revenue	13,422,455	13,422,455
Revenue from external customers	13,422,455	13,422,455
Adjusted EBITDA	2,113,292	2,113,292
Depreciation and amortization	376,245	367,245
Goodwill impairment	-	-
Total segment assets	10,458,799	10,458,799
Total segment liabilities	1,743,730	1,743,730

Notes to the financial statements for the year ended 30 June 2013

(c) Other segment information

(i) Segment revenue

There are no sales between segments. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the income statement.

Segment revenue reconciles to total revenue from continuing operations as follows:

	2013	2012
	\$	\$
Total segment revenue	19,678,373	13,422,455
Interest revenue	20,360	23,035
Other revenue	97,819	102,205
Total revenue from continuing operations (note 5 & 6)	19,796,552	13,547,695

(ii) Major Customers

The Group had one major customer to whom it supplied product and it accounted for 34% of total revenue (2012 – nil).

((iii) Adjusted EBITDA

The Board of Directors of ACI assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurements basis excludes the effect of non-recurring expenditure from operating segments such as acquisition costs, and goodwill impairment when impairment is the result of an isolated, non-recurring event.

A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	2013	2012
	\$	\$
Adjusted EBITDA	2,406,961	2,113,292
Interest revenue	20,360	23,035
Finance costs	(16,229)	(24,846)
Depreciation	(178,777)	(136,750)
Amortisation	(266,188)	(242,619)
Acquisition costs	(26,574)	(42,609)
Contingent Consideration (additional) / written back	(150,000)	182,000
Other Income	97,819	102,205
Head office costs	(1,111,893)	(1,077,041)
Profit before income tax from continuing operations	775,479	896,667

**Notes to the financial statements
for the year ended 30 June 2013**

5. Revenue

	2013	2012
	\$	\$
From continuing operations		
Sales revenue		
Sale of goods	13,020,640	13,422,455
Contract Revenue*	6,657,733	-
Other revenue		
Interest	20,360	23,035
Total revenue	19,698,733	13,445,490

***Manufacturing contract:** Contract revenue recognised during the year is determined based on percentage of completion method. Trade and other receivables include an amount of \$837,923 unbilled receivable from the contract including \$332,886 which is non current.

6. Other income

	2013	2012
	\$	\$
Government grant (note (a))	88,955	28,418
Other	5,368	71,354
Net foreign exchange gain	3,496	2,433
Total other income	97,819	102,205

(a) Government grant

In 2013, primarily received was export market development grant (2012: research and development grant received from the Australian Federal Government under its climate ready program).

7. Expenses

	2013	Consolidated	2012
	\$		\$
Profit/(Loss) before income tax includes the following specific expenses:			
Lease rental payments	575,812		439,609
Defined contribution superannuation payments	387,695		330,491
Net loss on disposal of plant & equipment	111,563		-
(After profit on disposal of assets of \$2,700)			

**Notes to the financial statements
for the year ended 30 June 2013**

8. Income tax expense

(a) Income tax expense

	Consolidated	
	2013	2012
	\$	\$
Income tax expense	481,302	22,083
Adjustments for previous years	24,135	127,734
Benefit of tax losses previously unrecognised	(505,437)	(149,817)
Total current income tax expense	-	-
Deferred tax		
Origination and reversal of temporary differences	(231,260)	49,279
Total deferred tax/ (benefit)	(231,260)	49,279
R&D refundable tax offset	(217,134)	-
Total tax (benefit)/ expense	(448,394)	49,279

(b) Reconciliation of effective tax rate

	Consolidated	
	2013	2012
	\$	\$
Profit/(Loss) before income tax expense	775,479	896,667
Income tax calculated at 30% (2012 – 30%)	232,643	269,000
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other	13,047	5,455
Prior year under/over provision net of unrecognised losses	6,479	-
	252,169	274,455
Tax losses not recognised	933	11
Temporary differences not recognized	29,326	(75,370)
Previously unrecognised temporary difference now recognized	(7,500)	-
Previously unrecognized tax losses now utilized to reduce current tax expense	(506,188)	(149,817)
R&D refundable tax offset	(217,134)	-
Income tax (benefit)/ expense	(448,394)	49,279

