

## Appendix 3

### Air Change International Limited

ABN 14 087 737 068

### Half yearly report Period ended 31 December 2016

#### Results for Announcement to the Market

Corresponding period is 31 December 2015

Total revenue from ordinary activities	up/down	22.98%	to	\$A'000 9,875
Profit/ (loss) from ordinary activities after tax attributable to members	up/down	54.25%	to	(328)
Net profit/ (loss) for the period attributable to members	up/down	54.25%	to	(328)

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	n/a	-
Interim dividend	n/a	-

Record date for determining entitlements to the interim dividend  
N/A

n/a
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#### Explanation of Revenue

Refer attached half-year report

#### Explanation of Profit from ordinary activities after tax

Refer attached half-year report

#### Explanation of Net Profit

Refer attached half-year report

#### NTA Backing

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary share	\$0.208	\$0.201

This report is based on accounts which have been reviewed by the auditors of Air Change International Limited. A report of their review appears in the half-year financial report.

# Air Change International Limited

ACN 087 737 068

## Half-year Report

For the half-year ended 31 December 2016

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<b>Directors:</b>	Alan Stephen Jones (Non-Executive Chairman) John Michael Langley (Independent Non-Executive) Raymond Neil Fimeri (Executive Director)
<b>Secretary:</b>	Robert Lees
<b>Principal &amp; Registered Office:</b>	2 Ashford Avenue Milperra NSW 2214 Tel: (02) 8774 1488 Fax: (02) 8774 1490 e-mail: <a href="mailto:invest@airchange.com.au">invest@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 Level 11, 1 Margaret St Sydney NSW 2000
<b>Bankers:</b>	ANZ Level 4, 20 Smith St Parramatta NSW 2150
<b>Solicitors:</b>	Addison Lawyers Level 12 60 Carrington Street Sydney NSW 2000
<b>Stock Exchange Listing:</b>	Air Change International Limited 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

## **DIRECTORS' REPORT**

Your directors present their report on the Air Change International Group, consisting of Air Change International Limited ("the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

### **Directors and Officers**

The following persons were directors of the Company at any time during the half year and up to the date of this report:

Alan Stephen Jones (Chairman, Non-Executive director)

John Michael Langley (Independent Non-Executive Director)

Raymond Neil Fimeri (Executive Director)

### **Principal Activities**

The principal activities of the Air Change International Group remain the design, manufacture and sales of heating, cooling and ventilation equipment for industrial, commercial and institutional buildings and industrial process cooling. The operations are organised into three business segments:

- dedicated outdoor air systems (DOAS) for the supply of fresh air to buildings;
- air handling and fan coil units (ahu's & fcu's) for building heating and cooling; and
- industrial process cooling systems.

### **Review of Operations**

Sales for the past six months to 31 December 2016 were up 23% from the corresponding period of the last financial year to \$9.875 million which was in line with revenue in the first six months of the 2016 calendar year. This reflected strong demand for dedicated outdoor air systems, ahu's and fcu's but continuing weakness in the industrial process cooling segment of the operation.

Process cooling orders on hand at present, whilst low, are at their highest level in 18 months and enquiry levels are strong reflecting the increased activity in the mining sector.

As at mid February 2017, forward orders stood at \$7.1 million with a solid pipeline of work to quote over the coming months. This is down from the record figure of \$9.7 million at the same time last year which was abnormally high due to two large project orders received that had not commenced.

After-tax profit improved from a loss of (\$717,000) in the period July to December 2015 to a loss of (\$328,000) in the latest half year.

This improvement in sales revenue and net income reflect the increased manufacturing capacity and price competitiveness that has followed from the start-up of Malaysian manufacturing operations. Continued improvement in trading is expected as this operation expands further.

The half year witnessed the first commercial order for a low temperature dehumidification system and a hybrid precision control unit, both a result of the last 18 months research and development. Both of these research and development products were highlighted in the last annual report.

