

Appendix 3 Form: Preliminary Final Report

Name of issuer

AIR CHANGE INTERNATIONAL LIMITED

ACN or ARBN

087 737 068

Half yearly
(tick)

☐

Preliminary
final (tick)

X

Financial year ended
(‘Current period’)

30 JUNE 2022

For announcement to the market

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

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

				\$A,000
Revenue (item 1.1)	Down	21%	to	16,770
(Loss) for the period (item 1.9)	Up	n/a%	to	(1,522)
(Loss) for the period attributable to members of the parent (item 1.11)	Up	n/a%	to	(1,522)
Dividends	Current period		Previous corresponding period	
Franking rate applicable:	-		-	
Final dividend (preliminary final report only) (item 10.13-10.14)	-		-	
Amount per security	-		-	
Franked amount per security	-		-	
Interim dividend (Half yearly report only) (item 10.11 – 10.12)				
Amount per security				
Franked amount per security				
Short details of other item(s) of importance not previously released to the market:				
The company reported an after-tax loss of \$1,522k for the 12 months to 30 June 2022.				

1. Consolidated Income Statements

Refer to attached annual report

2. Consolidated Balance Sheets

Refer to attached annual report

3. Consolidated Statements of Changes in Equity

Refer to attached annual report

4. Consolidated Cash Flow Statements

Refer to attached annual report

5. Reconciliation of cash flow from operating activities

Refer to attached annual report

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

Refer to attached annual report

7. Earnings per Security

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

Earnings per Share below:

Basic earnings per share: (\$0.086)

Numerator in calculating basic earnings per share: (\$1,521,965)

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

Diluted earnings per share: (\$0.086)

8. Net Tangible Assets per Security

Current reporting period	Previous corresponding period
\$0.148	\$0.230

In 2022, net tangible assets per security includes right-of-use assets of \$4,492,112 (2021- \$1,079,371).

Annual meeting

(Preliminary final report only)

The annual meeting will be held as follows:

Place

TBA

Date

TBA

Time

TBA

Approximate date the annual report will be available

TBA

Compliance Statement

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

Identify other standards used

2. This statement, and the financial statements under the Corporations Act (if separate), use the same accounting policies.
3. This statement does give a true and fair view of the matters disclosed (see note 2).
4. This statement is based on financial statements to which one of the following applies:

☐ The annual report have been audited.

☐ The annual report have been subject to review.

☒ The annual report are in the process of being audited or subject to review.

☐ The annual report have *not* yet been audited or reviewed.

5. If the accounts have been or are being audited or subject to review and the audit report is not attached, details of any qualifications will follow immediately they are available* (delete one). (Half yearly statement only - the audit report must be attached to this statement if the statement is to satisfy the requirements of the Corporations Act.)
6. The issuer has a formally constituted audit committee.



Signature :

(Company Secretary)

Date: 13 September 2022

Print name:Robert Lees.....

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AIR CHANGE INTERNATIONAL LIMITED

ACN 087 737 068

**Preliminary Final Report
2022**

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Corporate Directory

Directors:	Alan S Jones (Non-executive Chairman) Peter A Curry (Non-executive Director) Neil R Fimeri (Managing Director)
Secretary:	Robert Lees
Principal & Registered Office:	11 Broadhurst Road Ingleburn NSW 2565 Tel: (02) 8774 1400 e-mail: invest@airchange.com.au Web site: www.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 Street Sydney NSW 2000
Bankers:	ANZ Level 4, 20 Smith Street Parramatta NSW 2150
Solicitors:	Addisons Lawyers 60 Carrington Street Sydney NSW 2000
Stock Exchange Listing:	Air Change International Ltd 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

Your directors present the Air Change International Limited ("Company" or "Group") annual report for the financial year ended 30 June 2022.

To summarize – "Annus Horribilis"

Group product sales fell by \$4.34 million from \$21.11 million in 2021 to \$16.77 million this last year, a 21% reduction, which has resulted in a loss of \$1.527 million.

This decline in revenue was due to bad weather and Covid 19 induced production and shipment delays and not a decline in demand for the Group's products.

This is best demonstrated by the position in March 2022 when sales were already down \$3.87 million from the same time the previous year but orders on hand had increased by \$6 million from typically normal levels.

Average product delivery times had risen from 14 – 16 weeks to 24-26 weeks.

1.0 The Covid 19 Impact

(i) Australian Operations

The effects of the Covid 19 pandemic continue to negatively impact Group production.

The Group always has shortage of skilled and semi-skilled production labour but this was exacerbated in the first half of the year with production staff either quarantined or otherwise isolated from attending work due to NSW Government Covid restrictions.

This labour situation improved in the second half when NSW Government movement restrictions were eased but, like most other manufacturers, the ability to attract and retain production workers post pandemic remains a significant problem. This labour shortage will become more significant when parts availability improves.

Part and component availability resulting from the pandemic has been the other significant impediment to production during the year.

The well-publicised shortage of computer chips has impacted the supply of many of the components the Group uses in its products with electronically commutated motors and programmable logic controllers being the most difficult to obtain.

These part deliveries are regularly delayed by months and deliveries are often only part of the order.

In addition to the delays caused by chip shortages, many of the parts and components the Group needs are manufactured in China.

Delivery of these parts has been delayed by a number of factors resulting from the pandemic including:

- a. the government shutdown of manufacturing in the Shanghai area to control Covid outbreaks;
- b. delays in movements through Chinese port operations; and
- c. sub-component part availability from overseas, notably Japan.

Part and component availability continues to be a problem in August 2022 with some component parts being notified as unavailable until late 2023 and early 2024.

Alternative suppliers can sometimes be found but this often requires product re-design and control program changes impacting both cost and production times.

Unlike 2021, commodity prices did not increase substantially during the year, however, there were delayed component prices.

In particular, prices of components with computer chips have increased by an average of 15 – 25% over the last 12 months due to the chip supply shortage with no sign at present of any future price decline.

Container freight prices continue to remain at historically high levels but there are signs that prices are starting to fall.

Container prices from Asia remain 4 to 5 times higher than they were pre-pandemic.

Sydney Ports congestion contributed to component and part delays in the first half of the year but not in the second.

Air freight rates remain high at 3 to 5 times their pre-pandemic level but are also starting to fall.

(ii) South East Asian Operations

Covid continued to impact operations in Southeast Asia during the year.

