

# Appendix 4E

## Preliminary final report for the financial year ended 30 June 2006

Name of entity

**AERIS TECHNOLOGIES LTD** ABN: 19 093 977 336

### Results for announcement to the market

				\$A'000
Revenues from ordinary activities	up	\$1,870	to	1,556
Profit (loss) from ordinary activities after tax attributable to members	up	6.7%	to	(3,527)
Profit (loss) from extraordinary items after tax attributable to members		-		-
Net profit (loss) for the period attributable to members	up	6.7%	to	(3,527)
<b>Dividends (distributions)</b>		Amount per security	Franked amount per security	
Final dividend		Nil ¢	Nil ¢	
Previous corresponding period		Nil ¢	Nil ¢	

### Highlights

- \$588,000 income in last quarter
- Regulatory approval gained in USA for key products
- AerisGuard™ OEM Corrosion Protection order from leading manufacturer
- Acquisition of food storage hygiene company
- New direct service subsidiary formed in Australia
- Aeris Technologies recognised by the National Asthma Council of Australia
- Company awarded \$150,000 Export Market Development Grant
- Pioneering trials in biofilm removal in industrial water circuits

### Overview

Over the last 12 months Aeris Technologies has continued to build on its success in previous years, gaining regulatory access to the largest global market, strengthening its relationship with key distribution partners and generating improved revenues in the last quarter.

### USA Update

The USA market is the largest air-conditioning market in the world. It is also the most regulated.

Aeris has been working with specialist consultants in the USA over the past 18 months to secure the critical regulatory approval for its products and in March 2006 received formal notification from the US

Federal EPA that its core Bioactive Coil Treatment had gained approval. This registration, which gives the Company unique anti-microbial claims, was a major milestone for the Company and happily was completed in the timeframe advised.

In addition at the beginning of May Aeris Technologies received notification from the US Federal EPA that a second Aeris product, the patented AerisGuard Bioactive Filter Treatment, had also gained regulatory approval.

Importantly the registrations allowed Aeris to gain the administrative State registrations, complete the development of its distribution network and commence the promotion of its AerisGuard environmental hygiene system in the USA, the largest air-conditioning market in the world.

Over the past 4 months Aeris has been working with its distribution partners in the US to develop future business from both large corporate accounts and the large network of independent service companies and is currently working with one its distribution partners on securing a large global customer account in the healthcare market.

### **Japan Update**

Japan is the second largest air-conditioning market in the world and Aeris distribution partner in the region is Sumitomo 3M.

Sumitomo 3M Limited is the largest subsidiary of 3M (outside of US) with over 2,000 employees in Japan and strong experience in the marketing of a vast range of industrial and consumer products.

AerisGuard products have now been specified by a number of high profile commercial customers in Japan and interest in the technology continues to rise in the region. In addition Sumitomo 3M have commenced promotion of the AerisGuard air-conditioning hygiene system to the residential market with a multi-media campaign.

The 3M Company also has a worldwide focus on food assurance and as a consequence there has been growing interest from 3M in Japan and in other major markets in Aeris's recent entry into the cold storage hygiene market with its new subsidiary Aeris Hygiene Services. This interest stems from a statement made by the new CEO of 3M, George Buckley, where he announced the formation of several Emerging Business Opportunities (EBOs) within 3M which were focused on addressing commercial opportunities presented by the "mega trends of society" including those in high-growth spaces such as food safety. Aeris will be working with 3M to explore opportunities to jointly promote the AerisGuard solution.

### **Refrigerated Food Storage Market**

In June 2006 the Company's new direct service subsidiary, Aeris Hygiene Services Pty Ltd, completed the acquisition of the operating business (including client base, agreements and work in progress) of Steriair Coolroom Cleaning Service Pty Ltd (Steriair).

Aeris Hygiene Services (AHS) was specifically formed to focus on the supply and application of the Company's unique AerisGuard Bioactive hygiene protection technology to cool-room refrigeration systems in Australia and New Zealand.

