

# Appendix 4E

## Preliminary final report for the financial year ended 30 June 2007

Name of entity

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

### Results for announcement to the market

				\$A'000
Revenues from ordinary activities	up	13.2%	to	1,761
Profit (loss) from ordinary activities after tax attributable to members	up	14.9%	to	(4,051)
Profit (loss) from extraordinary items after tax attributable to members		-		-
Net profit (loss) for the period attributable to members	up	14.9%	to	(4,051)

  

<b>Dividends (distributions)</b>	Amount per security	Franked amount per security
Final dividend	Nil ¢	Nil ¢
Previous corresponding period	Nil ¢	Nil ¢

### Details of entities over which control has been gained or lost during the period

In January 2007 Aeris Technology LLC became a wholly owned subsidiary of Aeris Technology Ltd. In May 2007 Aeris Technology LLC acquired 60% shareholding in Aeris Atlantic LLC and 51% shareholding in Aeris Solutions LLC. Refer to "USA Operations" below for further details.

### 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: 31 August 2007

Print name: Robert J Waring

## Highlights

- Acquisition of environmental services company in USA
- Energy saving supply agreement signed with Fortune 500 corporation
- BHP Billiton mine signs 12-month service contract
- Sumitomo 3M signs 2-year distribution agreement
- Trane expands relationship with Aeris throughout Asia
- Trump Taj Mahal casino in USA specifies AerisGuard

## Introduction

The 2006/2007 year was a pivotal point in the Company's development as it successfully graduated into a diversified environmental services and technology organisation. In doing so, we have moved beyond the distribution of product only and become a service orientated total-solution provider thereby gaining full value from the company's intellectual property.

Importantly, Aeris is focussing its investment in market opportunities driven by a number of emerging global societal mega trends including a demand for greener buildings and reduced energy consumption, a need to preserve and protect the quality of our limited water resources, and a constant pressure to improve food hygiene standards.

The Company is now focussed on providing its customers increased system efficiency, energy reduction and improved food safety.

### **Aeris Signs Supply Agreement with Fortune 500 Pharmaceutical Corporation**

In June 2007 Aeris Technologies signed an agreement with a Fortune 500 multinational pharmaceutical corporation based in the USA for the full-service application of its unique AerisGuard technology.

As one of the world's leading corporations the customer has announced a commitment to significantly reduce green house gas emissions as it occupies more than 30 major facilities around the world. As a consequence it has a specific focus on its heating, ventilation and air-conditioning (HVAC) systems which can account for up to 65% of a corporation's energy consumption.

This milestone agreement came after 18 months of extensive testing by the corporation of the energy saving benefits of the AerisGuard Air-Conditioning Performance Solution. As part of the testing and evaluation process the AerisGuard technology was approved for use by the corporation's technical, environmental, occupational safety and procurement departments.

The corporation's Energy Team has now designated the AerisGuard Performance Solution as "Recommended Best Practice" and is now urging its global facilities to implement the system to reduce the energy consumption of its air-conditioning systems.

Discussions have now commenced with the first five major sites on implementation of the AerisGuard solution.

Based on the individual facilities implementing the corporation's energy reduction strategy this agreement has the potential to generate recurring multi-million dollar revenues to Aeris.

It is anticipated that revenue will commence in the near term but based on the scale of the project it is anticipated it will take up-to 24 months to fully implement the AerisGuard solution in all key facilities.

This agreement provides validation by a major global corporation of the significant energy savings that can result from the on-going application of the Company's unique AerisGuard technology. It also supports Aeris' intention and ability to be a leading integrated environmental services provider and thereby gaining full value from the Company's intellectual property.

Through our operating subsidiary in the USA Aeris is now successfully engaging other global corporations with our proprietary AerisGuard solution.

### **USA Operations**

In early 2007 Aeris established new operations in Philadelphia to support the Company's future growth in the USA.

Aeris Technologies LLC is a wholly owned subsidiary of Aeris Technologies Ltd and will focus on managing the existing distributor network, forging new direct relationships with large national customers and developing and implementing new business opportunities.

The Company appointed Ronald J. Bacskai as Executive Vice-President of its USA operations. Prior to joining Aeris Ron was President and CEO of ETG Environmental (a technology-based hazardous waste management company) and President and CEO of a US\$100m turnover mechanical and electrical construction corporation, Williard Inc.