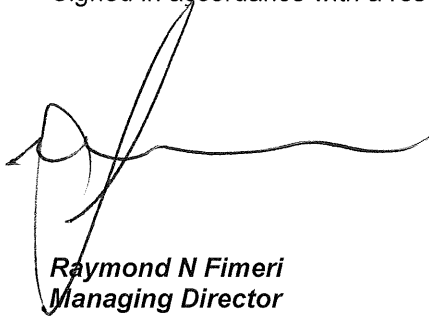
**Dividends**

The Directors do not recommend the payment of a dividend at this time.

**Auditor's independence declaration**

A copy of auditor's independence declaration as required under section 307C of the Corporation Act 2001 is set out on page 5.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a horizontal line that tapers off to the right.

**Raymond N Fimeri**  
**Managing Director**

**Sydney**  
**27 February 2017**

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

As lead auditor for the review of Air Change International Limited for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Arthur Milner  
Partner

**BDO East Coast Partnership**

Sydney, 27 February 2017

**Air Change International Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**for half year ended 31 December 2016**

		<b>Half-year</b>	
	<b>Note</b>	<b>31 December 2016 \$'000</b>	<b>31 December 2015 \$'000</b>
Revenue		9,864	7,994
Other income		11	36
<b>Total revenue</b>		<b>9,875</b>	<b>8,030</b>
Changes in inventories		365	153
Raw materials and consumables used		(5,865)	(4,214)
Administration costs		(395)	(474)
Occupancy costs		(492)	(446)
Employee benefits expenses		(3,266)	(3,346)
Depreciation and amortisation expenses		(330)	(306)
Finance costs		(60)	(9)
Other expenses		(179)	(107)
<b>(Loss) before income tax</b>		<b>(347)</b>	<b>(719)</b>
Income tax benefit	6	19	2
<b>Net (loss) for the period</b>		<b>(328)</b>	<b>(717)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations		53	-
<b>Other comprehensive income for the period, net of tax</b>		<b>53</b>	<b>-</b>
<b>Total comprehensive (loss) for the period</b>		<b>(275)</b>	<b>(717)</b>
Basic earnings per share		<b>(0.019)</b>	<b>(\$0.040)</b>
Diluted earnings per share		<b>(0.019)</b>	<b>(\$0.040)</b>

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

**Air Change International Limited**  
**Consolidated statement of financial position**  
**as at 31 December 2016**

		31 December 2016	30 June 2016
	Note	\$'000	\$'000
<b>Current assets</b>			
Cash and cash equivalents		346	145
Trade & other receivables	7	3,881	3,921
Inventories		2,573	2,207
<b>Total current assets</b>		<b>6,800</b>	<b>6,273</b>
<b>Non-current assets</b>			
Plant, equipment and leasehold improvements		875	1,011
Rental bonds		60	64
Intangible assets	8	4,986	5,180
Deferred tax assets		328	308
Trade & other receivables		224	78
<b>Total non-current assets</b>		<b>6,473</b>	<b>6,641</b>
<b>TOTAL ASSETS</b>		<b>13,273</b>	<b>12,914</b>
<b>Current liabilities</b>			
Trade & other payables		3,395	3,185
Borrowings	9	352	-
Other liabilities		22	11
Provisions		553	521
<b>Total current liabilities</b>		<b>4,322</b>	<b>3,717</b>
<b>Non-current liabilities</b>			
Other liabilities		14	5
Provisions		265	246
<b>Total non-current liabilities</b>		<b>279</b>	<b>251</b>
<b>TOTAL LIABILITIES</b>		<b>4,601</b>	<b>3,968</b>
<b>Net Assets</b>		<b>8,672</b>	<b>8,946</b>
<b>Equity</b>			
Contributed equity	4	7,105	7,105
Reserves		146	93
Retained earnings		1,421	1,748
<b>Total Equity</b>		<b>8,672</b>	<b>8,946</b>

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes*



**Air Change International Limited**  
**Consolidated statement of changes in equity**  
**for half year ended 31 December 2016**

**HALF-YEAR ENDED 31 December 2016**

	<b>Issued capital</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
As at 1 July 2016	7,105	93	1,749	8,947
(Loss) for the period	-	-	(328)	(328)
Other comprehensive income, net of tax	-	53	-	53
<b>Total comprehensive income/(loss) for the period</b>	-	53	(328)	(275)
<b>As at 31 December 2016</b>	<b>7,105</b>	<b>146</b>	<b>1,421</b>	<b>8,672</b>

