MULTISTACK INTERNATIONAL LIMITED
AND CONTROLLED ENTITIES

CONSOLIDATED FINANCIAL REPORT

31 DECEMBER 2006

MULTISTACK INTERNATIONAL LIMITED

ACN 007 254 346 ABN 54 007 254 346

DIRECTORS

T.K.M. Chu (Chairman and Non-executive Director)
S. K Y. Leung (Chief Executive Officer)
S.W. Yan (Executive Director)
Y.N. Chan (Executive Director)
A.H.W Yu (Non-executive Director)

COMPANY SECRETARY

Y.Y. Wong

REGISTERED OFFICE

10 Cochranes Road
Moorabbin, Victoria 3189
Australia
Tel: 61-3-8552-1200
Fax: 61-3-8552-1201

SOLICITORS

Minter Ellison

PRINCIPAL BANKERS

HSBC Bank of Australia Limited
Bank of China (HK) Limited

SHARE REGISTER

Computershare Investor Services Pty Limited
GPO Box 2975, Melbourne, Vic 3001
Phone: 1300 85 05 05
Fax 61-3-9415 4000

AUDITORS

Pitcher Partners

STOCK EXCHANGE

The company is listed on the Australian Stock Exchange. The home exchange is Melbourne.

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MULTISTACK INTERNATIONAL LIMITED

DIRECTORS' REPORT

The Directors present their report with the financial report of Multistack International Limited ("Company") and the consolidated accounts of the Group, being the Company and its controlled entities, for the year ended 31 December 2006. Multistack International Limited is a company limited by shares that is incorporated and domiciled in Australia.

DIRECTORS

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

Mr. T. Chu	Chairman and Non-executive Director A Bachelor of Laws (University of London), Master of Laws (City University of Hong Kong), Mr. Chu is a solicitor admitted in England and Wales, Hong Kong, Australian Capital Territory and Singapore. Mr. Chu was appointed as director of the company in March 1999 and was elected as Chairman of the Board on 17 May 2004.
Mr. S. Leung	Chief Executive Officer A graduate in Electrical Engineering (Hong Kong Polytechnic), Mr. Leung is a co-founder of the Super Link Group. He has built up substantial manufacturing and distribution resources in the People's Republic of China since 1981. He has been Chief Executive Officer since 1997 and has been an Executive Director since 1995.
Mr. S. Yan	Executive Director A graduate in Production Engineering, Master of Industrial Engineering (Hong Kong Polytechnic University) and a member of the American Institute of Industrial Engineers, Mr. Yan is a co-founder of the Super Link Group. He has over 20 years' experience in manufacturing and marketing industrial air conditioning products in the People's Republic of China. He has been an Executive Director since 1995 and was Chairman between August 1999 and May 2004.
Ms Y.N. Chan	Executive Director A Bachelor in Business (Swinburne University of Technology), Graduate Diploma in Business Systems (RMIT). Ms Chan has substantial experience in the banking industry. She currently oversees all administration for the Multistack Chiller Division in Australia. Ms Chan was appointed to become a member of the Board on 26 November 2002.
Mr A.H.W Yu	Non-executive Director A graduate in Accountancy from Hong Kong Polytechnic University. Mr. Yu is a senior partner of a CPA firm based in Hong Kong with a multinational clientele base. His expertise is in mergers and acquisitions particularly in multinational courier and air-cargo business. Mr Yu was appointed as a member of the Board on 16 February 2004.

Directors were in office from the beginning of the financial year until the date of this report, unless otherwise stated.

INTERESTS IN THE SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares of the company and related bodies corporate were:

	Multistack International Ltd. Ordinary shares
T. Chu	-
S. Leung	30,202,878
S. Yan	34,692,921
Y.N.Chan	20,000
A.H.W Yu	-

Messrs. Leung and Yan privately hold a controlling interest in Bright Technology Ltd., a Hong Kong based holding company through which the Company holds an interest in Multistack Thermal Limited.

COMPANY SECRETARY

Ms Y.Y. Wong	Company Secretary A Bachelor in Business (Victoria University of Technology) and Master in Finance (RMIT). Ms Wong has some years of experience in the banking industry. Ms Wong was appointed as the Company Secretary on 13 September 2002.

MULTISTACK INTERNATIONAL LIMITED

DIRECTORS' REPORT - continued

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the Group were: -

- manufacturing and marketing of industrial air conditioning equipment, primarily in China and Australia;
- manufacturing and international distribution of Multistack water-cooled and air-cooled water chillers; and
- manufacturing and international distribution of heat exchangers.

There have been no significant changes in the nature of those activities during the year.

RESULTS, EARNINGS PER SHARE AND DIVIDENDS

For the year ended 31 December 2006 revenue from continuing operations decreased to $14,774,307 (2005: $17,844,000), the profit before income tax was $461,352 (2005: $1,850,000) and net profit attributable to members of Multistack International Limited is $436,171 (2005: $1,627,773).

Basic earnings per share is $0.0039 (2005: $0.0145).

Although profit was recorded, until a stronger cash flow position is achieved, the directors do not recommend any dividend to be declared in respect of the year ended 31 December 2006 in order to preserve the financial flexibility of Multistack International Ltd. No other amounts have been declared or recommended by way of a dividend since the commencement of the financial year.

REVIEW OF OPERATIONS

	Jan - Dec 2006 A$'000	Jan. – Dec 2005 A$'000
Revenue (before deducting revenue from discontinued operations)	14,774	22,688
Operating profit before tax, minority interests including discontinued operations	461	1,841
Operating profit after tax attributable to members	436	1,628

The total revenue in 2006 was reduced by 34.9% to $14.8 million, which was after the disposal of a non-core business in 2005 and decrease in other revenue from $2.4 million in 2005 to $1.1 million in 2006. Nevertheless the net asset position of the group has improved since the previous period. The net attributable profit was $436,171, which is consistent with the turnaround since the negative result recorded in 2004.

The group also managed to successfully expand the market for the MTL heat exchanger plant, by winning more OEM contracts from customers who were renowned manufacturers in the HVACR industry.

The promotion of modular chiller and precision control air conditioning unit in overseas markets was also promising. Orders were awarded for projects in Indonesia, Malaysia, Singapore, S. Korea, New Zealand, in particular for a nuclear power plant in Pakistan and a gas-fired power plant in Iran. New customers from Germany, S. Africa, UAE, Thailand and Iraq have indicated their great interest in our product for their won regions. The hard work that the group has put into product development should now see a possible payback in the near future.

Since the first modular water-cooled chiller using the turbo compressor technology MTTW300 installation in Singapore, the group continued to make improvements to the design. The group has prepared a new prototype MTTW300 module for display at the exhibition in Guangzhou China in March 2007. Directors expect that it will attract much attention at the exhibition and will promote our product in the market.

The JV in Australia- Dunnair Australia Ltd. was not as promising as the group would expect, but the management was determined to try and find solution of maximising the group's returns. It has been proven that building a strong dealership network can be successful. It was expected that a turn-around result would be achieved in the forthcoming period, with a profit being generated in the periods thereafter. The national chiller and South Australian service operations continued to make contribution to the group's results.

The directors are determined to continue to improve the company's bottom line performance to enhance shareholder's interest.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As mentioned above, the Directors of Multistack International Limited have continued to undertake a total review of the Company's operations both in Australia and offshore, particularly in the People's Republic of China. Advisors from different areas of expertise have been employed to give opinions. The board will examine all options for the future of the Company, including expansion, restructure and/or sale of certain assets of the Company. Appropriate announcement will be made once management has come to any conclusion.

SHARE OPTIONS

No options were issued during the financial period and none were outstanding at the end of the financial year.

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

REMUNERATION REPORT

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for directors and the chief executive officer. The Remuneration Committee determines and reviews compensation of the executive team by assessing the appropriateness of the nature and amount of emoluments of such officers by reference to relevant market conditions and the capacity to pay.

Details of the nature and amount of each element of the emolument of each director of the company and the consolidated entity for the financial year are as follows.

	Primary Benefits		
	Base fee	Bonus	Other
Director			
S. Leung	$147,494	-	-
S. Yan	$147,494	-	-
T. Chu	-	-	-
Y N Chan	$46,736	-	$18,876
A H Yu	-	-	-

Base fees are not performance based.

Payment of emoluments to Messrs. Leung and Yan are made in Hong Kong dollars. The difference in the base amounts paid between this and prior years reflects changes in exchange rates, not changes in amounts paid or payable.

The above remuneration excludes the following interest free advance receivable from a director of Multistack International Ltd:

Mr. S Leung $15,523 (2005 $25,106)
Mr S W Yan $15,963 (2005 $11,040)

Notionally, had interest been payable on these loans, income to the Directors would have approximated:

Mr S Leung $1,400
Mr S W Yan $ 950

Emoluments of the most highly paid executive officers of the company and the consolidated entity are:

	Primary Benefits		
	Base Fee	Bonus	Other
Bi Juan Tan	15,134	-	-

Executive officers are mutually exclusive from directors. The executive officers are those directly responsible for the operational management and strategic direction of the company and consolidated entity. The directors believe that one officer falls within this definition, and this has been disclosed accordingly.

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS (CONT'D)

REMUNERATION REPORT (CONT'D)

The terms "director" and "officer" have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

Executives are those people directly accountable and responsible for the operational management and strategic direction of the company and the consolidated entity. The category "Other" includes the value of any non-cash benefits provided.

No options have been granted to Directors or Officers.