Aeris Technologies LLC has the responsibility of developing and implementing the Company's business strategy in the USA to a more direct model and has already commenced direct sales activity to a number of significant US based multi-national organisations.

The USA is the world's largest air-conditioning and importantly the largest food processing market in the world and has the greatest awareness of the broad range of environmental and energy savings benefits offered by Aeris' patented technologies. It is therefore critical that Aeris now has a presence in this significant and growing market to be able to capitalise on these opportunities.

In May 2007 Aeris Technologies LLC, acquired a 60% majority stake in Aeris Atlantic LLC giving the Company an important foothold and immediate commercial revenue in the USA environmental services market.

The acquisition of Aeris Atlantic from Advanced Air Filtration LLC is in line with the Company's stated intention to move to a more direct model in the USA and gives Aeris access to the Mid-Atlantic region which includes the key States of Pennsylvania, New York State, New Jersey and Washington D.C.

Importantly, it is also the first stage of a planned roll-out of the AerisGuard Environmental Services solution business across USA which will provide major corporations with significant reduction in energy consumption, system efficiency improvements, and healthier indoor air.

Aeris Atlantic LLC is experiencing strong revenue growth and pre-acquisition had targeted revenues of AUD11 million in calendar year 2009. The Mid-Atlantic region represents approximately 17% of the USA market opportunity. Aeris is actively identifying further opportunities to build on this acquisition and to expand its direct sales presence in the USA and the roll-out of the AerisGuard Environmental Services business to the other States.

This acquisition gives Aeris the ability to work directly with the customer and importantly allows the Company to capture the true value of its intellectual property.

The acquisition of Aeris Atlantic will be satisfied with the issue of Aeris Technologies Ltd fully paid shares on achievement of financial targets over the next 2 years and the provision of a loan to fund the organisation's working capital requirements.

Aeris Atlantic brings management with a depth of experience and contacts in the USA environmental remediation and protection market. The company is managed day-to-day by Mr. Terry Bray (the past-President of the USA peak air-conditioning remediation trade body, NADCA) and will be strongly supported by Ron Bacskai, Aeris Technologies (USA) Executive Vice President.

Commercial roll-out of the AerisGuard system in the USA commenced in March 2006 after Aeris Technologies Ltd received regulatory approval for its patented environmental services products from the USA Environmental Protection Agency (EPA).

Aeris Atlantic customers include Harrah's Hotel & Casino, Wyeth, Morgan Stanley, Chase Manhattan, Thomas Jefferson University Hospital, Trump Taj Mahal casinos and Princeton University.

As part of the Company's broader environmental services strategy Aeris Technologies is also actively identifying opportunities for the launch of its Aeris Hygiene Services Cold Storage business in USA based on the success of the Australian direct model.

The USA is the world's largest consumer of energy and producer of greenhouse gases and Aeris is now strongly positioned in the region to scale its environmental services growth.

### **Australian Cold Storage Market**

In July 2006 Aeris officially launched a new and novel direct service business, Aeris Hygiene Services (AHS), specialising in the remediation and protection of refrigeration systems in cold storage facilities.

The prime objective of AHS over the last 12 months has been to develop a robust business model that can be taken to the key overseas markets.

In the process of developing the business model AHS acquired a number of key customers including Red Rooster, Steggle's and GSF. GSF supplies fresh produce to KFC, Taco Bell, Pizza Hut and is owned by the US\$3 billion USA corporation Golden State Foods who are reportedly the largest produce supplier for McDonald's in the USA. The initial AerisGuard treatment at GSF successfully demonstrated the significant efficiency and hygiene improvements to their refrigeration system including a 25% increase in air-flow through the refrigeration cooling units. Importantly AHS also completed its first re-treatment of the GSF facility during the year.

In early 2007 AHS started to focus on the large refrigerated transport market and subsequently won service contracts with Intercoast Refrigerated Transport and Nolans Interstate Transport to remediate and protect their refrigerated trailers.

In February 2007 Food Science Australia (FSA), a joint venture between CSIRO and the Victorian Government, conducted a study to examine the efficiency benefits of the AerisGuard Cool Room Performance Solutions. The results of the study were impressive and highlight the true potential value of the AerisGuard technology. The results were even more pleasing given the trials were performed in "real-life" commercially operated cool rooms which presented a number of challenges to the FSA team to correct results for the significant number of external factors affecting the measurements<sup>1</sup>.