**HALF-YEAR ENDED 31 December 2015**

	<b>Issued capital</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
As at 1 July 2015	7,105	90	2,452	9,647
(Loss) for the period	-	-	(717)	(717)
Other comprehensive income, net of tax	-	-	-	-
<b>Total comprehensive (loss) for the period</b>	-	-	(717)	(717)
<b>As at 31 December 2015</b>	<b>7,105</b>	<b>90</b>	<b>1,735</b>	<b>8,930</b>

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes*

**Air Change International Limited**  
**Consolidated statement of cash flows**  
**for the half-year ended 31 December 2016**

	Note	31 December 2016 \$'000	31 December 2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (Inclusive of Goods and Services Tax)		11,013	8,422
Payments to suppliers, employees and creditors (Inclusive of Goods and Services Tax)		(11,088)	(8,744)
Interest received		-	4
Interest and other costs of finance paid		(60)	(9)
Income taxes paid		-	(1)
<b>Net cash (outflow) from operating activities</b>		<b>(135)</b>	<b>(328)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for acquisition of intellectual property	7	-	(4)
Purchase of plant, equipment & leasehold improvements		(19)	(288)
Proceeds from disposal of plant & equipment		-	18
<b>Net cash (outflow) from investing activities</b>		<b>(19)</b>	<b>(274)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		4,276	-
Repayment of borrowings		(3,923)	-
<b>Net cash inflow from financing activities</b>		<b>353</b>	<b>-</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>		<b>199</b>	<b>(602)</b>
Cash at the beginning of the reporting period		145	941
Exchange differences on cash & cash equivalents		2	1
<b>Cash at the end of the reporting period</b>		<b>346</b>	<b>340</b>

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

**Air Change International Limited**  
**Notes to and forming part of the financial statements**  
**for the half-year ended 31 December 2016**

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**Note 1.      Basis of preparation of half-year report**

This general purpose financial report for the interim half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001, as appropriate for for-profit oriented entities.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Air Change International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

**New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 affected any amounts recognised in the current period or any prior period financial statements and are not likely to affect future period financial statements.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**Air Change International Limited**  
**Notes to and forming part of the financial statements**  
**for the half-year ended 31 December 2016**

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**Note 2. Operating Segments**

**Operating segment information**

	Segment Revenues		Segment Results	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
<b>Heating, cooling &amp; ventilation</b>	9,875	8,030	(347)	(719)
Operating (loss) before income tax			(347)	(719)
Operating (loss) after income tax benefit			(328)	(717)
Net (loss) attributable to members of Air Change International Limited			(328)	(717)

**Note 3. Dividends**

There were no dividends paid during the period.

**Note 4. Equity securities on issue**

	December 2016 Shares	June 2016 Shares	December 2016 \$'000	June 2016 \$'000
<b>Share Capital</b>				
Ordinary shares, fully paid	17,714,009	17,714,009	7,105	7,105

**Note 5. Contingent liabilities**

**2016 and 2015**

**Bank Guarantee**

A bank guarantee of \$146,000 has been provided in relation to an operating lease rental agreement entered in the normal course of business which is supported by a bank term deposit made in September 2016.

**Air Change International Limited**  
**Notes to and forming part of the financial statements**  
**for the half-year ended 31 December 2016**

**Note 6.      Income tax expense**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
(Loss) from ordinary activities before income tax expense	(347)	(719)
Income tax calculated at 30% (2015 – 30%)	(104)	(216)
Tax effect of amounts not deductible in calculating taxable income		
Other	7	6
Prior year under provision of income tax	-	3
	<b>(97)</b>	<b>(207)</b>
Current year losses not recognised	146	211
Previously unrecognised tax losses now recouped	(71)	(3)
Temporary differences not recognised	3	(3)
<b>Income tax (benefit)</b>	<b>(19)</b>	<b>(2)</b>

**Note 7.      Trade receivable – dispute**

A back to back claim for damages has been made against the Company which has caused the suspension of payment of a trade receivable in the amount of \$175,168. This claim is part of a wider contractual dispute between our client and their head contractor and will be pursued vigorously in arbitration. We have set aside a specific accrual of \$30,000 to settle this dispute and at this stage any further shortfall will be adequately covered by the allowance for doubtful receivables.

