

# Appendix 3 Form: Preliminary final report

Name of issuer

AIR CHANGE INTERNATIONAL LIMITED

ACN or ARBN

087 737 068

Half yearly  
(tick)

Preliminary  
final (tick)

X

Half year/financial year ended  
(‘Current period’)

30 JUNE 2016

For announcement to the market

Extracts from this statement for announcement to the market (see note 1).

				\$A,000
Revenue (item 1.1)	Up	11%	to	17,348
(Loss) for the period (item 1.9)	Down	1%	to	(704)
(Loss) for the period attributable to members of the parent (item 1.11)	Down	1%	to	(704)
<b>Dividends</b>		Current period		Previous corresponding period
Franking rate applicable:		-		-
<b>Final dividend</b> (preliminary final report only)(item 10.13-10.14)		-		-
Amount per security		-		-
Franked amount per security		-		-
<b>Interim dividend</b> (Half yearly report only) (item 10.11 – 10.12)				
Amount per security				
Franked amount per security				
Short details of any bonus or cash issue or other item(s) of importance not previously released to the market:				
Not Applicable				

**1. Consolidated Income Statements**

Refer to attached annual report

**2. Consolidated Balance Sheets**

Refer to attached annual report

**3. Consolidated Statements of Changes in Equity**

Refer to attached annual report

**4. Consolidated Cash Flow Statements**

Refer to attached annual report

**5. Reconciliation of cash flow from operating activities**

Refer to attached annual report

**6. Notes to financial statements – Details of revenue & expenses**

Refer to attached annual report

**7. Earnings per Security**

Provide details of basic and fully diluted EPS in accordance with paragraph 70 and Aus 70.1 of AASB 133:

Earnings per Share below:

Basic earnings per share: (\$0.040)

Numerator in calculating basic earnings per share : (\$704,094)

Weighted average number of ordinary shares used as the denominator: 17,714,009

Diluted earnings per share: (\$0.040)

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### Annual meeting

*(Preliminary final report only)*

The annual meeting will be held as follows:

Place

TBA

Date

TBA

Time

TBA

Approximate date the annual report will be available

TBA

### Compliance Statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to the Exchange (see note 13).

Identify other standards used

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2. This statement, and the financial statements under the Corporations Act (if separate), use the same accounting policies.
3. This statement does give a true and fair view of the matters disclosed (see note 2).
4. This statement is based on financial statements to which one of the following applies:
- |  |  |
|--|--|
| <input checked="" type="checkbox"/> The annual report have been audited.                             | <input type="checkbox"/> The annual report have been subject to review.                  |
| <input type="checkbox"/> The annual report are in the process of being audited or subject to review. | <input type="checkbox"/> The annual report have <i>not</i> yet been audited or reviewed. |
5. If the accounts have been or are being audited or subject to review and the audit report is not attached, details of any qualifications are attached/will follow immediately they are available\* (delete one). (Half yearly statement only - the audit report must be attached to this statement if the statement is to satisfy the requirements of the Corporations Act.)
6. The issuer has a formally constituted audit committee.

Signature :



(Company Secretary)

Date: 26 August 2016

Print name: .....Robert Lees.....

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# **ACI**

**AIR CHANGE INTERNATIONAL LIMITED**

**ACN 087 737 068**

**Annual Report  
2016**

## Content

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Corporate directory	1
Managing Director's report	2-5
Directors' report	6-12
Auditors' independence declaration	13
Corporate governance statement	14-18
Consolidated financial statements	19-22
Notes to the financial statements	23-48
Directors' declaration	49
Independent auditors' report to the members	50-51
Information for the National Stock Exchange of Australia	52

## Corporate Directory

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<b>Directors:</b>	Alan S Jones (Non-executive Chairman) John M Langley (Non-executive Director) Neil R Fimeri (Managing Director)
<b>Secretary:</b>	Robert Lees
<b>Principal &amp; Registered Office:</b>	2 Ashford Avenue Milperra NSW 2214  Tel: (02) 8774 1400 Fax: (02) 9792 2740  e-mail: <a href="mailto:invest@airchange.com.au">invest@airchange.com.au</a> Web site: <a href="http://www.airchange.com.au">www.airchange.com.au</a>
<b>Share Registrar:</b>	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115
<b>Auditors:</b>	BDO East Coast Partnership ("BDO") Level 11, 1 Margaret Street Sydney NSW 2000
<b>Bankers:</b>	ANZ Level 4, 20 Smith Street Parramatta NSW 2150
<b>Solicitors:</b>	Addisons Lawyers 60 Carrington Street Sydney NSW 2000
<b>Stock Exchange Listing:</b>	Air Change International Ltd shares are listed on the National Stock Exchange of Australia Limited (Code: ordinary shares "AC1")
<b>Company Number:</b>	ACN 087 737 068 ABN 14 087 737 068

## Air Change International Limited Managing Director's report

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Your directors present the Air Change International Limited ("Company" or "Group") annual report for the year ended 30 June 2016.

### Overview

It is again disappointing to report a loss of \$704,094 for the 2015/16 financial year, caused primarily by the continued weak trading conditions in the Group's principal Australian air conditioning and industrial cooling markets.

As we predicted last year, sales revenue for the year increased slightly as a result of an increase in the sale of lower margin air handling and fan coil units with sales of higher margin heat and energy recovery systems and industrial cooling plants remaining flat. Overall revenue for 2015/16 year increased to \$17.98 million, up 10% from \$16.34 million the previous year, with air conditioning equipment sales increasing from \$7.99 million in the first half to \$9.35 million in the second half of the year, as a result of shipments from the new Malaysian factory.

As noted last year, the downturn in the mining and resource industries has impacted both sales revenue and gross margin.

The Company's financial performance for the past four half yearly periods, shown below, indicates the difficult trading conditions that have persisted over the past 2 years.

Period	Rev \$,000	P / (L) \$,000
2H 14	8,861	49
1H 15	7,478	(762)
2H 15	8,029	(717)
1H 16	9,953	12

This table hopefully indicates that sales revenue is on the increase and that the worst of this adjustment period is now behind the Company.

There have been a number of steps taken to improve this situation.

Firstly, the Malaysian factory which was announced in last year's report, although still not operating at its planned capacity, is fully functional and producing product. It has contributed to the increase in sales in the second half of the year but not profitability as training and establishment costs are ongoing.

It has recently been granted Licenced Manufacturing Warehouse (LMW) status by the Malaysian Government, allowing it to import component parts from around the world without being subject to import

duty, provided that the end products are exported from Malaysia.

This LMW certification is the last in a long list of compliance requirements and certificates needed to operate and competitively manufacture in Malaysia, a process that has taken over 18 months to finalise. The Malaysian operation will noticeably impact the Company's future direction because of the increased manufacturing capacity and the lower production cost base.

At the date of writing this report, the Group holds Australian orders exceeding \$3.3 million that would not have been achievable based on Australian manufacturing costs.

Similarly, orders from South East Asia that have, or will be, manufactured in this facility currently exceed \$4.5 million, of which approximately \$1.1 million has already been delivered.

The change in product sales mix described in this and last year's annual report should now be now deliverable without impacting Group profitability after this operation reaches its final planned capacity and has a fully trained staff.

To date, there has been no change in Australian employment numbers other than a decrease in the use of contract labour.

The Company has again continued its investment in research and product development, albeit at a slower pace than in previous years.

Completely new products and revisions to existing product lines have resulted from this R&D program, two of which the Company has sought to protect with recently filed patent applications.

Recent R&D expenditure has been directed towards energy efficient dehumidification of air, rather than the Company's traditional focus on heat and energy exchange.

Commencement of the Jakarta contract announced last year was delayed by 3 months with first units finally shipped in late February 2016.

At year end, delivery of these units was about 25% complete with completion presently scheduled for the second half of the 2017 financial year.

