

ACI

AIR CHANGE INTERNATIONAL LIMITED

ACN 087 737 068

**Annual Report
2014**

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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:	Suite 25, Level 6 58 Pitt Street Sydney NSW 2000 Tel: (02) 9994 0240 Fax: (02) 9993 0767 e-mail: invest@airchange.com.au Web site: www.airchange.com.au
Share Registrar:	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115
Auditors:	BDO East Coast Partnership ("BDO") Level 11, 1 Margaret Street Sydney NSW 2000
Bankers:	ANZ Level 4, 20 Smith Street Parramatta NSW 2150
Solicitors:	Addisons Lawyers 60 Carrington Street Sydney NSW 2000
Stock Exchange Listing:	Air Change International Ltd shares are listed on the Australian Stock Exchange Limited (Code: ordinary shares "AHJ")
Company Number:	ACN 087 737 068 ABN 14 087 737 068

Your directors are again pleased to present the Air Change International Limited ("Company" or "Group") annual report for the year ended 30 June 2014.

Although the financial result is below where your board would like it to be, it is nonetheless pleasing to report that your Company was again profitable during the last year despite some one off expenses and at a time when the manufacturing sector is under cost, import and currency pressures.

As has been the case in previous years, the result reflects the costs of implementing a strategy that is designed to deliver future growth and operating performance.

The Company again invested heavily in basic research and product development, added additional engineering and manufacturing skills and upgraded its overall manufacturing facilities to enhance its capabilities.

In view of the expenditure committed to this future development and the substantial costs incurred in moving and consolidating operations during this last year, the level of profitability was not unexpected. Given the limited financial resources that were, and still are, available to the Company, your directors have maintained a view that this growth strategy is the only one available to ultimately deliver a meaningful return to shareholders.

There were two important developments which occurred during the year.

Firstly, the Group entered into a performance contract to supply and maintain equipment over an extended time period with payments to be received over the contract term.

The first contract of this type was executed in January 2014 and a second negotiated and agreed in June but not yet executed at the time of this report.

This type of sale is generally at higher margin as there is less competition and deliver the additional benefit of interest income on the financing component of the contract.

Going forward, we expect that this form of product delivery will increase sales and margin growth.

The second development was the previously advised consolidation of operations to a single site in western Sydney.

As part of its growth strategy, the Company is now examining sourcing low margin product and component sub-assemblies from offshore, either from independent suppliers or from a Group owned operation.

This decision is presently on hold pending the results of tenders submitted in South East Asia.

Company Overview

At present, Air Change International Limited, through its subsidiary companies, 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
- the supply of cooling water for industrial processes.

The Group aims to provide efficient, cost effective, individually engineered solutions using energy efficient technologies.

Products in which the Group presently specialise are:

- commercial rooftop air conditioners incorporating energy recovery;
- heat and energy recovery ventilators;
- air handling units with and without heat and energy recovery;
- 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 all Australian states, New Zealand, Singapore, Malaysia, Indonesia and Thailand.

Financial Performance

Revenue and Profit

Revenue generated from Group activities was very similar to last financial year and amounted to \$19,181,400 compared to revenue of \$19,796,552 in 2012/13.

Although similar in quantum, the earlier year's revenue was heavily influenced by a single large chiller contract whereas this year's revenue resulted from a more diverse product and customer base and reflects a more general increase in sales mix and growth in the Groups overall operations.

Net profit after tax (NPAT) was \$364,325 which was down substantially from the previous year.

The profit was impacted by a number of events, the more significant of which were:

- costs incurred to relocate the operations from four separate manufacturing sites to one site in western Sydney. These costs included moving and set up costs, lost production, and substantial overtime payments to compensate.

During the moving period property rental payments were duplicated to ensure operations could continue in a limited manner at the old sites until the new site was operational;

- engineering and administrative costs to bring all manufacturing operations onto a standard manufacturing IT platform;
- a cash tax refund in respect of research and development expenditure in the 2012/13 financial year. Since the R&D rebate from the government is only 45% of the funds expended, the R&D cost to the Company is substantial;
- continuing losses in South East Asia; and
- equipment with a contract value of \$408,000 has not been recognised despite being delivered in June because the sale contract requires the plant to be commissioned by the vendor and the client could not provide the necessary power by year end for commissioning.

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.

The remaining available tax losses incurred during this period are not recognised as a future tax benefit because their availability depends upon the continuity of ownership of the Company's shares which is beyond its control.

Cashflow

Since April 2010, the Group has been able to fund capital expenditure and the additional working capital required by its expanded operations from its operational cash flow and increased borrowing capacity.

Other than contractual performance guarantees, the Group's available credit facilities were undrawn at year end.

During the year, the Company borrowed \$1,050,000 by way of a fully drawn advance to complete and integrate the Fan Coil Industries acquisition which was repaid within six months of initial draw down.

Cash available for investment continues to be negatively impacted by the need to provide performance guarantees on some of the larger projects which the Group now undertakes, which requires cash to be held on deposit for part of the value of the guarantees provided.

During 2013/14, the Group did not incur any substantial bad debts and has therefore not needed to draw on its credit insurance policy.

As noted above, the Group now offers extended payment terms on certain larger contracts to specific customers. This development, although profitable, will impact available cash resources.

Acquisitions

As has been stated previously, to grow the Company needs to expand into other areas of mechanical, electrical and controls engineering technology. The Group is continually examining opportunities to acquire companies and business operations that would be earnings accretive and offer strategic and synergistic benefits to its existing engineering and manufacturing capabilities.

Fan Coil Industries

As foreshadowed last year, the Group completed the acquisition of the business and assets of Fan Coil Industries (FCI) in October 2013. FCI design and manufacture air handling and fan coil units used for ventilating and air conditioning commercial and industrial buildings.

The addition of the FCI business has expanded the market opportunities available to the Group.

Operational Review

Australian Air Conditioning & Ventilation (HVAC)

Revenue from HVAC operations was up on the previous financial year primarily due to the Fan Coil acquisition but profitability was down because of the reasons outlined above.