Disclosure of Directors' benefits is provided in Note 27 to the Financial Statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company indemnifies all directors against any proper liabilities incurred in their discharge of their duties as directors of the Company. Nevertheless, each director retains a duty of care and due diligence throughout their conduct and oversight of Company affairs. The Company has not insured directors against costs incurred in defending proceedings for misconduct as permitted by Section 199B of the Corporations Law.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Multistack International Limited support and adhere to the best principles of corporate governance. The company's corporate governance statement is contained in the additional ASX information section of this annual report.

DIRECTORS' MEETINGS

The numbers of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Board of Directors		**Audit Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended
Mr. T. Chu	3	2	2	2
Mr. S. Leung	3	3	-	-
Mr. S. Yan	3	3	-	-
Ms Y. Chan	3	3	-	-
Mr A. Yu	3	3	2	2

As at the date of this report, the Board of Directors had an Audit Committee, a Remuneration Committee and a Nomination Committee. The members of the Audit Committee are Mr A. Yu and Mr T. Chu. The members of the Remuneration committee are Mr T. Chu and Mr A. Yu. The members of the Nomination Committee are Mr S W Yan and Mr S Leung.

The Audit Committee met on 10 March 2006 and 24 August 2006. The Remuneration Committee and the Nomination Committee did not meet during the year as no issue had arisen in the respective field during the relevant period.

EMPLOYEES

The consolidated entity employed 315 employees as at 31 December 2006 (2005: 318 employees)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no significant events after balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors are undertaking a total review of the Company's operations, particularly in the People's Republic of China. The directors will make further announcements should the Board make any decisions.

ENVIRONMENT REGULATION AND PERFORMANCE

The consolidated entity is not required to hold specific licenses issued by environmental protection authorities to operate. The consolidated entity is not aware of any material breaches of any applicable environmental law.

ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

There were no fees paid/payable to the external auditors during the year ended 31 December 2006 for additional services.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 7 of the financial report and forms part of this report.

In accordance with a resolution of the directors

T. Chu
Chairman

S. Leung
Director, CEO

Melbourne, 15 March 2007

PITCHER PARTNERS

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Multistack International Limited

In relation to the independent audit for the year ended 31 December 2006, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.

(ii) No contraventions of any applicable code of professional conduct.

Pitcher Partners

PITCHER PARTNERS

M. Harrison

M J HARRISON
Partner
Melbourne, 15 March 2007

MULTISTACK INTERNATIONAL LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	CONSOLIDATED 2006 $`000	CONSOLIDATED 2005 $`000	PARENT 2006 $`000	PARENT 2005 $`000
Continuing Operations					
Sale of goods		11,196	12,749	-	-
Rendering of services		2,507	2,647	-	-
Total Revenue		13,703	15,396	-	-
Cost of sales		(9,229)	(11,560)	-	-
Gross Profit		4,474	3,836	-	-
Other Income	2	1,071	2,448	79	107
Depreciation and amortisation expense	3 (a)	(291)	(495)	-	-
Salaries and employee benefits expense		(1,991)	(1,703)	-	-
Travelling costs		(296)	(460)	(9)	(14)
Management fees		(340)	(398)	-	(40)
Advertising and promotion		(81)	(162)	-	-
Sales commission & consignment fees		(56)	(105)	-	-
Transportation		(166)	(254)	-	-
Rent and rates		(255)	(255)	-	-
Repairs and maintenance		(188)	(229)	-	-
Selling services charges		(18)	(177)	-	-
Impairment of plant and equipment		-	(594)	-	-
Provision for intercompany receivables		-	-	(340)	(2,200)
Writeback of warranty provision		60	-	-	-
Writeback of accrued interest convertible note		300	730	300	730
Provision for inventory obsolescence		(169)	(294)	-	-
Bad & doubtful debt provision		(160)	(319)	-	-
Other expenses		(1,182)	(8)	(84)	(167)
Profit/(Loss) from continuing operations before tax and finance costs		712	1,561	(54)	(1,584)
Finance costs	3 (d)	(431)	(474)	-	-
Share of profits of associate accounted for using the equity method	9,10	180	763	-	-
Profit / (Loss) before income tax		461	1,850	(54)	(1,584)
Income tax expense	4	(25)	(123)	-	-
Profit /(Loss) after income tax expense from continuing operations		436	1,727	(54)	(1,584)
Discontinued Operation					
Loss after tax from discontinued operation		-	(17)	-	-
Net Profit/(Loss) for the period		436	1,710	(54)	(1,584)
Loss attributable to minority interest		-	(82)	-	-
Profit / (Loss) attributable to members of the parent	26	436	1,628	(54)	(1,584)
Basic Earnings per Share (cents per share)	26	0.39c	1.45c		
Diluted Earnings per Share (cents per share)	26	0.39c	1.45c		

MULTISTACK INTERNATIONAL LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
ASSETS					
Current Assets					
Cash and cash equivalents	21	1,440	1,850	6	6
Trade and other receivables	6	10,115	8,939	724	648
Inventories	7	4,699	5,602	-	-
Other financial assets	8	-	-	7,600	9,278
Prepayments		7	18	-	-
Total Current Assets		**16,261**	**16,409**	**8,330**	**9,932**
Non-Current Assets					
Investments accounted for using the equity method	9,10	5,882	5,958	-	-
Property, plant and equipment	12	1,463	3,879	-	-
Investment property	13	1,578	1,615	-	-
Total Non-current Assets		**8,923**	**11,452**	-	-
TOTAL ASSETS		**25,184**	**27,861**	**8,330**	**9,932**
LIABILITIES					
Current Liabilities					
Trade and other payables	14	10,623	10,686	763	770
Short-term borrowings	15	6,093	8,851	-	1,541
Current tax liability	4	13	33	-	-
Provisions	16	189	339	-	-
Other		24	20	-	-
Total Current Liabilities		**16,942**	**19,929**	**763**	**2,311**
Non Current Liabilities					
Provisions	17	339	313	-	-
Total Non-current Liabilities		**339**	**313**	-	-
TOTAL LIABILITIES		**17,281**	**20,242**	**763**	**2,311**
NET ASSETS		**7,903**	**7,619**	**7,567**	**7,621**
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	18	155,639	155,639	155,639	155,639
Reserves	19	6,374	6,481	3,165	3,165
Accumulated losses	19	(155,136)	(155,572)	(151,237)	(151,183)
Parent interests		6,877	6,548	7,567	7,621
Minority equity interest	20	1,026	1,071	-	-
TOTAL EQUITY		**7,903**	**7,619**	**7,567**	**7,621**

MULTISTACK INTERNATIONAL LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

		CONSOLIDATED		PARENT	
		2006	2005	2006	2005
	Notes	$'000	$'000	$`000	$`000
Cash flows from operating activities					
Receipts from customers		14,812	22,252	3	-
Payments to suppliers and employees		(16,251)	(21,379)	(100)	-
Finance costs		(431)	(565)	-	-
Interest received		19	17	-	-
Income tax paid		(45)	(220)	-	-
Net cash flows from/(used by) operating activities	21(a)	**(1,896)**	**105**	**(97)**	**-**
Cash flows from investing activities					
Acquisition of property, plant and equipment		(44)	(83)	-	-
Proceeds from sale of property, plant and equipment		1,502	12	-	-
Proceeds on disposal of subsidiary	22(a)	-	708	-	-
Net cash flows from investing activities		**1,458**	**637**	**-**	**-**
Cash flows from financing activities					
Loans from associates and director related parties		2,176	1,103	97	-
Repayment of convertible note		(1,241)	-	-	-
Repayment of borrowings		(907)	(1,364)	-	-
Dividend paid – outside equity interest		-	(182)	-	-
Finance lease principal		-	(6)	-	-
Net cash flows used in financing activities		**28**	**(449)**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(410)**	**293**	**-**	**-**
Cash and Cash equivalent at beginning of period		1,850	1,437	6	6
Net foreign exchange differences		-	120	-	-
CLOSING CASH AND CASH EQUIVALENTS	21	**1,440**	**1,850**	**6**	**6**

MULTISTACK INTERNATIONAL LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the parent				Minority Interest	Total Equity
CONSOLIDATED	Issued Capital $'000	Retained Earnings $'000	Other Reserves $'000	Total $,000	$'000	$,000
At 1 January 2005	**155,639**	**(156,592)**	**5,316**	**4,363**	**3,256**	**7,619**
Dividend paid to minority interest	-	-	-	-	(183)	(183)
Minority interest in controlled entity disposed	-	-	-	-	(2,379)	(2,379)
Transfer to/from General Reserve	-	(608)	608	-	-	-
Currency translation differences	-	-	557	557	295	852
Total Income and Expense for the period recognised directly in equity	**-**	**(608)**	**1,165**	**557**	**(2,267)**	**(1,710)**
Profit for the period	-	1,628	-	1,628	82	1,710
At 31 December 2005	**155,639**	**(155,572)**	**6,481**	**6,548**	**1,071**	**7,619**

	Attributable to equity holders of the parent				Minority Interest	Total Equity
CONSOLIDATED	Issued Capital $'000	Retained Earnings $'000	Other Reserves $'000	Total $,000	$'000	$,000
At 1 January 2006	**155,639**	**(155,572)**	**6,481**	**6,548**	**1,071**	**7,619**
Transfer to/from General Reserve	-	-	-	-	-	-
Currency translation differences	-		(107)	(107)	(45)	(152)
Total Income and Expense for the period recognised directly in equity	-	-	**(107)**	**(107)**	**(45)**	**(152)**
Profit for the period	-	436	-	436	-	436
At 31 December 2006	**155,639**	**(155,136)**	**6,374**	**6,877**	**1,026**	**7,903**

MULTISTACK INTERNATIONAL LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the parent				Minority Interest	Total Equity
PARENT	**Issued Capital** $'000	**Retained Earnings** $'000	**Other Reserves** $'000	**Total** $,000	$'000	$,000
At 1 January 2005	**155,639**	**(149,599)**	**3,165**	**9,205**	-	**9,205**
Loss for the year	-	(1,584)	-	(1,584)	-	(1,584)
Total recognised Income / Expense for the period	-	**(1,584)**	-	**(1,584)**	-	**(1,584)**
At 31 December 2005	**155,639**	**(151,183)**	**3,165**	**7,621**	-	**7,621**

	Attributable to equity holders of the parent				Minority Interest	Total Equity
PARENT	**Issued Capital** $'000	**Retained Earnings** $'000	**Other Reserves** $'000	**Total** $,000	$'000	$,000
At 1 January 2006	**155,639**	**(151,183)**	**3,165**	**7,621**	-	**7,621**
Loss for the period	-	(54)	-	(54)	-	(54)
Total recognised Income / Expense for the period	-	**(54)**	-	**(54)**	-	**(54)**
At 31 December 2006	**155,639**	**(151,237)**	**3,165**	**7,567**	-	**7,567**

CORPORATE INFORMATION

The financial report of Multistack International Limited for the year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 26 February 2007.

