



AIR CHANGE INTERNATIONAL LTD

**2 Ashford Avenue
Milperra
New South Wales 2214**

ANNUAL GENERAL MEETING – 2019 CHAIRMAN'S ADDRESS

Welcome to this the 19th Annual General Meeting of the Company.

As you have read in the Annual Report, the 2018/19 financial year was overall disappointing for the Company but there were positive developments, particularly in the last quarter.

Total revenue for the year was up \$656k from the previous year's \$18.21 to \$18.87 million and was again impacted by manufacturing bottlenecks, principally a shortage of labour. The loss of \$377k included a depreciation and amortisation cost of \$467k indicating that the Group was marginally cash positive over the year. No major write downs or impairments were recorded.

The loss of \$377k before income tax followed a loss of \$348k in the first half. Although the full year loss was up slightly over that recorded for the first half, it represented a significant turnaround of approximately \$425k in operational income during the second half as the first half result included government R&D income from expenses incurred in the 2017/18 year's R&D activity. Most of this improvement occurred in the 4th quarter

It is pleasing to report that the Group has continued the trend established in the 4th quarter of 2018/19 and has traded profitably over the first 4 months on this current financial year.

Sales for the first 4 months of this FY are up approximately 20% on the same period last year and has resulted from an increase in sales of dedicated outdoor systems, precise control units and standard air conditioning systems and a fall in air handling and chiller sales.

Going forward, it is difficult to predict trading conditions over the next 12 months. Quoting volumes are very strong but orders have slowed over the past 3 months resulting in orders on hand being approximately 15% lower than those held at the same time last year. Product sales have not been lost but the slowdown in order intake reflects a general deferment or postponement of project and capital expenditure.

South East Asia has been a difficult market to penetrate over the past 6 years. Sales have been sporadic but sufficient to just cover costs. However, new partnerships in the region have resulted in new opportunities and the Group now has a record number of quotes in the pipeline which may lead to an increase in SEA sales.

The fall in the Australian dollar is having an effect on sales, particularly on the cost of Dunnair air conditioning units which have a large proportion of their cost base in US dollars.

This AUD fall has also impacted Malaysian costs as the MYR has strengthened 15% against the AU\$ over the past 18 months.

The Company accounts for the 2018/19 half and full year were qualified by the Auditor due to a disagreement over the wording of a note to the accounts.

A note was deemed necessary because the Group's principal funding facility had expired and thus could be cancelled with 3 months notice by the funder.

Both the Company and the Auditor agreed that a note to this effect should be included in the accounts, but there was no consensus as to the wording of the note.

Discussions with the financier were positive and the facility limit under the expired agreement had been increased, but new documentation had been delayed for procedural reasons. The documentation to increase and extend the duration of this funding facility has now been executed.

There has been uncertainty over the past 15 months regarding the lease of the Company's Milperra factory because the owner had considered a redevelopment of the site.

We can now report the Company has just executed a new 3 year lease to remain in Milperra which expires in December 2022.

The Dunnair acquisition has proved positive and has provided product sourcing opportunities that were not previously available to the Company.

As a result, it is intended to undertake a review of all products, their components and manufacturing location early next year to see if there are further cost reduction and consolidation opportunities.

Alan Jones

Chairman