Part of this year's loss is again attributable to the higher depreciation and amortisation charges announced last year.

Unlike 2014/15, there was no overall change in the numbers of management, engineering or sales staff other than recruitment of engineering and support staff for the Malaysian factory operation.

# Air Change International Limited

## Managing Director's report

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### Company Overview

At present, Air Change International Limited, through its subsidiary companies, is principally involved in the design and manufacture of products to provide:

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

The Group mission is to provide energy efficient, cost effective heating and cooling systems using its own patented technologies and presently designs and manufactures:

- 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 dehumidification and air pre-treatment systems;
- industrial process dehumidification systems; and
- process cooling chilled water systems.

In addition to its standard product lines, the Group develops individual bespoke heating and cooling solutions to suit specific customer applications. By way of example, the Company recently designed and manufactured a cooling system to maintain a manufacturing process at -22C degrees.

At present, all design and engineering is located in Milperra, NSW, with product now manufactured in either Milperra or Malaysia.

The Group has its own sales staff in New South Wales, Queensland, Victoria and Singapore with sales distribution representatives in all other Australian states, New Zealand, Malaysia, Indonesia and Thailand.

Additional country representatives are being evaluated.

### Financial Performance

#### Revenue and Profit

Revenue generated from Group activities was \$17.98 million in 2015/16 up from \$16.34 million in 2014/15 resulting in an after tax loss of \$704,094 for the year.

### Past Income Tax Losses

The Group presently retains tax benefits arising from losses incurred by the Company prior to April 2010 on its operations before this date.

These earlier tax losses do not presently satisfy the Australian Tax Office same business test but do satisfy the ATO modified continuity of ownership test. The Company does not recognise any future benefit from these past losses as their use depends upon a substantial continuity of the present ownership of the Company's shares, a situation which is beyond its own control and cannot be guaranteed.

### Cashflow

Since April 2010, the Group has been able to fund its expansion and working capital needs from its operational cash flow and borrowing capacity. The Group has, for the first time since 2010, had to use its available credit facilities during this past year for working capital.

This has resulted from:

- funding costs to set up the new manufacturing facility in Malaysia;
- more supply contracts with warranty retention and slower payment terms;
- restricted supplier credit availability in Malaysia because we are a new start-up company;
- generally slower debtor collections in Australia; and
- a contractual dispute regarding the chilled water plants supplied to the Roy Hill Mine.

### Acquisitions

There were no acquisitions in the last financial year. Management continues to examine 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 if they present.

### Operational Review

#### Australian Heating, Ventilation & Air Conditioning (HVAC) Operations

HVAC sales have increased over the past year, but this increase has been predominantly in air handling and fan coil unit sales.

There has also been an increase in the sale of dehumidification systems but air conditioning and heat recovery sales have remained stagnant.



Air handling and fan coil unit sales are predicted to rise further with access to cheaper production from Malaysia and a general rise in the number of public and institutional building projects either under construction or in the design stage.

If present trends continue, air conditioning sales with heat and energy recovery are predicted to remain flat.

As already stated, there has been growth in the dehumidification market, and on present trends, this growth is likely to continue, aided by the development this past year of a low dew point (LDP) dehumidifier. This LDP system is capable of producing air with a dew point temperature as low as 3.5C degrees using only refrigeration cooling without the need for supplementary desiccant dehumidification.

Initial interest in this product has been strong but there have been no sales achieved to date. This is not unusual given the long gestation period between project design and construction and the fact that the product launch only occurred in late May 2016.

Sales of indoor swimming pool heating systems increased this past year and are predicted to improve again this next financial year with a new product offering simultaneous pool air and water heating.

As noted in last year's review, there is increased competition for sales in certain of the Company's less technically complex heat and energy exchange products in Australia.

The ability to produce these products in a low cost environment should reduce, or even reverse, sales lost to this lower cost competition.

#### **South East Asia HVAC**

Sales effected through the South East Asian office this past year were approximately \$1.1 million, most of which was manufactured in Malaysia.

Sales in this region are predicted to exceed \$3.2 million this next financial year based on orders currently on hand. This sales revenue could increase further if projects now in the tender and negotiation stage are successful.

The establishment of a Malaysian manufacturing operation should see sales continue to grow in the ASEAN region over coming years.

As noted in past annual reports, a presence in South East Asia has given the Company a strategic opportunity to develop and trial products for use in a

constant high temperature, high humidity environment. This has been invaluable in the research and development of new products, particularly associated with dehumidification.

#### **Industrial Process Cooling**

Sales of process cooling systems remained subdued again this past year, primarily due to a dearth of mining and resource projects.

Despite the low sales volumes, the Group resisted the temptation to build low margin chilled water plants for generic applications, preferring instead to concentrate on projects that were technically difficult and required a complete engineering and controls package.

The Company was able to secure a high proportion of the projects for which it tendered, but the opportunities were limited.

There are a number of presently planned large mining and industrial projects for which the Group has been invited to register now awaiting final approval before final documentation is issued. If these projects proceed and we are successful, it will substantially increase industrial process cooling sales revenue, probably in the second half of the 2016/17 financial year.

#### **Manufacturing Operations**

Manufacturing is now carried out in Milperra, New South Wales and Johor, Malaysia. It is unlikely that Malaysia will reach its full capacity until the end of this 2016 calendar year.

All research, design and engineering remain in New South Wales but detailed manufacturing drafting capability will be established in Malaysia over time to support that operation.

#### **Research & Development**

Research and product development ("R&D") continued to be a priority for the Group over this past year, albeit to a lesser extent than in past years. The Company emphasized research into energy efficient, close control space temperature and humidity equipment in preference to its historic heat and energy transfer research program.

This has occurred for a number of reasons.

Firstly, there is a growing market for dehumidification systems because there has been a shift in the ratio of sensible to latent heat loads on building air conditioning systems.

## Air Change International Limited

### Managing Director's report

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This has resulted from a decrease in sensible heat loads because lighting, electronics and computers now consume less power than they previously did and this substantially reduces the heat generated inside the building.

Also contributing to less heat gain in the building is better architectural design and building materials which have lowered the solar heat gain passing through the building facade. Although there has been an overall fall in this sensible heat load, the latent load (or moisture gain load) is unchanged or even increasing slightly as the climate warms and humidifies.

Air conditioning systems that operate on temperature control, now cool the space quicker and then turn off for longer periods, allowing humidity to build-up in the building space.

Dehumidification systems that cool the air to a temperature to ensure adequate moisture removal, then reheat the air to maintain a comfort condition and are increasing used in warmer humid climates to avoid moisture build-up that causes mould formation. Increasingly, northern Australia and south East Asia control humidity independent of temperature. Group sales of dehumidification systems have further increased over the past year, now accounting for approximately 17% of total sales and helping to replace sales lost in the more traditional heat and energy recovery market segments.

R&D expenditure for the next financial year is again budgeted to be lower than this past year.

#### **Future Strategy & Outlook**

The Company is looking to grow sales further this next year and initial indications are that sales could exceed \$20 million.

This anticipated sales increase has been built on increasing opportunities in South East Asia and sales of newly developed products.

Further geographical expansion is planned with discussions presently underway with potential distributors in the Philippines and India.

Geographical expansion is an important part of the growth strategy because of the limited opportunities in the Australian market.

#### **NSX Trading**

Trading of the Company's shares commenced in January 2016 on the National Stock Exchange of Australia under the code AC1 (ACone).

There has been limited trading in the Company shares since they were listed.

#### **Conclusion**

In conclusion, I would like to thank all staff for their efforts over the past year and continue to be optimistic about the Company's future prospects, despite the setbacks of the past two years.



Neil Fimeri  
Managing Director

## Air Change International Limited

### Directors' report for year ended 30 June 2016

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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 2016.