Multistack International Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operation and principal activities of the Group are described in note 32.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards and the requirements of the Corporations Act 2001. The financial report has also been prepared on a historical cost basis. The financial report of Multistack International Limited and Controlled entities, and Multistack International Limited as an individual parent entity comply with Australian Equivalents of International Financial Reporting Standards (AIFRS).

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated, under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

BASIS OF ACCOUNTING

The financial statements have been prepared on the basis of a going concern. 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 Group has recorded a net profit after exclusion of the outside equity interest. Based on the forecasts for the 2007 financial year together with the ongoing support of financiers and suppliers, the directors believe the Group is able to meet its debts as and when they fall due. The directors have continued to undertake a total review of the operations both in Australia and offshore, particularly in the Peoples Republic of China. The review is ongoing and continues to examine all options for the future of the company and the group, including expansion, restructure and / or sale of certain assets.

The Group's ability to continue as a going concern will be dependent upon its ability to trade profitably in the 2007 financial year as well as the ongoing support of financiers. The financial statements do not 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 business not trade profitably or the support of significant financiers or suppliers be withdrawn such that either the company or the Group is unable to continue as a going concern. The ability of the company to secure further financing, if existing facilities were to cease or circumstances were such that additional facilities were required, cannot be assessed with any degree of certainty. If the going concern basis is found to no longer be appropriate the recoverable amounts of the assets shown in the Balance Sheet are likely to be significantly less than the amounts disclosed.

STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd

BASIS OF CONSOLIDATION

The consolidated financial reports are those of the Group, comprising Multistack International Limited (the Company or parent entity) and all entities, which Multistack International Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Minority interests represents the interests in Superlink companies not held by the Group. Refer to note 10B for further details.

INVESTMENTS

Investments in associates

The Group's investment in its associate is accounted for under the equity method of accounting in the consolidated financial statements. This is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associate are used by the Group to apply the equity method. The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

FOREIGN CURRENCY TRANSLATION

Both the functional and presentation currency of Multistack International Limited is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Differences relating to translation are taken to the income statement.

The functional currency of the overseas subsidiaries based in the Peoples Republic of China is RMB whilst for dormant subsidiaries based in the United States of America it is USD.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Multistack International Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd

PROPERTY, PLANT AND EQUIPMENT

Cost and valuation
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation
Depreciation is provided on a straight-line basis on all property, plant and equipment.

Major depreciation periods are:	**2006**	**2005**
Leasehold buildings	40 years	40 years
Plant and equipment	5 to 15 years	5 to 15 years

Incomplete capital projects are not depreciated until they are fully completed and transferred to plant and equipment.

Impairment
Refer note on Recoverable Amount.

INVESTMENT PROPERTY

Investment property is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at cost less any accumulated depreciation.

FINANCE COSTS

Finance costs are recognized as an expense when incurred.

RECOVERABLE AMOUNT

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Similarly, if the Group assesses that there is any indication that a previously impaired asset is no longer impaired, the recoverable amount of those assets is estimated. Any write backs of previously impaired assets are recorded through the income statement.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:
Raw materials – purchase cost on a first-in, first-out basis;
Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd

CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

INTEREST BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised;

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Licence and royalty revenue

Advance payments of licence fees and royalties received under exclusive licence agreements relating to Multistack technology are brought to account in accordance with the terms of each agreement. Royalties are accrued when earned in accordance with the relevant royalty agreement.

Rendering of services

Where the contract outcome can be reliably measured, revenue is recognised by reference to the stage of completion of the transaction. Stage of completion is generally measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably measured; revenue is recognised only to the extent that costs have been incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd

REVENUE RECOGNITION – CONT'D

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

INCOME TAX

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

• except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

• in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

• except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

• in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd

TRADE AND OTHER PAYABLES

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

EMPLOYEE BENEFITS

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against profits on a net basis in their respective categories.

CONTRIBUTED EQUITY

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

LEASES

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to profit and loss.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

EARNINGS PER SHARE

Earnings per share is determined by dividing the net profit after tax attributed to members of the parent divided by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable preference shares).

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The group makes certain estimates and assumption concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events which could have a material impact on the assets and liabilities in the next financial year are disclosed below:

(a) Estimated impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. Impairment has been recognised in respect of investments and plant and equipment for the year ended 31 December 2006.

No additional impairment has been recognised in respect of investments for the year ended 31 December 2006. This is based on a discount rate of 10% being applied. Should the cashflows of the investment entities as estimated by management not reach figures used in value-in-use calculations, an impairment loss may be recognised.

NOTES - CONTINUED
31 DECEMBER 2006

	Notes	CONSOLIDATED 2006 $`000	CONSOLIDATED 2005 $`000	PARENT 2006 $`000	PARENT 2005 $`000
2. REVENUES					
Other Income					
Foreign currency gains		6	(15)	-	-
Interest – other corporations		19	17	-	-
Gain from sale of property plant & equipment		683	23	-	-
Forgiveness of advances	2 (a)	-	690	-	-
Gain from disposal of controlled entity		-	602	-	-
Write back of previously impaired investment		-	1,000	-	-
Royalty revenue		79	107	79	107
Other		284	24	-	-
		1,071	2,448	79	107

2 (a) Forgiveness of advances
- The Group recognised as other revenue in the year 2005 $436,746 relating to customer advances dating back to 2001. It was determined that these amounts no longer represented a liability.
- The Group recognised as other revenue in the year 2005 $253,387 relating to accounts payable purchases dating back to 2001. It was determined that these amounts no longer represented a liability.

3. EXPENSES					
Continuing Operations					
(a) Depreciation and amortisation expense					
Building		252	298	-	-
Plant and equipment		39	197	-	-
Total depreciation and amortisation expense		291	495	-	-
(b) Impairment of property, plant & equipment					
- write down to recoverable amount		-	594	-	-
(c) Bad and doubtful debts					
Trade debts - other persons		160	319	-	-
(d) Finance costs					
Interest expense					
Bank facilities		427	401	-	-
Other		4	73	-	-
Total finance costs		431	474	-	-
Net loss (profit) on sale of plant & equipment		-	23	-	-
Provision for inventory obsolescence	7	202	294	-	-
Provision for employee entitlements		6	(6)	-	-
Provision for doubtful debt		17	(310)	-	-
Provision for intercompany receivable		-	-	340	2,200
Discontinuing Operations					
(a) Depreciation expense					
- Building		-	45	-	-
- Plant & Equipment		-	10	-	-
Total Depreciation expense		-	55	-	-
(b) Finance costs					
- Bank Facilities		-	91	-	-
Total finance costs		-	91	-	-

NOTES - CONTINUED
31 DECEMBER 2006

	Notes	CONSOLIDATED 2006 $`000	CONSOLIDATED 2005 $`000	PARENT 2006 $`000	PARENT 2005 $`000
4. INCOME TAX					
Income Statement					
Current income tax					
Current income tax charge		13	25	-	-
Adjustments in respect of current income tax of previous years		12	98	-	-
Income tax expense as reported in the income statement		25	123	-	-
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the groups applicable income tax rate is as follows:					
Accounting profit before tax from continuing operations		461	1,850	(54)	(1,584)
Profit/(loss) on discontinued operations before tax		-	(9)	-	-
Accounting profit before income tax		461	1,841	(54)	(1,584)
At the Groups statutory rate of 30% (2005:30%)		138	553	(16)	(475)
Depreciation on revalued assets		-	(1)	-	-
Utilise tax losses not previously brought to account		(141)	(585)	16	475
Under/ (over) provision of previous year		12	98	-	-
Differential in foreign tax rates		16	66	-	-
		25	131	-	-
Income tax expense reported in the consolidated income statement		25	123	-	-
Income tax attributable to discontinued operations		-	8	-	-
		25	131	-	-
Current income tax payable		13	33	-	-
Balance at beginning of year		33	880		
Income tax		25	56		
Payable disposed with discontinued operations		-	(683)		
Tax payments		(45)	(220)		
		13	33		
Unused tax losses not brought to account					
Deferred tax balances of the Company and of the Group are not brought to account at balance date as realisation of the tax assets and extinguishment of tax liabilities are not regarded as being probable.		8,254	8,383	3,782	3,831

Tax consolidation

For the purposes of income taxation, Multistack International Ltd and its 100% owned subsidiaries have not formed a tax consolidated group. This did not impact the consolidated results for reporting period. Given that a review of the Australian operations is currently being undertaken, entry into a tax consolidated group is unlikely. From 1 January 2004, the carried forward tax losses of each entity in the Group could only be used to offset taxable income of that individual entity.

