

Appendix 3

Air Change International Limited

ABN 14 087 737 068

Half yearly report

Period ended 31 December 2022

Results for Announcement to the Market

Corresponding period is 31 December 2021

Total revenue & other income from ordinary activities	up/down	24.13%	to	\$A'000 10,197
Profit from ordinary activities after tax attributable to members	up/down	n/a%	to	426
Net profit for the period attributable to members	up/down	n/a%	to	426
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	\$0.173	\$0.195

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 2022

Contents

Corporate Directory	2
Directors' Report	3
Auditor's Independence Declaration	6
Consolidated Statement of Profit or Loss & Other Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Half-Year Report	11
Directors' Declaration	16
Independent Auditor's Review Report	17

Directors:	Alan Stephen Jones (Non-Executive Chairman) Raymond Neil Fimeri (Executive Director) Peter Anthony Curry (Independent Non-Executive Director)
Secretary:	Robert Lees
Principal & Registered Office:	11 Broadhurst Road Ingleburn NSW 2565 Tel: (02) 8774 1400 e-mail: invest@airchange.com.au
Share Registrar:	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115
Auditors:	BDO Audit Pty Ltd ("BDO") 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 2022 ("the Group").

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)

Raymond Neil Fimeri (Executive Director)

Peter Anthony Curry (Independent Non-Executive Director)

Principal Activities & Operational Structure

The principal activity of the Group is the design, manufacture and sale of heating, cooling and ventilation equipment for industrial, commercial and institutional buildings and industrial processes. The Group has four principal brand identities:

Air Change	dehumidification and dedicated outdoor air systems (DOAS) for building ventilation with precise temperature and humidity control
Dunnair	water and air cooled packaged air conditioning equipment
Fan Coil Industries	air handling and fan coil units (ahu's & fcu's) to heat and cool building spaces using hot/cold water coils
Summit Industrial Chillers	process cooling systems for industrial, food and manufacturing processes.

The Group operates in Australasia and South East Asia with:

- sales offices in NSW, Victoria and Queensland;
- distribution agents in South Australia, West Australia, Northern Territory, Tasmania, New Zealand, Singapore and Thailand;
- engineering design, research and administration in Sydney, Australia;
- manufacturing operations in Sydney, Australia and Johor, Malaysia; and
- component and sub-assembly suppliers principally from China, Malaysia, Thailand and Europe.

Review of Operations for half year to 31 December 2022

As detailed in the 2022 Annual Report, the Group reported a significant loss for the financial year 2021/22 principally due to a shortage of critical parts which prevented the completion of product manufacture and caused a build up in inventory and a decline in sales revenue.

Staff shortages and movement control restrictions during this same period also contributed to manufacturing delays but parts availability was the principal cause of delay and revenue decline.

As a result, sales revenue for the half year to 31 December 2021 declined by 19.5% compared to the corresponding previous half with further falls in the second half to 30 June 2022.

Parts supply began to improve in the last quarter of 2022 and is now almost back to pre-pandemic levels, with minor exceptions.

Consequently, revenue increased to \$10.16 million in this latest half, up from \$7.77 million in the same period to 31 December 2021, resulting in a pre-tax profit of \$374k compared to a loss of \$671k in the same period last year.

Depreciation and amortisation expenses for this last half year were \$71k. This has decreased substantially from previous periods as most patent costs have now been fully amortised.

Events that have influenced operations in the half year to 31 December 2022 include:

- Raw material and component availability improvements with current shortages impacting only a few specialised items. Alternate suppliers have been sourced for these parts in the near term;
- Company workforce availability has improved with less time lost due to Covid impacts and movement restrictions. Both skilled and semi-skilled labour remain difficult to source but this has improved marginally since the factory re-location from Milperra to Ingleburn in NSW.
- Raw material and component prices would appear to have now stabilised in US\$ and Euro currencies. Financial Year 2021/22 saw increases in raw material and component prices averaging 20 - 25% with some specialised parts rising by around 50%. Almost all of the orders taken before these price increases have now been completed and shipped with new orders reflecting the higher input costs.
- Freight delays have diminished substantially with shipping times for most containers returning to pre-pandemic delivery schedules. There are occasional delays but these now effect less than 10% of our inbound container traffic.
- Freight prices have fallen significantly this past 6 months with container shipping rates falling by around 80% from their pandemic peak. This has significantly increased the competitiveness of the Malaysian factory operation for products supplied to Australia and New Zealand.
- The fall in the A\$ during the 6 months to December 2022 impacted profitability during this last half year.
The appreciation in late 2022 and early 2023 will improve the competitiveness of the Malaysian factory and lower the cost of imported raw materials and components.
- New production equipment installed in the Malaysian factory in late 2021 is now fully operational. This equipment has increased the productive capacity and lowered the manufacturing cost of a number of product types.
- Orders held at 31 December 2022 were approximately \$10 million.
- Sales enquiries slowed in late 2022 but are expected to pick up later in the third or fourth quarters of this FY because of the high number of projects now at the consultant design stage.
- The availability of labour continues to restrict the output of manufacturing operations in Australia and thus the type of work that is pursued. Certain product type orders are not competitively targeted as there is insufficient labour available to complete their design and manufacture in a timely manner.
- The wind back of Covid restrictions in China in late 2022 with the associated rise in Covid cases, has interrupted part and component production and will impact deliveries in the first quarter of 2023.
We anticipate that this will improve after the Chinese New Year holidays.