Orders received in January through May were good but had slowed towards year end. This will mean a drop in production volumes towards September unless new work orders are received.

As noted last year, demand for air conditioning and ventilation equipment has generally fallen in Australia over the past four years as the building and construction industry contracted.

Without the introduction of new products and services, Group revenue would have fallen more significantly.

Many economic commentators are predicting an increase in building activity as the mining boom slows which will have a positive impact on the Group operations.

South East Asia HVAC

Sales through the South East Asian office have grown from a zero base to \$1,000,000 in the two years since establishment. With the passage of time, there has been encouraging signs of an increased acceptance of the company and its products in the region as evidenced by the increased level of price and tender submissions over the past 6 months. The company is in the final stages of a product development and commercial negotiation to win a large HVAC tender in Asia, with deliveries scheduled to commence in early 2015 if successful.

Industrial Process Cooling

The industrial process cooling operations returned to a more normal sales level during the year, after the completion of a large contract for a new mining operation. Revenue and profit for the year were negatively impacted by the inability to book a sale with a value of \$408,000 that included site commissioning because the purchaser had not completed the other site works and hence could not supply the power needed.

Enquiry levels over the year have been strong and the business performs broadly in line with our expectations at the time of acquisition.

As indicated last year, the Group has now formed an alliance with two chiller manufacturers in Taiwan to import chillers that cannot be efficiently manufactured in Australia. This operation only commenced in the later part of this financial year but we have been able to sell two smaller chillers in that time.

Australian Manufacturing Consolidation

As noted earlier, the Group consolidated operations from four separate factory premises, (two in southern Sydney, one in inner Sydney and one in Camden) to a single larger premises in Milperra, (south west Sydney) during the year.

The move occurred during September, October and November of 2013 although the move continued to impact operations and manufacturing costs until May 2014.

As a result of this consolidation, the Group will have a stronger combined engineering and manufacturing base and achieve future cost savings arising from the elimination of functions that were previously either not optimally performed or duplicated.

Offshore Sourcing

As noted above, the Group is now investigating sourcing materials, sub-assembly components and

completed units from offshore to lower manufacturing costs.

There have been three major factors that have led to this decision.

Firstly, since establishing in South East Asia two years ago the Group has achieved total sales of approximately one million dollars. In this time, we have lost numerous sales opportunities based on price. The costs to manufacture in and transport from Australia are prohibitive except for the most specialised equipment. Furthermore, we have identified an opportunity to design and manufacture bespoke air handling solutions provided they can be delivered at a competitive price.

Secondly, there are low end products in the Group portfolio that are subject to competition from imports and small low cost Australian manufacturers. If the Group can source whole units or component parts in Asia, it will lower the cost base of these low margin products.

Thirdly, if the contract to manufacture AHUs for Indonesia is secured, it is too large to export from Australia and would be subject to additional duty if not manufactured in an ASEAN country.

The location and scale of this product sourcing activity is thus still under evaluation.

Research & Development

Research and product development ("R&D") continues to be a priority for the Company, particularly in the area of heat and enthalpy exchange.

It is pleasing to report that during the year the Group designed, built and tested an enthalpy exchange system that might be possible to scale up for larger unit applications.

The trial unit was shipped to the United States where independent testing confirmed the results achieved in our own testing facility.

The challenge and focus of future R&D in this area is to now develop and refine manufacturing techniques to build a larger scale enthalpy exchange system than the Group presently manufactures.

The Company continues to seek gains in energy efficiency for all its existing product lines and to develop new products that are highly energy efficient. It is pleasing to report that we have now negotiated the first sale of a large scale indoor pool heating plant that heats both air and water using recycled hot air from the pool hall as the heat source. This product design has been under development for the past 2 years.

We are hopeful that once this first unit is complete and commissioned, this line of product will open up a major new sales area for the Group.

R&D expenditure for the year just completed was in line with the previous year, so provided there is no change in government policy, the tax refund arising from this last financial year's research and development spending should be similar to the amount received last year.

Future Strategy & Outlook

The Group has grown significantly over the past 3 years due to a combination of product development, geographical expansion and strategic acquisition. This has occurred without the need to raise new capital. Profits, as noted previously, have not grown to the same extent principally due to the continuing investment returned into the business.

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

We have, in the past 12 months, noticed a similar niche market in South East Asia and are currently setting out to exploit that opportunity. This will involve further investment in people, plant and systems before it adds to Group profits.

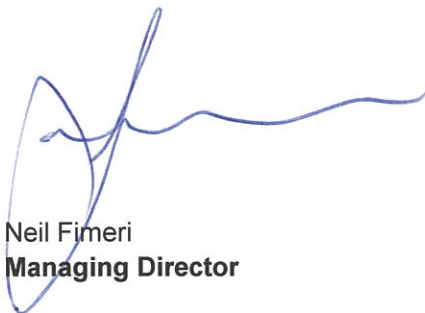
The Fan Coil acquisition has provided the Group with greater growth opportunities than were previously available because although the margins are lower, the market size is much larger than the specialised areas in which the Group historically operated.

Your directors are committed to further growing the Company both organically and through suitable acquisition.

Conclusion

The Company's shares remain suspended primarily because it does not satisfy the ASX "spread" test, that is it does not have 300 shareholders holding a share parcel with a minimum value of \$2,000. The Company continues to seek a remedy to this situation.

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



Neil Fimeri
Managing Director

Air Change International Limited

Directors report for year ended 30 June 2014

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 2014.

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

	Segment revenues		Segment results	
	2014	2013	2014	2013
	\$	\$	\$	\$
Heating, cooling, & ventilation equipment - Revenue	18,985,746	19,678,373	(80,892)	775,479
Profit/ (loss) before income tax benefit			(80,892)	775,479
Profit after income tax benefit			364,325	1,223,873
Net profit attributable to members of ACI Limited			364,325	1,223,873

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 business and assets of Fan Coil Industries on 29th October 2013 for \$919,268, there were no significant changes in the Group's state of affairs.