#### 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 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	
	2016	2015	2016	2015
	\$	\$	\$	\$
Heating, cooling, & ventilation equipment	17,342,262	15,573,129	(736,955)	(697,394)
(Loss) before income tax (expense)/ benefit			(736,955)	(697,394)
(Loss) after income tax (expense)/ benefit			(704,094)	(713,103)
Net (loss) attributable to members of ACI Limited			(704,094)	(713,103)

#### Dividends

The directors do not recommend the payment of a dividend at this time and no dividend has been paid or declared during the financial year.

#### Significant Changes in the State of Affairs

During the year, the Group commenced manufacturing operations in Malaysia. There were no other significant changes in the Group's state of affairs.

#### Likely developments and expected results of operations

Likely developments or matters that may affect the Group or its operations are included in the Managing Director's report.

Disclosure of matters that are commercial in confidence or may prejudice the Group are not included.

#### Significant events after the reporting period

No matter or circumstance than otherwise disclosed in this report has arisen since 30 June 2016 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 2016**

**DIRECTORS' INTERESTS**

**INFORMATION ON DIRECTORS**

			<b>Particulars of directors' interests at date of this report</b>
<b>Director</b>	<b>Experience</b>	<b>Special responsibilities</b>	<b>Securities held</b>
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 just recently retired from 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 pilot plants and large scale demonstration 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 2016

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 and has done so 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 three directors' meetings (2015: four) and two Audit Committee meetings (2015: two) and zero Remuneration Committee meeting (2015: two) held during the year ended 30 June 2016.

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	3	2	2	1	-	-
John M Langley	3	3	2	1	-	-
Neil Fimeri	3	3	*	*	*	*

\* 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 2016.

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 2016**

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#### **Proceedings on behalf of the Company**

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

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

#### **Non-audit services**

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

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out in Note 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*.

#### **Shares under option**

There were no options issued during the year ended 30 June 2016 (2015: 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 2016 (2015: Nil).

# Air Change International Limited

## Directors' report for year ended 30 June 2016

### 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

2016	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	-	2,850	-	32,850
John M Langley	30,000	-	2,850	-	32,850
Executive director					
Neil R Fimeri Managing Director	^401,502	-	20,400	-	421,902
Total KMP remuneration	461,502	-	26,100	-	487,602

^Includes annual leave accrued of \$29,202

**Air Change International Limited**  
**Directors' report for year ended 30 June 2016**

2015 Name	Short term employee benefits	Post-employment			Total
	Cash salary and fees	Cash Bonus	Superannuation	Termination benefits	
	\$	\$	\$	\$	\$
<b>Non-executive directors</b>					
Alan S Jones – Chairman	30,000	-	2,850	-	32,850
John M Langley	30,000	-	2,850	-	32,850
<b>Executive director</b>					
Neil R Fimeri Managing Director	<sup>^</sup> 408,802	-	23,174	-	431,976
<b>Total KMP remuneration</b>	<b>468,802</b>	<b>-</b>	<b>28,874</b>	<b>-</b>	<b>497,676</b>

<sup>^</sup>Includes annual leave accrued of \$29,202

**Equity instrument disclosures relating to key management personnel**

(i) Option holdings

There were no options over ordinary shares in the Company held during the financial year by any director of Air Change International Limited and other key management personnel of the Group, including their personally related parties.

The numbers of unlisted options in the Company held at balance date by each director and executives of Air Change International Limited, including their personally-related entities, are nil.

(ii) Share holdings

The numbers of shares in the Company held at balance date by each director and executive of Air Change International Limited, including their personally-related entities, are set out below:

2016 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 2016 (2015: 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 2016**

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#### **Corporate governance**

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

#### **Shares under option**

At the date of this report, the unissued ordinary shares of Air Change International Limited under option are nil (2015: Nil).

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

#### **Auditors' independence declaration**

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

#### **Environmental regulation**

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

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



**Neil Fimeri**  
**Managing Director**

**Sydney**  
**26 August 2016**



Tel: +61 2 9251 4100  
Fax: +61 2 9240 9821  
[www.bdo.com.au](http://www.bdo.com.au)

Level 11, 1 Margaret St  
Sydney NSW 2000

Australia

**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 2016, 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 year.

Arthur Milner  
Partner

**BDO East Coast Partnership**

Sydney, 26 August 2016

## Corporate governance statement

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### Corporate governance statement

The Board is committed to maintaining and achieving the highest standards of accountability and transparency and see the continued maintenance of a cohesive set of corporate governance policies as fundamental to the successful growth of the Group. As its base, the Board believes that corporate governance is about having a set of values and behaviours that underpin the group's everyday activities and protect the interests of stakeholders. The directors are responsible to the shareholders for the performance of the Company. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Company and its controlled entities are properly managed. In developing Air Change International Limited's corporate governance practices, the Board has been guided by Annexure 1 of Practice Note 14 promoted by the National Stock Exchange of Australia (NSX) and 'Corporate Governance Principles and Recommendations' published by the ASX Corporate Governance Council. This statement outlines the main corporate governance practices in place throughout the financial year.

A description of the Company's main corporate governance practices is set out below.

### THE BOARD OF DIRECTORS

#### ***BOARD ROLE AND RESPONSIBILITY***

The board's primary role is the protection and enhancement of long-term shareholder value. It is also required to:

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

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and senior management. Responsibilities are delineated by formal authority delegations. The performance of senior executives is reviewed annually by the Managing Director. The performance of the Managing Director is reviewed annually by the Chairman.

#### **Board committees**

To assist in the execution of its responsibilities, the board has established an Audit, Finance, Risk and Compliance Committee (AFRCC) and a Remuneration Committee. The committees have a written mandate and operating procedures, which are reviewed on a regular basis. The Board does not have a Nominations Committee as this function is undertaken by the Board. The structure and membership of each committee is reviewed from time to time.

The Board has elected not to establish a Nominations Committee on the basis that it is only a relatively small board and is able to efficiently carry out the functions that would otherwise be delegated to the Nominations Committee.

## Corporate governance statement

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### Board Composition

The Board believes that its membership should comprise directors with an appropriate mix of skills, experience and personal attributes that allow the directors individually, and the Board collectively to:

- discharge their duties and responsibilities under the law efficiently and effectively
- understand the business of the Group and the environment within which the Group operates so as to be able to agree with management, the objectives, goals and strategic direction to maximize shareholder value
- assess the performance of management in meeting those objectives.

The current membership of the Board and each individual voting director's background are set out in the Directors' Report.

### Directors' independence

The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgement. Directors are considered to be independent if they are not a member of management and if they meet the following criteria:

- not a substantial shareholder of ACI or of a company holding more than 5% of ACI voting stock or an officer of or otherwise associated directly with a shareholder holding more than 5% of the ACI voting stock
- have not within the last 3 years been employed in an executive capacity by the Group or a controlled entity, or been a director after ceasing to hold any such employment
- have not within the last 3 years been a principal of a material professional adviser or a material consultant to the Group or a controlled entity or an employee materially associated with the service provided
- not a material supplier or customer of the Group or a controlled entity, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must not have contractual relationship with the Group or a controlled entity other than as a director of the Group
- not been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group.

### Chairman and Managing Director

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

### Avoidance of conflicts of interest by a director

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

### Independent professional advice

Directors and the board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this is not unreasonably withheld.

### Meetings of the board and their conduct

The Board met three times last year. 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.

## Corporate governance statement

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### ***Board access to information and advice***

All directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. The Group's Company Secretary provides directors with ongoing guidance on issues such as corporate governance, ACI Group's Constitution and the law. The Chairman and other non-executive directors also regularly consult with the Executive Director and other senior management may consult with, and request additional information from, any ACI Group employee. The Board collectively, and each Director individually, has the right to seek independent professional advice at ACI's expense to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in its absence, Board approval may be sought.

