

## 2021 Air Change International Chairman's Report

Welcome to the Annual General Meeting of Air Change International Limited for the financial year ended 30 June 2021.

This update should be read in conjunction with the Managing Directors review in the 2020/21 Annual Report.

The Covid 19 pandemic continues to disrupt Group operations impacting on component supplies, freight movement and costs, and the available labour market.

New orders in all market sectors have been strong in the first quarter of this new financial year with the Group holding good forward order volumes at end of October 2021.

However, sales for the same period are down due to the reasons stated above as well as delivery deferments due to project construction delays.

At this same time last year, we expected an improvement in the supply chain by now. This has not occurred and in fact has worsened with freight pricing from South East Asia up from an average of \$13,000 per container this time last year to recent costs of over \$20,000. Similar percentage increases effect freight from China.

Reports indicate that this situation is not predicted to improve until late 2022 at the earliest with no indication that costs will return to pre-pandemic levels.

An update on the Groups operations is detailed below.

### **(i) *Australian Sales***

Air Change and Dunnair product orders have been strong in the first four and a half months of the year.

A number of potential orders have been lost because products cannot be manufactured and delivered within the required time frame.

Fancoil Industry sales remain at subdued levels because of very significant price competition from imported air handing and fan coil units in the building services market. Given the Group manufacturing limitations, this is not a concerning issue.

Lastly, Summit Chiller sales are up significantly with an increase of 400% in chiller sales possible this year compared to last year provided that components and labour can be sourced for their manufacture.

### **(ii) *Australian Manufacturing Operations***

As noted, Australian manufacturing operations are presently hindered by a lack of parts and components as well as the shortage of skilled and semi-skilled labour.

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Container services have not been fully restored and there is forecast disruptions at Australian ports due to industrial action which will continue to limit manufacturing volumes for the foreseeable future.

Airfreight is still impacted by the pandemic but predicted to improve which will help with critical supply issues.

### **(iii) South East Asian Sales**

Sales and orders are up this year despite some major projects still delayed because of labour shortages in the region.

### **(iv) Malaysian Manufacturing**

The new manufacturing operation in Malaysia is performing well but is disadvantaged by the very high container freight rates to ship from Malaysia to Australia bringing costs in line with Australian manufacture.

The Group continues to use this manufacturing facility to produce products for South East Asia customers and to manufacture for the Australasian market principally because of labour shortages in our home market.

### **(v) Government Assistance**

Because of the impact on operations due to the Delta variant, the Group participated in the New South Wales Government Job-saver program.

### **(vi) Liquidity and Cashflow**

Shipping delays are still impacting product deliveries and therefore Group cashflow because all imported product and components are paid for prior to shipment.

As a result, partly completed product inventories have increased substantially with the corresponding impact on cashflow.

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

### **(vii) 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.

### **(viii) 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.

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### **(ix) Future Impact**

It is still very difficult to predict the future in these uncertain times.

There remain positive trends in Australia with forecasts of a GDP rebound in 2022 with Government stimulus and infrastructure spending continuing to rise.

Contractors continue to quote lower tender prices for projects on the expectation that suppliers will discount their prices to secure the work.

This is forcing the industry to downgrade project specifications to meet these unrealistic price expectations.

Alan Jones

Chairman

Air Change International Limited