Steriair commenced operations in 2005 and entered into an MOU (memorandum of understanding) with Aeris in November 2005 for the application of the AerisGuard system in the substantial refrigerated food market. A series of highly successful commercial trials in cool storage facilities at Flemington Market in Sydney demonstrated that the unique AerisGuard Bioactive solutions cleaned and protected the refrigeration systems and the cool-room environment from biofilm and mould contamination and provided the cool-room operators with measurable efficiency improvements in the equipment.

The management of Steriair has a depth of experience and contacts in the Australasian and South East Asian fresh produce markets and has start-up annualised sales of approximately \$200,000.

The acquisition of Steriair was satisfied with the issue of Aeris Technologies Ltd share options which had no material dilutionary impact on the issued capital of the Company.

The purpose of the Steriair acquisition was to rapidly grow AHS in the food safety and storage market in Australia and New Zealand by targeting major corporations who require a safe refrigeration environment from producer to retailer, and to then expand into Aeris' established export markets. Significantly, the acquisition also heralds the Company's intention to utilise a direct sales and service approach in markets where no 3rd party distribution channel currently exists.

AHS market research has highlighted that whilst a significant number of cool-room refrigeration systems in Australia are contaminated with mould and bacteria, most are not cleaned. This contamination, as well as being a hazard to food hygiene, also significantly reduces the efficiency of the cooling equipment leading to poor temperature and humidity control - potentially reducing the shelf-life of the foodstuff.

Importantly for AHS, this hygiene issue is commonly in plain view with mould growing on the refrigeration system and the surrounding walls and ceiling. As food hygiene requirements become ever more stringent for food producers, processors and retailers, the total opportunity for cool-room refrigeration hygiene services in Australia is estimated to be in excess of \$100 million per year and includes the fresh produce, meat, seafood, food retail, hospitality, refrigerated transport and pharmaceutical industries.

AHS was commercially fully operational on 1st July 2006, and will be targeting a rapid growing business in Australia before expanding the foot print into the Company's export markets.

The Company's distribution partner in Japan, Sumitomo 3M, has already shown interest in entering the refrigeration market with the AerisGuard hygiene system with initial pre-launch trials expected in the next quarter.

#### **AerisGuard Corrosion Protection**

In May 2006 the Company announced that it had received its first commercial order for its AerisGuard OEM Corrosion Protection product (previously named AerisCoat) from one of the world's leading manufacturers of air-conditioning and refrigeration systems.

The order from Trane Thailand was for an initial 2,000 litres and the account is expected to scale up to an estimated \$650,000 in annual sales revenue to Aeris Technologies within the first two years.

Trane is a subsidiary of American Standards (a Fortune 500 company) and importantly has 28 manufacturing operations around the world. Aeris's focus on the leading air-conditioning and refrigeration manufacturers was previously announced in the December 2005 quarterly report and it is therefore particularly pleasing that Trane has chosen the Company's technology to begin application in one of its key South East Asian production centres.

The successes with SKM and Voltas substantially validated the Company's technology, however receiving an order from a globally recognised company such as Trane provides an exceptional endorsement of the commercial opportunity of the AerisGuard Corrosion Protection technology across the global markets.

In addition, Aeris Technologies continues to be in active discussions with other OEM manufacturers and has provided HVAC coils coated with AerisGuard OEM Corrosion Protection to a number of large manufacturers in the USA.

## **Water Treatment**

Following the formation of Aeris Biological Systems Pty Ltd (a wholly owned subsidiary of Aeris Technologies Limited) in November 2005, the Company has performed a number of successful applications of its patented AerisGuard Multi-Enzyme Biofilm Cleaning product in both cooling towers and large industrial water systems.

Biofilm fouling of water circuits is an extremely common occurrence worldwide and can result in significant reduction in system efficiency and corrosion of the infrastructure. Awareness of these issues is increasing and Aeris is now targeting a number of large global industrial companies with large industrial water systems with the Company's patented AerisGuard Multi-Enzyme Biofilm Cleaning product.

Aeris Biological Systems (ABS) has now gained the commitment from a mining operation in New South Wales which is part of an international resources group, to apply the AerisGuard biofilm removal system to its dust retention water supply. It is envisaged that the product will eventually be dosed into the water system every month to control the growth of biofilm. Biofilm issues are common in the majority of underground mines and this first account will now open up larger sales opportunities in the mining industry both in Australia and overseas.