### ***Term of office***

The Company's Constitution specifies that all directors (with the exception of the Managing Director) must retire from office no later than the third AGM following their last election. Where eligible, a director may stand for re-election.

In addition, the Board seeks to ensure that the membership at any point in time represents an appropriate balance between directors with experience and knowledge of the Company and directors with an external or fresh perspective.

### ***Audit, Finance, Risk and Compliance Committee (AFRCC or the Committee)***

The AFRCC has a documented charter, approved by the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

The AFRCC consists of the following directors:

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

The AFRCC comprises two members, all of whom are non-executive directors.

The external auditors and the Managing Director are invited to AFRCC meetings at the discretion of the Committee. The Committee meets a minimum of two times during the year. The Managing Director declared in writing to the Board that the Company's financial reports for the year ended 30 June 2016 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually and is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

The AFRCC members have appropriate financial expertise and all members have a working knowledge of the financial services industry in which the Group operates.

The AFRCC operates in accordance with a separate charter. The main responsibilities of the Committee are to:

- review, assess and approve the annual report and the half-year financial report
- assist the board in reviewing the effectiveness of the organisation's internal control
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditors on an ongoing basis
- review and monitor related party transactions and assess their propriety
- monitor the current and forecast liquidity and cash flow of the Group
- report to the board on matters relevant to the roles and responsibilities of the AFRCC

In fulfilling its responsibilities, the AFRCC:

- receives regular reports from management and external auditors
- meets with the external auditors at least twice a year or more frequently if necessary

The AFRCC has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party. The Committee's charter is reviewed annually and updated as necessary. The charter is available to shareholders on request.

### ***Remuneration committee***

The role of the Remuneration Committee is to ensure that the remuneration policies and outcomes are an appropriate balance between the ACI shareholders and rewarding and motivating executives and employees in order to achieve their long term commitment to the Company. The remuneration of senior management consists of base remuneration, allowances and superannuation.

## Corporate governance statement

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

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

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

Non-executive directors are paid an annual fee for their service on the Board and committees which is determined by the Remuneration Committee. Total remuneration for all non-executive directors is not to exceed \$400,000 per annum. The non-executive directors' total fees for the year were \$65,700; 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 note 19 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the AFRCC. For more information please review the Group's Audit Independence Policy.

### ***Code of conduct***

The Group has developed a Code of Conduct (Code) which has been endorsed by the Board and applies to all directors and employees of the Group. The Code requires that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of both the law and Group policies.

A director or employee of the Company may only deal in the Company's securities if that director or employee is not in possession of information that he or she knows or ought reasonably to know is unpublished price sensitive information in relation to the Company's securities and the prior clearance of the Board has been provided.

In addition to obtaining prior clearance of the Board, a director or employee who deals in the Company's securities must immediately notify the Board of the details of the dealing.

The Company must keep a register of all dealings in its securities by directors or employees that are notified to it.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

### ***Diversity Statement***

The Company welcomes gender diversity and is committed to equality at all levels of the organisation but the Company does not have a formal policy in relation to gender diversity.

The Company's policy is to hire and promote staff on the basis of finding the person best qualified to fill the available position. The technical skill requirements of the Company's engineering and manufacturing operations results in an employee gender mix with a male bias even though women occupy senior roles in the support operations of finance,

## Corporate governance statement

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

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

### ***Continuous disclosure and shareholder communication***

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters on a timely basis that may have a material effect on the price of the Company's securities, ensuring the matters are factual and expressed in a clear and factual way, notifying the NSX, posting them on the Company's website, and issuing media releases. The Company Secretary is accountable for ensuring adherence to the Continuous Disclosure Policy. Details of the policy are available on the Company's website [www.airchange.com.au](http://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 2016**

	Note	2016 \$	2015 \$
<b>Revenue</b>	5	<b>17,348,362</b>	15,596,981
<b>Other income</b>	6	<b>635,510</b>	743,088
Changes in inventories of finished goods		<b>666,488</b>	(203,029)
Raw materials and consumables used		<b>(9,744,596)</b>	(7,118,323)
Occupancy costs		<b>(1,000,284)</b>	(772,368)
Employee benefits expenses		<b>(6,657,420)</b>	(6,751,065)
Depreciation of plant and equipment		<b>(300,281)</b>	(234,370)
Amortisation of patents		<b>(387,355)</b>	(581,234)
Other expenses		<b>(1,279,559)</b>	(1,356,946)
Finance costs		<b>(17,820)</b>	(20,128)
<b>(Loss) before income tax</b>	7	<b>(736,955)</b>	<b>(697,394)</b>
Income tax benefit/ (expense)	8	<b>32,861</b>	(15,709)
<b>(Loss) after tax for the year</b>		<b>(704,094)</b>	<b>(713,103)</b>
<b>Net (loss) for the year</b>		<b>(704,094)</b>	<b>(713,103)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operation	18	<b>2,766</b>	-
<b>Other comprehensive income for the year, net of tax</b>		<b>2,766</b>	-
<b>Total comprehensive (loss) for the year attributable to members of Air Change International Limited</b>		<b>(701,328)</b>	<b>(713,103)</b>
<b>Earnings per share attributable to members of Air Change International Limited</b>			
Basic earnings per share	24	<b>(0.040)</b>	(0.040)
Diluted earnings per share	24	<b>(0.040)</b>	(0.040)

*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 2016**

	Note	2016 \$	2015 \$
<b>Current assets</b>			
Cash & cash equivalents	9	144,540	941,757
Trade & other receivables	10(a)	3,920,812	2,869,556
Inventories	11	2,207,559	1,572,125
<b>Total current assets</b>		<b>6,272,911</b>	<b>5,383,438</b>
<b>Non-current assets</b>			
Plant, equipment and leasehold improvements	12	1,011,002	898,428
Rental bonds & term deposit	10(b)	63,939	7,108
Intangible assets	13	5,179,712	5,558,655
Deferred tax assets	14	308,732	275,901
Trade & other receivables	10(b)	77,909	150,532
<b>Total non-current assets</b>		<b>6,641,294</b>	<b>6,890,624</b>
<b>TOTAL ASSETS</b>		<b>12,914,205</b>	<b>12,274,062</b>
<b>Current liabilities</b>			
Trade & other payables	15	3,184,889	1,932,785
Other liabilities		11,410	21,170
Provisions	16	520,916	461,888
<b>Total current liabilities</b>		<b>3,717,215</b>	<b>2,415,843</b>
<b>Non-current liabilities</b>			
Other liabilities		5,190	4,490
Provisions	16	245,818	206,419
<b>Total non-current liabilities</b>		<b>251,008</b>	<b>210,909</b>
<b>TOTAL LIABILITIES</b>		<b>3,968,223</b>	<b>2,626,752</b>
<b>Net Assets</b>		<b>8,945,982</b>	<b>9,647,310</b>
<b>Equity</b>			
Contributed equity	17	7,104,700	7,104,700
Reserves	18	92,726	89,960
Retained earnings		1,748,556	2,452,650
<b>TOTAL EQUITY</b>		<b>8,945,982</b>	<b>9,647,310</b>

*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 2016**

		<b>Contributed equity</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>Notes</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2014</b>		<b>7,104,700</b>	<b>89,960</b>	<b>3,165,753</b>	<b>10,360,413</b>
(Loss) for the year		-	-	(713,103)	(713,103)
Other comprehensive income		-	-	-	-
<b>Total comprehensive income/ (loss) for the year</b>		<b>-</b>	<b>-</b>	<b>(713,103)</b>	<b>(713,103)</b>
<b>Transactions with owners in their capacity as owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 30 June 2015</b>		<b>7,104,700</b>	<b>89,960</b>	<b>2,452,650</b>	<b>9,647,310</b>
<b>Balance at 1 July 2015</b>		<b>7,104,700</b>	<b>89,960</b>	<b>2,452,650</b>	<b>9,647,310</b>
(Loss) for the year		-	-	(704,094)	(704,094)
Other comprehensive income	18	-	2,766	-	2,766
<b>Total comprehensive income/ (loss) for the year</b>		<b>-</b>	<b>2,766</b>	<b>(704,094)</b>	<b>(701,328)</b>
<b>Transactions with owners in their capacity as owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 30 June 2016</b>		<b>7,104,700</b>	<b>92,726</b>	<b>1,748,556</b>	<b>8,945,982</b>

