

Appendix 3

Air Change International Limited

ABN 14 087 737 068

Half yearly report Period ended 31 December 2018

Results for Announcement to the Market

Corresponding period is 31 December 2017

| | | | | |
|---|---------|-------|----|------------------|
| Total revenue & other income from ordinary activities | up/down | 3.99% | to | \$A'000 9,513 |
| Profit/ (loss) from ordinary activities after tax attributable to members | up/down | 8.41% | to | (348) |
| Net profit/ (loss) for the period attributable to members | up/down | 8.41% | to | (348) |

| 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 | \$0.140 | \$0.186 |

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 2018

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| | |
|---|---|
| Directors: | Alan Stephen Jones (Non-Executive Chairman) John Michael Langley (Independent Non-Executive) Raymond Neil Fimeri (Executive Director) |
| Secretary: | Robert Lees |
| Principal & Registered Office: | 2 Ashford Avenue Milperra NSW 2214 Tel: (02) 8774 1488 Fax: (02) 8774 1490 e-mail: invest@airchange.com.au |
| Share Registrar: | Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 1115 |
| Auditors: | BDO East Coast Partnership Level 11, 1 Margaret St Sydney NSW 2000 |
| Bankers: | ANZ Level 4, 20 Smith St Parramatta NSW 2150 |
| Solicitors: | Addison Lawyers Level 12 60 Carrington Street Sydney NSW 2000 |
| Stock Exchange Listing: | Air Change International Limited shares are listed on the National Stock Exchange of Australia Limited (Code: ordinary shares "AC1") |
| Company number: | ACN 087 737 068 ABN 14 087 737 068 |

DIRECTORS' REPORT

Your directors present their report on the Air Change International Group, consisting of Air Change International Limited ("the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors and Officers

The following persons were directors of the Company at any time during the half year and up to the date of this report:

Alan Stephen Jones (Chairman, Non-Executive director)

John Michael Langley (Independent Non-Executive Director)

Raymond Neil Fimeri (Executive Director)

Principal Activities & Operational 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 operations are organised into three operational business units:

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

The Group has manufacturing operations in Australia and Malaysia.

Review of Operations

Sales revenue and other income for the half year to 31 December 2018 was up 4% from the corresponding period last year to \$9.513 million.

Revenue for the period was adversely affected by two principal factors:

- a shortage of skilled and unskilled labour in both Australia and Malaysia; and
- an under-priced project that consumed excessive labour impacting the delivery of other products.

These two factors impacted both revenue and profitability for the half year. Labour shortages will continue to impact deliveries and hence revenue for at least the next quarter.

The new Dunnair operation made a positive contribution, albeit small, as design and engineering changes that are being implemented to improve the product offering slowed sales. Sales revenue will grow further as more specialised products are released to the market.

Process cooling sales for the period were down but this reflects the cyclical nature of this business operation.

Forward orders at year end were still in excess of \$7 million with a substantial enquiry pipeline, particularly for the Group's close control systems.

Gross profit margins continue to be impacted by intense price competition for the Group's basic ventilation products.

A complete review of operations is now underway to determine if the present operating structure can be improved.

Dividends

The Directors do not recommend the payment of a dividend at this time.

Auditor's independence declaration

A copy of auditor's independence declaration as required under section 307C of the Corporation Act 2001 is set out on page 5.

Signed in accordance with a resolution of the Directors.



Raymond N Fimeri
Managing Director

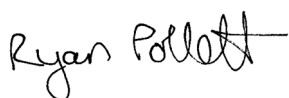
Sydney
11 March 2019

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 2018, 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.



Ryan Pollett
Partner

BDO East Coast Partnership

Sydney, 11 March 2019

Air Change International Limited
Consolidated statement of profit or loss and other comprehensive income
for half year ended 31 December 2018

| | | Half-year | |
|--|-------------|--|--|
| | Note | 31 December 2018 \$'000 | 31 December 2017 \$'000 |
| Revenue | | 9,002 | 9,098 |
| Other income | | 511 | 51 |
| Total revenue & other income | | 9,513 | 9,149 |
| Changes in inventories | | (266) | (28) |
| Raw materials and consumables used | | (5,098) | (4,871) |
| Administration costs | | (450) | (441) |
| Occupancy costs | | (569) | (540) |
| Employee benefits expenses | | (3,141) | (3,132) |
| Depreciation and amortisation expenses | | (237) | (291) |
| Finance costs | | (57) | (46) |
| Other expenses | | (72) | (129) |
| (Loss) before income tax | | (377) | (329) |
| Income tax benefit | 6 | 29 | 8 |
| Net (loss) for the period | | (348) | (321) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Exchange differences on translating foreign operations | | 14 | (22) |
| Other comprehensive income for the period, net of tax | | 14 | (22) |
| Total comprehensive (loss) for the period | | (334) | (343) |
| Basic earnings per share | | (\$0.020) | (\$0.018) |
| Diluted earnings per share | | (\$0.020) | (\$0.018) |