The Group's Malaysian factory was again closed several times during the first quarter of the year by the Malaysian Government's movement control restrictions but these were lifted in the second quarter and have not been re-imposed

Some part and component supplies have been even more negatively impacted in Malaysia than in Australia.

To overcome these shortages, components and parts have been sourced from Australia and China where supplies have been available.

(iii) Product Demand

To date, Covid has had no impact on product demand in Australia as evidenced by the Group's substantial forward order book.

This may change in the future but is more likely to be linked to general economic effects caused by interest rate rises, reduced market liquidity and the Ukraine war.

The pandemic slowed construction activity in Southeast Asia in the first half but has returned closer to normal levels in the second half of the year.

(iv) Government Covid Assistance

The decline in Group revenue caused by the NSW Government Covid restrictions in the first half of the year made it eligible for NSW Government Job Saver support scheme.

2.0 Other Negative Revenue Impacts

(i) Severe Weather Events

The impact on production caused by component part and labour shortages resulting from the pandemic has been detailed above.

In addition to the loss of revenue resulting from these production delays, the severe storms and floods along the Australian east coast in 2022 have caused significant project delays resulting in client delivery deferrals which have negatively impacted both sales revenue and cashflow.

In some cases, deliveries scheduled for January and February 2022 were delayed until July and August. These products have had to be stored at cost for the intervening 6 months with no payment receipt.

(ii) Factory Move

As previously reported, the Company's leased factory facility in Milperra, NSW, was sold in 2021. The new owners advised their intention to occupy the building upon expiration of the existing lease in late 2022.

A search for a new premises commenced in the last quarter of 2021. A new factory was found in Ingleburn, NSW that was available end March 2022.

A lease of the new property was negotiated with a start date in late March 2022 on a 5year lease + 5 year option.

An early release from the Milperra property was negotiated to coincide with the Ingleburn lease commencement as the Milperra owner wanted early occupation if possible.

The move to Ingleburn commenced in April 2022 with completion in May.

Major additions in power, compressed air distribution and lighting were needed to meet the Groups manufacturing requirements

In addition to the factory improvements, substantial works in office fit out and data distribution were needed before occupation could occur.

These improvements in the factory and office areas required a substantial capital investment in an already cash tight situation caused by the delays in production.

The move further impacted production.

There was no effective production during the first 2 weeks of the move and only partial production over the following 3 weeks until all operations were back up and running normally.

Although this production loss from the move was significant, the effect would have been greater if all parts were not in short supply and production was at 100%.

(iii) Component Failures

Although not as damaging as the delays outlined above, it should be noted that there has been an observed increase in component part failures.

This has been attributed to the pandemic impact on the component part manufacturers.

3.0 Impact of Events

(i) Profitability

The decline of \$4.34 million in sales revenue had an obvious impact on group profitability. The loss of margin on this amount of revenue is the major contributor to the reported loss as overhead costs, although declining marginally, remained substantially static reflecting the design, administration and other activities required to support the large forward order book on hand.

Parts availability has a major impact on labour productivity. Work cannot be completed on any single unit.

Group policy is not to commence manufacture, if possible, until all parts are available, but presently it is necessary to re-schedule labour allocation to undertake work wherever parts are available. This constant moving between jobs negatively impacts labour productivity which increases the unit production cost.

(ii) Liquidity and Cashflow

Cashflow has been negatively impacted by the events described above with:

- (i) the cost of both labour and materials increasing between time of order and completion of manufacture;
- (ii) product spending significantly longer in production between commencement and completion;
- (iii) parts being purchased when they are available based on production schedules and projections, rather than just before they required;
- (iv) the time between payment for and receipt of overseas sourced components and parts increasing with containers regularly being delayed in the dispatch port;
- (v) completed goods held longer after manufacture before dispatch where projects have been delayed;

(vi) the significant cost to set up and equip the new factory; and

(vii) costs to move the manufacturing operation from Milperra to Ingleburn.

The above effects are reflected in the substantial increase in inventory level over the past year.

In general, customer payments once product delivery has occurred, have not been significantly delayed when compared to payment receipts pre-pandemic.

There has not been a major increase in provision for bad debts in Australia due to the pandemic. Credit requests are rigorously scrutinized given the present economic uncertainties and thus no more onerous terms of trade have been placed on Group customers than has been previous practice.

The Group has not breached any debt funding or other financial covenant or legal obligation and has not been advised of any major change to its terms of trade with its suppliers.

The Group has not disposed of any asset to raise cash to mitigate the impact of the pandemic on its operations.

(iii) Employment Costs

There has been no deferment or negative change to the salaries or remuneration arrangements of any employee or service provider.

Wage and salary increases have been implemented over the year to attract and retain staff in a very competitive employment environment.

(iv) A\$ Value Impact

The Australian dollar has traded in the range of US\$0.69 to US\$ 0.76 during this past financial year which was just within the allowable trading range.

Although transacting significant foreign currency amounts, the Company does not hedge this exposure as transaction timing is unknown.

4.0 Group Operational Review

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

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

In addition to its standard product range, the Group designs and develops individual bespoke heating, cooling and dehumidification solutions to suit specific customer applications.

At present, all product development, design, engineering and administration is undertaken at the Group's head office and factory in Ingleburn, NSW, with most manufacturing of Air Change and Fancoil products carried out at either the Group's Ingleburn or Malaysian manufacturing facilities.

Dunnair and Summit branded products are designed, partially assembled, tested and modified in Ingleburn with major component assemblies sourced from overseas third-party OEM's.

The Group has its own sales and engineering support staff in New South Wales, Victoria and Queensland with distributors in all other Australian states.

The Group has overseas distribution representatives in New Zealand, Singapore, Malaysia and Indonesia.

The Thai distribution agreement has been cancelled due to an inability of the distributor to pay its debts.

In this past year, Air Change Group products have been sold in Australia, New Zealand, Singapore, New Guinea and Indonesia.

(i) Air Change Division

Air Change pioneered the development and sale of Dedicated Outdoor Air Ventilation Systems (DOAS) in Australia and remains a major player in this segment of the HVAC market.

More recently, Air Change has developed and now manufactures dehumidification solutions for commercial, industrial and institutional applications.

Sales of this product type continue to grow in the Australian market because of changing ambient air conditions and the air conditioning requirements in buildings.

Asian markets always need dehumidification solutions.

Orders for Air Change DOAS and dehumidification products increased in 2021/22 but deliveries were down for the reasons outlined above.

