Directors' Report

Your directors submit their report for the half-year ended 30 June 2003.

Directors:

The names and details of the directors of the company in office during the half-year and until the date of this report are:

Siu Wai Yan (Chairman)
Stephen Leung Kwok Yin (Chief Executive Officer)
Terence Chu
Yim Ni Chan

All directors shown were in office from the beginning of the half-year until the date of this report.

Review and results of operations:

	Jan - June. 2003 A$'000	Jan. - June 2002 A$'000
Revenue from ordinary activities	12,834	16,392
Operating profit(loss) before abnormal items, tax and minority interests	698	702
Operating profit(loss) after tax attributable to members	(18)	312

Compared with the results as of June 2002, the Group (Multistack International Ltd and its controlled entities) has made a net attributable loss of $18,000 with gross revenue dropping 21.7% from $16.39M to $12.83M. The value of the net assets has reduced to $11.8M from $14.5M due to the appreciation of the Australian dollar by about 20%. The decline in our results is due to the impact of the SARS virus outbreak in China. At the beginning of this year, there were positive signs of revenue improvement reflecting the effort made by the Group to overcome strong competition. Unfortunately the impact of SARS has hindered most of our sales activities. Every major city in our Chinese operations has taken different measures of travel control that effectively banned most of our marketing activities. The Directors have responded quickly and used our local sales offices to maintain a reasonable level of trading in local areas.

Directors' Report (Continued)

The Directors also firmly believe that technological development is still a focus point for the Group's future. A new type of SRA130C/H air cooled scroll chiller has been launched. It will be a strong compliment for the SRA115 model. A bigger model of SRA290 C/H air cooled chiller will be ready for launch in the second half of this year. Furthermore, the highly efficient, environmentally friendly MTTW300 modular water cooled chiller prototype using the turbo compressor technology has also been finished. Engineers have been working on numerous tests before the official launch by early next year. This will help to raise the profile of the Company within the industry particularly in the worldwide market.

The Australian operations (Dunnair International Pty Ltd) continued to report losses for the half year. Total sales revenue has declined despite an improvement in revenue earned from services. In light of the current situation, the Directors have obtained independent legal opinion, and are considering various options to determine the future of the Australian operations.

The Directors maintain the view that improvements in profitability can be obtained through internal efforts, co-operation with strategic partners in the industry, or via the sale of assets and/or operations, in part or in full. The Directors shall decide on the appropriate option in due course.

Rounding

The amounts contained in this report and in the half-year financial statements have been rounded to the nearest A$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which this class order applies.

Signed in accordance with a resolution of directors.

Stephen Leung

Director, Chief Executive Officer
Melbourne, 28th August, 2003

Condensed Consolidated Statement of Financial Performance

	Notes	30 June 2003 $A'000	30 June 2002 $A'000
Revenues from ordinary activities	2	12,834	16,392
Expenses from ordinary activities	2	12,540	16,256
Share of net profits (losses) of associates and joint venture entities		404	566
Profit (loss) from ordinary activities before tax		698	702
Income tax on ordinary activities		199	49
Profit (loss) from ordinary activities after tax		499	653
Net profit (loss)		499	653
Net profit (loss) attributable to outside equity interests		517	341
Net profit (loss) for the period attributable to members		(18)	312

Earnings per security (EPS)	30 June 2003	30 June 2002
Basic EPS	(0.0002)	0.0030
Diluted EPS	(0.0002)	0.0030

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2003 $A'000	31 Dec 2002 $A'000	30 June 2002 $A'000
Current assets				
Cash		1,060	2,755	2,257
Receivables		15,681	16,939	17,864
Inventories		8,394	9,616	10,680
Other		-	78	24
Total current assets		25,135	29,388	30,825
Non-current assets				
Receivables		632	1,139	572
Investments (equity accounted)		3,387	3,455	3,184
Other investments		-	6	-
Other property, plant and equipment (net)		13,292	16,025	16,570
Intangibles (net)		736	841	842
Total non-current assets		18,047	21,466	21,168
Total assets		**43,182**	**50,854**	**51,993**
Current liabilities				
Payables		14,824	15,527	17,305
Interest bearing liabilities		15,269	19,408	18,818
Provisions		469	906	900
Other		70	16	28
Total current liabilities		30,632	35,857	37,051
Non-current liabilities				
Interest bearing liabilities		287	54	96
Provisions		437	439	386
Total non-current liabilities		724	493	482
Total liabilities		**31,356**	**36,350**	**37,533**
Net assets		**11,826**	**14,504**	**14,460**
Equity				
Capital/contributed equity		155,639	155,639	155,639
Reserves		19,131	21,733	20,871
Retained profits (accumulated losses)	7	(166,354)	(166,275)	(165,674)
Equity attributable to members of the parent entity		**8,416**	**11,097**	**10,836**
Outside equity interests in controlled entities		3,410	3,407	3,624
Total equity		**11,826**	**14,504**	**14,460**

