

Appendix 3

Air Change International Limited

ABN 14 087 737 068

Half yearly report Period ended 31 December 2017

Results for Announcement to the Market

Corresponding period is 31 December 2016

Total revenue & other income from ordinary activities	up/down	7.35%	to	\$A'000 9,149
Profit/ (loss) from ordinary activities after tax attributable to members	up/down	2.13%	to	(321)
Net profit/ (loss) for the period attributable to members	up/down	2.13%	to	(321)

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

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	\$0.186	\$0.208

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 2017

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Directors:	Alan Stephen Jones (Non-Executive Chairman) John Michael Langley (Independent Non-Executive) Raymond Neil Fimeri (Executive Director)
Secretary:	Robert Lees
Principal & Registered Office:	2 Ashford Avenue Milperra NSW 2214 Tel: (02) 8774 1488 Fax: (02) 8774 1490 e-mail: invest@airchange.com.au
Share Registrar:	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115
Auditors:	BDO East Coast Partnership Level 11, 1 Margaret St Sydney NSW 2000
Bankers:	ANZ Level 4, 20 Smith St Parramatta NSW 2150
Solicitors:	Addison Lawyers Level 12 60 Carrington Street Sydney NSW 2000
Stock Exchange Listing:	Air Change International Limited shares are listed on the National Stock Exchange of Australia Limited (Code: ordinary shares "AC1")
Company number:	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 2017.

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 & Operational Structures

The principal activity of the Air Change International Group remain the design, manufacture and sale of heating, cooling and ventilation equipment for industrial, commercial and institutional buildings and industrial processes. The operations are organised into three operational business units:

- dedicated outdoor air systems (DOAS) for building ventilation with temperature and humidity control;
- air handling and fan coil units (ahu's & fcu's) to heat and cool building elements; and
- cooling for industrial, food and manufacturing processes.

The Group has manufacturing operations in Australia and Malaysia.

Review of Operations

Sales revenue for the half year to 31 December 2017 was down 7.8% from the corresponding period of the previous financial year to \$9.098 million which was in line with revenue generated in the six months to 30 June 2017. Revenue for the period was adversely impacted by a delay in delivery of large industrial process cooling system and air conditioning units that experienced shipping delays from the Malaysian factory. If these items had been delivered, revenue would have been similar to the preceding year.

More generally, ahu and fcu sales were down because two major contracts were completed early in the period. This decrease in ahu and fcu revenue was partially offset by an increase in industrial cooling sales with DOAS sales revenue down slightly due to shipping delays as noted.

Process cooling sales for this financial year are projected to be significantly better than the previous financial year reflecting a pick up in mining activity.

Orders currently on hand are approximately \$7.0 million which is lower than at the same time last year due to the completion of two major ahu / fcu contracts while quote levels are very strong indicating a likely increase in activity later in 2018.

The Group after-tax loss improved slightly from (\$328,000) in the period July to December 2016 to a loss of (\$321,000) in the latest half year despite the lower sales revenue. Gross profit margins continue to be impacted by intense price competition for the Group's basic ventilation products.

Our research and development effort was recognised and rewarded with the Company's new low temperature dehumidification unit being awarded the AIRAH product of the Year for 2017.

Air Change International Limited
Directors' report for half year ended 31 December 2017

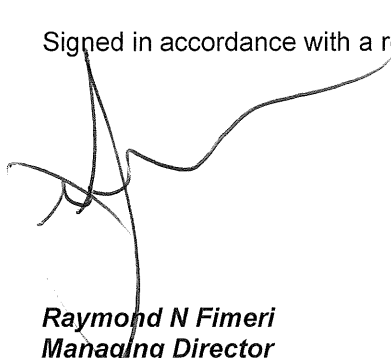
Dividends

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, appearing to read 'Raymond N Fimeri', is written over the printed name and title.

Raymond N Fimeri
Managing Director

Sydney
27 February 2018



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DECLARATION OF INDEPENDENCE BY RYAN POLLETT 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 2017, 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.

A handwritten signature in black ink that reads 'Ryan Pollett'. The signature is written in a cursive, flowing style.