Competition in the traditional heat and energy recovery ventilator market remains strong which depresses margins in this market segment.

Sales of the Company's small split make up air unit designed to control humidity and temperature in smaller applications continues to grow.

Sales of these units commenced in 2019/20 and grew further this past year.

Changing climate conditions has increased demand for bespoke solutions for complex heating, cooling and dehumidification solutions.

(ii) Fan Coil Industries

The Group's Fan Coil Industries division designs, manufactures and sells fan coil and air handling units. Large bespoke AHUs are produced in Australia with smaller FCUs being increasingly sourced from overseas.

Competition in this general market segment is very strong with most product being imported. Given the present labour and component shortages, FCI only quote complex units that are difficult to manufacture and costly to import if available.

This division continues to make a positive contribution to the Group result.

(iii) Summit Industrial Chillers

Process and industrial cooling sales increased four fold from the previous year as predicted in last years annual report.

Sales volumes vary significantly year on year. It is difficult to find and retain qualified professional engineering and trades staff to support this operation particularly with the variations in demand.

Even though the chiller operation has again made a positive contribution to the Group, which it has done in every year since its acquisition, its future is under review given the extreme shortages of qualified persons to design, manufacture and support these complex products.

Spare part sales remain a consistent source of income and earnings.

(iv) Dunnair Division

Dunnair manufacture and sell air and water cooled packaged air conditioning products which are designed in Australia but either partially or totally manufactured overseas.

All Dunnair units are tested and programmed upon receipt in Australia.

Sales of this product type were down from the 2020/21 year.

Dunnair operations continue to make a positive contribution to Group earnings.

(v) South East Asia

The Singapore distributor appointed in 2019 continues to source opportunities that were unavailable to the Company before its appointment. Sales in Singapore this last financial year were down, although acceptable, impacted by Covid. Present enquiry levels remain very strong.

(vi) Manufacturing Operations

Manufacturing is carried out in the Group's factories in Ingleburn, NSW and Johor, Malaysia. Product is sourced from each factory based on capacity and technical capability.

As previously reported, both skilled and non-skilled manufacturing labour has been difficult to source in both Australia and Malaysia.

Refrigeration technicians are difficult to recruit in both countries as they prefer to work in the service and installation sector rather than the manufacturing sector.

This shortage of skilled labour is not expected to improve in the near term.

5.0 Research & Development

Research and new product development ("R&D") was confined to the development of pillow plate cooling and heating systems for water in this past year.

Detailed engineering and product improvement of DOAS and dehumidification solutions continued but no new research, products or systems were introduced during the year.

These product improvements focused on energy efficient and close control space temperature and humidity systems with emphasis on intelligent controls and programming.

The Group's R&D program has been constrained by production priorities and will continue to stagnate unless this situation improves and new product focus areas are identified.

6.0 Future Strategy & Outlook

(i) DOAS & Dehumidification Systems

Dedicated Outdoor Air Systems with heat and energy recovery and dehumidification products delivering air at a specified temperature and humidity accounted for the majority of Group sales in 2021/22.

This will continue to be the main focus of Group activities as it is a specialised niche market where the Company has technical and strategic advantages.

This market segment has been particularly impacted this last year by component shortages as it uses complex electronics and controls that are in short supply to maintain close control of temperature and humidity in the air stream.

It is predicted that this segment will continue to grow as humidity control becomes essential in more applications.

(ii) Air and Water Cooled Packaged Units

The air-cooled package market is very price competitive and accounts for only a small proportion of Group sales.

There is less competition in the water-cooled market.

Air Change International Limited

Managing Director's report

The water cooled market size is relatively stagnant and relies to a large extent on replacement units rather than new installations.

Sales are predicted to remain flat or grow marginally for the foreseeable future.

(iii) AHU and FCUs

Air handling and fan coil units accounted for less than 10% of overall sales this past financial year.

This is an extremely competitive market segment with the Group specialising in non standard products where overseas competition is low.

Future sales volumes will be volatile and depend on special project needs to justify the additional cost of Australian manufacture.

(iv) Industrial Chillers

Industrial chiller sales grew from less than 2% in 20/21 to approximately 10% of total sales in 2021/22 due to increased mine construction activity.

The Group has been unable to source skilled labour to undertake this complex work and is therefore reassessing its participation in this market. Availability of parts and new code requirements will impact this assessment.

(v) General

The pandemic has not yet had an impact on product demand and may even increase in the future if better ventilation rates are introduced to control future outbreaks.

The 2022/23 year is commencing with a solid forward order book and few production gaps available until early in 2023.

Sales, of course, will relay on available labour and component part availability which are still problematic.

The other major concern is the increasing cost of production and interest rate tightening which may slow capital works spending.

South East Asian sales are scheduled to be higher this next year than last which was still negatively impacted by the Covid pandemic.

Neil Fimeri
Managing Director

**Consolidated statement of profit or loss and other comprehensive income
for the year ended 30 June 2022**

	Note	2022 \$	2021 \$
Revenue	4	16,770,447	21,114,210
Other income	5	486,694	536,654
Changes in inventories of finished goods		942,830	(19,414)
Raw materials and consumables used		(11,663,420)	(13,079,212)
Occupancy costs		(254,227)	(242,297)
Employee benefits expenses		(5,662,641)	(5,839,319)
Depreciation of plant and equipment		(161,673)	(145,094)
Depreciation of right-of-use assets		(690,514)	(656,877)
Amortisation of patents		(76,100)	(250,073)
Other expenses		(1,042,373)	(1,142,236)
Finance costs		(168,003)	(187,724)
(Loss)/ profit before income tax	6	(1,518,980)	88,618
Income tax (expense)	7	(2,985)	(20,359)
(Loss)/ profit after tax for the year		(1,521,965)	68,259
Net (loss)/ profit for the year		(1,521,965)	68,259
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations	19	(5,423)	89,393
Other comprehensive (loss)/ income for the year, net of tax		(5,423)	89,393
Total comprehensive (loss)/ income for the year attributable to members of Air Change International Limited		(1,527,388)	157,652
Earnings per share attributable to members of Air Change International Limited			
Basic earnings per share	24	(0.086)	0.004
Diluted earnings per share	24	(0.086)	0.004