**Notes to the financial statements
for the year ended 30 June 2013**

9. Cash and cash equivalents

Cash at bank and on hand

Consolidated	
2013	2012
\$	\$
946,734	2,154,946
946,734	2,154,946

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

10. Trade and other receivables

Current assets

Trade receivables

Less: Allowance for doubtful receivables

Net trade receivables

Rental and Security bonds

Other debtor

Prepayments

Consolidated	
2013	2012
\$	\$
3,841,576	1,919,156
(60,000)	(30,000)
3,781,576	1,889,156
46,636	58,832
587,402	11,207
69,482	52,328
4,485,096	2,011,523

(a) Past due not impaired trade receivables

As at 30 June 2013 there were current trade receivables of the Group with a nominal value of \$702,540 that were past due (2012 – \$94,210). The amount of the allowance was \$60,000 (2012: \$30,000).

The Group does not hold any collateral in relation to these receivables.

The ageing of these receivables is as follows:

Consolidated	
2013	2012
\$	\$
2-3 months	647,566
Over 3 months	54,974
Total	702,540
	94,210

Movements in the provision for impairment of receivables are as follows:

At 1 July

Provision recognised during the year

Receivables written off during the year

Balance at 30 June

Consolidated	
2013	2012
\$	\$
30,000	30,549
30,000	21,466
-	(22,015)
60,000	30,000

Notes to the financial statements for the year ended 30 June 2013

(b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount 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.

11. Inventories

	Consolidated	
	2013 \$	2012 \$
Current Assets		
Raw materials	1,140,856	572,203
Work in progress	201,244	115,302
Finished goods	411,110	311,529
	1,753,210	999,034

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2013 amounted to \$8,885,489 (30 June 2012: \$5,720,579).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to \$nil (30 June 2012: \$nil).

**Notes to the financial statements
for the year ended 30 June 2013**

12. Plant & equipment

	Plant & Equipment	Furniture & Fixtures	Total
At 1 July 2011			
At cost	817,899	81,996	899,895
Accumulated depreciation	(261,160)	(54,270)	(315,430)
Impairment	-	-	-
Net book amount	<u>556,739</u>	<u>27,726</u>	<u>584,465</u>
Year ended 30 June 2012			
Opening net book amount	556,739	27,726	584,465
Acquisition of subsidiary	-	-	-
Additions**	124,316	11,229	135,545
Disposals	-	-	-
Depreciation charge	(128,210)	(8,540)	(136,750)
Closing net book amount	<u>552,845</u>	<u>30,415</u>	<u>583,260</u>
At 30 June 2012			
Cost	942,215	93,225	1,035,440
Accumulated depreciation	(389,370)	(62,810)	(452,180)
Net book amount	<u>552,845</u>	<u>30,415</u>	<u>583,260</u>
Year ended 30 June 2013			
Opening net book amount	552,845	30,415	583,260
Acquisition of subsidiary	248,229	2,400	250,629
Additions	176,086	9,546	185,632
Disposals	(111,889)	(6,974)	(118,863)
Depreciation charge	(168,119)	(10,658)	(178,777)
Closing net book amount	<u>697,152</u>	<u>24,729</u>	<u>721,881</u>
At 30 June 2013			
Cost	1,105,185	59,697	1,164,882
Accumulated depreciation	(408,033)	(34,968)	(443,001)
Net book amount	<u>697,152</u>	<u>24,729</u>	<u>721,881</u>

**2012 - Additions include an item of equipment transferred from inventory costing \$19,621

**Notes to the financial statements
for the year ended 30 June 2013**

13. Intangible assets

	Goodwill \$	Patents \$	Total \$
Year ended 30 June 2012			
Carrying value at 1 July 2011	1,738,839	3,269,033	5,007,872
Additions	-	34,146	34,146
Acquisition of subsidiary	-	-	-
Amortisation charge	-	(242,619)	(242,619)
Carrying value at 30 June 2012	<u>1,738,839</u>	<u>3,060,560</u>	<u>4,799,399</u>