**Air Change International Limited**  
**Notes to and forming part of the financial statements**  
**for the half-year ended 31 December 2016**

**Note 8. Intangible assets**

Non-current asset	Agency Agreements	Design & Intellectual Property	Goodwill	Patents	Total
Year ended 30 June 2016					
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value at 1 July 2015	20	71	3,524	1,944	5,559
Additions	-	-	-	8	8
Amortisation charge	-	-	-	(387)	(387)
Carrying value at 30 June 2016	20	71	3,524	1,565	5,180
<b>At 30 June 2016</b>					
Cost	20	71	3,524	3,582	7,197
Accumulated amortisation	-	-	-	(2,017)	(2,017)
<b>Net book amount</b>	<b>20</b>	<b>71</b>	<b>3,524</b>	<b>1,565</b>	<b>5,180</b>
Non-current asset	Agency Agreements	Design & Intellectual Property	Goodwill	Patents	Total
Period ended 31 December 2016					
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value at 1 July 2016	20	71	3,524	1,565	5,180
Additions	-	-	-	-	-
Amortisation charge	-	-	-	(194)	(194)
Carrying value at 31 December 2016	20	71	3,524	1,371	4,986
<b>At 31 December 2016</b>					
Cost	20	71	3,524	3,582	7,197
Accumulated amortisation	-	-	-	(2,211)	(2,211)
<b>Net book amount</b>	<b>20</b>	<b>71</b>	<b>3,524</b>	<b>1,371</b>	<b>4,986</b>

**Note 9. Borrowing**

The Group has a finance facility secured by a general security deed over present and future property of the Group companies. The facility limit is \$1,300,000 subject to the available qualifying receivable assets.

**Note 10.      Events occurring after reporting date**

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 11.      Rounding of amounts to the nearest thousand dollars**

The Company satisfies the requirements of ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to "rounding off" of amounts in the directors' report and the financial statements to the nearest thousand dollars.

Amounts have been rounded off in the directors' report and the financial statements in accordance with that legislative instrument.

**Air Change International Limited**  
**Directors' declaration**  
**for half-year ended 31 December 2016**

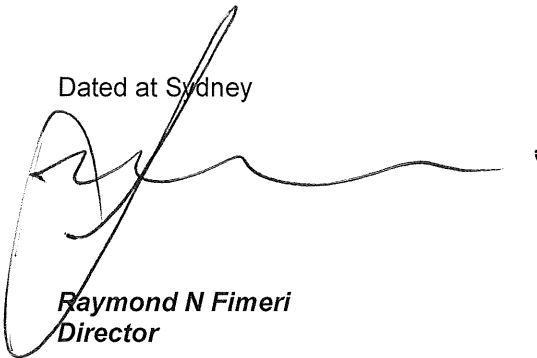
**DIRECTORS' DECLARATION**

The directors of the company declare that:

- (a) The financial statements and notes set out on pages 6 to 14 are in accordance with the Corporations Act 2001 and:
  - (i) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.
- (b) 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.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to section 303(5) of the Corporation Act 2001, and is signed for and on behalf of the directors by

Dated at Sydney

A handwritten signature in black ink, appearing to read 'Raymond N Fimeri', is written over the printed name and title. The signature is fluid and cursive, with a large loop at the beginning and a long, wavy tail.

**Raymond N Fimeri**  
**Director**

**Sydney**  
**27 February 2017**



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Air Change International Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Air Change International Limited, which comprises the consolidated statement of financial position as at 31 December 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Air Change International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Independence

In conducting our review, 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 review report.



### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Air Change International Limited is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO East Coast Partnership

A handwritten signature in blue ink, appearing to read 'AM', is written over the printed name 'Arthur Milner'.

Arthur Milner  
Partner

Sydney, 27 February 2017