

Appendix 3

Air Change International Limited

ABN 14 087 737 068

Half yearly report

Period ended 31 December 2020

Results for Announcement to the Market

Corresponding period is 31 December 2019

Total revenue & other income from ordinary activities	up/down	4.98%	to	\$A'000 10,216
(Loss) from ordinary activities after tax attributable to members	up/down	n/a%	to	(215)
Net (loss) for the period attributable to members	up/down	n/a%	to	(215)
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	\$0.206	\$0.178

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 2020

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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:	2 Ashford Avenue Milperra NSW 2214 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 2020.

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 Air Change 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
Summit Industrial Chillers	process cooling systems for industrial, food and manufacturing processes.

The Group operates in the following geographical locations:

- company sales offices in NSW, Victoria and Queensland;
- distribution agents in South Australia, West Australia, Northern Territory, Tasmania, New Zealand, Singapore, Thailand and Philippines;
- 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, Thailand and Europe.

Review of Operations for half year to 31 December 2020

Product sales revenue for the half year to 31 December 2020 was down 7.2% from the corresponding period in 2019 to \$9.725 million due to delays in the receipt of products and component assemblies from overseas resulting from the Covid 19 pandemic.

As a result, the Group reported a pre-tax loss of \$211k for the half year compared to a profit of \$394k for the same period in the previous year. Depreciation and amortisation expenses for the half year were \$199k.

Events that have influenced the half year can be summarised:

- Revenue and profitability continue to be negatively impacted by the continuing freight and logistics disruptions resulting from the pandemic. Shortages of raw material and components were experienced over the entire six months period with very major delivery disruptions occurring in September, October and November.

If raw material and components had been available, Australian production would have been approximately 15% higher during the half year.

The overall impact of freight disruptions on sales for the period is estimated at approximately \$1.5 million. Most, but not all of this lost production, will be made up in the second half but the impact of these delays on profitability for the full year will be permanent.

- Labour productivity has fallen significantly because of the parts shortages. This inefficiency has impacted labour costs for most of the units that were manufactured during the half year.
- The container shortage across Asia resulting from the pandemic has not only disrupted delivery of material, components and finished products but has caused container freight rates to more than quadruple over the same period in 2019. This additional cost cannot be recovered as pricing was set before the freight price increase.
- The disruption to parts and component supplies caused by the Asian container shortage was exacerbated by the strike action at Sydney port terminals. Ships avoided Sydney because of the significant delays in berthing. The Group has in several cases had containers shipped to Melbourne and then road freighted to Sydney to lessen the delays. This has further increased shipping costs.
- Freight delays have required critical units to be delivered before final assembly and testing was completed to meet site specific installation requirements. The cost of final assembly and testing of these units on site has significantly increased their cost of manufacture.
- It is unknown if and when the freight situation will return to more normal levels but it is unlikely to occur before the last quarter of this current financial year.
- Access to skilled and semi-skilled personnel in Australia continues to limit production capability but has improved over the past 12 months.
- Order intake for the 6 months to 31 December 2020 was \$14.5 million compared to \$9.5 for the same corresponding period in 2019. Predicting order intake for the next 6 months is difficult given the present economic and operational uncertainty.
With production capacity reduced due to supply delays and order intake being very strong, the order backlog at December 31 was at a record level.
- South East Asian orders have been slow over the past 6 months as countries in the region have not fully recovered from the pandemic. However, project design, engineering and planning have all continued resulting in a record volume of outstanding quotations at December 31.
- As previously foreshadowed, the Malaysian manufacturing operation moved to new premises in October 2020. Production was impacted over the 6 week relocation period but is now back at full capacity.
- Johor state is presently in partial lockdown which is having a minor impact on the Malaysian operations.
- The strengthening A\$ against the Malaysian Ringgit has resulted in an increase in the unrealised currency loss of \$15,000 on the investment in the Malaysian operation.

Other than the freight disruptions that have affected operations in the manner described above and the two lock downs in Malaysia, there has been no other major impacts from the pandemic to date.