5. FRANKING CREDIT BALANCE

The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year	-	-	1,686	1,686
- franking credits that will arise from the payment of income tax payable as at the end of the financial year.	-	-	-	-
	-	-	1,686	1,686

The tax rate at which paid dividends have been franked is 30% (2005: 30%).

MULTISTACK INTERNATIONAL LIMITED

NOTES - CONTINUED
31 DECEMBER 2006

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $`000	PARENT 2005 $`000
6. TRADE AND OTHER RECEIVABLES (CURRENT)					
Trade receivables	(a)	6,931	7,203	-	-
Provision for doubtful debts		(1,644)	(1,627)	-	-
		5,287	5,576	-	-
Related Party receivables:					
Director related entities		997	14	-	-
Directors		-	36	-	-
		997	50	-	-
Purchase advances		307	146	-	-
Other receivables	(b)	3,524	3,167	724	648
		3,831	3,313	724	648
		10,115	8,939	724	648
Movement in provision for doubtful debts					
- balance at beginning of year		(1,627)	(2,219)	-	-
- debts previously provided for now written-off		-	6	-	-
- bad and doubtful debts provided for during the year		(141)	(310)	-	-
- doubtful debts provision write back		-	1,072		
- foreign currency fluctuation to opening balance		124	(176)	-	-
- balance at end of year		(1,644)	(1,627)	-	-
Provision for doubtful debts comprises					
- trade debtors		(1,644)	(1,627)	-	-
		(1,644)	(1,627)	-	-

Terms and conditions relating to receivables

(a) Trade - Credit sales are on commercial terms and depend upon the region of operation. Credit terms typically are:
China - 10% deposit, 80% upon delivery, 5% upon commissioning with a final 5% after 12 months warranty period.
For larger projects, deferred terms of up to 24 months are often provided.
Australia - 60 days from delivery.

(b) Receivables from other persons are on commercial terms and depend upon the region of operation.

7. INVENTORIES (CURRENT)				
Raw materials and stores - at cost	4,544	4,766	-	-
Provision for diminution in value	(1,208)	(1,192)	-	-
	3,336	3,574	-	-
Work in progress - at cost	1,288	1,807	-	-
Finished goods - at cost	2,633	2,997	-	-
Provision for diminution in value	(2,558)	(2,776)	-	-
	1,363	2,028	-	-
Total inventories - at lower of cost and net realisable value	4,699	5,602	-	-

NOTES - CONTINUED
31 DECEMBER 2006

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$`000	$`000	$`000	$`000
7. INVENTORIES (CURRENT) cont'd				
Movement in provision for diminution in value				
Balance at beginning of year	(3,968)	(3,566)	-	-
Net additional provision	(169)	(294)	-	-
Inventory subsequently sold	248	-		
Net foreign currency movement	123	(108)	-	-
	(3,766)	(3,968)	-	-
Provision for diminution comprises				
Raw materials and stores	(1,208)	(1,192)	-	-
Finished goods	(2,558)	(2,776)	-	-
	(3,766)	(3,968)	-	-
8. OTHER FINANCIAL ASSETS (CURRENT)				
Loans- Wholly owned group controlled entities	-	-	138,490	139,828
Provision for doubtful loan	-	-	(130,890)	(130,550)
	-	-	7,600	9,278
Other related parties	1,089	1,089	-	-
Provision for related parties	(1,089)	(1,089)	-	-
Other persons	2,403	2,403	2,409	2,409
Provision for doubtful debts - other persons	(2,403)	(2,403)	(2,409)	(2,409)
	-	-	7,600	9,278
Movement in provision for doubtful debts				
- balance at beginning of year	(3,492)	(3,492)	(132,959)	(130,759)
- bad and doubtful debts provided for during the year	-	-	(340)	(2,200)
- balance at end of year	(3,492)	(3,492)	(133,299)	(132,959)
Provision for doubtful debts comprises				
- wholly-owned group controlled entities	-	-	(130,890)	(130,550)
- related parties – other	(1,089)	(1,089)	-	-
- other persons	(2,403)	(2,403)	(2,409)	(2,409)
	(3,492)	(3,492)	(133,299)	(132,959)

NOTES - CONTINUED
31 DECEMBER 2006

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$`000	$`000	$`000	$`000
9. INVESTMENT IN ASSOCIATE				
Associated companies - unlisted shares				
At equity accounted amount	5,882	5,958	-	-

(i) Investments in associates	Group Interest		% held by Group	
	2006	2005	2006	2005
	$'000	$'000		
Bright Technology Ltd. (a)	5,882	5,958	60%(b)	60% (b)
Multistack Thermal Ltd. (a)	-	-	33% (b)	33%(b)
	5,882	5,958		

(a) Bright Technology Ltd. – the principal activities of the company are investment holdings (its only investment being in Multistack Thermal Ltd), and acting as a heat exchangers technical consultants.

The reporting dates of Bright Technology Ltd and Multistack Thermal Ltd are the same as Multistack International Limited.

There were no impairment losses relating to investment in associates and no capital commitments or other commitments and contingencies relating to the associates.

(b) Bright Technology Limited – is held 60% (entitled to 66.7% of profits) by non-voting shares owned by Penthill Limited (100% owned subsidiary of Multistack International Limited). As the group has non voting shares it has no control over Bright Technology Limited and therefore equity accounts for its investment.

Multistack Thermal Ltd – is held 60% (33.3% voting power) by Bright Technology Limited, and 30% by Super Link Guangzhou Ltd (100% owned subsidiary of Multistack International Limited). The Groups 33.3% voting power does not constitute control over Multistack Thermal and therefore the Group equity accounts for this investment.

NOTES - CONTINUED
31 DECEMBER 2006

9. INVESTMENT IN ASSOCIATE CONT'D

	CONSOLIDATED	
	2006	2005
	$'000	$'000
(ii) Share of associates profits		
Associates		
- net profits before income tax	376	603
- income tax expense attributable to net profit	-	-
- net profits after income tax	376	603
(iii) Carrying amount on investments in associates		
Balance at beginning of financial year	5,958	3,869
- share of associates net profits (losses) for the financial year	376	888
- reversal of impairment provision	-	1,000
- foreign currency translation effect	(452)	201
Equity accounted value of investments in associates at end of the financial year	5,882	5,958
Represented by:		
Investments at equity accounted amounts:		
- Bright Technology Ltd	5,882	5,958
Carrying value of investments in associates	5,882	5,958
(iv) Share of associate's balance sheet:		
Current assets	4,950	3,310
Non-current assets	2,685	4,434
Current liabilities	(1,747)	(1,334)
Net assets	5,888	6,410
(v) Retained profits of the consolidated entity attributable to associates		
Balance at the beginning of the financial year	(5,105)	(5,792)
Share of associate's net profits	376	888
Foreign currency translation effect	(365)	(201)
Balance at the end of the financial year	(5,094)	(5,105)
(vi) Amount of reserves of the consolidated entity attributable to associates		
Balance at the beginning of the financial year	1,600	1,467
Foreign currency translation effect	(68)	133
Balance at the end of the financial year	1,532	1,600

10. INVESTMENT IN JOINTLY CONTROLLED ENTITY

(i) Investments in Jointly Controlled Entity	Group Interest		% held by Group	
	2006 $'000	2005 $'000	2006	2005
Dunnair (Aust) Pty Ltd (a)	-	-	50%(a)	50% (a)
	-	-		

(a) Effective from 1 July 2004, Multistack International Ltd formed a joint venture namely Dunnair (Aust) Pty Ltd (formerly Dunnair (Vic Sales) Pty Ltd) with Rogton Pty Ltd. Each party has a 50% ownership interest.

The reporting date of Dunnair (Aust) Pty Ltd is 30 June each year.

The carrying value of this joint venture is $0 due to the effect of equity accounting losses being offset against the initial cost of the investment (including loans and advances).

	CONSOLIDATED	
	2006 $'000	2005 $'000
(ii) Share of jointly controlled entity's balance sheet:		
Current assets	873	958
Non- current assets	14	14
Current liabilities	(1,208)	(1,097)
Non-current liabilities	-	-
	(321)	(125)
(iii) Share of jointly controlled entity's revenue and profit:		
Revenue	1,195	1,428
Loss before tax	(196)	(125)
Income tax	-	-
Loss after income tax	(196)	(125)

10B. INTEREST IN SUBSIDIARIES (NON-CURRENT)

(a) Investment in controlled entities comprises:

	Incorporated in	Beneficial percentage held by Group			Investment	
		2006		2005	2006 $'000	2005 $'000
Multistack International Ltd.	Aust.					
DunnAir International Limited	Aust.	100%		100%	(b)	(b)
Multistack Inc.	USA	100%		100%	4,702	4,702
Airflow Holdings Inc.	USA	100%		100%	12	12
Controlled entities of Airflow Holdings, Inc.						
Airflow Company	USA	100%		100%	-	-
Airflow Licence Inc.	USA	100%		100%	-	-
Multistack PRC Pty. Ltd.	Aust	100%		100%	(a)	(a)
Controlled entity of Multistack PRC Pty. Ltd.						
Super Link Australia Ltd.	BVI	100%	(e)	100%	-	-
Controlled entity of Super Link Australia Ltd.						
Super Link Guangzhou Ltd.	BVI	100%	(e)	100%	-	-
Controlled entities of Super Link Guangzhou Ltd.						
Panyu Super Link Company Ltd.	PRC	85%	(e)(f)	85%	-	-
Panyu Jiefeng Air Conditioning Co. Ltd.	PRC	100%	(e)	100%	-	-
Super Link Air Conditioning Installing Engineering Ltd.	PRC	100%		100%	-	-
Super Link Panyu Ltd.	BVI	100%	(e)	100%	-	-
Controlled entity of Super Link Panyu Ltd.						
Panyu Precision Jieneng Air-conditioning Equipment Company Ltd.	PRC	100%	(e)	100%	-	-
Super Link Yuyao Ltd.	BVI	-	(e)	100%	-	-
Controlled entity of Super Link Yuyao Ltd.						
ACR Equipment (HK) Ltd.	HK	100%	(e)	100%	-	-
Super Link North America Ltd.	BVI	100%	(e)	100%	-	-
Penthill Ltd.	HK	100%	(d)	100%	(c)	(c)

Overseas controlled entities carry on business in the country of incorporation.