In addition ABS is in discussions with a large paper mill in Australia to apply the AerisGuard biofilm cleaning product to their DAFT (dissolved air flotation tank) water system. It is now anticipated that a paid trial at the paper mill will occur in the first quarter of financial year 2006/2007 with a successful outcome predicted to open up wider opportunities in the paper industry.

## **Indochina Update**

Aeris and Trane continue to make positive inroads into the Indochina market with Trane direct key accounts now actively implementing both AerisGuard hygiene and corrosion protection programs throughout Bangkok and surrounding territories.

The ongoing regional dealer applicator network education program is also being well received and the network continues to grow. This is now being reflected in demand for the products as more companies understand the unique business benefits associated with AerisGuard.

Aeris' Technical Services Manager recently travelled to Thailand to supervise and assist in initial critical applications at several large scale industrial and resort hotels throughout the greater Bangkok region and Phuket.

In Bangkok a major manufacturing facility presented an opportunity for Trane and Aeris to provide a corrosion solution that is critical in reducing the energy demand of the HVAC systems. The positive results from the initial trial are expected to fully convert the site and 3 other facilities owned by the company to both AerisGuard Hygiene and AerisGuard Maintenance Corrosion Protection.

With the successes now achieved in Indochina, other Trane offices throughout the Asia Pacific region are now expressing interest in adopting the AerisGuard Hygiene and Corrosion Protection systems.

## **Aeris Recognised by the National Asthma Council of Australia**

The National Asthma Council of Australia has officially recognised the AerisGuard Total Air Care Pack as a product that helps to reduce the exposure of asthma and other allergy sufferers to potential allergy triggers.

Aeris Technologies is 1 of only 6 companies to be included in a new National Asthma Council program, "Sensitive Choice" that helps consumers to instantly identify better choices for managing their asthma and allergies.

According to the National Asthma Council Chairman, Assoc Prof John Wilson, "more than two million Australians have asthma and any initiative that can help them manage their asthma by making better purchase decision will be a significant benefit. In the same way that the National Heart Foundation's tick indicates a better food choice for heart-health, the 'Sensitive Choice' butterfly will become synonymous with a better choice of product for any one with allergy or asthma." The program is called "Sensitive Choice" and allows Aeris Technologies to feature the "Sensitive Choice" butterfly logo on promotional material and packaging of the AerisGuard Total Air Care Pack.

Aeris' involvement in this beneficial initiative is well aligned with the Company's products and target consumer groups. As such, it is expected to greatly assist in its ongoing campaign to raise awareness of the issues associated with indoor air quality in Australian homes and buildings and in promoting sales of Aeris' residential products.

### **Senior Management Appointments During Year**

The appointments during the year of a global sales manager and global marketing manager at Aeris Technologies together with a general manager for Aeris Hygiene Services have further strengthened the skill and experience base of the Aeris team.

Rob McLean joined as Global Sales Manager. Rob has a degree in chemistry and significant experience in international distributor management and senior business development. He spent over 10 years with one of the leading global chemical companies, Eastman, both in senior international sales and marketing roles. In addition he has lived in USA and China and speaks conversational mandarin. Rob brings a wealth of international experience together with a critical understanding of the manufacturing industry which is fundamental to Aeris' OEM business opportunity.

Andrew Young joined Aeris as Global Marketing Manager. Andrew has a degree in commerce, an MBA and a wealth of senior marketing management experience in a wide variety of business to business (B2B) and business to consumer (B2C) organisations. Prior to joining Aeris Andrew was a Senior Partner Marketing Manager at Singtel Optus and Global Product Manager at Aristocrat. Andrew's depth and breadth of marketing experience and his understanding of the full marketing mix will continue to drive our success in the consumer, commercial and OEM markets.

Grenville Delfs is the new General Manager of Aeris Hygiene Services. Grenville has a degree in chemistry, has held a number of senior management positions for well respected global companies and has a strong background in running services businesses. Prior to joining Aeris Grenville worked for Orica Chemnet and Ecolab as Division Manager. He brings a wealth of service and technology experiences to Aeris which he will now use to build on the foundations laid by Steriair and drive the expected high growth of Aeris Hygiene Services.