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

**Consolidated statement of financial position
as at 30 June 2022**

	Note	2022 \$	2021 \$
Current assets			
Cash & cash equivalents	8	85,596	275,555
Trade & other receivables	9(a)	2,502,461	3,540,854
Inventories	10	4,198,729	3,237,103
Total current assets		6,786,786	7,053,512
Non-current assets			
Plant, equipment, fixtures and fittings	11	529,880	339,020
Right-of-use assets	12	4,492,112	1,079,371
Rental bonds & term deposit		309,901	61,267
Intangible assets	13	2,908,072	2,984,172
Deferred tax assets	14	376,871	378,867
Other receivables		102,661	-
Total non-current assets		8,719,497	4,842,697
TOTAL ASSETS		15,506,283	11,896,209
Current liabilities			
Trade & other payables	15	3,362,754	2,252,999
Borrowings	26	817,447	244,305
Lease liabilities	16	421,153	679,345
Employee entitlements	17	1,157,478	1,096,464
Total current liabilities		5,758,832	4,273,113
Non-current liabilities			
Other payables	15	26,451	-
Borrowings	26	3,151	15,019
Lease liabilities	16	4,132,804	477,127
Employee entitlements	17	38,916	69,933
Make good provision for right-of-use assets		12,500	-
Total non-current liabilities		4,213,822	562,079
TOTAL LIABILITIES		9,972,654	4,835,192
Net Assets		5,533,629	7,061,017
Equity			
Contributed equity	18	7,104,700	7,104,700
Reserves	19	98,846	104,269
Retained earnings		(1,669,917)	(147,952)
TOTAL EQUITY		5,533,629	7,061,017

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

**Consolidated statement of changes in equity
for the year ended 30 June 2022**

		Contributed equity	Reserves	Retained earnings	Total
	Notes	\$	\$	\$	\$
Balance at 1 July 2020		7,104,700	14,876	(216,211)	6,903,365
Profit for the year				68,259	68,259
Other comprehensive income	19	-	89,393	-	89,393
Total comprehensive income for the year		-	89,393	68,259	157,652
Balance at 30 June 2021		7,104,700	104,269	(147,952)	7,061,017
Balance at 1 July 2021		7,104,700	104,269	(147,952)	7,061,017
(Loss) for the year		-	-	(1,521,965)	(1,521,965)
Other comprehensive (loss)	19	-	(5,423)	-	(5,423)
Total comprehensive (loss) for the year		-	(5,423)	(1,521,965)	(1,527,388)
Balance at 30 June 2022		7,104,700	98,846	(1,669,917)	5,533,629

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

**Consolidated statement of cash flows
for the year ended 30 June 2022**

	Note	2022 \$	2021 \$
Cash flows from operating activities			
Receipts from customers		20,839,261	23,103,292
Payments to suppliers, employees and creditors		(20,516,391)	(21,834,564)
Interest received		195	1,422
Finance costs		(164,833)	(180,684)
Income tax paid		(1,218)	(536)
Net cash inflow from operating activities	23	157,014	1,088,930
Cash flows from investing activities			
Contingent consideration payment	27	-	(74,421)
Purchase of plant, equipment, fixtures & fittings	11	(276,706)	(105,381)
Payment for patents & intellectual property	13	-	(500)
Proceeds on disposal of plant & equipment		-	21,371
Net cash (outflow) from investing activities		(276,706)	(158,931)
Cash flows from financing activities			
Proceeds from borrowings		15,227,367	20,074,000
Repayment of borrowings		(14,666,093)	(20,143,943)
Payment of lease liabilities		(628,596)	(636,379)
Net cash (outflow) from financing activities		(67,322)	(706,322)
Net (decrease)/ increase in cash held		(187,014)	223,677
Cash & cash equivalents at the beginning of the financial year		275,555	51,337
Exchange differences on cash & cash equivalents		(2,945)	541
Cash & cash equivalents at the end of the financial year	8	85,596	275,555

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

Notes to the financial statements for the year ended 30 June 2022

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

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

11 Broadhurst Road
Ingleburn NSW 2565

The financial statements were authorised for issue by the directors on 14 September 2022. The directors have the power to amend and reissue the financial statements.

1. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Going Concern

The financial statements of the Company have 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 fell as a result of parts and labour shortages by \$4.34 million from \$21.11 million in 2021 to \$16.77 million this last year, a 21% reduction, which has resulted in a loss of \$1.527 million. However, at year end the Group still has net current assets of \$1.03 million (2021: \$2.78 million) and net cash inflows from operating activities of \$0.16 million (2021: \$1.09 million).

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.

Historical cost convention

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Air Change International Limited as at 30 June 2022 and the results of all subsidiaries for the year then ended. Air Change International Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the financial statements for the year ended 30 June 2022

(b) Principles of consolidation (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(c) Segment reporting

The Group is reported as one operating segment comprising heating, ventilation & air conditioning to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") other than where an entity's operation is an extension of another group entity and it does not operate with any degree of autonomy. The consolidated financial statements are presented in Australian dollars ("AUD"), which is the functional and presentation currency of Air Change International Limited.

(ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

(iii) Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AUD are translated into AUD upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Income and expenses have been translated into AUD at the rate applicable at the transaction date. Exchange differences are charged/ credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

Notes to the financial statements for the year ended 30 June 2022

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer.

Revenue is recognised for the major business activities as follows:

(i) *Sale of goods*

(a) *Bespoke goods made to order*

The Group manufactures and sells bespoke heating, cooling and ventilation products. Revenue from the sales of bespoke goods are recognised at the point in time when the manufacturing of the goods is completed, tested and ready for delivery.

(b) *Goods stocked for sale.*

The Group designs, sources and sells generic heating, cooling and ventilation products that it carries as stock for immediate sale. Revenue from the sales of these goods is recognised at the point in time when the customer accepts delivery of the goods and may include bill and hold arrangements.

(ii) *Rendering of services*

The Group derives revenues from the delivery, commissioning and after-sales service of heating, cooling and ventilation products. Receipts for those services are initially deferred, included in other liabilities and are recognised as revenue over time as the service is performed.

(f) Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income or loss based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or taxable profit or loss.

Deferred income tax is determined by using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and the tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

Air Change International Limited ("the Head Entity") and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Notes to the financial statements for the year ended 30 June 2022

(g) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Borrowings are shown within borrowings in current liabilities on the statement of financial position.

(h) Trade receivables

Trade receivables are recognised initially at invoiced value less allowance for expected credit losses. Trade receivables are generally due for settlement within 60 days. The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the expected credit loss is recognised in the profit or loss within impairment of assets. When a trade receivable for which an expected credit loss allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against impairment of assets in the profit or loss.