NB: BVI = British Virgin Islands; PRC = Peoples' Republic of China; HK = Hong Kong; Aust. = Australia; USA = United States of America

(a) $2; (b) $5; (c) $191

(d) Audited by Ko & Ng Certified Public Accountants.

(e) Controlled entities, which are audited by other affiliated firms of Pitcher Partners.

(f) Equity contribution to the joint venture is 85%. However upon liquidation or termination of the joint venture, the joint venture agreement provides that the remaining assets be distributed to Super Link Guangzhou Ltd. (88%) and to Panyu No. 2 Light Industry (Holdings) Company (12%), provided that the distribution to Panyu No. 2 Light Industry (Holdings) Company is not less than the amount of its initial investment. For accounting purposes, it is a controlled entity.

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
11. AVAILABLE – FOR – SALE FINANCIAL ASSETS					
Investments - unlisted shares					
At cost		-	-	3,224	3,224
Accumulated impairment losses		-	-	(3,224)	(3,224)
		-	-	-	-
12. PROPERTY, PLANT & EQUIPMENT					
Total land and buildings					
At cost	12 (a)	2,350	6,086	-	-
Accumulated depreciation		(1,052)	(2,525)	-	-
		1,298	3,561	-	-
Plant and equipment					
At cost		3,369	3,485	-	-
Accumulated depreciation		(2,069)	(2,289)	-	-
Impairment losses		(1,145)	(1,196)		
		155	-	-	-
Incomplete capital projects					
At cost		69	685	-	-
Impairment provision		(59)	(367)	-	-
		10	318	-	-
Total property, plant and equipment					
Cost or fair value		5,788	10,256	-	-
Accumulated depreciation and impairment		(4,326)	(6,377)	-	-
Net carrying amount		1,463	3,879	-	-

(a) Buildings have been carried at cost. At 31 December 2000 some buildings were written down to recoverable amount. That amount was based on independent advice from real estate brokers based in China. As at 31 December 2003, land located at Guangzhou Nansha Economic Development Park was written down to recoverable amount based on the directors' valuation.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
12. PROPERTY, PLANT & EQUIPMENT - cont'd				
(b) Reconciliation				
Leasehold land and buildings				
Carrying amount at beginning	3,561	6,787	-	-
Additions	-	5	-	-
Disposals	(1,828)	(1,887)	-	-
Depreciation expense	(252)	(343)	-	-
Transferred to investment property	-	(1,615)	-	-
Net foreign currency movements	(183)	614	-	-
	1,298	3,561	-	-
Plant and equipment				
Carrying amount at beginning	-	589	-	-
Additions and transfers	336	99	-	-
Disposals	(104)	(75)	-	-
Depreciation expense	(39)	(207)	-	-
Impairment	-	(535)		
Net foreign currency movements	(38)	129	-	-
	155	-	-	-
Incomplete capital projects				
Carrying amount at beginning	318	507	-	-
Additional expenditure	19	5	-	-
Impairment	-	(59)	-	-
Disposal and transfers	(311)	(181)	-	-
Net foreign currency movement	(16)	46	-	-
	10	318	-	-

The group's fixed assets with a net book value of $3,040,000 (2005: $5,493,000) were pledged to secure a bank loan granted to the controlled entities, Panyu Super Link Co Ltd and Panyu Jiefeng Air Conditioning Co Ltd.

13. INVESTMENT PROPERTY

Total investment property					
At cost		2,119	2,119	-	-
Accumulated depreciation		(541)	(504)	-	-
	13(a)	1,578	1,615		

(a) Investment property has been carried at cost. Investment property is depreciated using a straight line basis over 40 years. Rental income recognised in profit and loss for the year ended 31 December 2006 is $76,885.
The directors have determined that the fair value of investment property at 31 December 2006 to be $1,580,000.

(b) Reconciliation				
Carrying amount at beginning	1,615	1,727	-	-
Depreciation expense	(37)	(27)	-	-
Net foreign currency movements	-	(84)	-	-
	1,578	1,615	-	-

NOTES - CONTINUED
31 DECEMBER 2006

	Notes	CONSOLIDATED 2006 $`000	CONSOLIDATED 2005 $`000	PARENT 2006 $`000	PARENT 2005 $`000
14. TRADE AND OTHER PAYABLES (CURRENT)					
Trade payables		1,332	3,009	-	-
Customer advances		763	1,721	-	-
Sundry creditors		1,584	2,136	40	47
Aggregate amounts payable to related parties					
- Controlled entities - wholly owned (trade)		-	-	723	723
- Associate (trade)	28	4,276	2,015	-	-
- Director related parties (trade)	28	2,668	1,805	-	-
		10,623	10,686	763	770

Terms and conditions relating to accounts payable

Trade and sundry creditors
Trade and sundry creditors are normally settled on terms appropriate to the region of operation and as arranged with particular suppliers.

Customer advances
Customer advances are on commercial terms.

Other related party payables
Other related parties details are set out in note 27.

Financing Facilities

The controlled entities have multi option facilities of $5,964,000 (2005: $6,917,000). Unused facilities are disclosed in Note 25.

15. BORROWINGS (CURRENT)					
Interest Bearing					
Bank loans (secured)		5,964	6,505	-	-
Commercial bills and promissory notes (secured)		129	174	-	-
Convertible note (unsecured)		-	1,541	-	1,541
Other (unsecured)		-	631	-	-
		6,093	8,851	-	1,541

15. BORROWINGS (CURRENT) CONT'D

Bank overdrafts

The Australian based entities have fully repaid the bank overdraft and have cancelled the overdraft and bill facility with HSBC.

The numerous bank overdraft and loan facilities used by China based entities are unsecured or are secured by corporate guarantees provided by a controlled entity, director related parties, joint venture partners, associate company, or a charge over group or associate properties, or a personal guarantee by a Director, or by a combination of these securities. Interest is charged based on the respective bank's benchmark plus a margin.

Convertible note

Convertible note and interest was due for repayment on 31 December 1996 and has been rolled over on an annual basis. Historically the lender was entitled to convert the debt into ordinary shares in the company based on the weighted average sale price on the ASX for the preceding five days. On 12 August 2005 the terms attached to the note were renegotiated, the lender agreed to waive the claim of interest incurred to date provided the company repay the full principal outstanding of A$1,541,000 within 12 months from date of agreement. The conversion option in the note was effectively removed in the new settlement terms. On 20 September 2006, the principal of the note was fully repaid and the note was returned. Consequently, all provision for accrued interest has been written back.

		CONSOLIDATED		PARENT	
	Notes	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
16. PROVISIONS (CURRENT)					
Employee entitlements		117	137	-	-
Warranty claims	16 (a)	72	132	-	-
Other provision		-	70	-	-
		189	339	-	-

(a) Provision for Warranty

All entities in the wholesale and retail operations provide for warranties under which faulty products are repaired or replaced.

	Notes	CONSOLIDATED 2006 $`000	CONSOLIDATED 2005 $`000	PARENT 2006 $`000	PARENT 2005 $`000
17. PROVISIONS (NON-CURRENT)					
Employee entitlements		89	63	-	-
Warranty claims		250	250	-	-
		339	313	-	-
(b) Movements in provisions					
(i) Warranty Claims					
Carrying amount at the beginning of the financial year		382	382	-	-
Reversal of unused provision		(60)	-	-	-
Carrying amount at the end of the financial year		322	382	-	-
18. CONTRIBUTED EQUITY					
a) Issued paid up capital					
112,303,924 ordinary shares fully paid		155,639	155,639	155,639	155,639

b) Movements in shares on issue during the year
No shares were issued during the year.

c) Terms and Conditions of contributed equity
Ordinary Shares
Ordinary shares have the right to received dividends as declared, and in the event of winding the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

NOTES - CONTINUED
31 DECEMBER 2006

	Notes	CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
19. RESERVES AND ACCUMULATED (LOSSES)					
Asset revaluation	19(a)	3,551	3,551	3,165	3,165
General reserve	19(b)	2,342	2,342	-	-
Foreign currency translation	19(c)	481	588	-	-
		6,374	6,481	3,165	3,165
Accumulated losses	19(d)	(155,136)	(155,572)	(151,237)	(151,183)

(a) Asset revaluation

The asset revaluation reserve is used to record increments and decrements in the value of non current assets. The reserve can only be used to pay dividends in limited circumstances.