### **Export Market Development Grant**

Earlier in the year the Company received notification from Austrade that it had been awarded the maximum Export Market Development Grant (EMDG) cash reimbursement of \$150,000 for the prior financial year 2004/2005.

The Company received the initial payment of \$70,000 in March 2006 and the balance was received in June.

The EMDG scheme is the Australian Government's principal financial assistance program for aspiring and current exporters and supports Australian businesses to develop export markets. It reimburses up to 50 per cent of expenses incurred on eligible export promotion activities.

This is the second consecutive year that Aeris has successfully applied for the EMDG scheme and the Company is eligible to apply for a further five years.

### Comments on Results from Operations

The financial results for the 2005/2006 year reflect the continuing focus on building strong and long-term distribution relationships with multi-national organisations and the protracted regulatory approval processes in the USA.

In the 12 months to June 2006 Aeris generated income of \$1.56 million compared to pre A-IFRS adjusted income of \$631,000 the previous year. Net loss for the year ended 30 June 2006 was \$3.53 million.

The loss incurred was impacted by the protracted regulatory processes in the USA (and the associated increase in costs to manage the process) and the investment in staff resources to manage the Company's relationships with multi-national distributors as well as to support Aeris' move into the refrigeration market at the end of the year.

The increase in revenues came after the full launch of the AerisGuard product range in several key markets during the year including Japan and Indochina and the initial orders in the USA following regulatory approval of the Company's central product.

Importantly, in the last quarter of the financial year the Company generated total income of \$588,000 with product sales revenue of \$350,000. Sales revenue included early orders from the Company's USA distributor, following EPA approval of Aeris's pivotal product in March 2006, and from Trane Indochina for the AerisGuard OEM Corrosion Protection product.

During the year, the Company again received the full entitlement of \$150,000 for the Government's Export Market Development Grant and is also entitled to other Government rebates in respect to its Research expenditure.

As at 30 June 2006 the Company had \$6.01 million in cash \$428,000 in receivables and remains debt free.

### Dividends

No dividends were paid or proposed during the year.

**Consolidated statement of financial performance**

	For the year ended	
	30 June 2006 \$000's	30 June 2005 \$000's
Revenues from operating activities	816	317
A-IFRS adjustment to Revenue	-	(945)
Export Market Development Grant	150	150
Interest revenue	467	113
Rental income	123	51
Cost of goods sold	(328)	(135)
A-IFRS adjustment to cost of goods sold	-	352
Employee benefits expense	(1,802)	(1,048)
Occupancy expense	(542)	(282)
Depreciation and amortisation expense	(82)	(188)
Other general and Administration	(387)	(418)
Sales, Marketing & Travel	(923)	(782)
Distribution expenditure	(17)	(14)
Product Registration, Patents, Trade Marks and R&D expenditure	(827)	(396)
Financial expenditure	(255)	(80)
Profit (loss) from ordinary activities before income tax expenses	(3,607)	(3,305)
Income tax expense relating to ordinary activities	80	-
Net profit (loss) from ordinary activities after income tax expense attributable to members of the parent entity	(3,527)	(3,305)
Total revenues, expenses and valuation adjustments attributable to members of the parent entity recognised in equity	-	-
Total changes in equity other than those resulting from transactions with owners as owners	(3,527)	(3,305)
<b>Accumulated Losses</b>		
	30 June 2006 \$000's	30 June 2005 \$000's
Accumulated losses at the beginning of the financial year	(10,830)	(7,525)
Net loss attributable to the members of the parent entity	(3,527)	(3,305)
Accumulated losses at the end of the financial year	(14,357)	(10,830)

**Consolidated statement of financial position**

	30 June 2006 \$000's	30 June 2005 \$000's
<b>CURRENT ASSETS</b>		
Cash assets	6,015	8,182
Inventories	420	615
Receivables	428	368
Other	97	65
<b>TOTAL CURRENT ASSETS</b>	<b>6,960</b>	<b>9,230</b>
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	179	136
Intangible assets	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>179</b>	<b>136</b>
<b>TOTAL ASSETS</b>	<b>7,139</b>	<b>9,366</b>
<b>CURRENT LIABILITIES</b>		
Payables	340	329
Provisions	54	51
Interest-bearing liabilities	136	7
<b>TOTAL CURRENT LIABILITIES</b>	<b>530</b>	<b>387</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing liabilities	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>530</b>	<b>387</b>
<b>NET ASSETS</b>	<b>6,609</b>	<b>8,979</b>
<b>EQUITY</b>		
Contributed equity	20,527	19,754
Reserves	439	55
Accumulated losses	(14,357)	(10,830)
<b>TOTAL EQUITY</b>	<b>6,609</b>	<b>8,979</b>