The pandemic has resulted in inventory levels increasing substantially. Components and parts are sourced when available and held in higher quantities because availability is no longer guaranteed.

This has had a major impact on Group cashflow.

Whilst the outlook for the second half year is still uncertain, overall performance is predicted to be better than the same period last year.

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 6.

Signed in accordance with a resolution of the Directors.



Raymond N Fimeri
Managing Director

Sydney
10 March 2023



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DECLARATION OF INDEPENDENCE BY IAN HOOPER TO THE DIRECTORS OF AIR CHANGE INTERNATIONAL LIMITED

As lead auditor for the review of Air Change International Limited for the half-year 31 December 2022, 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.

Ian Hooper
Director

BDO Audit Pty Ltd

Sydney, 10 March 2023

Air Change International Limited
Consolidated statement of profit or loss and other comprehensive income
for half year ended 31 December 2022

		Half-year	
	Note	31 December 2022 \$'000	31 December 2021 \$'000
Revenue		10,158	7,767
Other income		39	448
Total revenue & other income		10,197	8,215
Changes in inventories		672	878
Raw materials and consumables used		(6,312)	(5,715)
Administration costs		(361)	(336)
Occupancy costs		(110)	(102)
Employee benefits expenses		(2,889)	(2,886)
Depreciation and amortisation expenses		(71)	(110)
Depreciation on right-of-use assets		(307)	(329)
Finance costs		(243)	(59)
Other expenses		(202)	(227)
Profit/ (loss) before income tax		374	(671)
Income tax benefit	6	52	17
Net profit/ (loss) for the period		426	(654)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations		5	(15)
Other comprehensive income/ (loss) for the period, net of tax		5	(15)
Total comprehensive income/ (loss) for the period		431	(669)
Basic earnings per share		\$0.024	(\$0.037)
Diluted earnings per share		\$0.024	(\$0.037)

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 2022

		31 December 2022	30 June 2022
	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents		108	86
Trade & other receivables		2,998	2,502
Inventories		4,886	4,199
Total current assets		7,992	6,787
Non-current assets			
Plant, equipment, fixtures and fittings		486	530
Right-of-use assets		4,228	4,492
Rental bonds & term deposit		310	310
Intangible assets	7	2,908	2,908
Deferred tax assets		429	377
Other receivables		52	102
Total non-current assets		8,413	8,719
TOTAL ASSETS		16,405	15,506
Current liabilities			
Trade & other payables		3,405	3,363
Borrowings	8	1,337	817
Lease liabilities		448	421
Employee entitlements		1,222	1,157
Total current liabilities		6,412	5,758
Non-current liabilities			
Other payables		17	26
Borrowings	8	-	3
Lease liabilities		3,967	4,133
Employee entitlements		31	39
Make good provision- right-of-use assets		13	13
Total non-current liabilities		4,028	4,214
TOTAL LIABILITIES		10,440	9,972
Net Assets		5,965	5,534
Equity			
Contributed equity	4	7,105	7,105
Reserves		104	99
Accumulated losses		(1,244)	(1,670)
Total Equity		5,965	5,534

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 2022

HALF-YEAR ENDED 31 December 2022

	Issued capital	Reserves	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2022	7,105	99	(1,670)	5,534
Profit for the period	-	-	426	426
Other comprehensive income, net of tax	-	5	-	5
Total comprehensive income for the period	-	5	426	431
As at 31 December 2022	7,105	104	(1,244)	5,965

HALF-YEAR ENDED 31 December 2021

	Issued capital	Reserves	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2021	7,105	104	(148)	7,061
(Loss) for the period	-	-	(654)	(654)
Other comprehensive (loss), net of tax	-	(15)	-	(15)
Total comprehensive (loss) for the period	-	(15)	(654)	(669)
As at 31 December 2021	7,105	89	(802)	6,392

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 2022

	Note	31 December 2022 \$'000	31 December 2021 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		10,194	10,942
Payments to suppliers, employees and creditors		(10,214)	(10,247)
Finance costs		(243)	(56)
Income tax paid		(1)	(1)
Net cash (outflow)/ inflow from operating activities		(264)	638
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant, equipment, fixtures and fittings		(48)	(19)
Net cash (outflow) from investing activities		(48)	(19)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		9,858	7,949
Repayment of borrowings		(9,342)	(8,449)
Payment of lease liabilities		(182)	(301)
Net cash inflow/ (outflow) from financing activities		334	(801)
NET INCREASE/ (DECREASE) IN CASH HELD		22	(182)
Cash at the beginning of the reporting period		86	275
Cash at the end of the reporting period		108	93

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

- (i) This general purpose financial report for the interim half-year reporting period ended 31 December 2022 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 2022 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.