The long term impact of the pandemic on the HVAC market, and hence the Company, is still unknown.

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
4 March 2021



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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 2020, 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
Director

BDO Audit Pty Ltd

Sydney, 4 March 2021

Air Change International Limited
Consolidated statement of profit or loss and other comprehensive income
for half year ended 31 December 2020

		Half-year	
	Note	31 December 2020 \$'000	31 December 2019 \$'000
Revenue		9,726	10,480
Other income		490	270
Total revenue & other income		10,216	10,750
Changes in inventories		587	104
Raw materials and consumables used		(6,671)	(6,158)
Administration costs		(319)	(480)
Occupancy costs		(129)	(401)
Employee benefits expenses		(2,996)	(2,894)
Depreciation and amortisation expenses		(199)	(192)
Depreciation on right-of-use assets		(330)	(146)
Finance costs		(90)	(76)
Other expenses		(280)	(113)
(Loss)/ profit before income tax		(211)	394
Income tax (expense)/ benefit	6	(4)	29
Net (loss)/ profit for the period		(215)	423
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations		70	4
Other comprehensive income for the period, net of tax		70	4
Total comprehensive income/ (loss) for the period		(145)	427
Basic earnings per share		(\$0.012)	\$0.024
Diluted earnings per share		(\$0.012)	\$0.024

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 2020

		31 December 2020	30 June 2020
	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents		115	51
Trade & other receivables		3,023	3,155
Inventories		3,843	3,257
Total current assets		6,981	6,463
Non-current assets			
Plant, equipment and leasehold improvements		330	364
Right-of-use assets		1,409	1,479
Rental bonds		62	72
Intangible assets	7	3,109	3,233
Deferred tax assets		394	398
Total non-current assets		5,304	5,546
TOTAL ASSETS		12,285	12,009
Current liabilities			
Trade & other payables		2,869	2,246
Borrowings	8	11	296
Employee entitlements		1,068	965
Lease liabilities		714	712
Total current liabilities		4,662	4,219
Non-current liabilities			
Borrowings	8	20	-
Lease liabilities		790	826
Employee entitlements		54	60
Total non-current liabilities		864	886
TOTAL LIABILITIES		5,526	5,105
Net Assets		6,759	6,904
Equity			
Contributed equity	4	7,105	7,105
Reserves		85	15
Retained earnings		(431)	(216)
Total Equity		6,759	6,904

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 2020

HALF-YEAR ENDED 31 December 2020

	Issued capital	Reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2020	7,105	15	(216)	6,904
(Loss) for the period	-	-	(215)	(215)
Other comprehensive income, net of tax	-	70	-	70
Total comprehensive income/(loss) for the period	-	70	(215)	(145)
As at 31 December 2020	7,105	85	(431)	6,759

HALF-YEAR ENDED 31 December 2019

	Issued capital	Reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2019	7,105	(19)	(1,014)	6,072
Profit for the period	-	-	423	423
Other comprehensive income, net of tax	-	4	-	4
Total comprehensive income for the period	-	4	423	427
As at 31 December 2019	7,105	(15)	(591)	6,499

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 2020

	Note	31 December 2020 \$'000	31 December 2019 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		11,634	12,672
Payments to suppliers, employees and creditors		(10,646)	(11,350)
Interest received		1	2
Finance costs		(83)	(67)
Income tax paid		(1)	-
Net cash inflow from operating activities		905	1,257
CASH FLOWS FROM INVESTING ACTIVITIES			
Contingent consideration payment		(74)	(32)
Payment for acquisition of patents & intellectual property	7	(1)	(7)
Purchase of plant, equipment & leasehold improvements		(33)	(13)
Proceeds from disposal of plant & equipment		21	2
Net cash (outflow) from investing activities		(87)	(50)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		9,363	8,833
Repayment of borrowings		(9,830)	(9,885)
Payment of lease liabilities		(288)	(99)
Net cash (outflow) from financing activities		(755)	(1,151)
NET INCREASE IN CASH HELD		63	56
Cash at the beginning of the reporting period		51	58
Exchange differences on cash & cash equivalents		1	-
Cash at the end of the reporting period		115	114

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 2020 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 2020 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.