	Goodwill \$	Patents \$	Total \$
At 30 June 2012			
Cost	1,738,839	3,558,184	5,297,023
Accumulated amortisation	-	(497,624)	(497,624)
Net book amount	<u>1,738,839</u>	<u>3,060,560</u>	<u>4,799,399</u>

	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
Year ended 30 June 2013					
Carrying value at 1 July 2012	-	-	1,738,839	3,060,560	4,799,399
Additions	-	-	-	3,764	3,764
Acquisition of subsidiary	20,000	70,000	1,236,809	-	1,326,809
Amortisation charge	-	-	-	(266,188)	(266,188)
Carrying value at 30 June 2013	<u>20,000</u>	<u>70,000</u>	<u>2,975,648</u>	<u>2,798,136</u>	<u>5,863,784</u>

	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
At 30 June 2013					
Cost	20,000	70,000	2,975,648	3,561,948	6,627,596
Accumulated amortisation	-	-	-	(763,812)	(763,812)
Net book amount	<u>20,000</u>	<u>70,000</u>	<u>2,975,648</u>	<u>2,798,136</u>	<u>5,863,784</u>

Notes to the financial statements for the year ended 30 June 2013

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 2013.

	Heating Cooling & Ventilation \$
Year ended 30 June 2013	
Goodwill and intangibles ^	3,065,648
Patents ^^	2,798,136

The recoverable amount of a CGU is determined based on value in use calculations. These calculations are a discounted cash flow of financial projections using a discount rate of 15.37% (2012– 15.73%).

^ Goodwill and intangibles are tested using a 1 year budget and a 4 year forecast with a terminal value based on past experience of three times estimated Net Profit After Tax. This results in a recoverable amount exceeding the carrying value and therefore there is no impairment. Reasonable variations in these key assumptions did not result in an impairment.

^^ Present value of patent revenue calculated based on financial projections covering the expected life of the patents. Presently this exceeds the carrying value of the patents and therefore there is no impairment. Reasonable variations in these key assumptions did not result in an impairment.

14. Deferred tax asset

	Consolidated	
	2013 \$	2012 \$
The balance comprises temporary differences attributable to:		
Deferred tax assets / (liabilities)		
Employee benefits	96,570	78,915
Tax Losses	69,899	69,899
Other including warranty provision and make good	109,387	68,581
Depreciation and amortisation	(70,584)	(63,383)
Intangibles	(27,000)	-
Total deferred tax assets	178,272	154,012
Deferred tax assets expected to be recovered within 12 months	107,408	133,740
Deferred tax assets expected to be recovered after more than 12 months	70,864	20,272

**Notes to the financial statements
for the year ended 30 June 2013**

Movements- Consolidated	Employee Benefits	Tax Losses	Other	Depreciation amortisation	Intangibles	Total
	\$	\$	\$	\$	\$	\$
At 1 July 2011	70,861	69,899	93,045	(30,514)	-	203,291
(Charged)/credited						
- to profit or loss	8,054	-	(24,464)	(32,869)	-	(49,279)
- to other	-	-	-	-	-	-
comprehensive income						
- directly to equity	-	-	-	-	-	-
At 30 June 2012	78,915	69,899	68,581	(63,383)	-	154,012
(Charged)/credited						
- to profit or loss	10,155	-	40,806	(7,201)	-	43,760
- to other	-	-	-	-	-	-
comprehensive income						
Acquisition of subsidiary	7,500	-	-	-	^ (27,000)	19,500
At 30 June 2013	96,570	69,899	109,387	(70,584)	(27,000)	178,272

^ The deferred tax liability on intangibles acquired at acquisition was \$207,000 of which \$180,000 was reversed during the period to the profit & loss.