The key outcomes of the trial included an estimated reduction in CO<sub>2</sub> greenhouse gases for customers, a reduction in a cool room's operating temperature, a reduction in temperature variability within the cool room and better temperature control in cold stores.

These efficiency benefits are of great interest to the operators of cool rooms as they need to ensure that their facility is working efficiently to optimise the storage environmental conditions for their valuable food stuff.

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<sup>1</sup> As is the case with all "real-life" tests, the variability of individual site recordings due to localised conditions, daily operational influences and differing refrigeration systems mean individual site results are subject to variations amongst these results. Further research will be required to provide better benchmarking predictability

The Food Science Australia study now provides strong independent evidence supporting what Aeris customers are already experiencing.

AHS is now focussed on addressing the food supply chain opportunity and specifically on the Quick Service Restaurant, Food Logistics, Food Retail and Food Processing market segments.

### **Water Treatment**

In March 2007 Aeris' wholly owned water treatment subsidiary, Aeris Biological Systems (ABS), signed a supply contract with BHP Billiton to provide its patented Multi-Enzyme Biofilm Removal technology and related services for the first of their large coal mines.

The contract value for this first site is over \$150,000 per annum and involves the supply and application of the Company's Multi-Enzyme technology and on-going monitoring of biofilm levels in the mine's large underground water system.

This contract follows lengthy trials with BHP Billiton during which the Aeris technology was validated on-site and in real working conditions.

The use of the Aeris technology will provide BHP Billiton enhanced productivity and improved management of biological contamination in a 6 kilometre, high volume throughput water circuit.

ABS has now commenced discussions with a number of other underground coal mines in Australia that had been identified as having some biofilm related issues.

The Company has also commenced initial trials of its unique AerisGuard Multi-Enzyme Biofilm removal solution in the large reverse osmosis (RO) membrane application market.

RO membranes are very widely used including in desalination plants, water recycling and treatment facilities and food processing and production facilities. Biofilm build up in these applications is very common and detrimentally affects the efficiency of the facility. In severe cases it can also damage the costly RO membranes.

Most recently ABS has teamed up with Pall Corporation (the largest and most diverse filtration, separations and purifications company in the world) on a number of the corporation's problem sites in Australia.

Having successfully and promptly solved a severe biofilm issue at the first problem site the Company is seeking to develop a more formal partnership with Pall thereby gaining access to their global key customers.

### **Japan Market Update**

In October 2006 Aeris' Japanese distributor, Sumitomo 3M, signed a 2-year agreement for the Company's products to distribute the AerisGuard hygiene solutions in Japan. This agreement supersedes the previous memorandum of understanding (MOU) between the two companies.

This distribution agreement cements the Company's relationship with 3M in Japan and once again provides strong validation of the AerisGuard suite of technologies.

Sumitomo 3M is focussing its efforts primarily on the established and high growth residential air-conditioning service market in Japan.

At the beginning of 2007 Sumitomo 3M secured a supply agreement with Duskin to supply them the AerisGuard air-conditioning treatment products. Duskin is the largest home air-conditioning cleaning company in Japan and has conducted extensive trials on the AerisGuard product range.

Duskin will initially purchase the patented unique AerisGuard Bioactive Coil Treatment product to compliment its current cleaning system. Aeris has been working with Sumitomo 3M and Duskin to

modify the Company's remaining AerisGuard products (Bioactive Coil Cleaner and Bioactive Pan Tablet) to suit the unique environment in Japan (including smaller size home air-conditioning units and the high incidence of nicotine deposits in home systems).

It is envisaged that Duskin will introduce Aeris' remaining products in the 2008 season.

### **Asia-Pacific Market Update**

During the year Aeris' Indochina distributor, Trane, introduced the AerisGuard product range to its teams in a number of other countries in the Asia-Pacific region including the Philippines and Hong Kong.

As part of the success in Indochina and the feedback from other countries Trane has now recruited a new Asia Product Manager with specific responsibility to drive the AerisGuard range across the region. This positive development highlights the value Trane places on the AerisGuard technology and its wish for it to become a standard part of their customer offering.

Aeris and Trane are now in formal discussions on putting an Asia Partnership Agreement in place (including China). It is anticipated that an agreement will be signed between the two companies in the first half of 2007/2008.