Likely developments and expected results of operations

Likely developments or matters that may affect the Group or its operations are included in the 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 2014 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 2014

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 a business consultant to 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

Air Change International Limited
Directors report for year ended 30 June 2014

Robert Lees	Robert Lees is the company secretary for a number of ASX listed entities and public companies. He has also served as Chief Financial Officer ("CFO") and as a public company director. He is a Chartered Accountant and an Associate of the Governance Institute of Australia. He holds a Bachelor of Business (Accounting) and a Graduate Diploma in Data Processing from UTS as well as a Graduate Diploma in Applied Corporate Governance from GIA. He provides Company Secretarial and CFO services to small listed public companies for the last fifteen years.	Company Secretary	Nil
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Directors' Benefits

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

Meetings of Directors

There were four directors' meetings (2013: four) and two Audit Committee meetings (2013: two) and zero Remuneration Committee meeting (2013: zero) held during the year ended 30 June 2014.

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

	Directors		Meetings Audit, Finance, Risk and Compliance Committee		Remuneration Committee	
	<u>Number held</u>	<u>Number attended</u>	<u>Number held</u>	<u>Number attended</u>	<u>Number held</u>	<u>Number attended</u>
Alan S Jones	4	4	2	2	-	-
John M Langley	4	3	2	2	-	-
Neil Fimeri	4	4	*	*	*	*

* Not a member of the relevant committee

Indemnification and Insurance of Officers and Auditors

During the financial year Air Change International Limited paid a premium to insure the Directors, Secretary and senior managers of the Company. Directors' and Officers' Liability Insurance cover has been placed from 6 April 2005. The Directors' and Officers' Insurance expires on 30 November 2015.

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

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Air Change International Limited

Directors report for year ended 30 June 2014

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the company for all or part of these proceedings.

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

Non-audit services

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

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below and in Note 19 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	
	2014	2013
	\$	\$
Tax Compliance Services		
BDO	-	-
Non-BDO	15,041	15,251
Other Services		
R&D tax concession services- BDO	15,985	15,000
Due diligence- BDO	7,000	-
	<u>38,026</u>	<u>30,251</u>

Shares under option

There were no options issued during the year ended 30 June 2014 (2013: 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 2014 (2013: Nil).

Air Change International Limited

Directors report for year ended 30 June 2014

Remuneration report - Audited

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

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

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

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

Non-executive remuneration

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

Executive 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 formalised 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

2014	Short term employee benefits		Post-employment		
Name	Cash salary and fees	Cash Bonus	Superannuation	Termination benefits	Total
	\$	\$	\$	\$	\$
Non-executive directors					
Alan S Jones – Chairman	30,000	-	2,775	-	32,775
John M Langley	30,000	-	2,775	-	32,775
Executive director					
Neil R Fimeri Managing Director	^404,422	-	20,400	-	424,822
Total KMP remuneration	464,422	-	25,950	-	490,372

^Includes annual leave accrued of \$29,202

Air Change International Limited
Directors report for year ended 30 June 2014

2013 Name	Short term employee benefits	Post-employment			Total
	Cash salary and fees	Cash Bonus	Superannuation	Termination benefits	
	\$	\$	\$	\$	\$
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.

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:

2014	Balance at the start of the year	Granted as compensation	Exercised	Other Changes (Expired)	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)	-	-	-
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.

Air Change International Limited

Directors report for year ended 30 June 2014

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 expired 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.

(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:

2014				
Name of Directors of Air Change International Limited	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Alan S Jones	938,000	-	-	938,000
Neil Fimeri	4,800,000	-	-	4,800,000
John M Langley	17,000	-	-	17,000

Loans to directors/ key management personnel

No loans to directors have been made during the year ended 30 June 2014 (2013: Nil).

Material contracts with directors

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

End of audited remuneration report

Air Change International Limited

Directors report for year ended 30 June 2014

Corporate governance

Refer to pages 15 to 19 of this report for the Corporate Governance Statement.

Shares under option

At the date of this report, the unissued ordinary shares of Air Change International Limited under option are nil (2013: 4,000,000 options).

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 14.

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
28 August 2014

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 2014, I declare that, to the best of my knowledge and belief, there have been:

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

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



Arthur Milner

Partner

BDO East Coast Partnership

Sydney, 28 August 2014

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

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and senior 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 Group.

The AFRCC consists of the following directors:

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

The AFRCC comprises two members all of whom are non-executive directors. 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 and the Managing Director are invited to AFRCC meetings at the discretion of the Committee. The Committee meets a minimum of two times during the year. The Managing Director declared in writing to the Board that the Company's financial reports for the year ended 30 June 2014 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 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 \$65,550, these fees include statutory superannuation. Non-executive directors do not receive bonuses.

Risk management

Oversight of the risk management system

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

External auditors

The Group's policy is to appoint external auditors who demonstrate quality and independence. The performance of the external auditors is reviewed annually. BDO was appointed as the external auditor in 23 November 2012 in response to an expression of interest. It is BDO's policy to rotate engagement partners on listed company audits in accordance with the requirements of the Corporations Act. The current engagement partner has been the engagement partner since 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 statement of profit or loss and other comprehensive income
for the year ended 30 June 2014**

	Note	2014 \$	2013 \$
Revenue	5	19,003,842	19,698,733
Other income	6	177,558	97,819
Changes in inventories of finished goods		(285,242)	75,994
Raw materials and consumables used		(8,219,597)	(8,961,483)
Occupancy costs		(941,114)	(763,866)
Employee benefits expenses		(7,502,188)	(6,310,230)
Depreciation of plant and equipment		(202,374)	(178,777)
Amortisation of patents		(284,956)	(266,188)
Intangible – premium on contracts acquired		(50,000)	(600,000)
Contingent consideration written back/(additional)	26	3,230	(150,000)
Other expenses		(1,678,098)	(1,823,720)
Acquisition costs		(54,585)	(26,574)
Finance costs		(47,368)	(16,229)
Profit/ (loss) before income tax	7	(80,892)	775,479
Income tax (expense)/benefit	8	445,217	448,394
Profit after tax for the year		364,325	1,223,873
Net profit for the year		364,325	1,223,873
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to members of Air Change International Limited		364,325	1,223,873
Earnings per share attributable to members of Air Change International Limited			
Basic earnings per share	24	0.021	0.069
Diluted earnings per share	24	0.021	0.056