Tax Losses Not Recognised	2013	2012
	\$	\$
Unused tax losses for which no deferred tax asset has been recognized	7,586,626	9,190,963
Potential tax benefit at 30%	2,275,988	2,757,289

15. Trade & other payables

	Consolidated	
	2013	2012
	\$	\$
Current		
Trade payables	1,670,216	1,112,466
Contingent consideration (note 28(i))	1,145,000	-
Other payables	893,034	414,038
	3,708,250	1,526,504

**Notes to the financial statements
for the year ended 30 June 2013**

16. Provisions

	Consolidated	
	2013	2012
	\$	\$
Current		
Employee entitlements (note a)	314,350	270,195
Warranty	144,437	-
	<u>458,787</u>	<u>270,195</u>
Non-current		
Employee entitlements – long service leave	<u>93,215</u>	<u>67,575</u>

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

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

17. Contributed equity

	2013	2012	Consolidated	
			2013	2012
	Number	Number	\$	\$
Share Capital				
Ordinary shares, fully paid	<u>17,714,009</u>	<u>17,714,009</u>	<u>7,104,700</u>	<u>7,104,700</u>

Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$
01 July 2011	Opening balance	17,714,009		7,104,700
30 June 2012	Movement during year	-		-
30 June 2012	Balance	<u>17,714,009</u>		<u>7,104,700</u>
30 June 2013	Movement during year	-		-
30 June 2013	Balance	<u>17,714,009</u>		<u>7,104,700</u>

Notes to the financial statements for the year ended 30 June 2013

(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 options, and 4,000,000 unlisted options 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.

18. Reserves and retained earnings

	Consolidated	
	2013	2012
	\$	\$
(a) Share option reserve at beginning of year	89,960	89,960
Options issued	-	-
Share option reserve at 30 June 2013	89,960	89,960
<i>The share option reserve is used to recognise the fair value of options issued but not exercised.</i>		
(b) Retained earnings/(accumulated losses) at beginning of year	1,577,555	730,167
Net profit/(loss) attributable to members of Air Change International Limited	1,223,873	847,388
Retained earnings at the end of the year	2,801,428	1,577,555

**Notes to the financial statements
for the year ended 30 June 2013**

19. Key management personnel disclosure

	Consolidated	
	2013	2012
	\$	\$
(a) Aggregate compensation		
Short term employee benefits	464,336	436,820
Post employment benefits	30,273	54,867
	494,609	491,687

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of Air Change International Limited and other key management personnel of the Group, including their personally related parties, are set out below.

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 set out below:

2013	Balance at the start of the year	Granted as compensation	Exercised	Other Changes	Balance at the end of the year	Vested and unexercised	Unvested
Directors of Air Change International Limited							
Alan S Jones	-	-	-	-	-	-	-
Neil Fimeri	4,000,000	-	-	-	4,000,000	4,000,000	-
John M Langley	-	-	-	-	-	-	-

At the Meeting of shareholders of the Company held on 6 April 2010 shareholders approved the issue of 4,000,000 options to Mr Neil Fimeri.

Options vested on the grant date and the fair values of the options were expensed through the statement of comprehensive income. Options are granted under the plan for no consideration.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share fourteen days after the release of the half-yearly and annual financial results of the Group to the market.

The exercise price unless otherwise varied by the parties of each option is \$0.80. The options expire on 19 April 2014.

Fair value of options

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradable nature of the option, the share price at grant date, and the expected share price volatility of the underlying share, the expected dividend yield, and the risk free interest rate for the term of the option.

Notes to the financial statements for the year ended 30 June 2013

(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:

2013	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
John M Langley	17,000	-	-	17,000

2012	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
John M Langley	17,000	-	-	17,000

(c) Loans to directors/ key management personnel

No loans to directors have been made during the year ended 30 June 2013 (2012: Nil).

(d) Material contracts with directors

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

Notes to the financial statements
for the year ended 30 June 2013

20. Remuneration of auditors

	Consolidated	
	2013	2012
	\$	\$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity:		
a) BDO East Coast Partnership		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	63,941	-
<i>Other services</i>		
Due diligence	15,000	-
	78,941	-

	Consolidated	
	2013	2012
	\$	\$
(b) Non-BDO audit firms		
<i>Audit and other assurance services</i>		
Audit and review of financial statement	(4,734)	75,955
<i>Other Services</i>		
Tax compliance services	15,251	5,951
Due diligence	-	11,423
	10,517	93,329

**Notes to the financial statements
for the year ended 30 June 2013**

21. Commitments for expenditure

	Consolidated	
	2013	2012
	\$	\$
(a) Rental lease commitments		
Future rental lease commitments contracted for at balance date but not provided for in the financial statements:		
- Payable no later than one year	199,130	431,252
- Payable later than 1 year but not later than 5 years	16,305	62,242
Total operating lease liability	215,435	493,494