*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 2016**

	Note	2016 \$	2015 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		18,524,114	18,359,465
Payments to suppliers, employees and creditors		(18,914,939)	(17,682,621)
Interest received		6,100	23,852
Interest paid		(17,820)	(20,128)
Income tax paid		(998)	(991)
<b>Net cash (outflow)/inflow from operating activities</b>	23	<b>(403,543)</b>	<b>679,577</b>
<b>Cash flows from investing activities</b>			
Purchase of plant, equipment & leasehold improvements	12	(405,401)	(202,739)
Payment for patents & intellectual property	13	(8,412)	(2,805)
Proceeds on disposal of plant & equipment		18,350	83
<b>Net cash (outflow) from investing activities</b>		<b>(395,463)</b>	<b>(205,461)</b>
<b>Cash flows from financing activities</b>			
Payment of hire purchase obligations		-	(8,446)
<b>Net cash (outflow) from financing activities</b>		<b>-</b>	<b>(8,446)</b>
<b>Net (decrease)/increase in cash held</b>		<b>(799,006)</b>	<b>465,670</b>
Cash & cash equivalents at the beginning of the financial year		941,757	474,857
Exchange differences on cash & cash equivalents		1,789	1,230
<b>Cash &amp; cash equivalents at the end of the financial year</b>	9	<b>144,540</b>	<b>941,757</b>

*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 2016

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

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

2 Ashford Avenue  
Milperra NSW 2214

The financial statements were authorised for issue by the directors on 26 August 2016. The directors have the power to amend and reissue the financial statements.

### 1. Summary of significant accounting policies

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

#### (a) Basis of preparation

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

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

#### *Historical cost convention*

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

#### (b) Principles of consolidation

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Air Change International Limited as at 30 June 2016 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 2016

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### **(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 2016

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### **(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 2016

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### **(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 as received or at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

The Company previously accounted for refundable R&D tax incentives as an income tax benefit. The Company has determined that these incentives are more akin to government grants because they are not conditional upon earning taxable income. The Company has therefore made a voluntary change in accounting policy in the prior year. Refundable tax incentives are accounted for as government grants.

## Notes to the financial statements for the year ended 30 June 2016

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### **(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) Plant and equipment**

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

Plant, equipment, furniture, fittings and leasehold improvements are depreciated over a 2 to 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.

### **(n) Intangible assets**

#### *(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### *(ii) Patents*

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortization method or period. Amortisation is calculated based on projected future sales method to allocate the cost of the patents over their remaining estimated useful lives. Presently the majority of patents will expire in approximately 5 years.

#### *(iii) Agency Agreements and Design & Intellectual Property*

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

### **(o) 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.

### **(p) 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.



## Notes to the financial statements for the year ended 30 June 2016

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### **(p) Loans and borrowings** (continued)

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.

### **(q) 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.

### **(r) Provisions**

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

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

#### *(i) Warranty*

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

### **(s) Employee entitlements**

#### *(i) Wages and salaries, annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit cost method. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

#### *(iii) Retirement benefits obligations*

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

### **(t) 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.

## Notes to the financial statements for the year ended 30 June 2016

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### **(t) Contributed equity (continued)**

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.

### **(u) 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.

### **(v) 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.

### **(w) 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.

### **(x) 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.

### **(y) Research and Development**

Research and development costs are expensed as incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably

### **(z) 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.

## Notes to the financial statements for the year ended 30 June 2016

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### **(aa) 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.

### **(ab) 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 associated Amending Standards** (applicable to annual reporting periods beginning on or after 1 January 2018)

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting. The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

#### **AASB 15 Revenue from Contracts with Customers** (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15)

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, the new revenue model in AASB 15 will apply to all contracts with customers and potential customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process: identify the contract(s) with a customer, identify the performance obligations in the contract(s), determine the transaction price, allocate the transaction price to the performance obligations in the contract(s) and recognise revenue when (or as) the performance obligations are satisfied. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

#### **AASB 16 Leases** (applicable to annual reporting periods beginning on or after 1 January 2019)

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new Standard include recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets), depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components, variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date, by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease and additional disclosure requirements. The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application. The Group will adopt this standard from 1 July 2019 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 2016

### 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:

	2016 \$	2015 \$
<b>Financial assets</b>		
Cash and cash equivalents	144,540	941,757
Trade and other receivables	3,845,608	2,795,915
	<b>3,990,148</b>	<b>3,737,672</b>
<b>Financial liabilities</b>		
Trade & other payables, and other liabilities	3,184,889	1,932,785
	<b>3,184,889</b>	<b>1,932,785</b>

#### (a) Market risk

##### (i) Foreign currency risk

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Air Change International Limited. At the date of this report, the Group has exposure to Singapore dollars, US dollars and Malaysian Ringgit in respect of financial assets. Based on the financial instruments held at 30 June 2016, had the Australian dollar weakened/ strengthened by 10% (2015: 10%) against these currencies with all other variables held constant, the impact on the profit would have been \$83,931 higher/ \$64,053 lower (2015: \$3,050 higher/ \$2,505 lower), mainly as a result of foreign exchange gains/ losses on translation of these foreign currencies 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 2016, 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 (2015: \$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 (2015: nil). In respect of cash on deposit, the impact on the profit would have been \$820 higher/lower, mainly as a result of higher/lower interest income from cash and cash equivalents (2015: \$3,000).

#### (b) Credit risk

Credit risk arises from cash and cash equivalents and outstanding receivables. Cash is held with reputable financial institutions with high quality external credit ratings. Senior management managed the risk of impairment of receivables by reviewing credit limits, undertaking external credit checks and use of credit insurance.

## Notes to the financial statements for the year ended 30 June 2016

### 2. Financial risk management (continued)

#### (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 \$400,000 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 2016	Less than 4 months	4-6 months	6-12 months	Between 1 and 5 years	Total contractual cash flows	Carrying amount
<b>Non derivatives</b>						
Creditors – non-interest bearing	2,526,591	-	-	-	2,526,591	2,526,591
<b>Total non-derivative</b>	<b>2,526,591</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,526,591</b>	<b>2,526,591</b>

#### **Group – at 30 June 2015**

#### **Non derivatives**

Creditors – non-interest bearing	1,224,031	-	-	-	1,224,031	1,224,031
<b>Total non-derivative</b>	<b>1,224,031</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,224,031</b>	<b>1,224,031</b>

#### **Fair value**

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

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

### 3. Critical accounting estimates and judgements

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

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

#### *Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

#### *Goodwill*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

## Notes to the financial statements for the year ended 30 June 2016

### 3. Critical accounting estimates and judgements (continued)

#### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### 4. Segment information

#### (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 2016:

2016	Heating, Cooling & Ventilation	Total
	\$	\$
Total segment revenue	17,342,262	17,342,262
Revenue from external customers	17,342,262	17,342,262
Adjusted EBITDA	311,073	311,073
Depreciation and amortisation	687,599	687,599
 Total segment assets	 12,914,205	 12,914,205
Total segment liabilities	3,968,223	3,968,223

The segment information provided to the Board for the reportable segment for the year ended 30 June 2015:

2015	Heating, Cooling & Ventilation	Total
	\$	\$
Total segment revenue	15,573,129	15,573,129
Revenue from external customers	15,573,129	15,573,129
Adjusted EBITDA	414,527	414,527
Depreciation and amortisation	814,926	814,926
 Total segment assets	 12,274,062	 12,274,062
Total segment liabilities	2,626,752	2,626,752

## Notes to the financial statements for the year ended 30 June 2016

### 4. Segment information (continued)

#### (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:

	2016	2015
	\$	\$
<b>Total segment revenue</b>	17,342,262	15,573,129
Interest revenue	6,100	23,852
Other revenue	635,510	743,088
<b>Total revenue (note 5 &amp; 6)</b>	<b>17,983,872</b>	<b>16,340,069</b>

##### (ii) Adjusted EBITDA

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

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

	2016	2015
	\$	\$
<b>Adjusted EBITDA</b>	<b>311,073</b>	414,527
Interest revenue	6,100	23,852
Finance costs	(17,820)	(20,128)
Depreciation	(300,281)	(234,370)
Amortisation	(387,355)	(581,234)
Other income	635,510	743,088
Head office costs	(984,182)	(1,043,129)
<b>(Loss) before income tax from operations</b>	<b>(736,955)</b>	(697,394)

**Notes to the financial statements  
for the year ended 30 June 2016**

**5. Revenue**

	<b>2016</b> \$	<b>2015</b> \$
<b>Sales revenue</b>		
Sale of goods	17,120,245	15,286,140
Services	222,017	286,989
<b>Other revenue</b>		
Interest	6,100	23,852
<b>Total revenue</b>	<b>17,348,362</b>	<b>15,596,981</b>

**6. Other income**

	<b>2016</b> \$	<b>2015</b> \$
Government grants (note (a))	593,133	651,221
Other	42,377	91,867
<b>Total other income</b>	<b>635,510</b>	<b>743,088</b>

**(a) Government grants**

In 2016 and 2015, this primarily consisted of R&D refundable tax offset of \$503,133 (2015: \$537,692) and export market development grant of \$85,000 (2015: \$108,029).

**7. Expenses**

	<b>2016</b> \$	<b>2015</b> \$
<b>(Loss) before income tax includes the following specific expenses:</b>		
Lease rental payments	750,253	579,266
Defined contribution superannuation payments	469,264	480,178
Net foreign exchange loss	6,552	7,130
Net loss on disposal of plant & equipment	212	21,051
(After profit on disposal of assets of \$Nil (2015:\$Nil))		



# Notes to the financial statements for the year ended 30 June 2016

## 8. Income tax expense

### (a) Income tax expense

	2016 \$	2015 \$
Current tax	(338,141)	(348,406)
Deferred tax – origination and reversal of temporary differences	(32,831)	13,689
Income tax (overprovision)/ paid for previous years – overseas entity	(431)	991
Current year income tax – overseas entity	401	1,029
Adjustment recognised for prior periods	-	(46,236)
Benefit of current tax losses not recognised	338,141	394,642
Aggregate current income tax expense	<u>(32,861)</u>	<u>15,709</u>
Deferred tax included in income tax expense comprises:		
(Increase)/ decrease in deferred tax assets	(30,101)	91,655
(Decrease)/ increase in deferred tax liabilities	<u>(2,730)</u>	<u>(77,966)</u>
Deferred tax – origination and reversal of temporary differences	<u>(32,831)</u>	<u>13,689</u>

### (b) Reconciliation of effective tax rate

	2016 \$	2015 \$
(Loss) before income tax expense	<b>(736,955)</b>	(697,394)
Income tax calculated at 30% (2015 – 30%)	(221,086)	(209,218)
<b>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</b>		
Research & development refundable tax offset	(150,940)	(161,309)
Other	10,548	7,643
Prior year under/overprovision net of unrecognised losses	-	(969)
	<b>(361,478)</b>	<b>(363,853)</b>
Taxable losses/ income not recognised	338,141	394,642
Income tax (overprovision)/ paid for previous years – overseas entity	(431)	991
Current year income tax – overseas entity	401	1,029
Temporary differences not recognised	<u>(9,494)</u>	<u>(17,100)</u>
<b>Income tax (benefit)/ expense</b>	<b><u>(32,861)</u></b>	<b><u>15,709</u></b>

**Notes to the financial statements  
for the year ended 30 June 2016**

	<b>2016</b> \$	<b>2015</b> \$
<b>9. Cash and cash equivalents</b>		
Cash at bank and on hand	144,540	941,757
	<b>144,540</b>	<b>941,757</b>

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

	<b>Note</b>	<b>2016</b> \$	<b>2015</b> \$
<b>10. Trade and other receivables</b>			
<b>(a) Current assets</b>			
Trade receivables		3,844,121	2,832,558
Less: Allowance for doubtful receivables		(100,000)	(100,000)
Net trade receivables		3,744,121	2,732,558
Rental and security bonds		3,963	9,993
Term deposit in respect of performance guarantee		-	44,000
Other debtors		97,524	9,363
Prepayments		75,204	73,642
		<b>3,920,812</b>	<b>2,869,556</b>
	<b>Note</b>	<b>2016</b> \$	<b>2015</b> \$
<b>(b) Non-current assets</b>			
Rental bonds		63,939	7,108
		<b>63,939</b>	<b>7,108</b>
Trade receivables		<b>77,909</b>	150,532

**(c) Past due not impaired trade receivables**

As at 30 June 2016 there were current trade receivables of the Group with a nominal value of \$256,912 that were past due (2015 – \$126,324). The amount of the allowance was \$100,000 (2015: \$100,000).

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

**The ageing of these receivables is as follows:**

	<b>2016</b> \$	<b>2015</b> \$
2-3 months	81,744	126,324
Over 3 months	175,168	-
Total	<b>256,912</b>	<b>126,324</b>

## Notes to the financial statements for the year ended 30 June 2016

### 10. Trade & other receivables (continued)

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

	2016 \$	2015 \$
At 1 July	100,000	60,000
Provision recognised during the year	-	40,000
Balance at 30 June	<u>100,000</u>	<u>100,000</u>

#### (d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amounts approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

The creation and release of the allowance for impaired receivables has been included in 'other expenses' in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

#### (e) Trade Receivable over 3 months

The trade receivable of \$175,168 is in dispute and will be pursued vigorously in arbitration. At this stage, we believe that any shortfall in recovery will be adequately covered by the allowance for doubtful receivables.

### 11. Inventories

	2016 \$	2015 \$
<b>Current Assets</b>		
Raw materials	1,136,835	875,777
Work in progress	748,093	449,839
Finished goods	322,631	246,509
	<u>2,207,559</u>	<u>1,572,125</u>

#### (a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2016 amounted to \$9,078,108 (30 June 2015: \$7,321,352).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2016 amounted to \$nil (30 June 2015: \$nil).