Condensed Consolidated Statement of Cash Flows

	Notes	30 June 2003 $A'000	30 June 2002 $A'000
Cash flows related to operating activities			
Receipts from customers		12,366	14,931
Payments to suppliers and employees		(12,142)	(13,907)
Interest and other items of similar nature received		5	-
Interest and other costs of finance paid		(436)	(582)
Income taxes paid		(345)	(261)
Other		(24)	(16)
Net operating cash flows		**(576)**	**165**
Cash flows related to investing activities			
Payment for purchases of property, plant and equipment		(98)	(1,121)
Proceeds from sale of property, plant and equipment		46	9
Loans from other entities		143	-
Advances from other entities		929	2,531
Loans repaid to other entities		(194)	-
Net investing cash flows		**1,020**	**1,419**
Cash flows related to financing activities			
Proceeds from issues of securities		-	-
Proceeds from borrowings		66	270
Repayment of borrowings		(775)	(1,244)
Dividends paid		-	-
Other		(24)	(26)
Net financing cash flows		**(733)**	**(1,000)**
Net increase (decrease) in cash held		**(289)**	**584**
Cash at beginning of period		750	385
Exchange rate adjustments		(172)	(235)
Cash at end of period	6	**289**	**734**

Notes to the Half Year Financial Statements

1. Basis of Preparation of the Half-Year Financial Report

The half-year financial 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.

The half-year financial report should be read in conjunction with the Annual Financial Report of Multistack International Limited as at 31 December 2002. It is also recommended that the half-year financial report be considered together with any public announcements made by Multistack International Limited and its controlled entities during the half-year ended 30 June 2003 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year financial report has been prepared in accordance with the historical cost convention.

The half-year financial report has been prepared on the basis of the company and the economic entity continuing to operate as going concerns. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the normal course of business.

The financial statements disclose that the economic entity reported a negative working capital position and net cash outflows for the half year ending 30 June 2003. Nevertheless, with the ongoing support of its financiers and suppliers, is able to meet its debts as and when they fall due. The directors have previously resolved to undertake a total review of the operations both in Australia and offshore, particularly in the Peoples Republic of China. This review is expected to take some time to complete and will examine all options for the future of the company and economic entity, including expansion, restructure and / or sale of certain assets.

The half year financial report does not include any adjustments in anticipation of the outcome of this review, nor does it include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the support of significant financiers or suppliers be withdrawn such that either the company or the economic entity is unable to continue as a going concern.

(b) Changes in accounting policies

(i) Employee Benefits

The consolidated entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of the revised policy on the prior year's consolidated retained earnings has been immaterial and there has no adjustment to the retained earnings balance. There has been no material impact on the current half year profits.

Notes to the Half Year Financial Statements (continued)

2. Revenue and expenses from ordinary activities

	30 June 2003 $A'000	30 June 2002 $A'000
Revenue from sales of goods	9,460	13,056
Revenue from services	2,794	3,049
Interest revenue	5	15
Writeback of Provision for warranty	380	-
Other relevant revenue	195	272
Total operating income	12,834	16,392
Details of relevant expenses		
Cost of goods sold	12,207	11,624
Changes in inventories of finished goods & WIP	(184)	(863)
Raw materials and consumables used	(7,256)	(8,595)
Depreciation and amortisation expense	(454)	(553)
Borrowing costs	(436)	(582)
Salaries and employee benefits expense	(1,844)	(2,146)
Travelling costs	(585)	(606)
Management fees	(189)	(393)
Advertising and promotion	(15)	(371)
Sales commission & consignment fees	(627)	(346)
Other expenses from ordinary operations	(950)	(1,801)
Share of net profit (loss) of associate using equity method	404	566
Depreciation and amortisation excluding amortisation of intangibles.	445	546

3. Dividends Paid or provided for on Ordinary Shares

No dividends paid or provided for on ordinary shares for the half year ended 30 June 2003. (Nil: 30 June 2002)

4. Contingent Assets and Liabilities

Since the last annual reporting date, there has been no material change of any contingent assets or liabilities.