	Consolidated	
	2013	2012
	\$	\$
(b) Commitments in relation to hire purchase liabilities for plant and equipment, payable:		
- Within 1 year	12,643	64,743
- Later than 1 year but not later than 5 years	-	12,643
Minimum lease payments	12,643	77,386
Less future finance charges	(778)	(4,226)
Recognised liability	11,865	73,160
Current	11,865	61,295
Non Current	-	11,865

22. Contingent liabilities

Contingent liabilities at balance date, not provided in the financial statements: Bank guarantees provided in relation to operating lease rental agreements entered in the normal course of business. \$72,455 (2012: \$72,455)

Refer to note 27 for details regarding contingent consideration.

23. Related party information

Details of directors related party information is as follows

2013 – Nil.

2012 – Nil.

Remuneration and retirement benefits

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 2013**

24. Reconciliation of profit (loss) after income tax to net operating cash (outflow)/ inflow

	Consolidated	
	2013	2012
	\$	\$
Profit/(Loss) after income tax	1,223,873	847,388
Depreciation and amortisation	444,965	379,369
Other	-	2,116
Net exchange differences	(3,496)	(1,567)
Intangible – Premium on contracts acquired	600,000	-
Additional Contingent Consideration	150,000	-
Net loss on disposal of non current assets	111,563	-
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	(1,677,561)	480,738
Decrease in other receivables & prepayments	512,474	24,720
(Increase)/decrease in inventories	(75,994)	164,319
(Increase)/decrease in deferred tax assets	(231,260)	49,279
Increase in trade payables	553,064	131,878
(Decrease) in other payables	(3,447,704)	(394,254)
(Decrease)/increase in contingent consideration	-	(184,535)
Increase in provisions	189,232	55,375
Net cash (outflow) inflow from operating activities	(1,650,844)	1,554,826

**Notes to the financial statements
for the year ended 30 June 2013**

25. Earnings per share

	Consolidated	
	2013	2012
	\$	\$
Basic earnings per share from continuing operations	0.069	0.048
Diluted earnings per share from continuing operations	0.056	0.039
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	21,714,009	21,714,009
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	1,223,873	847,388
Earnings used in calculating basic and diluted earnings per share	1,223,873	847,388

Options are considered to be potential ordinary shares and have been included in the determination of diluted earning per share to the extent to which they are dilutive. The options have not been included in the determination of basic earning per share.

Notes to the financial statements for the year ended 30 June 2013

26. Parent entity financial information

(a) Summary financial information

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

	2013	2012
	\$	\$
Balance sheet		
Current assets	910,849	566,059
Total assets	8,681,577	8,335,927
Current liabilities	158,646	193,704
Total liabilities	168,480	203,697
<i>Shareholder' equity</i>		
Issued capital	7,104,700	7,104,700
Reserves	89,960	89,960
Retained earnings	1,318,437	937,570
Total shareholders equity	8,513,097	8,132,230
Profit/ (Loss) for the year	380,867	1,015,525
Total comprehensive income for the year	380,867	1,015,525

(b) Guarantees entered into by the parent entity

	2013	2012
	\$	\$
Carrying amount included in current liabilities	-	-

(c) Contingent liabilities of the parent entity

Refer to note 27 for details regarding contingent liabilities of Air Change International Limited as guarantor for Air Change Pty Limited.

27. Contingent Consideration

2013

Refer to Note 28(a)(i) for details regarding contingent consideration of Air Change Pty Limited in respect of the acquisition of Summit Industrial Chillers Pty Limited.

2012

In September 2011, a deed of release agreement was arranged with the previous owners of Air Change Pty Limited. The contingent consideration was settled on 16 September 2011 for \$400,000 being \$182,000 less than the contingent consideration accrued of \$582,000 at 30 June 2011, (the difference being recorded as a credit against acquisition costs) because final settlement occurred earlier than contracted.

Notes to the financial statements for the year ended 30 June 2013

28. Business Combination

(a) Summary of acquisition

On 5 October 2012 the subsidiary entity, Air Change Pty Limited acquired 100% of the issued share capital of Summit Industrial Chillers Pty Limited, a designer and manufacturer of refrigerated industrial cold water chilling plants.