Movements in reserve				
- balance at beginning	3,551	3,551	3,165	3,165
- balance at end of year	3,551	3,551	3,165	3,165

(b) General reserve

The general reserve contains amounts of retained profits that have been set aside by directors for the purpose of funding specific projects.

Movements in reserve				
- balance at beginning	2,342	1,734	-	-
- transfer to/from retained losses	-	608	-	-
- balance at end of year	2,342	2,342	-	-

NOTES - CONTINUED
31 DECEMBER 2006

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
19. RESERVES AND RETAINED (LOSSES) CONT'D				
(c) Foreign currency translation				
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations				
Movements in reserve				
- balance at beginning	588	31	-	-
- Gain (loss) on translation of overseas controlled entities	(107)	557	-	-
- balance at end of year	481	588	-	-
(d) Accumulated losses				
Balance at beginning of year	(155,572)	(156,592)	(151,183)	(149,599)
Net (loss)/profit attributable to members of Multistack International Ltd	436	1,628	(54)	(1,584)
Total available for appropriation	(155,136)	(154,964)	(151,237)	(151,183)
Dividends provided for or paid	-	-	-	-
Aggregate amount transferred (to)/from the general reserve	-	(608)	-	-
Balance at end of year	(155,136)	(155,572)	(151,237)	(151,183)
20. MINORITY INTEREST				
Reconciliation of minority interest in controlled entity:				
- Opening balance	1,071	3,256	-	-
- Share of operating profit (loss)	-	82	-	-
- Foreign currency fluctuation	(45)	295	-	-
- Dividends provided	-	(183)	-	-
- Disposal of YYJ	-	(2,379)	-	-
	1,026	1,071	-	-

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
21. CASH AND CASH EQUIVALENTS					
Cash at bank and in hand		1,440	1,850	6	6

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

The fair value of cash and cash equivalents is $1,440,000 (2005: $1,850,000)

(a) Reconciliation of the operating profit/(loss) after tax to the net cash flows from operations

Operating profit/(loss) after tax		436	1,710	(54)	(1,584)
Debt forgiven		140	(1,420)	(300)	(730)
Impairment charges		-	594	-	-
Reversal of impairment of investment in associate		-	(1,000)	-	-
Depreciation of property, plant and equipment		291	550	-	-
Loss (Gain) on sale of non current assets		(683)	(23)	-	-
Provision for employee entitlements		6	(210)	-	-
Bad and doubtful debts		160	319	340	2,200
Disposal of controlled entity	22(a)	-	(602)	-	-
Share of associates profit		(180)	(763)	-	-
Provision for inventory obsolescence		202	294	-	-
Changes in assets and liabilities					
Trade and other receivables		(246)	1,199	(76)	(549)
Inventory		1,105	(585)	-	-
Tax provision		(98)	-	-	-
Trade and other creditors		(3,187)	106	(7)	663
Effects of exchange rate changes on opening cash		158	(64)	-	-
Net cash flow from/(used by) operating activities		(1,896)	105	(97)	-

(b) Bank Facility

The controlled entities have multi option facilities of $5,964,000 (2005: $6,917,000). Unused facilities are disclosed in Note 25.

22. DISCONTINUED OPERATION

On 25 August 2005, Multistack (International) Limited disposed its 51% interest in Yuyao Jiefeng Air-conditioning Equipment Company Ltd ("YYJ"), a company that manufactures airconditioning parts and was a part of the China operations business segment.

The business of YYJ has been continually operating in an unpredictable product environment making it difficult for management to actively seek any real growth and profitability from the business.

The disposal of YYJ was completed on 25 August 2005 with the effective sale date being 30 June 2005.

The results of YYJ for the period until disposal are presented below:

	2006 $'000	2005 $'000
Revenue	-	4,327
Expenses	-	(4,245)
Gross profit/(loss)	-	82
Finance costs	-	(91)
Pre-tax profit/(loss)	-	(9)
Loss before tax from discontinued operation	-	(9)
Income tax expense:		
- related to pre-tax profit/(loss)	-	(8)
Net loss attributable to discontinued operation	-	(17)
The net cash flows incurred by YYJ are as follows:		
Operating	-	(675)
Net cash (outflow)/inflow	-	(675)
Earnings per share (cents per share):		
- Basic from discontinued operation	-	-0.06
- Diluted from discontinued operation	-	-0.06
(a)Proceeds on disposal:		
- cash	-	1,862
- debt forgiven	-	4,098
The carrying amounts of assets and liabilities disposed of by major class are:		
- property, plant & equipment	-	2,130
- cash	-	411
- receivables	-	10,486
- payables	-	(4,405)
- bank loan	-	(3,049)
- net of other assets and liabilities	-	(215)
Net assets of entity sold	-	5,358
Profit on disposal	-	602
Net cash effect as reflected in the consolidated cash flow statement.		
- cash proceeds	-	1,862
- cash balance disposed	-	(411)
- cash proceeds outstanding at balance date	-	(743)
Cash proceeds on disposal of controlled entity as reflected in the consolidated statement of cashflows.	-	708

There were no acquisitions or disposals in the 2006 financial year.

NOTES - CONTINUED
31 DECEMBER 2006

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
23. EXPENDITURE COMMITMENTS					
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:					
- not later than one year					
- controlled entity		-	24	-	-
(i) Operating leases (non-cancellable)					
Minimum payments due for buildings leased.					
- not later than one year		144	283	-	-
- later than one but not later than five years		-	-	-	-
Aggregate lease expenditure contracted for at reporting date		144	283	-	-

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
24. EMPLOYEE BENEFITSAND SUPERANNUATION COMMITMENTS					
Employee entitlements:					
The aggregate employee entitlements liability is comprised of:					
- Provisions – current	16	117	137	-	-
- Provisions – non current	17	89	63	-	-
		206	200	-	-

Superannuation commitments

The superannuation plans provide benefits based on accumulated contributions. Australian employees contribute to the plans at various percentages of their wages and salaries. The Group also contributes to the plans in accordance with their obligations under the trust deeds and is only obligated under the Australian superannuation guarantee legislation.

At balance date the assets of each of the plans are sufficient to satisfy all benefits that would have vested under the plans in the event of termination of the plans, and voluntary or compulsory termination of employment of each employee.

25. FINANCING ARRANGEMENTS				
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities:				
- bank loan – short term	5,964	6,917	-	-
Facilities used at reporting date:				
- bank loan – short term	5,964	6,506	-	-
Facilities unused at reporting date:				
- bank loan – short term	-	411	-	-

26. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable preference shares. There were no such adjustments required in the year ended 31 December 2005 or 31 December 2006.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
(a) Basic and diluted earnings per share	$0.0039	$0.0145		
(b) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share:	112,303,924	112,303,924		
The following reflects the income and share data used in the calculations of basic and diluted earnings per shares:				
Net profit attributable to equity holders	436	1,710		
Adjustments:				
Net profit attributable to outside equity interest	-	(82)		
Earnings used in calculating the basic and diluted earnings per share	436	1,628		

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

27. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Details of Key Management Personnel

(i) Directors

Mr. T. Chu	Chairman and Non-executive Director
Mr. S. Leung	Chief Executive Officer
Mr. S. Yan	Executive Director
Ms. Y.N. Chan	Executive Director
Mr. A.H.W Yu	Non-executive Director

(ii) Executives

Ms. B J Tan	General Manager (China)

(b) Compensation of Key Management Personnel

(i) Compensation Policy

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for directors, the chief executive officer and all other key management personnel. The Board determines and reviews compensation of the executive team by assessing the appropriateness of the nature and amount of compensation of key management personnel by reference to relevant employment and market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

27. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

(b) Compensation of Key Management Personnel (cont'd)

(ii) Compensation of Key Management Personnel

		Short Term			Post Employment		Total
		Salary & fees	Cash Bonus	Non-Monetary benefits	Superan-nnuation	Retirement benefits	
Directors							
S. Leung							
	2006	**147,494**	-	-	-	-	**147,494**
	2005	158,481	-	-	-	-	158,481
S. Yan							
	2006	**147,494**	-	-	-	-	**147,494**
	2005	158,481	-	-	-	-	158,481
T. Chu							
	2006	-	-	-	-	-	-
	2005	-	-	-	-	-	-
Y N Chan							
	2006	**46,736**	-	**18,876**	-	-	**65,612**
	2005	38,038	-	15,945	-	-	53,983
A H Yu							
	2006	-	-	-	-	-	-
	2005	-	-	-	-	-	-
Total compensation: Directors							
	2006	**341,724**	-	**18,876**	-	-	**360,600**
	2005	355,000	-	15,945	-	-	370,945

		Short Term			Post Employment		Total
		Salary & fees	Cash Bonus	Non-Monetary benefits	Superan-nnuation	Retirement benefits	
Executives							
B J Tan							
	2006	**15,134**	-	-	-	-	**15,134**
	2005	32,748	-	-	-	-	32,748
Total compensation: Executives							
	2006	**15,134**	-	-	-	-	**15,134**
	2005	32,748	-	-	-	-	32,748

(c) Shareholdings of Key Management Personnel

Ordinary shares	**Balance 1 January 2006**	**Acquired**	**Sold**	**Balance 31 December 2006**
Directors				
S. Yan	34,692,921	-	-	34,692,921
S. Leung	30,202,878	-	-	30,202,878
Y.N.Chan	20,000	-	-	20,000
T.K.M. Chu	-	-	-	-
A Yu	-	-	-	-
Executives				
B J Tan	515,000	-	-	515,000

There have been no other transactions concerning shares or share options between entities in the reporting entity and directors of the reporting entity or their director-related entities. There was no movement in share or share options between entities in the reporting entity and directors of the reporting entity or their director-related entities during the year ended 31 December 2006.

27. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

(d) Loans to directors

(i) Interest free advance receivable from a director of Multistack International Ltd,
Mr. S Leung $15,523 (2005 $25,106)
Mr S W Yan $15,963 (2005 $11,040)

(e) Other transactions and balances with key management personnel

Transactions with director related entities:

(i) Services

Management services provided by Welletin Investment Ltd. (a related party of S. Yan and S. Leung) to Multistack International Ltd. And its controlled entities on normal commercial terms and conditions.
The aggregate service fees for the year were $294,988 (2005 $316,962).

(ii) Loans to director related party

Multistack International Limited and ARCHK provided an interest free loan to Bright Technology Ltd (a related party of S. Yan and S. Leung) totalling $977,609 (2005: $1,089,036) with no fixed repayments. No repayments were received during the year and the loan has been provided for in full at year end.

(iii) Amounts owing from director related entities

The following loans are unsecured, non-interest bearing and have no set repayment terms.

Shenyang Jie Feng (a related party of S. Yan and S Leung) $13,687 (2005 $14,293)
Jie Feng (Blower) (a related party of S. Yan and S Leung) $20,995 (2005 Nil)
Bright Technology Ltd. (a related party of S. Yan and S Leung) $332,610 (2005 Nil)
SLYY (a related party of S. Yan and S Leung) $598,593 (2005 Nil)

(iv) Advances payable at balance date from director related companies

The following loans are unsecured, non-interest bearing and have no set repayment terms.

ACR Equipment Supplies Ltd (a related party of S. Yan and S Leung) $335,623 (2005 $158,631)
Better Asia Group Ltd. (a related party of S. Yan and S. Leung) $370,062 (2005 $386,443)
Bright Technology Ltd. (a related party of S. Yan and S Leung) Nil (2005 $675,043)
Asia Capital Resources (L) Ltd. (a related party of S. Yan and S. Leung) $76,583 (2005 $79,913)
JF (L) Ltd. (a related party of S. Leung) $102,837 (2005 $107,390)
Jie Feng (Ningbo) (a related party of S. Yan and S Leung) $134,443 (2005 $140,033)
Ningbo (Meiyi) (a related party of S Yan and S Leung) $28,290 (2005 $256,754)
Goodpoint Investments Ltd (a related party of S Yan and S Leung) $78,238 (2005 Nil)
Yuyao Jiefeng Air-conditioning Equipment Company (a related party of S Yan and S Leung) Ltd $1,541,000 (2005 $1,679,712)
Multistack Thermal Limited (a related party of S Yan and S Leung) $4,275,857 (2005 $2,549,082)

28. RELATED PARTY DISCLOSURES

Ultimate parent

Multistack International Limited is the ultimate Australian holding company.

Other related party transactions:

Purchases

Purchases were made under normal commercial terms and conditions from Multistack Thermal Ltd. (a subsidiary of associated company Bright Technology Ltd.) and the amount payable at year end is $1,050,282 (2005 $1,306,079) (Bright Technology Ltd is a director related party of Mr Yan and Mr Leung).

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
29. AUDITORS' REMUNERATION				
Amounts received or due and receivable by the auditor of Multistack International Limited for:				
Audit of financial reports	134	207	46	68
Other services				
- tax compliance	-	70	-	66
	134	277	46	134

Not rounded –
Consolidated: $134,407 (2005 $206,605); Nil (2005: $70,000)
Company $46,000 (2005: $68,000); Nil (2005: $66,000)

Amounts received or due and receivable by auditors other than the auditor of Multistack International Limited.				
Auditing financial reports of certain controlled entities	20	7	-	-
Other services	-	-	5	-
	20	7	5	-

Not rounded –
Consolidated $19,792 (2005 $6,646)
Company $5,000 (2005 Nil)

30. CONTINGENT LIABILITIES

There were no material contingent liabilities or assets at balance date.

31. SUBSEQUENT EVENTS

There has been no significant item or event occurred since the end of the financial year.

32. SEGMENT INFORMATION

Industry Segments

Primary Segment

The Group operates in one industry being the heating, ventilation and air conditioning (HVAC) industry. The major manufacturing operations comprise the production and sale of Multistack water and air cooled water chillers used in commercial air-conditioning and process cooling applications.

32. SEGMENT INFORMATION – CONT'D

Segment accounting policies

The group generally accounts for intersegment sales and transfers at cost. Revenues attributed to geographic areas are based on the location of the asset producing the revenues. Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the year, there were no changes in segment accounting policies that have a material effect on the segment information.

	Continued Operations								*Discontinued operations*		*Consolidation*	
	China		Australia		Other		Total					
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000					$'000	$'000	$'000	$'000
Operating Revenue:												
External sales ~	9,910	11,496	3,793	3,901	-	-	13,703	15,397	-	4,327	13,703	19,724
Other revenue ~	942	2,083	110	865	-	-	1,052	2,948	-	-	1,052	2,948
Intersegment sales	1,301	886	92	8	-	-	1,393	894			1,393	894
Total segment revenue	12,153	14,465	3,995	4,774	-	-	16,148	19,239	-	4,327	16,148	23,566
Inter-segment elimination							(1,393)	(894)			(1,393)	(894)
Interest	6	9	13	8			19	17			19	17
Total Operating Revenue	12,159	14,474	4,008	4,782	-	-	14,774	18,362	-	4,327	14,774	22,689
Segment results												
Operating profit before tax and finance costs	347	829	365	732	-	-	712	1561	-	82	712	1,643
Finance costs	(426)	(463)	(5)	(11)			(431)	(474)	-	(91)	(431)	(565)
Share of net profit/(loss) of equity accounted investment	376	888	(196)	(125)	-	-	180	763	-	-	180	763
Net profit/(loss) before income tax and minority interest	297	1,254	164	596			461	1850	-	(9)	461	1,841
Income tax expense	(25)	(123)	-	-	-	-	(25)	(123)	-	(8)	(25)	(131)
Net profit/(loss)	272	1,131	164	596	-	-	436	1,727	-	(17)	436	1,710
Segment assets	33,310	34,162	10,270	9,531	2,528	2,728	46,108	46,421	-	-	46,108	46,421
Inter-segment assets											(20,924)	(18,560)
Total assets											25,184	27,861
Segment liabilities	22,514	24,343	8,952	10,575	2,528	2,728	33,994	37,646			33,994	37,646
Inter-segment assets											(16,713)	(17,404)
Total liabilites											17,281	20,242
Other segment information:												
Equity accounted investments included in segment assets	5,882	5,958	-	-	-	-	5,882	5,958	-	-	5,882	5,958
Acquisition of property, plant and equipment, intangible assets and other non current assets	354	51	1	59	-	-	355	110	-	-	355	110
Depreciation	269	482	22	68	-	-	291	550	-	-	291	550
Non cash expenses other than depreciation	142	725	197	(6)	-	-	185	719	-	-	339	719

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans, convertible notes, commercial bills finance leases and cash.

The main purpose of these financial instruments is to provide working capital for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations.

Foreign currency risk

As a result of significant investment operations in China, the Group's balance sheet can be affected significantly by movements in the RMB/US$/A$ exchange rates.

The Group does not seek to hedge this exposure.

Approximately 23% of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst almost 95% of costs are denominated in the unit's functional currency.

Credit risk

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

The company minimises concentrations of credit risk in relation to trade accounts receivable by undertaking transactions with a large number of customers.

Concentrations of credit risk on accounts receivable arise in the following locations:

	Consolidated	
	2006	**2005**
Australia	12 %	8 %
China	88 %	92 %

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, related party loans and advances, commercial bills, convertible notes, and finance leases.

34. FINANCIAL INSTRUMENTS

Fair values
Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments recognised in the financial statements.

The fair values of borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of other financial assets have been calculated using market interest rates.

NOTES - CONTINUED
31 DECEMBER 2006

34. FINANCIAL INSTRUMENTS – Cont'd

(a) Interest Rate Risk

The Group's exposure to interest rate risk and the effective interest rates of financial assets and liabilities at 31 December 2006, are as follows:

Financial instruments	Floating interest rate		Fixed Interest Rate maturing in: 1 year or less		Over 1 to 5 years		More than 5 years		Non-Interest Bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(i) Financial assets														
Cash	-	-	-	-	-	-	-	-	1,440	1,850	1,440	1,850	N/A	N/A
Receivables - trade	-	-	-	-	-	-	-	-	5,287	5,576	5,287	5,576	N/A	N/A
Receivables - related parties	-	-	-	-	-	-	-	-	997	50	997	50	N/A	N/A
Receivable – other	-	-	-	-	-	-	-	-	3,524	3,230	3,524	3,230	6.5%	6.5%
Investment (associate)	-	-	-	-	-	-	-	-	5,882	5,958	5,882	5,958	N/A	N/A
Total financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,130**	**16,664**	**17,130**	**16,664**		
(ii) Financial liabilities														
Bank loans	5,964	6,505	-	-	-	-	-	-	-	-	5,964	6,505	6.39%	4.53%
Other loans (unsecured)	-	-	-	-	-	-	-	-	-	631	-	631	N/A	N/A
Bills and promissory notes	-	-	129	174	-	-	-	-	-	-	129	174	6.39%	4.53%
Convertible notes	-	-	-	1,541	-	-	-	-	-	-	-	1,541	N/A	6.63%
Trade payables	-	-	-	-	-	-	-	-	1,332	3,009	1,332	3,009	N/A	N/A
Sundry creditors	-	-	-	-	-	-	-	-	1,584	2,136	1,584	2,136	N/A	N/A
Customer advances	-	-	-	-	-	-	-	-	763	1,721	763	1,721	N/A	N/A
Payables –related parties	-	-	-	-	-	-	-	-	6,944	3,820	6,944	3,820	N/A	N/A
Finance lease liability	-	-	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Total financial liabilities	**5,964**	**6,505**	**129**	**1,715**	**-**	**-**	**-**	**-**	**10,623**	**11,317**	**16,716**	**19,537**		

The fair vales of the financial instruments are as above unless otherwise stated.