**Consolidated statement of cash flows**

	For the year ended	
	30 June 2006 \$000's	30 June 2005 \$000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	638	364
Payment to suppliers and employees	(4,127)	(3,332)
R&D tax offset	80	-
Export Market Development Grant	150	150
Foreign Exchange Gains	36	103
Interest received	437	110
Interest paid	-	(1)
Net cash used in operating activities	<u>(2,786)</u>	<u>(2,606)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans to other entities	(1,200)	-
Loans repaid by other entities	1,200	-
Purchase of assets	(154)	(77)
Net cash provided by (used in) investing activities	<u>(154)</u>	<u>(77)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares and options	773	10,097
Share issue expenses	-	(130)
Net cash provided by (used in) financing activities	<u>773</u>	<u>9,967</u>
Net increase (decrease) in cash held	(2,167)	7,284
Cash at the beginning of the financial year	8,182	898
Cash at the end of the financial year	<b><u>6,015</u></b>	<b><u>8,182</u></b>
<b>Reconciliation of cash</b>		
	<b>30 June 2006 \$000's</b>	<b>30 June 2005 \$000's</b>
Cash on hand and at bank	<u>6,015</u>	<u>8,182</u>

**Notes to the consolidated financial statements**

This preliminary final report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the preliminary final report be considered together with any public announcements made by Aeris Technologies Ltd during the year ended 30 June 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

**Impact of Adoption of AIFRS**

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Notes	30 Jun 05 A\$'000	01 Jul 04 A\$'000
Total equity under AGAAP as previously recognised		15,181	7,700
<i>Adjustment to accumulated losses (net of tax):</i>			
Write back of intangible assets	(a)	(5,609)	(5,438)
Recognition of share based payment expense	(b)	(55)	-
Adjust revenue under AIFRS	(c)	(945)	-
Adjust cost of sales under AIFRS	(c)	352	-
<i>Adjustment to other reserves (net of tax):</i>			
Recognition of share-based payment expense	(b)	55	
Total equity as reported under AIFRS		8,979	2,262

(ii) Reconciliation of profit after tax for the 12 months ended 30 June 2005 under AGAAP to that under AIFRS

	Notes	30 Jun 05 A\$'000
Net Loss as reported under AGAAP		(2,486)
Write back of intangible assets	(a)	(171)
Less share based payments	(b)	(55)
Adjustment to revenue under AIFRS	(c)	(945)
Adjustment to cost of sales under AIFRS	(c)	352
Net Loss after Tax under AIFRS		(3,305)

(a) Intangible asset – research and early stage development is not capitalised and then amortised under AASB 138 'Intangible Assets', but was amortised under previous AGAAP. This caused a decrease in equity and profit for the year.

(b) Share-based payment costs are charged to the income statement under AASB 2 'Share-Based Payments', but not under previous AGAAP. This has caused a decrease in equity and profit for the year.

- (c) Reversal of sales under different definition of recognition of revenue under AIFRS in AASB 118 'Revenue'. This caused a decrease in equity and profit for the year.

**Earnings per security (EPS)**

	30 June 2006	30 June 2005
Calculation of the following in accordance with AASB 1027: Earnings per Share		
Net profit/(loss) (A\$'000)	(3,527)	(3,305)
Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	87,358,703	48,798,911
Basic EPS – loss per share	(4.0) cents	(6.8) cents

**NTA backing**

	30 June 2006	30 June 2005
Net tangible asset backing per ordinary share	7.6 cents	18.4 cents

**Compliance statement**

This report is based on accounts that are in the process of being audited.

Sign here: **Robert J Waring**  
(Director/Company Secretary)

Date: 13 September 2006

Print name: Robert J Waring