### **Research and Development**

During the year Aeris' R&D team continued the development of its biofilm resistant polymers in collaboration with the CSIRO for a range of environmental applications.

These new polymers (plastic resins) have been successfully injection moulded and extruded creating a whole new class of self-disinfecting, biofilm resistant polymer complexes. The AerisGuard Smart Surfaces are environmentally safe, non toxic to humans and relatively low cost.

Biofilm commonly occurs in a range of aqueous environments and is the habitat for bacteria (Legionella) and other harmful organisms. The impacts on industry are far reaching, well known and costly. These include corrosion to oil pipelines, water cooling systems (for example water circuits in factories and commercial cooling towers) and loss in productivity (for example in paper mills, mines and groundwater treatment plants).

This novel range of smart surfaces is protected by a strong patent position and the Company is now focussing on developing specific application in Aeris' water business unit as well as in its other core markets. As part of this commercialisation process Aeris will also seek suitable licensing partners.

The Company anticipates commercial release of products incorporating this technology in calendar 2009.

### **Comments on Results from Operations**

In the 12 months to June 2007 Aeris generated total income of \$1.76 million including sales revenue \$1.29 million (up 58% over the previous year). Whilst the growth in sales is encouraging the full impact of the revenues from the newly acquired Aeris Atlantic corporation and the supply agreement with the Fortune 500 company in the USA (completed in May 2007 and June 2007 respectively) are not included in the 2006/2007 numbers.

The net loss for the year of \$4.05 million included a one-off write-off of \$310,000 of expired/obsolete stock which had been manufactured in 2004 specifically for entry into the USA market and which was then delayed pending regulatory approvals. Excluding product write-off the operating expenses only increased 1% over the previous year and included the investment in the new Aeris Hygiene Services and Aeris Atlantic direct services businesses.

The gross margin for the year was impacted by the start-up phase of Aeris Hygiene Services and the associated investment in direct service resources. Gross margins are expected to recover in 2007/2008 as the cold storage operations gain momentum.

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.

The average monthly net operating cash burn for the year continued to be well controlled at \$270,000 per month. As at 30 June 2007 the Company had \$2.63 million in cash and remains debt-free.

### **Outlook**

The favourable outlook for the growth of Aeris Technologies over the next 12 to 24 months is as a result of current successes in each of its business units, which have been gaining traction in the rapidly emerging environmental services markets.

- The Company's energy saving global supply agreement with the Fortune 500 pharmaceutical corporation is anticipated to generate material revenues over the next 2 years and in turn support the acquisition of similar environmental service contracts with other global corporations.
- Aeris is budgeting strong revenue growth from its direct USA air-conditioning business unit as Aeris Atlantic continues to secure service contracts with key accounts and the Company expands the model to other US States.
- Aeris is in the process of expanding its distribution relationship with Trane in key markets across Asia (including China). An extended agreement is expected to be completed in the first half of 2007/2008 leading to growing revenues from this world leading air-conditioning manufacturer and service corporation actively promoting the range of Aeris solutions across the region.
- The Company's water business is being built on relationships with a number of large customers and suppliers in the global water industry who are seeking environmental solutions to their growing biofouling issues. These efforts are anticipated to result in further underground mines and other large industrial operations implementing the AeriGuard biofilm removal technology in 2007/2008. Aeri's activities in the exciting new reverse osmosis membrane remediation application are expected to be strongly supported by an international partner from the beginning of calendar 2008.
- The Company's emerging cold storage business in Australia, Aeri Hygiene Services, is focussing on highly scaleable national and international accounts to build a critical mass in the attractive food cold supply chain which embraces processors, transport and retail. Aeri is currently putting in place impressive channel partners to access key accounts both domestically and internationally. To support this initiative the company is planning to launch in the USA in the second half of 2007/2008.

### **Dividends**

No dividends were paid or proposed during the year.