**Notes to the financial statements  
for the year ended 30 June 2016**

**12. Plant, equipment and leasehold improvements**

	<b>Plant &amp; Equipment</b>	<b>Furniture &amp; Fixtures</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>At 1 July 2014</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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
<b>Year ended 30 June 2015</b>				
Opening net book amount	755,414	72,693	136,295	964,402
Additions**	178,884	7,158	32,278	218,320
Disposals	(49,924)	-	-	(49,924)
Depreciation charge	(204,325)	(13,400)	(16,645)	(234,370)
Closing net book amount	680,049	66,451	151,928	898,428
<b>At 30 June 2015</b>				
Cost	1,255,184	111,549	177,861	1,544,594
Accumulated depreciation	(575,135)	(45,098)	(25,933)	(646,166)
Net book amount	680,049	66,451	151,928	898,428
<b>Year ended 30 June 2016</b>				
Opening net book amount	680,049	66,451	151,928	898,428
Additions**	403,112	12,206	17,885	433,203
Disposals	(18,562)	-	-	(18,562)
Depreciation charge	(268,368)	(13,255)	(18,658)	(300,281)
Net exchange differences	(2,223)	174	263	(1,786)
Closing net book amount	794,008	65,576	151,418	1,011,002
<b>At 30 June 2016</b>				
Cost	1,524,960	119,815	196,003	1,840,778
Accumulated depreciation	(730,952)	(54,239)	(44,585)	(829,776)
<b>Net book amount</b>	<b>794,008</b>	<b>65,576</b>	<b>151,418</b>	<b>1,011,002</b>

\*\* Additions include an item of equipment transferred from inventory costing \$27,802 (2015:\$15,581)

**Notes to the financial statements  
for the year ended 30 June 2016**

**13. Intangible assets**

<b>Year ended 30 June 2015</b>	<b>Agency Agreements \$</b>	<b>Design &amp; Intellectual Property \$</b>	<b>Goodwill \$</b>	<b>Patents \$</b>	<b>Total \$</b>
Carrying value at 1 July 2014	20,000	70,600	3,524,067	2,522,417	6,137,084
Additions	-	610	-	2,195	2,805
Amortisation charge*	-	-	-	(581,234)	(581,234)
Carrying value at 30 June 2015	20,000	71,210	3,524,067	1,943,378	5,558,655
<b>At 30 June 2015</b>					
Cost	20,000	71,210	3,524,067	3,573,381	7,188,658
Accumulated amortisation	-	-	-	(1,630,003)	(1,630,003)
<b>Net book amount</b>	<b>20,000</b>	<b>71,210</b>	<b>3,524,067</b>	<b>1,943,378</b>	<b>5,558,655</b>

<b>Year ended 30 June 2016</b>	<b>Agency Agreements \$</b>	<b>Design &amp; Intellectual Property \$</b>	<b>Goodwill \$</b>	<b>Patents \$</b>	<b>Total \$</b>
Carrying value at 1 July 2015	20,000	71,210	3,524,067	1,943,378	5,558,655
Additions	-	-	-	8,412	8,412
Amortisation charge*	-	-	-	(387,355)	(387,355)
Carrying value at 30 June 2016	20,000	71,210	3,524,067	1,564,435	5,179,712
<b>At 30 June 2016</b>					
Cost	20,000	71,210	3,524,067	3,581,792	7,197,069
Accumulated amortisation	-	-	-	(2,017,357)	(2,017,357)
<b>Net book amount</b>	<b>20,000</b>	<b>71,210</b>	<b>3,524,067</b>	<b>1,564,435</b>	<b>5,179,712</b>

\*Based on a review of the expected usage of patents, there was no additional amortisation provided and charged to profit or loss for the year (2015: \$276,316).

## Notes to the financial statements for the year ended 30 June 2016

### 13. Intangible assets (continued)

#### 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 2016.

#### Heating Cooling & Ventilation \$

#### Year ended 30 June 2016

Goodwill and intangibles	3,615,277
Patents	1,564,435

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 15.50% (2015– 15.26%), 3% (2015– 3.5%) per annum projected revenue growth rate and 3% (2015– 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 halftimes estimated net profit before tax. This results in a recoverable amount exceeding the carrying value and therefore there is no impairment.

The growth rate is based on best estimates of revenue in preparing the 1 year budget and the discount rate reflects the market and interest rate risks. A variation of minus 5% in revenue or 5% in earnings assumptions did not result in an impairment.

### 14. Deferred tax assets

2016	2015
\$	\$

The balance comprises temporary differences attributable to:

#### Deferred tax assets / (liabilities)

Employee benefits	183,835	161,646
Tax losses	69,899	69,899
Other including warranty provision and make good	66,935	75,393
Depreciation and amortisation	15,063	(4,037)
Intangibles	(27,000)	(27,000)
Total deferred tax assets	<b>308,732</b>	<b>275,901</b>
Deferred tax assets expected to be recovered within 12 months	<b>192,088</b>	<b>171,076</b>
Deferred tax assets expected to be recovered after more than 12 months	<b>116,644</b>	<b>104,825</b>

**Notes to the financial statements  
for the year ended 30 June 2016**

**14. Deferred tax assets (continued)**

<b>Movements</b>	<b>Employee Benefits</b>	<b>Tax Losses</b>	<b>Other</b>	<b>Depreciation amortisation</b>	<b>Intangibles</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>At 1 July 2014</b>	<b>153,093</b>	<b>69,899</b>	<b>175,601</b>	<b>(82,003)</b>	<b>(27,000)</b>	<b>289,590</b>
(Charged)/credited						
- to profit or loss	8,553	-	(100,208)	77,966	-	(13,689)
- to other	-	-	-	-	-	-
comprehensive income						
<b>At 30 June 2015</b>	<b>161,646</b>	<b>69,899</b>	<b>75,393</b>	<b>(4,037)</b>	<b>(27,000)</b>	<b>275,901</b>
(Charged)/credited						
- to profit or loss	22,189	-	(8,458)	19,100	-	32,831
- to other	-	-	-	-	-	-
comprehensive income						
<b>At 30 June 2016</b>	<b>183,835</b>	<b>69,899</b>	<b>66,935</b>	<b>15,063</b>	<b>(27,000)</b>	<b>308,732</b>

<b>Tax Losses Not Recognised</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Unused tax losses for which no deferred tax asset has been recognised		
Opening balance	5,377,198	5,398,494
R&D accounting (expenditure) subject to R&D refundable tax offset	-	(1,161,319)
Other adjustments	-	(11,145)
Current tax losses not recognised	743,397	1,151,168
<b>Closing balance</b>	<b>6,120,595</b>	<b>5,377,198</b>
<b>Potential tax benefit at 30%</b>	<b>1,836,179</b>	<b>1,613,159</b>

**15. Trade & other payables**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade payables	2,526,591	1,224,031
Other payables	658,298	708,754
	<b>3,184,889</b>	<b>1,932,785</b>

**Notes to the financial statements  
for the year ended 30 June 2016**

**16. Provisions**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Employee entitlements (note (a))	520,916	450,753
Warranty	-	11,135
	<u><b>520,916</b></u>	<u><b>461,888</b></u>
<b>Non-current</b>		
Employee entitlements – long service leave	<u><b>245,818</b></u>	<u><b>206,419</b></u>

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

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

**17. Contributed equity**

	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Number</b>	<b>Number</b>	<b>\$</b>	<b>\$</b>
<b>Share Capital</b>				
Ordinary shares, fully paid	<u><b>17,714,009</b></u>	<u>17,714,009</u>	<u><b>7,104,700</b></u>	<u>7,104,700</u>

**Movements in ordinary share capital**

<b>Date</b>	<b>Details</b>	<b>Number of shares</b>	<b>Issue price</b>	<b>\$</b>
01 July 2014	Opening balance	17,714,009		7,104,700
30 June 2015	Movement during year	-		-
30 June 2015	Balance	<u>17,714,009</u>		<u>7,104,700</u>
30 June 2016	Movement during year	-		-
30 June 2016	Balance	<u><b>17,714,009</b></u>		<u><b>7,104,700</b></u>



## Notes to the financial statements for the year ended 30 June 2016

### 17. Contributed equity (continued)

#### (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 (2015: Nil) on issue.

#### (c) Capital risk management

The Group manages capital to safeguard its ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders. It aims to maintain an optimal capital structure to reduce the overall cost of capital having regard to the operational and market risks.

The Group's debt and capital include ordinary shares.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, increase borrowings or sell assets.

There are no externally imposed capital requirements on the Group.