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

**Consolidated statement of financial position
as at 30 June 2014**

	Note	2014 \$	2013 \$
Current assets			
Cash & cash equivalents	9	474,857	946,734
Trade & other receivables	10(a)	4,046,717	4,485,096
Inventories	11	1,775,154	1,753,210
Total current assets		6,296,728	7,185,040
Non-current assets			
Plant, equipment and leasehold improvements	12	964,402	721,881
Rental bonds & term deposit	10(b)	51,506	7,482
Intangible assets	13	6,137,084	5,863,784
Deferred tax asset	14	289,590	178,272
Other Receivables		-	332,886
Total non-current assets		7,442,582	7,104,305
TOTAL ASSETS		13,739,310	14,289,345
Current liabilities			
Trade & other payables	15	2,727,802	3,708,250
Hire purchase liabilities	20(b)	8,446	11,865
Other current liabilities		8,140	21,140
Provisions	16	455,236	458,787
Total current liabilities		3,199,624	4,200,042
Non-current liabilities			
Provisions	16	179,273	93,215
Total non-current liabilities		179,273	93,215
TOTAL LIABILITIES		3,378,897	4,293,257
Net Assets		10,360,413	9,996,088
Equity			
Contributed equity	17	7,104,700	7,104,700
Reserves	18	89,960	89,960
Retained earnings	18	3,165,753	2,801,428
TOTAL EQUITY		10,360,413	9,996,088

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 2014**

	Contributed equity	Reserves	Retained earnings	Total
Notes	\$	\$	\$	\$
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	-	-	-	-
Contribution of equity net of transaction costs	-	-	-	-
Balance at 30 June 2013	7,104,700	89,960	2,801,428	9,996,088
Balance at 1 July 2013	7,104,700	89,960	2,801,428	9,996,088
Reported profit for the year	-	-	364,325	364,325
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	364,325	364,325
Transactions with owners in their capacity as owners:				
Share options issued	-	-	-	-
Contributions of equity, net of transaction costs	-	-	-	-
Balance at 30 June 2014	7,104,700	89,960	3,165,753	10,360,413

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 2014**

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers		22,048,809	15,305,181
Payments to suppliers, employees and creditors		(20,357,896)	(17,150,716)
Interest received		18,096	20,360
Transaction costs relating to acquisition of business/subsidiary		(54,585)	(26,574)
Interest paid		(47,368)	(16,229)
Income tax benefit – R&D refundable tax offset		354,007	217,134
Net cash inflow/(outflow) from operating activities	23	1,961,063	(1,650,844)
Cash flows from investing activities			
Payment on acquisition of business (2014), and subsidiary (2013) net of cash acquired	27	(919,268)	737,527
Purchase of plant, equipment & leasehold improvements	12	(382,602)	(185,632)
Contingent consideration payment	26	(1,141,770)	(55,000)
Payment for patents & intellectual property	13	(9,837)	(3,764)
Proceeds on disposal of plant & equipment		21,764	7,300
Net cash (outflow)/inflow from investing activities		(2,431,713)	500,431
Cash flows from financing activities			
Proceeds from borrowings		1,050,585	-
Repayment of borrowings		(1,050,585)	-
Payment of hire purchase obligations		(3,419)	(61,295)
Net cash (outflow) from financing activities		(3,419)	(61,295)
Net increase/(decrease) in cash held		(474,069)	(1,211,708)
Cash & cash equivalents at the beginning of the financial year		946,734	2,154,946
Exchange differences on cash & cash equivalents		2,192	3,496
Cash & cash equivalents at the end of the financial year	9	474,857	946,734

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

Notes to the financial statements for the year ended 30 June 2014

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

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

Suite 25, Level 6
58 Pitt St
Sydney NSW 2000

The financial statements were authorised for issue by the directors on 28 August 2014. The directors have the power to amend and reissue the financial statements.

1. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Historical cost convention

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Air Change International Limited as at 30 June 2014 and the results of all subsidiaries for the year then ended. Air Change International Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Notes to the financial statements for the year ended 30 June 2014

(b) Principles of consolidation (continued)

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

(c) Segment reporting

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 ("AUD"), which is the functional and presentation currency of Air Change International Limited.

(ii) Foreign currency transactions and balances

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

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

(iii) Foreign operations

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

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

(e) Revenue recognition

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

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 recognised 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.

Notes to the financial statements for the year ended 30 June 2014

(e) Revenue recognition (continued)

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.

(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 utilise those temporary differences and losses.

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

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

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

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.

Notes to the financial statements for the year ended 30 June 2014

(g) Business combinations (continued)

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 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.

Notes to the financial statements for the year ended 30 June 2014

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

Plant, equipment, furniture, fittings and leasehold improvements are depreciated over a 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.

Notes to the financial statements for the year ended 30 June 2014

(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.

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 the majority of patents will expire in approximately 7 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.

Notes to the financial statements for the year ended 30 June 2014

(t) Provisions (continued)

(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.

Notes to the financial statements for the year ended 30 June 2014

(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 25 has been prepared on the same basis as the consolidated financial statements, except investments in subsidiaries are accounted for at cost in the financial statements of Air Change International Limited.

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

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

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 changes in control remain the same. The adoption of this standard from 1 July 2013 had no significant impact to the Group.

Notes to the financial statements for the year ended 30 June 2014

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 applies prospectively for annual periods beginning on or after 1 January 2013. The Group's management has assessed this new standard and had no significant impact.