(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 2020 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 2020

Note 2. Operating Segments

Operating segment information

	Segment Revenues		Segment Results	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Heating, cooling & ventilation	10,216	10,750	(211)	394
Operating (loss)/ profit before income tax			(211)	394
Operating (loss)/ profit after income tax benefit			(215)	423
Net (loss)/ profit attributable to members of Air Change International Limited			(215)	423

Note 3. Dividends

There were no dividends paid during the period.

Note 4. Equity securities on issue

	December 2020 Shares	June 2020 Shares	December 2020 \$'000	June 2020 \$'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 2020

Note 5. Contingent liabilities

Bank Guarantees

2020 and 2019

Bank guarantees have been provided in relation to a right-of-use asset entered in the normal course of business of \$165,000 (2019: \$165,000), \$30,000 in relation to the commercial credit card facility (2019: \$30,000), and \$32,293 in relation to operating license (2019: \$34,814), all are supported by term deposits.

Note 6. Income tax expense

	2020	2019
	\$'000	\$'000
(Loss)/ profit from ordinary activities before income tax expense	(211)	394
Income tax calculated at 26% (2019 – 27.5%)	(55)	108
Tax effect of amounts not deductible in calculating taxable income		
Research & development refundable tax offset	(50)	(73)
Cash flow boost	(29)	-
Other	21	13
	(113)	48
Net taxable losses not recognised	95	-
Temporary differences not recognised	(5)	(4)
Income tax overprovision for previous year	6	-
Previously unrecognised tax losses now utilised to reduce current tax expense	-	(73)
Change in tax rate from 27.5% to 26%	21	-
Income tax expense/ (benefit)	4	(29)

Air Change International Limited
Notes to and forming part of the financial statements
for the half-year ended 31 December 2020

Note 7. Intangible assets

Non-current asset	Agency Agreements	Design & Intellectual Property	Goodwill	Patents	Total
Year ended 30 June 2020					
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value at 1 July 2019	20	71	2,817	548	3,456
Additions	-	-	-	26	26
Amortisation charge	-	-	-	(249)	(249)
Carrying value at 30 June 2020	20	71	2,817	325	3,233
At 30 June 2020					
Cost	20	71	2,817	3,616	6,524
Accumulated amortisation	-	-	-	(3,291)	(3,291)
Net book amount	20	71	2,817	325	3,233
Non-current asset	Agency Agreements	Design & Intellectual Property	Goodwill	Patents	Total
Period ended 31 December 2020					
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value at 1 July 2020	20	71	2,817	325	3,233
Additions	-	-	-	1	1
Amortisation charge	-	-	-	(125)	(125)
Carrying value at 31 December 2020	20	71	2,817	201	3,109
At 31 December 2020					
Cost	20	71	2,817	3,617	6,525
Accumulated amortisation	-	-	-	(3,416)	(3,416)
Net book amount	20	71	2,817	201	3,109

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 2020) subject to the available qualifying receivable assets. The amount drawn down as at 31 December 2020 was \$nil (\$295,792 at 30 June 2020).
- (b)** Asset finance facility secured over the asset financed. This facility has a limit of \$200,000 (\$nil at 30 June 2020) and has \$33,000 drawn down as at 31 December 2020.

Note 9. Events occurring after reporting date

No matter or circumstance has arisen since 31 December 2020 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 2020 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
4 March 2021



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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 2020, 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 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 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 2020 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.

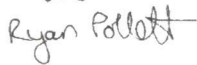


Auditor's responsibility for the review of the financial report

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 2020 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 black ink, appearing to read 'Ryan Pollett', is written over the printed name.

Ryan Pollett
Director

Sydney, 4 March 2021