DIRECTORS' DECLARATION
31 DECEMBER 2006

In accordance with a resolution of the directors of Multistack International Limited, we state that -

In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date: and

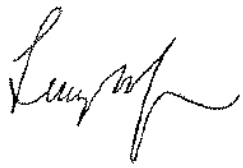
(ii) complying with Accounting Standards and Corporations Regulations 2001; and

(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.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 31 December 2006.

On behalf of the Board

T. Chu
Chairman



S. Leung
Director, CEO

Melbourne, 15 March 2007

PITCHER PARTNERS

Independent audit report to members of Multistack International Limited

Scope

We have audited the financial report of Multistack International Limited and controlled entities for the financial year ended 31 December 2006 comprising the Directors' Declaration, Income Statements, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and Corporations Act 2001 so as to present a view which is consistent with our understanding of the Company's and consolidated entities financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Multistack International Limited and its controlled entities is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the company and of the consolidated entity as at 31 December 2006 and of their performance for the financial year ended on that date; and

  (ii) complying with Accounting Standards in Australia 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 described in Note 1 under the heading 'Basis of Accounting' the Group's ability to continue as a going concern will be dependent upon its ability to trade profitably in the 2007 financial year as well as the ongoing support of financiers. The financial statements do not 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 business not trade profitably or the support of significant financiers or suppliers be withdrawn such that either the company or the Group is unable to continue as a going concern. The ability of the company to secure further financing, if existing facilities were to cease or circumstances were such that additional facilities were required, cannot be assessed with any degree of certainty. If the going concern basis is found to no longer be appropriate the recoverable amounts of the assets shown in the Balance Sheet are likely to be significantly less than the amounts disclosed.

Pitcher Partners

PITCHER PARTNERS

M. Harr

M J HARRISON
Partner
Melbourne, 15 March 2007

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current at 31 January 2007.

CLASS OF SHARES AND VOTING RIGHTS.

There are 554 registered holders of ordinary shares of the company. All ordinary shares carry one vote per share.

TWENTY LARGEST SHAREHOLDERS.

Name	Number of shares held	% held	Substantial shareholder interest
Asia Capital Resources (L) Ltd.	29,073,358	25.9	64,895,799
JF(L) Limited	23,655,454	21.1	64,895,799
ANZ Nominees Ltd.	8,743,447	7.8	
China Agents Ltd.	7,678,390	6.8	
National Nominees Ltd.	4,755,374	4.2	
Mr. S. Leung	4,750,000	4.2	64,895,799
Weyman Investment Ltd.	3,428,000	3.1	
Opal Mine Enterprises Ltd.	2,500,000	2.2	64,895,799
PRC Ltd.	2,500,000	2.2	64,895,799
Coningsby Nominees Pty. Ltd.	2,385,635	2.1	
Welletin Investment Ltd.	1,672,000	1.5	64,895,799
Coningsby Noms. (Superannuation) Pty. Ltd.	1,601,196	1.4	
National Australia Trustees Ltd.	1,218,376	1.1	
Galufo Pty. Ltd.	1,099,000	1.0	
Aboud Investment Pty Ltd	981,300	0.9	
Mr William Oldjohn	938,126	0.8	
Mr Trevor Neil Hay	865,845	0.8	
Mr Antonius Clemens	814,787	0.7	
Miss B J Tan	515,000	0.5	
Hua Wai Enterprise Co.	494,140	0.4	
Total	99,669,428	88.7	

The twenty largest shareholders hold 88.7% of the ordinary shares of the company.
Messrs. Yan and Leung through their interests in the above entities are registered as having a substantial shareholder interest.
There is no on-market buy-back currently in progress

DISTRIBUTION OF SHAREHOLDERS

Ordinary shares

Range	Holders	Shares
1 - 1,000	66	42,004
1,001 - 5,000	205	592,644
5,001 - 10,000	81	689,408
10,001 - 100,000	158	5,968,699
100,001+	44	105,011,169

DIVIDEND REINVESTMENT PLAN

This plan is currently suspended.

ASX ADDITIONAL INFORMATION - continued

CORPORATE GOVENANCE STATEMENT

The Board of Directors of Multistack International Ltd has the responsibility for the corporate governance of the Group. The Board guides and monitors the business and the affairs of the Group on behalf of the shareholders

The Corporate Governance Statement of Multistack International Ltd is structured with reference to the Australian Stock Exchange Corporate Governance Council's principles and recommendations. Directors and management of Multistack International Limited are committed to high standards of corporate governance. The Board of Directors oversee the consolidated entity and performs its functions on behalf of shareholders. The goals of good corporate governance adopted by the Directors and Management of Multistack International Limited are to ensure alignment of Directors and shareholders interests. The following principles are adopted.

Principle 1. Lay foundations for management and oversight
Principle 2. Structure the board to add value
Principle 3. Respect the rights of shareholders
Principle 4. Encourage enhanced performance
Principle 5. Recognize legitimate interests of all stakeholders
Principle 6. Promote ethical and responsible decision making
Principle 7. Safeguard integrity in financial reporting
Principle 8. Make timely and balanced disclosure
Principle 9. Recognize and manage risks
Principle 10. Remunerate fairly and responsibly

The above principles were in place throughout the financial year ending 31 December 2006. With the exception of the departures from the Corporate Governance Council recommendations in relation to the independence of the board as detailed below, the corporate governance practices of Multistack International Limited were compliant with the Council's best practice recommendations.

Board composition:
The Board, currently chaired by a non-executive director since May 2004, ordinarily comprises directors with an appropriate range of qualifications and experience spanning China, South East Asia and Australia. It meets at least half yearly in either Hong Kong or Melbourne with other teleconferences convened as required.

The directors in office at the date of this statement are:
Terence Chu, Chairman & Independent Non-executive Director
Yan Siu Wai, Executive Director
Stephen Leung Kwok-Yin, Managing Director, CEO
Yim Ni Chan, Executive Director
Allan Yu, Independent Non-executive Director

Independence
Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of unfettered and independent judgement. In accordance with this definition, the following directors are not considered to be independent:

Mr S W Yan - Executive Director; Mr S Leung - Chief Executive Officer and Ms Y Chan – Executive Director

Of the five Board members, three directors listed above are not considered to be independent when applying the Council's definition of independence. Therefore the majority of the Board are not independent. With the consideration of the industry experience and the specific expertise of its Board members, also the existing size of operations, the Board has considered the current composition adequate and will consider appointment of more independent directors as the operations expand.

CORPORATE GOVENANCE STATEMENT (CONT'D)

Board responsibilities

The Board of Directors of Multistack International Limited is responsible for the direction and supervision of the Company's businesses on behalf of the shareholders and the other stakeholders in the Company, including employees, lenders and the wider communities to which the Company belongs.

The Board insists on the highest ethical standards of the Company's conduct with its customers, suppliers, employees, and regulatory authorities; indeed, all the Company's dealings are expected to reflect the highest standards of honesty, integrity and professionalism. Ethical issues are reported as a matter of course to the Audit Committee.

Every year, the Board ordinarily reviews and approves a strategic plan for the Group and its one-year operating plan, including the annual operating and capital budgets. At each half-yearly meeting, the Board reviews progress against the strategic plan.

The Board separately receives submissions from the management on major capital expenditures, acquisitions and disposals of significant assets or other material investment issues including research and new product development plans and policies. Every year the Board requires a summary report from the management on succession planning and management development in each of its geographic divisions.

The Company indemnifies all directors against any proper liabilities incurred in their discharge of their duties as directors of the Company. Nevertheless, each director retains a duty of care and due diligence throughout their conduct and oversight of Company affairs.

Audit Committee
Mr Allan Yu (Independent Non-executive director) chairs the Audit Committee. The members of the audit committee were: Mr A. H Yu and Mr T. Chu

The Committee monitors the adequacy of internal financial controls and ensures with the external auditors that the annual statutory audit and the half-yearly review are conducted effectively and cost-effectively. It also monitors changes in accounting standards and their potential effect on the Company's financial statements.

It continuously monitors the Company's compliance with the Continuous Disclosure policies of the Australian Stock Exchange and oversees the Company's annual reports, media and ASX announcements.

It reviews accounting procedures and the speed, accuracy and reliability of worldwide financial reporting and monitors the management responses thereto.

External auditors may ordinarily meet with the Chairman of the Audit Committee to discuss any issue at any time without reference to executive management.

The Audit Committee met on 10 March 2006 and 24 August 2006 to discuss issues relating to the financial reporting for 31 December 2006 and the half-yearly review ending 30 June 2006 respectively.

Remuneration Committee
The members of the Remuneration committee are Mr T. Chu and Mr A. Yu. During the year ended 31 December 2006, the remuneration committee did not have a separate meeting during the year as no issue had arisen in the respective field during the relevant period.

Nomination Committee
The members of the Nomination Committee are Mr S W Yan and Mr S Leung. During the year ended 31 December 2006, the nomination committee did not have a separate meeting during the year as no issue had arisen in the respective field during the relevant period.