(i) Government grants

Grants including refundable R&D tax incentives from the government are recognised as received or at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

(j) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Plant and equipment

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

Plant, equipment, furniture, fittings and leasehold improvements are depreciated over a 2 to 15 year period depending on their estimated life using straight line method as appropriate. The assets' residual values and useful lives are reviewed and if appropriate adjusted at each reporting date.

The asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

(l) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received. Right of use assets are depreciated on a straight-line basis over the period of the lease. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under such operating leases (net of any incentives received from the Lessor) are charged to the profit or loss on a straight line basis over the period of the lease.

Notes to the financial statements for the year ended 30 June 2022

(m) Intangible assets

(i) Goodwill

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

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

(ii) Patents

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

(iii) Agency Agreements and Design & Intellectual Property

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

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(o) Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Other than the amount payable later than 12 months in respect of an item of plant, all borrowings are current as reflected in the accounts at reporting date.

(p) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments and variable lease payments that depend on an index or a rate.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in the index or a rate use and lease term. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(q) Finance costs

Finance costs in relation to borrowings are expensed.

Notes to the financial statements for the year ended 30 June 2022

(r) Employee entitlements

(i) Wages and salaries, annual leave

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit cost method. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefits obligations

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

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of the new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit and loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority, is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of the cash flows arising from investing or financing activities which are recoverable from or payable to the taxation authority are presented as operating cash flow.

Notes to the financial statements for the year ended 30 June 2022

(v) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(w) Research and Development

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

(x) Parent entity financial information

The financial information for the parent entity, Air Change International Limited, disclosed in note 25 has been prepared on the same basis as the consolidated financial statements, except investments in subsidiaries are accounted for at cost in the financial statements of Air Change International Limited.

(y) New, revised or amended Accounting Standards or Interpretation adopted

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

(z) New accounting standards issued but not yet effective and not been adopted early by the Group

The AASB has issued a number of new and amended Accounting Standards and Interpretations but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2022. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Notes to the financial statements for the year ended 30 June 2022

2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. Risk management is carried out by the Executive Team.

The Group and the parent entity hold the following financial instruments:

	2022 \$	2021 \$
Financial assets		
Cash and cash equivalents	85,596	275,555
Trade and other receivables	2,389,963	3,429,569
	<u>2,475,559</u>	<u>3,705,124</u>
Financial liabilities		
Current		
Trade & other payables	3,362,754	2,252,999
Borrowings	817,447	244,305
Lease liabilities	421,153	679,345
	<u>4,601,354</u>	<u>3,176,649</u>
Non-current		
Other payables	26,451	-
Borrowings	3,151	15,019
Lease liabilities	4,132,804	477,127
	<u>4,162,406</u>	<u>492,146</u>

(a) Market risk

(i) Foreign currency risk

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Air Change International Limited. At the date of this report, the Group has exposure to Singapore dollars, US dollars and Malaysian Ringgit in respect of financial assets. Based on the financial instruments held at 30 June 2022, had the Australian dollar weakened/ strengthened by 10% (2021: 10%) against these currencies with all other variables held constant, the impact on the profit would have been \$2,236 higher/ \$2,065 lower (2021: \$3,573 higher/ \$3,176 lower), mainly as a result of foreign exchange gains/ losses on translation of these foreign currencies denominated financial instruments. The percentage of 10% has been determined based on the market rate movements in exchange rates in the previous 12 months.

(ii) Price risk

The Group is not exposed to equity securities price risk or to commodity price risk.

(iii) Interest rate risk

The Group has a Debtors Finance Facility which has an interest rate that is the 30 day BBSY rate plus a fixed margin. The interest rate risk of this facility is shown in the sensitivity analysis below.

Group sensitivity

During the year ended 30 June 2022, if the average 30 day BBSY interest rate had changed by +/- 50 basis points from the actual interest rates incurred within the year, with all other variables held constant, the impact on the profit/loss would have been \$1,551 higher/lower (2021: \$3,030). In respect of the trade receivables and trade payables there would be no impact on the net profit/loss of a +/- 50 basis points change in interest rates (2021: nil). In respect of cash on deposit, the impact on the profit/loss of a +/- 50 basis points change in interest rates would have been immaterial as the average cash balance on deposit is immaterial (2021: nil).

Notes to the financial statements for the year ended 30 June 2022

2. Financial risk management (continued)

(b) Credit risk

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

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group had access to a debtor financing facility of \$2,500,000 (2021: \$2,500,000). This facility may be drawn at any time and maybe terminated by either party with 90 days notice (note 26).

Maturities of financial liabilities

The tables below analyze the Group's financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Interest payable on the loan has been disclosed in the table below.

Group – at 30 June 2022	Less than 4 months	4-6 months	6-12 months	Between 1 and 5 years	Total contractual cash flows	Carrying amount
Non derivatives						
Trade & other payables	1,993,312	1,328,103	41,339	26,451	3,389,205	3,389,205
Borrowings	809,408	1,961	6,078	3,151	820,598	820,598
Lease liabilities	116,623	60,232	244,298	4,132,804	4,553,957	4,553,957
Total non-derivative	2,919,343	1,390,296	291,715	4,162,406	8,763,760	8,763,760

Group – at 30 June 2021

Non derivatives

Trade & other payables	1,957,218	280,862	14,919	-	2,252,999	2,252,999
Borrowings	237,010	1,780	5,515	15,019	259,324	259,324
Lease liabilities	236,771	69,813	372,761	477,127	1,156,472	1,156,472
Total non-derivative	2,430,999	352,455	393,195	492,146	3,668,795	3,668,795

Fair value

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

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

Notes to the financial statements for the year ended 30 June 2022

3. Critical accounting estimates and judgements

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

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

Estimation of useful lives of assets

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

Goodwill

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

Recovery of deferred tax assets

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

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Notes to the financial statements for the year ended 30 June 2022

4. Revenue

	2022 \$	2021 \$
Sales revenue		
Sale of goods	16,710,528	21,061,029
Services	59,919	53,181
Total revenue	16,770,447	21,114,210

5. Other income

	2022 \$	2021 \$
Interest	195	1,422
Government (note (a))	416,645	400,131
Other	8,974	128,554
Net foreign exchange gain	1,104	-
Net gain on disposal of plant and equipment	379	-
Gain on lease modification	59,397	6,547
Total other income	486,694	536,654

(a) Government

In 2022 and 2021, this primarily consisted of jobsaver of \$388,182 (2021: \$nil), R&D refundable tax offset of \$nil (2021: \$192,033), export market development grant of \$24,364 (2021: \$65,658) and cash flow boost of \$nil (2021: \$110,522).