**Consolidated statement of financial performance**

	For the year ended	
	30 June 2007 \$000's	30 June 2006 \$000's
Revenues from operating activities	1,293	816
Export Market Development Grant	150	150
Interest revenue	239	467
Rental income	79	123
Cost of goods sold	(735)	(328)
Employee benefits expense	(1,961)	(1,802)
Occupancy expense	(558)	(542)
Depreciation and amortisation expense	(95)	(82)
Other general and Administration	(496)	(387)
Sales, Marketing & Travel	(1,120)	(923)
Distribution expenditure	(104)	(17)
Product Registration, Patents, Trade Marks and R&D expenditure	(608)	(827)
Financial expenditure	(261)	(255)
Profit (loss) from ordinary activities before income tax expenses	(4,177)	(3,607)
Income tax credit relating to ordinary activities	85	80
Net profit (loss) from ordinary activities after income tax expense attributable to members of the parent entity	(4,092)	(3,527)
Total revenues, expenses and valuation adjustments attributable to minority interest	(41)	-
Total changes in equity other than those resulting from transactions with owners as owners	<b>(4,051)</b>	<b>(3,527)</b>
<b>Accumulated Losses</b>		
	30 June 2007 \$000's	30 June 2006 \$000's
Accumulated losses at the beginning of the financial year	(14,357)	(10,830)
Net loss attributable to the members of the parent entity	(4,051)	(3,527)
Transfer from Share-based Payment Reserve	67	-
Accumulated losses at the end of the financial year	(18,341)	(14,357)

**Consolidated statement of financial position**

	30 June 2007 \$000's	30 June 2006 \$000's
<b>CURRENT ASSETS</b>		
Cash assets	2,633	6,015
Inventories	117	476
Receivables	208	372
Other	128	97
<b>TOTAL CURRENT ASSETS</b>	<b>3,086</b>	<b>6,960</b>
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	216	179
Intangible assets	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>216</b>	<b>179</b>
<b>TOTAL ASSETS</b>	<b>3,302</b>	<b>7,139</b>
<b>CURRENT LIABILITIES</b>		
Payables	582	476
Provisions	85	54
Interest-bearing liabilities	18	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>685</b>	<b>530</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing liabilities	56	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>56</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>741</b>	<b>530</b>
<b>NET ASSETS</b>	<b>2,561</b>	<b>6,609</b>
<b>EQUITY</b>		
Contributed equity	20,527	20,527
Reserves	415	439
Accumulated losses	(18,341)	(14,357)
Minority Interest	(40)	-
<b>TOTAL EQUITY</b>	<b>2,561</b>	<b>6,609</b>

**Consolidated statement of cash flows**

	For the year ended	
	30 June 2007	30 June 2006
	\$000's	\$000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	1,356	635
Payment to suppliers and employees	(5,129)	(4,109)
R&D tax offset	85	80
Export Market Development Grant	150	150
Foreign Exchange Gains	79	-
Interest received	231	436
Interest paid	(17)	-
Net cash used in operating activities	(3,245)	(2,808)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans to other entities	-	(1,200)
Loans repaid by other entities	-	1,200
Purchase of assets	(127)	(125)
Net cash provided by (used in) investing activities	(127)	(125)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares and options	-	773
Share issue expenses	-	-
Finance lease payments	(12)	(7)
Net cash provided by (used in) financing activities	(12)	766
Net increase (decrease) in cash held	(3,384)	(2,167)
Cash at the beginning of the financial year	6,015	8,182
Effects of exchange rate changes on cash and cash equivalents	2	-
Cash at the end of the financial year	2,633	6,015
<b>Reconciliation of cash</b>		
	<b>30 June 2007</b>	<b>30 June 2006</b>
	<b>\$000's</b>	<b>\$000's</b>
Cash on hand and at bank	2,633	6,015

**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 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

**Earnings per security (EPS)**

	<b>30 June 2007</b>	<b>30 June 2006</b>
Calculation of the following in accordance with AASB 1027: Earnings per Share		
Net profit/(loss)	(4,051)	(3,527)
Weighted average number of ordinary shares used in the calculation of the Basic EPS	87,517,564	87,358,703
Basic EPS – loss per share	(4.6) cents	(4.0) cents

**NTA backing**

	<b>30 June 2007</b>	<b>30 June 2006</b>
Net tangible asset backing per ordinary share	2.9 cents	7.6 cents

**Financial reporting by geographical segments**

	<b>Australia</b>	<b>North America</b>	<b>Intersegment elimination</b>	<b>Consolidated</b>
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
Segment revenue	1,689	118	(47)	1,760
Segment result	(3,844)	(222)	(15)	(4,051)
Segment assets	3,395	248	(341)	3,302
Segment liabilities	1,501	501	(1,261)	741