Details at date of acquisition of the consideration, the net assets acquired and goodwill are as follows: \$

Consideration transferred:

Cash (refer to 28(b) below)	975,000
Contingent consideration (refer to 28(a)(i) below)	1,050,000

Total consideration	2,025,000
----------------------------	------------------

The assets and liabilities recognised as a result of the acquisition are as follows:

Fair value
\$

Cash	1,712,527
Inventories	678,182
Other current assets	1,257,845
Intangibles -premium on contracts acquired	600,000
Intangibles – agency agreements	20,000
Intangibles – design & intellectual property	70,000
Plant and equipment	250,629
Deferred tax asset	-
Trade payables	(4,686)
Other current liabilities	(3,564,306)
Provision for employee benefits	(25,000)
Deferred Tax Liability	(207,000)
Net assets acquired	788,191
Goodwill	1,236,809
	2,025,000

The goodwill is attributable to the business operations and expected future profitability of the acquired business. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

There were no acquisitions in the year ended 30 June 2012.

Notes to the financial statements for the year ended 30 June 2013

(i) *Contingent consideration*

In respect of the Summit Industrial Chillers Pty Limited acquisition on 5 October 2012, in the event that profitability exceed certain predetermined amounts in financial year 2013 and 2014, additional consideration may be payable in cash.

Based on estimated profitability in these two years, the contingent consideration is estimated to be \$1,200,000. At 31 December 2012, the contingent consideration was estimated to be \$1,050,000 and subsequently revised by an additional \$150,000 which has been expensed to the profit and loss.

In March 2013, an interim earn out payment of \$55,000 in respect of period 5 October 2012 to 31 December 2012 has been paid to the vendors.

(ii) *Revenue and profit contribution*

The acquired business contributed revenues of \$7,883,485 and net profit of \$1,133,952 to the group for the period from 5 October 2012 to 30 June 2013.

(b) **Consideration**

	Consolidated	
	2013	2012
	\$	\$
Acquisition of subsidiary, net of cash acquired		
Cash consideration	975,000	-
Less: Cash balances acquired	1,712,527	-
Inflow/(outflow) of cash – Investing activities	737,527	-

Acquisition-related costs

Acquisition-related costs of \$26,574 are included in profit or loss and in operating cash flows in the statement of cash flows.

Directors' declaration for the financial year ended 30 June 2013

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
 - (a) comply with 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 consolidated entity's financial position as at 30 June 2013 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 remuneration disclosures included on pages 9 and 10 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2013, comply with section 300A of the *Corporations Act 2001*.
4. The directors have been given the declarations by the chief executive officer as required by section 295A.

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
23 September 2013.

INDEPENDENT AUDITOR'S REPORT

To the members of Air Change International Limited

Report on the Financial Report

We have audited the accompanying financial report of Air Change International Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated income statement and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the 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 Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

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

Opinion

In our opinion:

- (a) the financial report of Air Change International Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 11 of the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of Air Change International Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership



Arthur Milner
Partner

Sydney, 23 September 2013

Air Change International Limited

Information for Australian Stock Exchange

as at 1 July 2013

The following information is provided but does not form part of the audited financial accounts.

1. AUDIT COMMITTEE

For details concerning the Audit Committee refer to the Corporate Governance Statement on pages 14 to 18.

2. CORPORATE GOVERNANCE

Refer to statement on pages 14 to 18.

3. SUBSTANTIAL SHAREHOLDERS

The following substantial shareholders have been noted from relevant disclosures lodged with the Company.

Name of Shareholder	Number of shares held	Percentage of issued shares
Sun Hung Kai Investment Services Ltd (Clients a/c)	4,051,722	22.87%
Neil Fimeri	2,595,000	14.65%
Neilor Nominees Pty Ltd	2,205,000	12.45%
Sun Hung Kai Investment Services Ltd (Client Katong Asset Limited a/c)	1,850,910	10.45%
Mr Alan Jones	938,000	5.30%
SSK Investment S/Fund a/c	913,537	5.16%
	12,554,169	70.88%

4. NUMBER OF SHAREHOLDERS AND OPTION HOLDERS

Shares:

There were 719 shareholders holding a total of 17,714,009 fully paid ordinary shares.