Notes to the Half Year Financial Statements (continued)

5. Segment reporting

Reports for business and geographical segments

	China operations		Australian operations		Australian Corporate		Elimination		Consolidated	
	June 03 $'000	June 02 $'000	June 03 $'000	June 02 $'000	June 03 $'000	June 02 $'000	June 03 $'000	June 02 $'000	June 03 $'000	June 02 $'000
Operating Revenue:										
Sales to customers outside the economic entity	9,995	13,699	2,259	2,430	-	-	-	-	12,254	16,129
Other revenue from customers outside the economic entity	68	191	493	35	19	37	-	-	580	263
Intersegment sales	528	429	103	276	-	-	(631)	(705)	-	-
Total operating revenue	10,591	14,319	2,855	2,741	19	37	(631)	(705)	12,834	16,392

The basis of inter segment pricing is market price.

	China operations		Australian operations		Australian Corporate		Elimination		Consolidated	
Segment results										
Operating profit (loss) before tax	914	1,345	(16)	(521)	(200)	(122)	-	-	698	702
Operating profit (loss) after tax attributable to members	198	955	(16)	(521)	(200)	(122)	-	-	(18)	312
Segment assets (Total assets)	45,449	52,613	1,767	2,579	24,778	28,598	(28,812)	(31,797)	43,182	51,993

Industry segment

The economic entity operates in one business being the heating, ventilation and air-conditioning (HVAC) industry.

The major manufacturing operations comprise the production and sale of Multistack water chillers used in commercial air-conditioning and process cooling operations

Notes to the Half Year Financial Statements (continued)

6. Reconciliation of cash

	30 June 2003 $A'000	30 June 2002 $A'000
Cash on hand and at bank	1,060	2,257
Deposits at call	-	-
Bank overdraft	(771)	(1,523)
Other	-	-
Total cash at end of period	**289**	**734**

7. Reconciliation of Retained Profit

	30 June 2003 $A'000	30 June 2002 $A'000
Retained profits (accumulated losses) at the beginning of the financial period	(166,275)	(165,986)
Net profit (loss) attributable to members	(18)	312
Net transfers from (to) reserves	(61)	-
Net effect of changes in accounting policies	-	-
Dividends and other equity distributions paid or payable	-	-
Retained profits (accumulated losses) at end of financial period	(166,354)	(165,674)

8. Subsequent events

There are no subsequent events since the end of the current period which have had a material effect on the financial statements.

Directors' Declaration
30 June 2003

In accordance with a resolution of the directors of Multistack International Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and the notes of the consolidated entity:

 (i) give a true and fair view of the financial position as at 30 June 2003 and the performance for the half-year ended on that date of the consolidated entity; and

 (ii) comply with Accounting Standard AASB 1029: "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Stephen Leung

Director, Chief Executive Officer
Melbourne, 28 August, 2003

ERNST & YOUNG

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Independent review report to members of Multistack International Ltd

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Multistack International Ltd (the company) and the consolidated entity, for the half year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that 30 June 2003.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of their financial position and performance, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach
We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the company's financial position, and of their performance as represented by the results of their operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

ERNST & YOUNG

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Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Multistack International Ltd is not in accordance with:

(a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of Multistack International Ltd at 30 June 2003 and of their performance for the half year ended on that date; and

   (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the statement expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(a) to the financial statements under the heading of 'Basis of financial report preparation' there is inherent uncertainty as to the outcome of the review described in this note and also the continuity of support of significant financiers and suppliers. As a consequence there is also significant uncertainty as to whether the company and economic entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and economic entity not continue as going concerns.

Ernst & Young

David Petersen
Partner
Melbourne
28 August, 2003