### 18. Reserves

	Share Option \$	Foreign Currency Translation \$	Total Reserves \$
<b>At 1 July 2015</b>	89,960	-	89,960
Exchange differences on translating foreign operation	-	2,766	2,766
<b>At 30 June 2016</b>	<b>89,960</b>	<b>2,766</b>	<b>92,726</b>

## Notes to the financial statements for the year ended 30 June 2016

### 19. Remuneration of auditors

	2016 \$	2015 \$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity:		
<b>BDO East Coast Partnership</b>		
<b>Audit and other assurance services</b>		
Audit and review of financial statements	66,593	67,121
<b>Other services</b>		
R&D tax concession services	15,000	15,000
Due diligence	-	18,159
	<b>81,593</b>	<b>100,280</b>

### 20. Commitments for expenditure

	2016 \$	2015 \$
<b>Rental lease commitments in respect of property, plant &amp; equipment under operating lease</b>		
Future rental lease commitments contracted for at balance date but not provided for in the financial statements:		
- Payable no later than one year	773,187	545,778
- Payable later than 1 year but not later than 5 years	879,477	1,200,341
<b>Total operating lease liability</b>	<b>1,652,664</b>	<b>1,746,119</b>

### 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 (2015: \$145,750)
- (b) Performance guarantees provided in respect of contracts amounting to \$nil (2015: \$87,584).

### 22. Related party information

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

2016 – Nil.

2015 – Nil.

## Notes to the financial statements for the year ended 30 June 2016

### 22. Related party information (continued)

#### (b) Key management personnel disclosure

	2016 \$	2015 \$
<b>Aggregate compensation</b>		
Short term employee benefits	461,502	468,802
Post employment benefits	26,100	28,874
	<b>487,602</b>	<b>497,676</b>

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 cash flows from operating activities

	2016 \$	2015 \$
(Loss) after income tax	(704,094)	(713,103)
Depreciation and amortisation	687,636	815,604
Net exchange differences	10,756	(1,129)
Net loss on disposal of non-current assets	212	21,051
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade receivables	(1,014,319)	902,724
(Increase) in other receivables & prepayments	(233,945)	(195,313)
Decrease in bank guarantee term deposit	44,000	190,000
(Increase)/decrease in inventories	(663,236)	216,238
(Increase)/decrease in deferred tax assets	(32,831)	13,689
Increase/(decrease) in trade payables	1,302,560	(400,122)
Increase/(decrease) in other payables	102,319	(204,888)
Increase in provisions	98,427	33,797
(Decrease)/increase in income tax provision	(1,028)	1,029
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(403,543)</b>	<b>679,577</b>

**Notes to the financial statements  
for the year ended 30 June 2016**

**24. Earnings per share**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Basic earnings per share from continuing operations	<b>(0.040)</b>	(0.040)
Diluted earnings per share from continuing operations	<b>(0.040)</b>	(0.040)

**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	<b>17,714,009</b>	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	<b>17,714,009</b>	17,714,009

<b>Reconciliations of earnings used in calculating earnings per share</b>	<b>\$</b>	<b>\$</b>
Basic and diluted earnings per share		
(Loss)/ attributable to the ordinary equity holders of the Company:		
from continuing operations	<b>(704,094)</b>	(713,103)
Earnings used in calculating basic and diluted earnings per share	<b>(704,094)</b>	(713,103)

**25. Parent entity financial information**

**(a) Summary financial information**

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

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Statement of financial position</b>		
Current assets	<b>962,554</b>	997,617
Total assets	<b>8,731,836</b>	8,766,937
Current liabilities	<b>213,324</b>	191,338
Total liabilities	<b>213,324</b>	191,338
<i>Shareholders' equity</i>		
Issued capital	<b>7,104,700</b>	7,104,700
Reserves	<b>89,960</b>	89,960
Retained earnings	<b>1,323,852</b>	1,380,939
Total shareholders' equity	<b>8,518,512</b>	8,575,599
(Loss) for the year	<b>(57,087)</b>	(58,988)
Total comprehensive income for the year	<b>(57,087)</b>	(58,988)

## Notes to the financial statements for the year ended 30 June 2016

### 25. Parent entity financial information (continued)

#### (b) Guarantees entered into by the parent entity

	2016	2015
	\$	\$
Carrying amount included in current liabilities	-	-

#### (c) Contingent liabilities of the parent entity

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

### 26. Financing Arrangements

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

	2016	2015
	\$	\$
<b>Total facilities available</b>		
Bank overdraft	400,000	600,000
Indemnity/guarantee facilities	496,000	946,000
Commercial credit card facilities	70,000	70,000
	<b>966,000</b>	<b>1,616,000</b>
<b>Used at the reporting date</b>		
Indemnity/guarantee facilities	145,750	233,334
Commercial credit card facilities	32,000	30,000
	<b>177,750</b>	<b>263,334</b>

#### 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.

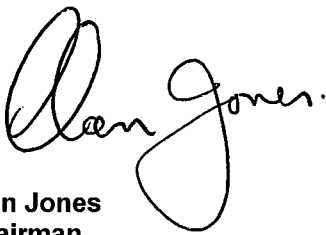
## **Directors' declaration for the financial year ended 30 June 2016**

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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 2016 and of its performance for the year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer as required by section 295A of the Corporations Act 2001.

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



**Alan Jones**  
Chairman

**Sydney**  
**26 August 2016**



Tel: +61 2 9251 4100  
Fax: +61 2 9240 9821  
[www.bdo.com.au](http://www.bdo.com.au)

Level 11, 1 Margaret St  
Sydney NSW 2000  
Australia

## 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 2016, 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 2016 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 11 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

A handwritten signature in black ink, appearing to read 'AM', with a horizontal line underneath.

Arthur Milner  
Partner

Sydney, 26 August 2016



**Air Change International Limited**  
**Additional Information for National Stock Exchange of Australia**  
**as at 17 August 2016**

Additional information required by the NSX Listing Rules clause 6.9 and not disclosed elsewhere in this report is set out below.

**1. COMPOSITION OF THE GROUP**

<b>Subsidiaries</b>	<b>Principal place of business/ Country of Incorporation</b>	<b>Main Business</b>	<b>Percentage Owned (%) 2016</b>	<b>Percentage Owned (%) 2015</b>
Air Change Pty Limited	Australia	Intermediate holding company and patent holder	100	100
Air Change Australia Pty Limited	Australia	Design, manufacture and sales of HVAC equipment	100	100
Summit Industrial Chillers Pty Limited	Australia	Sale of process cooling equipment	100	100
Air Change (SEA) Pte Limited	Singapore	Represent Air Change Group in South East Asia	100	100
Fan Coil Sales Pty Limited	Australia	Sale of air handler and fan coil	100	100
AFS Manufacturing Sdn Bhd	Malaysia	HVAC manufacturer	100	100

**2. HISTORICAL SUMMARY TABLE**

<b>Item</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Profit / (Loss)	(704,094)	(713,103)	364,325	1,223,873	847,388
Assets	12,914,205	12,274,062	13,739,310	14,289,345	10,709,649
Liabilities	3,968,223	2,626,752	3,378,897	4,293,257	1,937,434

**3. TEN LARGEST SHAREHOLDERS**

<b>Name</b>	<b>No. of Ordinary Shares Held</b>	<b>Percentage of Issued Shares</b>
Sun Hung Kai Investment Services Ltd – Client a/c	6,529,420	36.86%
Mr Raymond Neil Fimeri	2,566,500	14.49%
Neilor Nominees Pty Ltd	2,233,500	12.61%
Mr Alan Jones	938,000	5.30%
DMM Investments (NSW) Pty Ltd	913,537	5.16%
Citicorp Nominees Pty Limited	757,650	4.28%
Phoenix Properties International Pty Ltd	261,087	1.47%
Mr Christopher Lindsay Biggins	215,530	1.22%
Mr Gregory Creighton Sproule	171,807	0.97%
Tonda Pty Ltd	153,284	0.87%