Options:

There are no listed and 4,000,000 unlisted options on issue.

5. VOTING RIGHTS

The relevant conditions about voting rights attaching to each share are set out in Article 9.19 of the Constitution:

"9.19 Entitlement to Vote

Subject to any rights or restrictions for the time being attached to any class or classes of shares and to this constitution:

- on a show of hands, each Member present in person and each other person present as a proxy, attorney or Representative of a Member has one vote; and*
- on a poll, each Member present in person has one vote for each fully paid share held by the Member and each person present as proxy, attorney or Representative of a Member has one vote for each fully paid share held by the Member that the person represents.*

A Member is not entitled to vote at a general meeting in respect of shares which are the subject of a current Restriction Agreement for so long as any breach of that agreement subsists."

Air Change International Limited
Information for Australian Stock Exchange
as at 1 July 2013

6. DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of shareholders by size of holding:

<i>Fully paid shares</i>		No. of Holders	No. of Shares
Range			
1 - 1,000		441	226,298
1,001 - 5,000		185	402,305
5,001 - 10,000		31	228,338
10,001 - 100,000		44	1,359,298
100,001 and over		18	15,497,770
		719	17,714,009

7. NON-MARKETABLE PARCELS

There were 440 holders (each holding less than 10,000 shares) of less than a marketable parcel of ordinary shares.

8. TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of ordinary fully paid shares are set out below:

Name	No. of Ordinary Shares Held	Percentage of Issued Shares
Sun Hung Kai Investment Services Ltd -Clients a/c	4,051,722	22.87%
Mr Neil Fimeri	2,566,500	14.49%
Neilor Nominees Pty Ltd	2,233,500	12.61%
Sun Hung Kai Investment Services Ltd –Katong Asset Ltd a/c	1,850,910	10.45%
Mr Alan Jones	938,000	5.3%
SSK Investment S/ Fund a/c	913,537	5.16%
Citycorp Nominees Pty Limited – RIMC International Pty Ltd a/c	757,650	4.28%
Sun Hung Kai Investment Services Ltd – Honesty Opportunity Ltd a/c	626,788	3.54%
Phoenix Properties International Pty Ltd	261,087	1.47%
Mr Christopher Lindsay Biggins	215,530	1.22%
ANZ Nominees Limited (Cash Income Account)	165,057	0.93%
Tonda Pty Ltd (Super Fund a/c)	153,284	0.87%
Mr Poh Chim Yeap	140,000	0.79%
Alternburg Pty Ltd	137,931	0.78%
Millbrook International Corp	133,333	0.75%
Mr Paulus Smit	117,647	0.66%
Mr John Urch	117,647	0.66%
Ms Marilyn Urch	117,647	0.66%
McNeil Nominees Pty Ltd	96,450	0.54%
Redsummer Pty Ltd	88,400	0.50%
	15,682,620	88.53%

The top 20 shareholders held 88.53% of the issued fully paid ordinary shares.

Air Change International Limited
Information for Australian Stock Exchange
as at 1 July 2013

9. RESTRICTED SECURITIES

The Company had the following restricted securities on issue:

Ordinary shares

There are no ordinary shares held in escrow.

Options

There are no options held in escrow.

10. COMPANY SECRETARY

Robert Lees CA

11. REGISTERED OFFICE

Suite 25, Level 6
58 Pitt St
Sydney NSW 2000

Telephone: (02) 9994 0240

12. ADMINISTRATION OFFICE

Suite 25, Level 6
58 Pitt St
Sydney NSW 2000

Telephone: (02) 9994 0240

Facsimile: (02) 9993 0767

E-mail: invest@airchange.com.au

13. SHARE REGISTRAR

Computershare Investor Services Pty Ltd
Level 3
60 Carrington Street
Sydney NSW 1115

Postal Address

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Sydney NSW 1115

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14. STOCK EXCHANGE QUOTATION

The Company's shares are quoted only on the Australian Stock Exchange (code "AHJ") (currently suspended). The home exchange is Sydney.