6. Expenses

	2022 \$	2021 \$
Profit before income tax includes the following specific expenses:		
Lease rental payments	48,656	44,351
Defined contribution superannuation payments	428,416	420,103
Net foreign exchange loss	-	101,709
Doubtful debt expense	50,000	-

Notes to the financial statements for the year ended 30 June 2022

7. Income tax expense

(a) Income tax expense

	2022 \$	2021 \$
Current tax (benefit)	(554,353)	(57,268)
Deferred tax – origination and reversal of temporary differences	1,996	19,281
Income tax paid for previous year – overseas entity	100	-
Current year income tax – overseas entity	889	1,078
Current year tax losses not recognised	554,353	57,268
Aggregate current income tax expense	2,985	20,359
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets	1,996	19,281
Deferred tax – origination and reversal of temporary differences	1,996	19,281

(b) Reconciliation of effective tax rate

	2022 \$	2021 \$
(Loss)/ profit before income tax expense	(1,518,980)	88,618
Income tax calculated at 25% (2021 – 26%)	(379,745)	23,041
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research & development refundable tax offset	-	(49,929)
Cash flow boost	-	(28,736)
Jobsaver	(97,046)	-
Other	(78,244)	27,760
Subtotal	(555,035)	(27,864)
Net taxable losses not recognised	554,353	57,268
Adjustments for overclaimed of prior year tax losses	-	5,561
Income tax paid for previous year – overseas entity	100	-
Current year income tax – overseas entity	889	1,078
Temporary differences not recognised	2,678	146
Recoupment of foreign subsidiaries tax losses not previously recognised	-	(52,397)
Change in tax rates	-	36,567
Income tax expense	2,985	20,359

Notes to the financial statements for the year ended 30 June 2022

8. Cash and cash equivalents

	2022 \$	2021 \$
Cash at bank and on hand	85,596	275,555
	<u>85,596</u>	<u>275,555</u>

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

9. Trade and other receivables

	2022 \$	2021 \$
(a) Current assets		
Trade receivables	2,121,656	3,248,166
Less: Allowance for expected credit losses	(130,000)	(80,000)
Net trade receivables	1,991,656	3,168,166
Term deposits in respect of guarantees	241,841	62,089
Term deposit	-	165,000
Other debtors	156,466	34,315
Prepayments	112,498	111,284
	<u>2,502,461</u>	<u>3,540,854</u>

Allowance for expected credit losses

The Group retains an allowance of \$130,000 (2021: \$80,000) in respect of future expected credit losses.

(b) Past due not impaired trade receivables

As at 30 June 2022 there were current trade receivables of the Group with a nominal value of \$53,379 that were past due (2021: \$141,417) but not impaired. The amount of the allowance was \$130,000 (2021: \$80,000).

The Group does not hold any collateral in relation to these receivables but insures these receivables against insolvency of the debtor.

The ageing of these receivables is as follows:

	2022 \$	2021 \$
Not past due	1,938,277	3,026,749
Past due 2-3 months	7,513	95,551
Past due over 3 months	45,866	45,866
Total	<u>1,991,656</u>	<u>3,168,166</u>

Movements in the allowance for expected credit losses are as follows:

	2022 \$	2021 \$
At 1 July	80,000	80,000
Provision recognised during the year	50,000	-
Receivables written off during the year	-	-
Balance at 30 June	<u>130,000</u>	<u>80,000</u>

Notes to the financial statements for the year ended 30 June 2022

(c) Fair value and credit risk

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

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

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

10. Inventories

	2022 \$	2021 \$
Current Assets		
Raw materials	1,907,280	1,531,694
Work in progress	1,218,071	952,520
Finished goods	593,573	603,608
Stock in transit	479,805	149,281
	<u>4,198,729</u>	<u>3,237,103</u>

(a) Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2022 amounted to \$nil (30 June 2021: \$34,929).

**Notes to the financial statements
for the year ended 30 June 2022**

11. Plant, equipment, fixtures and fittings

	Plant & Equipment	Fixtures & Fittings	Leasehold Improvements	Total
At 1 July 2020	\$	\$	\$	\$
Cost	1,472,039	130,460	250,969	1,853,468
Accumulated depreciation	(1,202,938)	(93,286)	(193,443)	(1,489,667)
Net book amount	269,101	37,174	57,526	363,801
Year ended 30 June 2021				
Opening net book amount	269,101	37,174	57,526	363,801
Additions**	124,612	4,413	20,295	149,320
Disposals	(17,048)	(6,492)	-	(23,540)
Depreciation charge	(98,105)	(8,861)	(38,128)	(145,094)
Net exchange difference	(4,711)	(387)	(369)	(5,467)
Closing net book amount	273,849	25,847	39,324	339,020
At 30 June 2021				
Cost	1,266,976	110,276	269,579	1,646,831
Accumulated depreciation	(993,127)	(84,429)	(230,255)	(1,307,811)
Net book amount	273,849	25,847	39,324	339,020
Year ended 30 June 2022				
Opening net book amount	273,849	25,847	39,324	339,020
Additions**	237,832	121,412	-	359,244
Disposals	(11,178)	-	-	(11,178)
Depreciation charge	(115,628)	(15,032)	(31,013)	(161,673)
Net exchange difference	4,026	170	271	4,467
Closing net book amount	388,901	132,397	8,582	529,880
At 30 June 2022				
Cost	1,198,006	160,512	10,267	1,368,785
Accumulated depreciation	(809,105)	(28,115)	(1,685)	(838,905)
Net book amount	388,901	132,397	8,582	529,880

** In 2022, there were additions through payment by instalments of \$115,966 (2021: \$nil), transfers from inventory of \$nil (2021: \$14,182) and addition through chattel mortgage of \$nil (2021: \$29,757).

Notes to the financial statements for the year ended 30 June 2022

12. Right-of-use assets

	2022 \$	2021 \$
Properties – right-of-use	4,873,494	1,975,542
Accumulated depreciation	(381,382)	(896,171)
Net book amount	4,492,112	1,079,371

Additions to the right-of-use assets during the year were \$4,372,184 (2021 - \$424,118).