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 2018

| | | 31 December 2018 | 30 June 2018 |
|---|------|------------------|---------------|
| | Note | \$'000 | \$'000 |
| Current assets | | | |
| Cash and cash equivalents | | 347 | 88 |
| Trade & other receivables | 7 | 4,082 | 4,045 |
| Inventories | | 2,388 | 2,654 |
| Total current assets | | 6,817 | 6,787 |
| Non-current assets | | | |
| Plant, equipment and leasehold improvements | | 528 | 629 |
| Rental bonds | | 68 | 67 |
| Intangible assets | 8 | 3,729 | 3,853 |
| Deferred tax assets | | 485 | 456 |
| Other receivables | | 31 | 29 |
| Total non-current assets | | 4,841 | 5,034 |
| TOTAL ASSETS | | 11,658 | 11,821 |
| Current liabilities | | | |
| Trade & other payables | | 3,308 | 3,166 |
| Borrowings | 9 | 918 | 933 |
| Employee entitlements | | 849 | 815 |
| Total current liabilities | | 5,075 | 4,914 |
| Non-current liabilities | | | |
| Other payable | | 237 | 237 |
| Employee entitlements | | 133 | 123 |
| Total non-current liabilities | | 370 | 360 |
| TOTAL LIABILITIES | | 5,445 | 5,274 |
| Net Assets | | 6,213 | 6,547 |
| Equity | | | |
| Contributed equity | 4 | 7,105 | 7,105 |
| Reserves | | 9 | (5) |
| Retained earnings | | (901) | (553) |
| Total Equity | | 6,213 | 6,547 |

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 2018

HALF-YEAR ENDED 31 December 2018

| | Issued capital | Reserves | Retained earnings | Total |
|---|---------------------------|-----------------|------------------------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 1 July 2018 | 7,105 | (5) | (553) | 6,547 |
| (Loss) for the period | - | - | (348) | (348) |
| Other comprehensive income, net of tax | - | 14 | - | 14 |
| Total comprehensive income/(loss) for the period | - | 14 | (348) | (334) |
| As at 31 December 2018 | 7,105 | 9 | (901) | 6,213 |

HALF-YEAR ENDED 31 December 2017

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

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 2018

| | Note | 31 December 2018 \$'000 | 31 December 2017 \$'000 |
|--|------|-------------------------------|-------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 10,598 | 9,564 |
| Payments to suppliers, employees and creditors | | (10,258) | (9,801) |
| Interest received | | 2 | 2 |
| Finance costs | | (57) | (46) |
| Income tax paid | | - | (1) |
| Net cash inflow/(outflow) from operating activities | | 285 | (282) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of plant, equipment & leasehold improvements | | (11) | (15) |
| Proceeds from disposal of plant & equipment | | - | - |
| Net cash (outflow) from investing activities | | (11) | (15) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | 5,910 | 6,775 |
| Repayment of borrowings | | (5,925) | (6,535) |
| Net cash (outflow)/inflow from financing activities | | (15) | 240 |
| NET INCREASE/(DECREASE) IN CASH HELD | | 259 | (57) |
| Cash at the beginning of the reporting period | | 88 | 240 |
| Exchange differences on cash & cash equivalents | | - | (1) |
| Cash at the end of the reporting period | | 347 | 182 |

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 2018 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 2018 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) 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.

The Group has a Confidential Debtor Finance Facility that is necessary to finance its working capital requirements. The term of this facility has now expired and can therefore be withdrawn at one month's notice. An extension to this facility is being negotiated.

Without this facility, the entity's ability to continue as a going concern would be in significant doubt, and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

At the date of this report, the Directors are of the opinion that there are reasonable grounds to expect that the Company will be able to extend this or a similar facility and continue as a going concern. In arriving at this conclusion, the Directors considered that the facility limit has been increased since the term expired and that documentation to renew the facility is being negotiated.

(iii) New, revised or amending Accounting Standards and Interpretations adopted

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

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2018 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 2018

Note 2. Operating Segments

Operating segment information

| | Segment Revenues | | Segment Results | |
|--|------------------|--------|-----------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Heating, cooling & ventilation | 9,513 | 9,149 | (377) | (329) |
| Operating (loss) before income tax | | | (377) | (329) |
| Operating (loss) after income tax benefit | | | (348) | (321) |
| Net (loss) attributable to members of Air Change International Limited | | | (348) | (321) |

Note 3. Dividends

There were no dividends paid during the period.

Note 4. Equity securities on issue

| | December 2018 Shares | June 2018 Shares | December 2018 \$'000 | June 2018 \$'000 |
|-----------------------------|----------------------------|------------------------|----------------------------|------------------------|
| Share Capital | | | | |
| Ordinary shares, fully paid | 17,714,009 | 17,714,009 | 7,105 | 7,105 |

Note 5. Contingent liabilities

Bank Guarantees

2018 and 2017

Bank guarantees have been provided in relation to an operating lease rental agreement entered in the normal course of business of \$164,036 (June 2018: \$146,000), \$30,000 in relation to the commercial credit card (June 2018: \$30,000), \$23,997 in relation to operating license (June 2018: \$23,617) and \$nil in relation to performance guarantee in respect of contract (June 2018: \$14,000), all are supported by term deposits.