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
- 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. AASB 119 has been adopted and had no material impact to 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 2001 as amended. The amendments are applicable for annual periods beginning on or after 1 July 2013. The amendments have not significantly impact the Group.

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

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

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The Group will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the Group.

Notes to the financial statements for the year ended 30 June 2014

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	
	2014	2013
	\$	\$
Financial assets		
Cash and cash equivalents	474,857	946,734
Trade and other receivables	3,993,617	4,748,500
	<u>4,468,474</u>	<u>5,695,234</u>
Financial liabilities		
Trade & other payables, and other liabilities	2,727,802	3,708,250
Hire purchase liabilities	8,446	11,865
	<u>2,736,248</u>	<u>3,720,115</u>

(a) Market risk

(i) Foreign currency risk

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Air Change International Limited. At the date of this report, the Group has exposure to Singapore dollars in respect of financial assets. Based on the financial instruments held at 30 June 2014, had the Australian dollar weakened/ strengthened by 10% (2013: 10%) against the Singapore dollar with all other variables held constant, the impact on the profit would have been \$4,044 higher/ \$3,391 lower (2013: \$15,858 higher/ \$13,254 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 2014, 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 (2013: \$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 (2013: nil). In respect of cash on deposit, the impact on the profit would have been \$2,400 higher/lower, mainly as a result of higher/lower interest income from cash and cash equivalents (2013: \$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 and Westpac Banking Corporation. 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 2014

(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 \$600,000 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 2014	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	1,624,153				1,624,153	1,624,153
Hire purchase – liability fixed interest	8,500	-	-	-	8,500	8,446
Total non-derivative	1,632,653	-	-	-	1,632,653	1,632,599

Note: The average weighted interest rate on hire purchase liabilities in 2014 is 7.65%.

Group – at 30 June 2013

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%.

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 \$1,068,000 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 26. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Notes to the financial statements for the year ended 30 June 2014

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 2014:

2014	Heating, Cooling & Ventilation	Total
	\$	\$
Total segment revenue	18,985,746	18,985,746
Revenue from external customers	18,985,746	18,985,746
Adjusted EBITDA	1,386,073	1,386,073
Depreciation and amortisation	485,871	485,871
Goodwill impairment	-	-
Total segment assets	13,739,310	13,739,310
Total segment liabilities	3,378,897	3,378,897

The segment information provided to the Board for the reportable segment 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	14,289,345	14,289,345
Total segment liabilities	4,293,257	4,293,257

Notes to the financial statements for the year ended 30 June 2014

(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 as follows:

	2014	2013
	\$	\$
Total segment revenue	18,985,746	19,678,373
Interest revenue	18,096	20,360
Other revenue	177,558	97,819
Total revenue (note 5 & 6)	19,181,400	19,796,552

(ii) Major Customers

The Group had no major customer to whom it supplied product. In 2013 there was one major customer and it accounted for 34% of total revenue.

(iii) Adjusted EBITDA

The Board of Directors of ACI assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement 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:

	2014	2013
	\$	\$
Adjusted EBITDA	1,386,073	2,406,961
Interest revenue	18,096	20,360
Finance costs	(47,368)	(16,229)
Depreciation	(202,374)	(178,777)
Amortisation	(284,956)	(266,188)
Acquisition costs	(54,585)	(26,574)
Contingent consideration written back/ (additional)	3,230	(150,000)
Other income	177,558	97,819
Head office costs	(1,076,566)	(1,111,893)
Profit/ (loss) before income tax from operations	(80,892)	775,479

**Notes to the financial statements
for the year ended 30 June 2014**

5. Revenue

	2014	2013
	\$	\$
Sales revenue		
Sale of goods	17,069,732	13,020,640
Contract Revenue*	1,050,678	6,657,733
Services	865,336	-
Other revenue		
Interest	18,096	20,360
Total revenue	19,003,842	19,698,733

*Manufacturing contract: Contract revenue recognised during the year is determined based on percentage of completion method. At year end the amount of unbilled revenue, included in trade & other receivables \$nil, 2013- \$837,923 of which \$332,886 was non-current.

6. Other income

	2014	2013
	\$	\$
Government grant (note (a))	121,041	88,955
Other	44,495	5,368
Net foreign exchange gain	12,022	3,496
Total other income	177,558	97,819

(a) Government grant

In 2014 and 2013, primarily received was export market development grant.

7. Expenses

	2014	Consolidated	2013
	\$		\$
Profit/(Loss) before income tax includes the following specific expenses:			
Lease rental payments	687,264		575,812
Defined contribution superannuation payments	485,226		387,695
Net loss on disposal of plant & equipment	26,523		111,563
(After profit on disposal of assets of \$2,653 (2013:\$2,700))			

**Notes to the financial statements
for the year ended 30 June 2014**

8. Income tax expense

(a) Income tax expense

	Consolidated	
	2014	2013
	\$	\$
Income tax expense	78,441	481,302
Adjustments for previous years	1,913	24,135
Benefit of tax losses previously unrecognised	(80,354)	(505,437)
Total current income tax expense	-	-
Deferred tax		
Origination and reversal of temporary differences	(91,210)	(231,260)
Total deferred tax/ (benefit)	(91,210)	(231,260)
R&D refundable tax offset	(355,228)	(217,134)
Income tax paid for previous years – overseas entity	1,221	-
Total tax (benefit)/ expense	(445,217)	(448,394)

(b) Reconciliation of effective tax rate

	Consolidated	
	2014	2013
	\$	\$
Profit/(Loss) before income tax expense	(80,892)	775,479
Income tax calculated at 30% (2013 – 30%)	(24,267)	232,643
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other	13,274	13,047
Prior year under/over provision net of unrecognised losses	1,913	6,479
	(9,080)	252,169
Taxable income/ losses not recognised	(2,393)	933
Income tax paid for previous years – overseas entity	1,221	-
Temporary differences not recognised	617	29,326
Previously unrecognised temporary difference now recognised	-	(7,500)
Previously unrecognised tax losses now utilised to reduce current tax expense	(80,354)	(506,188)
R&D refundable tax offset	(355,228)	(217,134)
Income tax (benefit)/ expense	(445,217)	(448,394)