The Group leases various properties and the rental contracts are typically made for fixed periods of 2 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The lease payments are discounted using the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

**Notes to the financial statements
for the year ended 30 June 2022**

13. Intangible assets

Year ended 30 June 2021	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
Carrying value at 1 July 2020	20,000	71,460	2,817,222	325,063	3,233,745
Additions	-	-	-	500	500
Amortisation charge	-	-	-	(250,073)	(250,073)
Carrying value at 30 June 2021	20,000	71,460	2,817,222	75,490	2,984,172
At 30 June 2021					
Cost	20,000	71,460	2,817,222	3,616,465	6,525,147
Accumulated amortisation	-	-	-	(3,540,975)	(3,540,975)
Net book amount	20,000	71,460	2,817,222	75,490	2,984,172
Year ended 30 June 2022	Agency Agreements \$	Design & Intellectual Property \$	Goodwill \$	Patents \$	Total \$
Carrying value at 1 July 2021	20,000	71,460	2,817,222	75,490	2,984,172
Disposal	-	(610)	-	-	(610)
Amortisation charge	-	-	-	(75,490)	(75,490)
Carrying value at 30 June 2022	20,000	70,850	2,817,222	-	2,908,072
At 30 June 2022					
Cost	20,000	70,850	2,817,222	3,616,465	6,524,537
Accumulated amortisation	-	-	-	(3,616,465)	(3,616,465)
Net book amount	20,000	70,850	2,817,222	-	2,908,072

Notes to the financial statements for the year ended 30 June 2022

Impairment tests for intangible assets

Intangibles are allocated to the Group's cash generating unit (CGU) identified according to operating segment.

A segment level summary of the intangible assets allocation is presented below for the year ended 30 June 2022.

	Heating Cooling & Ventilation \$
Year ended 30 June 2022	
Goodwill and intangibles	2,908,072

The recoverable amount of a CGU is determined based on value in use calculations. These calculations are a discount of future projected operational cash flows using a pre-tax discount rate of 12.5% (2021– 11.86%), a 3% per annum projected revenue growth rate based on revenue of \$20m starting from 2023 and 3% per annum rate increase in overhead costs.

Goodwill, intangibles and patent carrying values are tested using a net present value calculation using the above assumptions and an enterprise value method calculation. The net present value model uses a 1 year budget and a 4 year forecast with a terminal value based on past experience of three and half times estimated EBITDA at year five. The enterprise value model assumes a four and a half times estimated EBITDA for the next year.

The growth rate is based on best estimates of revenue in preparing the 1 year budget and the discount rate reflects the market and interest rate risks.

The pre-tax discount rate value would need to increase by 26.6 percent or the gross margin decrease by 2.9 percent or the revenue to decrease by 2.7 percent before the estimated recoverable amount approximates the carrying amount.

14. Deferred tax assets

	2022 \$	2021 \$
The balance comprises temporary differences attributable to:		
Deferred tax assets / (liabilities)		
Employee benefits	293,401	287,358
Tax losses	58,249	58,249
Other	82,456	77,263
Depreciation and amortisation	(34,735)	(21,503)
Intangibles	(22,500)	(22,500)
Total deferred tax assets at 25% (2021 - 25%)	376,871	378,867
Deferred tax assets expected to be recovered within 12 months at 25% (2021 - 25%)	331,393	325,635
Deferred tax assets expected to be recovered after more than 12 months at 25% (2021 - 25%)	45,478	53,232

Notes to the financial statements for the year ended 30 June 2022

14. Deferred tax assets (continued)

Movements	Employee Benefits	Tax Losses	Other	Depreciation amortisation	Intangibles	Total
	\$	\$	\$	\$	\$	\$
At 1 July 2020	278,418	64,074	72,506	7,900	(24,750)	398,148
(Charged)/credited						
- to profit or loss	35,619	-	11,862	(30,195)	-	17,286
- to other comprehensive income	-	-	-	-	-	-
Change in tax rate to 25%	(26,679)	(5,825)	(7,105)	792	2,250	(36,567)
At 30 June 2021 at 25%	287,358	58,249	77,263	(21,503)	(22,500)	378,867
(Charged)/credited						
- to profit or loss	6,043	-	5,193	(13,232)	-	1,996
- to other comprehensive income	-	-	-	-	-	-
At 30 June 2022 at 25%	293,401	58,249	82,456	(34,735)	(22,500)	376,871

Tax Losses Not Recognised

Unused tax losses for which no deferred tax asset has been recognised

	2022 \$	2021 \$
Opening balance	4,641,067	4,628,912
Current tax losses not recognised	2,015,886	220,264
Subtotal	6,656,953	4,849,176
R&D accounting (expenditure) per income tax return	-	(207,343)
Other adjustments per income tax return	-	(766)
Closing balance	6,656,953	4,641,067
Potential tax benefit at 25% (2021 - 25%)	1,664,238	1,160,267

Controlled Foreign Companies (CFC) losses Not Recognised

Unused CFC losses for which no deferred tax asset has been recognised

	2022 \$	2021 \$
Opening balance	443,666	534,475
Current recoupment of CFC loss not previously recognised	-	(201,524)
Current CFC losses not recognised	201,525	-
Subtotal	645,191	332,951
Other adjustments per income tax return	-	45,215
Previous years adjustment of tax losses	-	65,500
Closing balance	645,191	443,666
Potential tax benefit at 25% (2021 - 25%)	161,298	110,917

^ Balance per 2021 financial statements

^^ Adjusted closing balance based on lodged 2021 income tax return

Notes to the financial statements for the year ended 30 June 2022

15. Trade & other payables

	2022 \$	2021 \$
Current		
Trade payables	1,241,453	1,406,269
Other payables	822,627	590,618
Customer deposits	1,298,674	256,112
	3,362,754	2,252,999
Non-current		
Other payables	26,451	-
	26,451	-

16. Lease liabilities

	2022 \$	2021 \$
Current		
Lease liabilities	421,153	679,345
	421,153	679,345
Non-current		
Lease liabilities	4,132,804	477,127
	4,132,804	477,127

17. Employee entitlements

	2022 \$	2021 \$
Current		
Employee entitlements (note (a))	1,157,478	1,096,464
	1,157,478	1,096,464
Non-current		
Employee entitlements – long service leave	38,916	69,933

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

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

Notes to the financial statements for the year ended 30 June 2022

18. Contributed equity

	2022 Number	2021 Number	2022 \$	2021 \$
Share Capital				
Ordinary shares, fully paid	<u>17,714,009</u>	<u>17,714,009</u>	<u>7,104,700</u>	<u>7,104,700</u>

Movements in ordinary share capital

Date	Details	Number of shares	\$
01 July 2020	Opening balance	17,714,009	7,104,700
30 June 2021	Movement during year	-	-
30 June 2021	Balance	<u>17,714,009</u>	<u>7,104,700</u>
30 June 2022	Movement during year	-	-
30 June 2022	Balance	<u>17,714,009</u>	<u>7,104,700</u>

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid up on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Options

At reporting date, there were no listed and unlisted options (2021: Nil) on issue.