Ryan Pollett
Partner

BDO East Coast Partnership

Sydney, 27 February 2018

Air Change International Limited
Consolidated statement of profit or loss and other comprehensive income
for half year ended 31 December 2017

		Half-year	
	Note	31 December 2017 \$'000	31 December 2016 \$'000
Revenue		9,098	9,864
Other income		51	11
Total revenue & other income		9,149	9,875
Changes in inventories		(28)	365
Raw materials and consumables used		(4,871)	(5,865)
Administration costs		(441)	(395)
Occupancy costs		(540)	(492)
Employee benefits expenses		(3,132)	(3,266)
Depreciation and amortisation expenses		(291)	(330)
Finance costs		(46)	(60)
Other expenses		(129)	(179)
(Loss) before income tax		(329)	(347)
Income tax benefit	6	8	19
Net (loss) for the period		(321)	(328)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations		(22)	53
Other comprehensive income for the period, net of tax		(22)	53
Total comprehensive (loss) for the period		(343)	(275)
Basic earnings per share		(\$0.018)	(\$0.019)
Diluted earnings per share		(\$0.018)	(\$0.019)

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 2017

		31 December 2017	30 June 2017
	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents		182	240
Trade & other receivables	7	3,606	2,955
Inventories		2,587	2,614
Total current assets		6,375	5,809
Non-current assets			
Plant, equipment and leasehold improvements		697	771
Rental bonds		60	61
Intangible assets	8	3,605	3,799
Deferred tax assets		442	434
Other receivables		138	283
Total non-current assets		4,942	5,348
TOTAL ASSETS		11,317	11,157
Current liabilities			
Trade & other payables		2,916	2,698
Borrowings	9	543	303
Other liabilities		2	20
Provisions		841	733
Total current liabilities		4,302	3,754
Non-current liabilities			
Other liabilities		-	5
Provisions		114	154
Total non-current liabilities		114	159
TOTAL LIABILITIES		4,416	3,913
Net Assets		6,901	7,244
Equity			
Contributed equity	4	7,105	7,105
Reserves		73	95
Retained earnings		(277)	44
Total Equity		6,901	7,244

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 2017

HALF-YEAR ENDED 31 December 2017

	Issued capital	Reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2017	7,105	95	44	7,244
(Loss) for the period	-	-	(321)	(321)
Other comprehensive income, net of tax	-	(22)	-	(22)
Total comprehensive income/(loss) for the period	-	(22)	(321)	(343)
As at 31 December 2017	7,105	73	(277)	6,901

HALF-YEAR ENDED 31 December 2016

	Issued capital	Reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000
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
Total comprehensive (loss) for the period	-	53	(328)	(275)
As at 31 December 2016	7,105	146	1,421	8,672

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 2017

	Note	31 December 2017 \$'000	31 December 2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		9,564	11,013
Payments to suppliers, employees and creditors		(9,801)	(11,088)
Interest received		2	-
Finance costs		(46)	(60)
Income tax paid		(1)	-
Net cash (outflow) from operating activities		(282)	(135)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for acquisition of patents & intellectual property	8	-	-
Purchase of plant, equipment & leasehold improvements		(15)	(19)
Proceeds from disposal of plant & equipment		-	-
Net cash (outflow) from investing activities		(15)	(19)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		6,775	4,276
Repayment of borrowings		(6,535)	(3,923)
Net cash inflow from financing activities		240	353
NET (DECREASE)/ INCREASE IN CASH HELD		(57)	199
Cash at the beginning of the reporting period		240	145
Exchange differences on cash & cash equivalents		(1)	2
Cash at the end of the reporting period		182	346

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

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2017 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 2017 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 2017 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 2017

Note 2. Operating Segments

Operating segment information

	Segment Revenues		Segment Results	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Heating, cooling & ventilation	9,149	9,875	(329)	(347)
Operating (loss) before income tax			(329)	(347)
Operating (loss) after income tax benefit			(321)	(328)
Net (loss) attributable to members of Air Change International Limited			(321)	(328)

Note 3. Dividends

There were no dividends paid during the period.