**Notes to the financial statements
for the year ended 30 June 2014**

	Consolidated	
	2014	2013
	\$	\$
9. Cash and cash equivalents		
Cash at bank and on hand	474,857	946,734
	474,857	946,734

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

	Note	Consolidated	
		2014	2013
		\$	\$
10. Trade and other receivables			
(a) Current assets			
Trade receivables		3,845,815	3,841,576
Less: Allowance for doubtful receivables		(60,000)	(60,000)
Net trade receivables		3,785,815	3,781,576
Rental and security bonds		9,097	46,636
Term deposit in respect of performance guarantee	21	190,000	-
Other debtors		8,705	587,402
Prepayments		53,100	69,482
		4,046,717	4,485,096

	Note	Consolidated	
		2014	2013
		\$	\$
(b) Non-current assets			
Rental bonds		7,506	7,482
Term deposit in respect of performance guarantee	21	44,000	-
		51,506	7,482

(c) Past due not impaired trade receivables

As at 30 June 2014 there were current trade receivables of the Group with a nominal value of \$422,561 that were past due (2013 – \$702,540). The amount of the allowance was \$60,000 (2013: \$60,000).

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

The ageing of these receivables is as follows:

	Consolidated	
	2014	2013
	\$	\$
2-3 months	414,555	647,566
Over 3 months	8,006	54,974
Total	422,561	702,540

Notes to the financial statements for the year ended 30 June 2014

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

	2014 \$	2013 \$
At 1 July	60,000	30,000
Provision recognised during the year	-	30,000
Receivables written off during the year	-	-
Balance at 30 June	<u>60,000</u>	<u>60,000</u>

(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

	2014 \$	2013 \$
Current Assets		
Raw materials	965,512	1,140,856
Work in progress	277,219	201,244
Finished goods	532,423	411,110
	<u>1,775,154</u>	<u>1,753,210</u>

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2014 amounted to \$8,504,839 (30 June 2013: \$8,885,489).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to \$nil (30 June 2013: \$nil).

**Notes to the financial statements
for the year ended 30 June 2014**

12. Plant, equipment and leasehold improvements

	Plant & Equipment	Furniture & Fixtures	Leasehold Improvements	Total
At 1 July 2012				
At cost	942,215	93,225	-	1,035,440
Accumulated depreciation	(389,370)	(62,810)	-	(452,180)
Net book amount	552,845	30,415	-	583,260
Year ended 30 June 2013				
Opening net book amount	552,845	30,415	-	583,260
Additions through acquisition	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	697,152	24,729	-	721,881
At 30 June 2013				
Cost	1,105,185	59,697	-	1,164,882
Accumulated depreciation	(408,033)	(34,968)	-	(443,001)
Net book amount	697,152	24,729	-	721,881
Year ended 30 June 2014				
Opening net book amount	697,152	24,729	-	721,881
Additions through acquisition	108,345	2,235	-	110,580
Additions	171,308	65,711	145,583	382,602
Disposals	(40,855)	(7,432)	-	(48,287)
Depreciation charge	(180,536)	(12,550)	(9,288)	(202,374)
Closing net book amount	755,414	72,693	136,295	964,402
At 30 June 2014				
Cost	1,315,534	119,820	145,583	1,580,937
Accumulated depreciation	(560,120)	(47,127)	(9,288)	(616,535)
Net book amount	755,414	72,693	136,295	964,402

**Notes to the financial statements
for the year ended 30 June 2014**

13. Intangible assets

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

Current asset			Contracts Premium \$	Total \$
Year ended 30 June 2014				
Carrying value at 1 July 2013			-	-
Additions			-	-
Additions through acquisition (Note27)			50,000	50,000
Amortisation charge			(50,000)	(50,000)
Carrying value at 30 June 2014			-	-
At 30 June 2014				
Cost			50,000	50,000
Accumulated amortisation			(50,000)	(50,000)
Net book amount			-	-

Non-current asset					
Year ended 30 June 2014	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
Carrying value at 1 July 2013	20,000	70,000	2,975,648	2,798,136	5,863,784
Additions	-	600	-	9,237	9,837
Additions through acquisition (Note27)	-	-	548,419	-	548,419
Amortisation charge	-	-	-	(284,956)	(284,956)
Carrying value at 30 June 2014	20,000	70,600	3,524,067	2,522,417	6,137,084
At 30 June 2014					
Cost	20,000	70,600	3,524,067	3,571,185	7,185,852
Accumulated amortisation	-	-	-	(1,048,768)	(1,048,768)
Net book amount	20,000	70,600	3,524,067	2,522,417	6,137,084

Notes to the financial statements for the year ended 30 June 2014

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 2014.

	Heating Cooling & Ventilation \$
Year ended 30 June 2014	
Goodwill and intangibles	3,614,667
Patents	2,522,417

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% (2013– 15.37%), 4% (2013– 5%) per annum projected revenue growth rate and 3.5% (2013– 3.5%) per annum rate increase in overhead costs.

Goodwill, intangibles and patents are tested using a 1 year budget and a 4 year forecast with a terminal value based on past experience of three and half times estimated Net Profit After Tax. This results in a recoverable amount of \$9.8m exceeding the carrying value and therefore there is no impairment. Reasonable variations in these key assumptions did not result in an impairment.