Notice of claim

2018 – The claim at December 2017 was settled for \$20,000. No outstanding claims remain.

2017 - A Company subsidiary has been issued with a notice claiming it received a preferential payment of \$86,647 in respect of a payment it received in early 2014. This claim will be vigorously defended.

Air Change International Limited
Notes to and forming part of the financial statements
for the half-year ended 31 December 2018

Note 6. Income tax expense

| | 2018 \$'000 | 2017 \$'000 |
|---|------------------------------|------------------------------|
| (Loss) from ordinary activities before income tax expense | (377) | (329) |
| Income tax calculated at 27.5% (2017 – 27.5%) | (104) | (91) |
| Tax effect of amounts not deductible in calculating taxable income | | |
| Research & development refundable tax offset | (121) | - |
| Other | 11 | 12 |
| Prior year under provision of income tax | - | - |
| | (214) | (79) |
| Net taxable losses not recognised | 200 | 74 |
| Temporary differences not recognised | (5) | (1) |
| Recoupment of foreign subsidiary's tax losses not previously recognised | (10) | (2) |
| Income tax (benefit) | (29) | (8) |

Note 7. Trade receivable – dispute

A back to back claim for damages has been made against a subsidiary of the Company which has caused the suspension of payment of a trade receivable and the seizure of a performance bond with a total value of \$175,168. This claim is part of a wider contractual dispute between our direct client and their head contractor. This wider matter is now subject to arbitration and litigation proceedings which has caused the suspension of the Company's claim until the wider matter is resolved. Whilst we believe that we are legally entitled to approximately 90% of this amount, legal advice is that because of the complexity of the matter, the legal representation cost of arbitration will substantially exceed the claim. Whilst this claim will be vigorously pursued using Company resources, it is deemed prudent to set aside the total amount of our claim until this matter has been finally resolved and hence the receivable has been provided for in full as at 30 June 2018 and 31 December 2018.

Air Change International Limited
Notes to and forming part of the financial statements
for the half-year ended 31 December 2018

Note 8. Intangible assets

| Non-current asset | Agency | Design & | Goodwill | Patents | Total |
|--------------------------------------|-------------------|---------------------|-----------------|----------------|---------------|
| Year ended 30 June 2018 | Agreements | Intellectual | | | |
| | \$'000 | Property | \$'000 | \$'000 | \$'000 |
| Carrying value at 1 July 2017 | 20 | 71 | 2,524 | 1,184 | 3,799 |
| Additions | - | - | - | 1 | 1 |
| Addition through acquisition | - | - | 441 | - | 441 |
| Amortisation charge | - | - | - | (388) | (388) |
| Carrying value at 30 June 2018 | 20 | 71 | 2,965 | 797 | 3,853 |
| At 30 June 2018 | | | | | |
| Cost | 20 | 71 | 2,965 | 3,590 | 6,646 |
| Accumulated amortisation | - | - | - | (2,793) | (2,793) |
| Net book amount | 20 | 71 | 2,965 | 797 | 3,853 |
| Non-current asset | Agency | Design & | Goodwill | Patents | Total |
| Period ended 31 December 2018 | Agreements | Intellectual | | | |
| | \$'000 | Property | \$'000 | \$'000 | \$'000 |
| Carrying value at 1 July 2018 | 20 | 71 | 2,965 | 797 | 3,853 |
| Additions | - | - | - | - | - |
| Amortisation charge | - | - | - | (124) | (124) |
| Carrying value at 31 December 2018 | 20 | 71 | 2,965 | 673 | 3,729 |
| At 31 December 2018 | | | | | |
| Cost | 20 | 71 | 2,965 | 3,590 | 6,646 |
| Accumulated amortisation | - | - | - | (2,917) | (2,917) |
| Net book amount | 20 | 71 | 2,965 | 673 | 3,729 |

Note 9. Borrowing

The Group has a finance facility secured by a general security deed over present and future property of the Group companies. The facility limit is \$1,600,000 (June 2018: \$1,300,000) subject to the available qualifying receivable assets.

Note 10. Events occurring after reporting date

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 11. Rounding of amounts to the nearest thousand dollars

The Company satisfies the requirements of ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to "rounding off" of amounts in the directors' report and the financial statements to the nearest thousand dollars.

Amounts have been rounded off in the directors' report and the financial statements in accordance with that legislative instrument.

Air Change International Limited
Directors' declaration
for half-year ended 31 December 2018

DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) The financial statements and notes set out on pages 6 to 14 are in accordance with the Corporations Act 2001 and:
 - (i) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2018 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
11 March 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Air Change International Limited

Report on the Half-Year Financial Report

Qualified 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 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, with the exception of the matter described in the *Basis for qualified conclusion* section, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 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 qualified conclusion

As discussed in Note 1(ii), the Company's financing arrangements have expired and can therefore be withdrawn at one month's notice. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not adequately disclose this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134



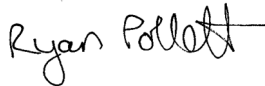
Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO
A handwritten signature in black ink, appearing to read 'Ryan Pollett', is written over the printed name.

Ryan Pollett
Partner

Sydney, 11 March 2019