Note 4. Equity securities on issue

	December 2017 Shares	June 2017 Shares	December 2017 \$'000	June 2017 \$'000
Share Capital				
Ordinary shares, fully paid	17,714,009	17,714,009	7,105	7,105

Note 5. Contingent liabilities

2017 and 2016

Bank Guarantees

Bank guarantees have been provided in relation to an operating lease rental agreement entered in the normal course of business of \$146,000 (2016: \$146,000), \$30,000 in relation to the commercial credit card (2016: \$30,000), \$22,117 in relation to operating license (2016: 21,798) and \$28,000 in relation to performance guarantee in respect of contract (2016: Nil), all are supported by term deposits.

2017

Notice of claim

A Company subsidiary has been issued with a notice claiming it received a preferential payment of \$86,647 in respect of a payment it received in early 2014. This claim will be vigorously defended.

Air Change International Limited
Notes to and forming part of the financial statements
for the half-year ended 31 December 2017

Note 6. Income tax expense

	2017	2016
	\$'000	\$'000
(Loss) from ordinary activities before income tax expense	(329)	(347)
Income tax calculated at 27.5% (2016 – 30%)	(91)	(104)
Tax effect of amounts not deductible in calculating taxable income		
Other	12	7
Prior year under provision of income tax	-	-
	(79)	(97)
Taxable losses not recognised	74	75
Temporary differences not recognised	(1)	3
Recoupment of foreign subsidiary's tax losses not previously recognised	(2)	-
Income tax (benefit)	(8)	(19)

Note 7. Trade receivable – dispute

A back to back claim for damages has been made against a subsidiary of the Company which has caused the suspension of payment of a trade receivable and the seizure of a performance bond with a total value of \$175,168. This claim is part of a wider contractual dispute between our direct client and their head contractor. This wider matter is now subject to arbitration and litigation proceedings which has caused the suspension of the Company's claim until the wider matter is resolved. Whilst we believe that we are legally entitled to approximately 90% of this amount, legal advice is that because of the complexity of the matter, the legal representation cost of arbitration will substantially exceed the claim. Whilst this claim will be vigorously pursued using Company resources, it is deemed prudent to set aside the total amount of our claim until this matter has been finally resolved and hence the receivable has been provided for in full as at 30 June 2017 and 31 December 2017.

Air Change International Limited
Notes to and forming part of the financial statements
for the half-year ended 31 December 2017

Note 8. Intangible assets

Non-current asset	Agency	Design &	Goodwill	Patents	Total
Year ended 30 June 2017	Agreements	Intellectual			
	\$'000	Property	\$'000	\$'000	\$'000
Carrying value at 1 July 2016	20	71	3,524	1,565	5,180
Additions	-	-	-	7	7
Impairment charge	-	-	(1,000)	-	(1,000)
Amortisation charge	-	-		(388)	(388)
Carrying value at 30 June 2017	20	71	2,524	1,184	3,799

At 30 June 2017

Cost	20	71	3,524	3,589	7,204
Accumulated amortisation & impairment	-	-	(1,000)	(2,405)	(3,405)
Net book amount	20	71	2,524	1,184	3,799

Non-current asset	Agency	Design &	Goodwill	Patents	Total
Period ended 31 December 2017	Agreements	Intellectual			
	\$'000	Property	\$'000	\$'000	\$'000
Carrying value at 1 July 2017	20	71	2,524	1,184	3,799
Additions	-	-	-	-	-
Amortisation charge	-	-	-	(194)	(194)
Carrying value at 31 December 2017	20	71	2,524	990	3,605

At 31 December 2017

Cost	20	71	2,524	3,589	6,204
Accumulated amortisation	-	-	-	(2,599)	(2,599)
Net book amount	20	71	2,524	990	3,605

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 2017 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 2017

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 2017 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



Raymond N Fimeri
Director

Sydney
27 February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Air Change International Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Air Change International Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, 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 then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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 Group's financial position as at 31 December 2017 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO
Ryan Pollett

Ryan Pollett
Partner

Sydney, 27 February 2018