(c) Capital risk management

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

The Group's debt and capital include ordinary shares.

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

There are no externally imposed capital requirements on the Group.

19. Reserves

	Share Option \$	Foreign Currency Translation \$	Total Reserves \$
At 1 July 2020	89,960	(75,084)	14,876
Exchange differences on translating foreign operations	-	89,393	89,393
At 30 June 2021	<u>89,960</u>	<u>14,309</u>	<u>104,269</u>
At 1 July 2021	89,960	14,309	104,269
Exchange differences on translating foreign operations	-	(5,423)	(5,423)
At 30 June 2022	<u>89,960</u>	<u>8,886</u>	<u>98,846</u>

Notes to the financial statements for the year ended 30 June 2022

20. Remuneration of auditors

	2022 \$	2021 \$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity:		
BDO Audit Pty Ltd		
Audit and other assurance services		
Audit and review of financial statements	87,353	81,239
Other services		
R&D tax concession services	3,888	10,595
	91,241	91,834

21. Performance Guarantees

Performance guarantees supported by term deposits at balance date were:

- (a) property rental agreements \$246,356 (2021: \$nil)
- (b) commercial credit card facility \$30,000 (2021: \$30,000); and
- (c) operating licences \$19,841 (2021: \$32,089)
- (d) performance guarantee on contract \$191,500 (2021: \$nil)

22. Related party information

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

During the year 2022, there was no transaction between any directors and members of the Group (2021: \$nil).

- (b) Key management personnel disclosure

	2022 \$	2021 \$
Aggregate compensation		
Short term employee benefits	457,038	452,513
Post-employment benefits	33,500	30,700
Long term benefits	6,275	6,328
	496,813	489,541

Details of directors' remuneration are set out in the Directors' Report. The Company does not pay directors' retirement benefits other than the Company's superannuation contribution for the superannuation guarantee.

**Notes to the financial statements
for the year ended 30 June 2022**

23. Reconciliation of cash flows from operating activities

	2022	2021
	\$	\$
(Loss)/ profit after income tax	(1,521,965)	68,259
Depreciation and amortisation	928,287	1,052,044
Doubtful debts & bad debts	66,155	-
Net exchange differences	(16,380)	97,383
Net (gain)/ loss on disposal of non-current assets	(379)	2,169
Increase in finance costs	3,170	7,040
(Gain) on lease modification	(59,397)	(6,547)
Changes in assets and liabilities		
Decrease/ (increase) in trade receivables	1,110,355	(470,934)
(Increase)/ decrease in other receivables & prepayments	(32,826)	20,059
(Increase) in guarantee deposits	(260,783)	-
(Increase)/ decrease in inventories	(961,626)	5,232
Decrease in deferred tax assets	1,996	19,281
(Decrease)/ increase in trade payables	(164,816)	31,195
Increase in other payables	1,035,455	122,354
Increase in provisions	29,997	140,853
(Decrease)/ increase in income tax provision	(229)	542
Net cash inflow from operating activities	157,014	1,088,930

Notes to the financial statements for the year ended 30 June 2022

24. Earnings per share

	2022 \$	2021 \$
Basic earnings per share from continuing operations	(0.086)	0.004
Diluted earnings per share from continuing operations	(0.086)	0.004

Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and alternative basic earnings per share	17,714,009	17,714,009
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share and alternative diluted earnings per share	17,714,009	17,714,009

Reconciliations of earnings used in calculating earnings per share

		\$
Basic and diluted earnings per share		
(Loss)/ profit attributable to the ordinary equity holders of the Company:		
from continuing operations	(1,521,965)	68,259
Earnings used in calculating basic and diluted earnings per share	(1,521,965)	68,259

25. Parent entity financial information

(a) Summary financial information

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

	2022 \$	2021 \$
Statement of financial position		
Current assets	172,521	184,612
Total assets	7,434,229	8,041,035
Current liabilities	434,861	373,410
Total liabilities	434,861	383,241
<i>Shareholders' equity</i>		
Issued capital	7,104,700	7,104,700
Reserves	89,960	89,960
Retained earnings	(195,292)	463,134
Total shareholders' equity	6,999,368	7,657,794
(Loss) for the year	(658,426)	(271,571)
Total comprehensive income for the year	(658,426)	(271,571)

Notes to the financial statements for the year ended 30 June 2022

25. Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

	2022	2021
	\$	\$
Carrying amount included in current liabilities	-	-

(c) Contingent liabilities of the parent entity

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

26. Financing Arrangements

At reporting date, the Group had the following financing facilities:

	2022	2021
	\$	\$
Total facilities available		
Debtor financing liability*	2,500,000	2,500,000
Asset finance facility	200,000	200,000
Indemnity/guarantee facilities	458,841	211,089
Commercial credit card facilities	30,000	30,000
	3,188,841	2,941,089
Used at the reporting date		
Debtor financing liability	805,580	233,536
Asset finance facility	33,000	33,000
Indemnity/guarantee facilities	457,697	32,089
Commercial credit card facilities	26,000	23,000
	1,322,277	321,625

Air Change International Limited
Additional Information for National Stock Exchange of Australia
as at 29 August 2022

*The business has a revolving facility secured against approved trade Debtors less than 90 days past due. This facility has a present limit of \$2,500,000 (2021: \$2,500,000) and was drawn down as required during the year ended 30th June 2022. Not all Group Debtors are covered by this facility. The interest applicable is based on the floating 30 day Bank Bill Swap rate plus a fixed margin. The facility incurred a service fee of \$48,096 for the financial year (2021: \$48,363). Interest paid in the financial year on the facility was \$23,515 (2021: \$42,261).

Security

The financing facility is secured by general security deed over the Australian Group entities assets.

27. Contingent Consideration

2022 – Nil.

2021 – The year 2 earn out of \$74,421 was paid out to the vendor in August 2020.