14. Deferred tax asset

	Consolidated	
	2014 \$	2013 \$
The balance comprises temporary differences attributable to:		
Deferred tax assets / (liabilities)		
Employee benefits	153,093	96,570
Tax losses	69,899	69,899
Other including warranty provision and make good	175,601	109,387
Depreciation and amortisation	(82,003)	(70,584)
Intangibles	(27,000)	(27,000)
Total deferred tax assets	289,590	178,272
Deferred tax assets expected to be recovered within 12 months	192,909	107,408
Deferred tax assets expected to be recovered after more than 12 months	96,681	70,864

**Notes to the financial statements
for the year ended 30 June 2014**

Movements- Consolidated	Employee Benefits	Tax Losses	Other	Depreciation amortisation	Intangibles	Total
	\$	\$	\$	\$	\$	\$
At 1 July 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	7,500	-	-	-	^ (27,000)	19,500
At 30 June 2013	96,570	69,899	109,387	(70,584)	(27,000)	178,272
(Charged)/credited						
- to profit or loss	21,415	-	66,214	(11,419)	15,000	91,210
- to other	-	-	-	-	-	-
comprehensive income						
Acquisition	35,108	-	-	-	^(15,000)	20,108
At 30 June 2014	153,093	69,899	175,601	(82,003)	(27,000)	289,590

^ 2013 - The deferred tax liability on intangibles acquired at acquisition was \$207,000 of which \$180,000 was reversed during the period to the profit or loss.
2014 - The deferred tax liability on intangibles acquired at acquisition was \$50,000 all of which was reversed during the period to the profit or loss.

Tax Losses Not Recognised	2014	2013
	\$	\$
Unused tax losses for which no deferred tax asset has been recognised	6,511,681	6,773,149
Potential tax benefit at 30%	1,953,504	2,031,945

15. Trade & other payables

	Consolidated	
	2014	2013
	\$	\$
Current		
Trade payables	1,624,153	1,670,216
Contingent consideration (note 26)	-	1,145,000
Other payables	1,103,649	893,034
	2,727,802	3,708,250

**Notes to the financial statements
for the year ended 30 June 2014**

16. Provisions

	Consolidated	
	2014	2013
	\$	\$
Current		
Employee entitlements (note a)	450,783	314,350
Warranty	4,453	144,437
	<u>455,236</u>	<u>458,787</u>
Non-current		
Employee entitlements – long service leave	<u>179,273</u>	<u>93,215</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

	Consolidated			
	2014	2013	2014	2013
	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 2012	Opening balance	17,714,009		7,104,700
30 June 2013	Movement during year	-		-
30 June 2013	Balance	<u>17,714,009</u>		<u>7,104,700</u>
30 June 2014	Movement during year	-		-
30 June 2014	Balance	<u>17,714,009</u>		<u>7,104,700</u>

Notes to the financial statements for the year ended 30 June 2014

(a) Ordinary shares

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

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

(b) Options

At reporting date, there were no listed and unlisted options (2013: 4,000,000) 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	
	2014	2013
	\$	\$
(a) Share option reserve at beginning of year	89,960	89,960
Options issued	-	-
Share option reserve at 30 June 2014	<u>89,960</u>	<u>89,960</u>
<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	 2,801,428	 1,577,555
Net profit/(loss) attributable to members of Air Change International Limited	364,325	1,223,873
Retained earnings at the end of the year	<u>3,165,753</u>	<u>2,801,428</u>

**Notes to the financial statements
for the year ended 30 June 2014**

19. Remuneration of auditors

	Consolidated	
	2014	2013
	\$	\$
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	56,870	63,941
<i>Other services</i>		
R&D tax concession services	15,985	15,000
Due diligence	7,000	-
	79,855	78,941

	Consolidated	
	2014	2013
	\$	\$
(b) Non-BDO audit firms		
<i>Audit and other assurance services</i>		
Audit and review of financial statement	5,909	(4,734)
<i>Other Services</i>		
Tax compliance services	15,041	15,251
Due diligence	-	-
	20,950	10,517

Notes to the financial statements for the year ended 30 June 2014

20. Commitments for expenditure

	Consolidated	
	2014	2013
	\$	\$
(a) Rental lease commitments in respect of property, plant & equipment under operating lease		
Future rental lease commitments contracted for at balance date but not provided for in the financial statements:		
- Payable no later than one year	540,439	199,130
- Payable later than 1 year but not later than 5 years	1,770,880	16,305
Total operating lease liability	2,311,319	215,435

	Consolidated	
	2014	2013
	\$	\$
(b) Commitments in relation to hire purchase liabilities for plant and equipment, payable:		
- Within 1 year	8,500	12,643
- Later than 1 year but not later than 5 years	-	-
Minimum lease payments	8,500	12,643
Less future finance charges	(54)	(778)
Recognised liability	8,446	11,865
Current	8,446	11,865
Non-Current	-	-

21. Contingent liabilities

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

- (a) Bank guarantees provided in relation to operating lease rental agreements entered in the normal course of business \$145,750 (2013: \$72,455)
- (b) Performance guarantees provided in respect of contracts amounting to \$467,052 (2013: \$nil).

Refer to note 26 for details regarding contingent consideration.

22. Related party information

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

2014 – Nil.

2013 – Nil.

**Notes to the financial statements
for the year ended 30 June 2014**

(b) Key management personnel disclosure

	Consolidated	
	2014	2013
	\$	\$
Aggregate compensation		
Short term employee benefits	464,422	464,336
Post employment benefits	25,950	30,273
	490,372	494,609

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.

