2022 Air Change International Chairman's Report

Welcome to the Annual General Meeting of Air Change International Limited for the financial year ended 30 June 2022.

This update of the Company's position should be read in conjunction with the Managing Directors review in the 2021/22 Annual Report.

The effects of the Covid 19 pandemic continue to disrupt Group operations, still impacting component supplies, freight movement and costs, and the labour market.

However, although they continue, these disruptions are much less than those experienced the same time last year and, with the exception of available production labour, continue to get better.
Part and component availability has improved, with minor exceptions, and container freight prices and availability are much better than the same time last year.

Despite these improvements there have been some new negative effects.
Project delays due to rain on the Australian East coast continue to impact deliveries and thus cashflow.
Local road freight costs continue to rise resulting from the higher fuel costs since the Russian invasion of Ukraine.
The Australian dollar continues to impact costs. It has depreciated from a high of $0.69 to a low of $0.62 during the month of October then risen again to be $0.66 in mid November. This has negatively impacted overseas purchase costs during October and makes long term product costing difficult to set.

The overall result for the 4 months to end October 2022 was an increase in revenue over the same time last year, although it has not returned to the pre-pandemic level, and is predicted to continue to improve over the next 3 – 6 months.
This revenue improvement has resulted in the Group being profitable for the 4 months to 31 October 2022.

Orders and enquiries are down marginally in all market sectors over the first 4 months of this financial year.

An update on the Groups operations is detailed below.

(i) ***Australian Sales***

Sales of dedicated outdoor air and humidity control systems manufactured by Air Change and Dunnair have been strong in the first four months of the year. Sales of general purpose air conditioners are more subdued and remain very price competitive.

A number of potential orders in all business segments continue to be lost because products cannot be manufactured and delivered within the required time frame due to the shortage of production labour.

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Sales of air handling units and fan-coils and not being pursued strongly as labour resources can be better utilised manufacturing complex DOAS and dehumidification systems.

Summit Chiller sales are up significantly compared to previous years but component and skilled labour shortages are severely impacting deliveries.

Presently, forward orders exceed $12.4 million.

(ii) ***Australian Manufacturing Operations***
As noted, Australian manufacturing operations are presently hindered by a shortage of skilled and semi-skilled labour.

This has improved marginally since the manufacturing operation was moved from Milperra to Ingleburn in April this year.

(iii) ***South East Asian Sales***
Sales for the first 4 months of this financial year in Singapore are down about 20% but enquiries for delivery later this year remain strong.

If the presently predicted orders are confirmed, sales in Sth East Asia for this financial year should be similar to those in 2022.

(iv) ***Malaysian Manufacturing***
The new manufacturing operation in Malaysia continues to improve with production exceeding all previous volumes.

As noted above, Sth East Asian sales are down but have been more than replaced by sales to Australia. Sales from the Malaysian manufacturing operation for the first 4 months of this financial year are double those for the same period last year reflecting the increased output from this operation.

With the reduction in container freight rates, this operation is becoming increasingly important to supply the Australian market.
All South East Asian sales are produced in this facility.

(v) ***Liquidity and Cashflow***
Shipping delays, principally from China, and project delays are impacting product deliveries and therefore Group cashflow.

The time between purchasing parts and components and manufacture has increased as these are purchased when available and in quantity. Similarly, the volume of components now sourced from overseas is increasing requiring additional investment.

The Group has not breached any debt funding or other financial covenant or legal obligation as a result of these delays.

(vi) Insurances

The Group has just completed its insurance renewal program for the coming 12 months. All insurances have again suffered premium increases but these increases have been either similar to or below the general rate increase.

(vii) New Products and Product Improvements

The Group continues to research and develop new products and improve the quality and application of its existing product range.

(viii) Future Impact

It is still very difficult to predict the future in these uncertain times.
Anecdotal evidence suggests that the construction of new buildings is decreasing and this will impact sales over the coming 12 months.

However, the amount of Air Change product retro fitted to existing buildings to control humidity is increasing and will go a long way to offset the sales lost to a decline in new construction activity.

Alan Jones
Chairman
Air Change International Limited