Going concern

The half-year financial report has been prepared on a going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business.

Group product sales increased to \$10.16 million in this latest half, up from \$7.77 million in the same period to 31 December 2021, resulting in a pre-tax profit of \$374k compared to a loss of \$671k in the same period last year.

Based on the cashflow projections at the date of this report, the Directors are of the opinion that there are reasonable grounds to believe that all debts will be settled as and when they become due.

(ii) 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 are mandatory for the first time for the financial year beginning 1 July 2022 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 2022

Note 2. Operating Segments

Operating segment information

	Segment Revenues		Segment Results	
	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000
Revenue - heating, cooling & ventilation	10,158	7,767	374	(671)
Operating profit/ (loss) before income tax			374	(671)
Operating profit/ (loss) after income tax benefit			426	(654)
Net profit/ (loss) attributable to members of Air Change International Limited			426	(654)

Note 3. Dividends

There were no dividends paid during the period.

Note 4. Equity securities on issue

	December 2022 Shares	June 2022 Shares	December 2022 \$'000	June 2022 \$'000
Share Capital				
Ordinary shares, fully paid	17,714,009	17,714,009	7,105	7,105

Air Change International Limited
Notes to and forming part of the financial statements
for the half-year ended 31 December 2022

Note 5. Contingent liabilities

Performance guarantees supported by term deposits at balance date were:

- (a) property rental agreements \$247,000 (2021: \$nil)
- (b) commercial credit card facility \$30,000 (2021: \$30,000); and
- (c) operating licences \$25,364 (2021: \$19,835)

Note 6. Income tax expense

	2022	2021
	\$'000	\$'000
Profit/(loss) from ordinary activities before income tax expense	374	(671)
Income tax calculated at 25% (2021 – 25%)	94	(168)
Tax effect of amounts not (taxable)/ deductible in calculating taxable income:		
Jobsaver payments	-	(97)
Other	(8)	(4)
	86	(269)
Previously unrecognised tax losses now utilised to reduce current tax expense	(126)	-
Net taxable losses not recognised	8	257
Temporary differences not recognised	(4)	(2)
Recoupment of foreign subsidiary tax losses not previously recognised	(16)	(3)
Income tax (benefit)	(52)	(17)

Air Change International Limited
Notes to and forming part of the financial statements
for the half-year ended 31 December 2022

Note 7. Intangible assets

Non-current asset Year ended 30 June 2022	Agency Agreements	Design & Intellectual Property	Goodwill	Patents	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value at 1 July 2021	20	71	2,817	76	2,984
Amortisation charge	-	-	-	(76)	(76)
Carrying value at 30 June 2022	20	71	2,817	-	2,908

At 30 June 2022

Cost	20	71	2,817	3,616	6,524
Accumulated amortisation	-	-	-	(3,616)	(3,616)
Net book amount	20	71	2,817	-	2,908

Non-current asset Period ended 31 December 2022	Agency Agreements	Design & Intellectual Property	Goodwill	Patents	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value at 1 July 2022	20	71	2,817	-	2,908
Amortisation charge	-	-	-	-	-
Carrying value at 31 December 2022	20	71	2,817	-	2,908

At 31 December 2022

Cost	20	71	2,817	3,616	6,524
Accumulated amortisation	-	-	-	(3,616)	(3,616)
Net book amount	20	71	2,817	-	2,908

Note 8. Borrowing

At reporting date, the Group has the following facilities:

- (a) Debtor finance facilities secured by a general security deed over present and future property of the Group companies. The facility limits are \$2,500,000 (\$2,500,000 at 30 June 2022) subject to the available qualifying receivable assets. The amount drawn down as at 31 December 2022 was \$1,327,589 (\$805,580 at 30 June 2022).
- (b) Asset finance facility secured over the asset financed. This facility has a limit of \$200,000 (\$200,000 at 30 June 2022) and has \$33,000 drawn down as at 31 December 2022 and 30 June 2022.

Note 9. Events occurring after reporting date

No matter or circumstance has arisen since 31 December 2022 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 10. 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.

DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) The financial statements and notes set out on pages 7 to 15 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 2022 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
10 March 2023

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 2022, 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, a summary of significant 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 accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2023 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*.

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.

BDO Audit Pty Ltd

BDO

A handwritten signature in dark ink, appearing to read 'Ian Hooper', is written over a faint, larger 'BDO' watermark.

Ian Hooper
Director

Sydney, 10 March 2023