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

	Consolidated	
	2014	2013
	\$	\$
Profit/(Loss) after income tax	364,325	1,223,873
Depreciation and amortisation	487,330	444,965
Other	-	-
Net exchange differences	(2,192)	(3,496)
Intangible – premium on contracts acquired	50,000	600,000
Additional contingent consideration	-	150,000
Net loss on disposal of non-current assets	26,523	111,563
Changes in assets and liabilities		
(Increase) in trade receivables	(4,238)	(1,677,561)
Decrease in other receivables & prepayments	966,097	512,474
(Increase) in bank guarantee term deposit	(234,000)	-
Decrease/(increase) in inventories	285,242	(75,994)
(Increase) in deferred tax assets	(91,210)	(231,260)
(Decrease)/increase in trade payables	(46,063)	553,064
Increase/(decrease) in other payables	196,996	(3,447,704)
(Decrease) in contingent consideration	(3,230)	-
(Decrease)/Increase in provisions	(34,517)	189,232
Net cash inflow (outflow) from operating activities	1,961,063	(1,650,844)

**Notes to the financial statements
for the year ended 30 June 2014**

24. Earnings per share

	Consolidated	
	2014	2013
	\$	\$
Basic earnings per share from continuing operations	0.021	0.069
Diluted earnings per share from continuing operations	0.021	0.056
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and alternative basic earnings per share	17,714,009	17,714,009
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share and alternative diluted earnings per share	17,714,009	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	364,325	1,223,873
Earnings used in calculating basic and diluted earnings per share	364,325	1,223,873

In 2014 no options, 2013 - options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

Notes to the financial statements for the year ended 30 June 2014

25. Parent entity financial information

(a) Summary financial information

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

	2014	2013
	\$	\$
Balance sheet		
Current assets	1,066,960	910,849
Total assets	8,837,176	8,681,577
Current liabilities	202,588	158,646
Total liabilities	202,588	168,480
<i>Shareholders' equity</i>		
Issued capital	7,104,700	7,104,700
Reserves	89,960	89,960
Retained earnings	1,439,928	1,318,437
Total shareholders' equity	8,634,588	8,513,097
Profit/ (loss) for the year	121,491	380,867
Total comprehensive income for the year	121,491	380,867

(b) Guarantees entered into by the parent entity

	2014	2013
	\$	\$
Carrying amount included in current liabilities	-	-

(c) Contingent liabilities of the parent entity

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

The parent entity acted as a guarantor for Air Change Pty Limited in respect of contingent consideration; refer to note 26.

26. Contingent Consideration

2014

In October 2013, \$1,142,000 was paid to the vendors in respect of the year one earn out (excluding the interim earn out payment of \$55,000 paid in March 2013). This contingent consideration had been previously accrued.

Due to the performance hurdle not being achieved, the balance of contingent consideration of Air Change Pty Limited in respect of the acquisition of Summit Industrial Chillers Pty Ltd has been written back to profit or loss amounting of \$3,230 in the year 2014.

2013

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.

Notes to the financial statements for the year ended 30 June 2014

27. Business Combination

Summary of acquisition

On 29 October 2013 the subsidiary entity, Air Change Australia Pty Limited acquired the business and assets of Fan Coil Industries, a designer and manufacturer of fan coils and air handling units for heating, cooling and ventilating industrial, commercial and institutional buildings.

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

Total consideration transferred:

Cash	919,268
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The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value \$
Inventories	307,186
Intangibles -premium on contracts acquired	50,000
Plant and equipment	110,580
Deferred tax asset	35,108
Provision for employee benefits	(117,025)
Deferred tax liability	(15,000)
Net assets acquired	370,849
Goodwill	548,419
	919,268

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 was one acquisition in the year ended 30 June 2013 in respect of Summit Industrial Chillers Pty Ltd amounting to \$2,025,000.

Revenue

The acquired business contributed revenues of \$2,115,831 to the group for the period from 29 October 2013 to 30 June 2014.

Acquisition-related costs

Acquisition-related costs of \$54,585 are included in profit or loss and in operating cash flows in the statement of cash flows.

Notes to the financial statements for the year ended 30 June 2014

28. Financing Arrangements

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

	Consolidated	
	2014	2013
Total facilities available		
Bank overdraft	600,000	745,000
Indemnity/guarantee facilities	946,000	80,000
Commercial credit card facilities	70,000	70,000
	1,616,000	895,000
Used at the reporting date		
Bank overdraft	-	-
Indemnity/guarantee facilities	613,000	72,000
Commercial credit card facilities	25,000	28,000
	638,000	100,000

Security

The Group's finance facilities are secured by general security agreement, first mortgage being a fixed and floating charge over the assets of the group, and corporate guarantee and indemnity by the group entities.

Directors' declaration for the financial year ended 30 June 2014

The directors of the company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards, the Corporations Regulations 2001 and with International Financial Reporting Standards issued by the International Accounting Standards Board and
 - (b) give a true and fair view of the Group's financial position as at 30 June 2014 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 10 to 12 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2014, 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 of the Corporations Act 2001.

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



Alan Jones
Chairman

Sydney
28 August 2014

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 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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, 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 company'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 company'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 2014 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 12 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

A handwritten signature in black ink, appearing to read 'AM', is written above the name Arthur Milner.

Arthur Milner

Partner

Sydney, 28 August 2014

Air Change International Limited
Information for Australian Stock Exchange
as at 1 July 2014

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 15 to 19.

2. CORPORATE GOVERNANCE

Refer to statement on pages 15 to 19.

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	2,566,500	14.49%
Neilor Nominees Pty Ltd	2,233,500	12.61%
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 720 shareholders holding a total of 17,714,009 fully paid ordinary shares.

Options:

There are no listed and unlisted options (2013: 4,000,000) 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:

- a) *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*
- b) *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 2014

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	226,498
1,001	- 5,000	186	396,395
5,001	- 10,000	31	228,338
10,001	- 100,000	44	1,365,008
100,001	and over	18	15,497,770
		<u>720</u>	<u>17,714,009</u>

7. NON-MARKETABLE PARCELS

Based on a notional value of \$0.50 per share, there were 441 holders (each holding less than 1,000 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%
J P Morgan Nominees Australia Limited	165,057	0.93%
Tonda Pty Ltd (Super Fund a/c)	153,284	0.87%
Mr Poh Chim Yeap	140,000	0.79%
Altenburg Pty Ltd	137,931	0.78%
John Benson Pty Ltd	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%
	<u>15,682,620</u>	<u>88.53%</u>

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 2014

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 Street
Sydney NSW 2000
Telephone: (02) 9994 0240

12. ADMINISTRATION OFFICE

Suite 25, Level 6
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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
GPO Box 7045
Sydney NSW 1115
Telephone: (02) 8234 5000
Facsimile: (02) 8234 5050

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.