Montec International Limited
Making dairy foods healthier... naturally

Montec International Limited
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ASX RELEASE **18 August 2005**

JUNE 2005 PRELIMINARY FINAL REPORT

Attached is the Montec International Limited ("Montec International" or the "Company") Preliminary Final Report for the year ended 30 June 2005. The 2005 financial results reflect a continued development in the Company's business with the preparatory work having been completed for the beginning of a national launch of a range of monounsaturated dairy products utilising the Company's technology later this month. This progress in the current year builds on the focus last year which was the commercial introduction of the Company's proprietary technology through Qingdao, a 'pilot' city in Montec's China expansion plan.

Profit and Loss

The net loss before provisioning and write off of investments and certain acquired rights was approximately $3.2 million ($4.4 million after these items) for the financial year ended 30 June 2005. Revenue comprised a mix of royalties from China and Australia, raw material recovery and interest income as in the prior year. Expenses were largely incurred in readying the business for the national launch and maintaining at a maintenance level the Montec monounsaturated offering in the Qingdao market, combined with efforts to further the business within the Asia Pacific region.

Given a restructure of business arrangements so as to facilitate further expansion in China, the decision was taken in the second half of the financial year to write off certain of the company's acquired rights which had become redundant. Under the transition to International Financial Reporting Standards a write down of these intangibles assets would have been necessary. A provision for write down of the Company's investment in Chongqing Montec Co Ltd was also made as, amongst other things, this entity's function has been surpassed by alternative agency arrangements located in Qingdao. The net impact of the provisioning and write down of investments and acquired rights was a charge to the profit and loss statement of approximately $1.2 million.

Balance Sheet

Cash balances stand at approximately $5.2 million as at 30 June 2005. Raw material inventories held to establish the Company's product in the Qingdao market and facilitate the national launch are to be run down and recovered in accordance with past practice. Future licensing contracts past the initial national launch phase should not require an initial raw materials commitment, other than possibly packaging due to trademark and brand ownership considerations.

Cash Flow

Cash receipts for the Australian and China businesses continued during the financial year. No major investment activities were undertaken during the past twelve months. In respect of financing, the Company raised net proceeds of $5.6 million through placement of ordinary shares to a strategic investor and institutional investors during the past financial year to fund expansion via the National Agency Network in China. Expansion via this channel was not contemplated at the time of ASX listing thereby necessitating the capital raising programme.

The level of cash on hand at the end of the financial year is sufficient to resource Montec's stated commercial objectives.

For further guidance in respect of the Company's cash flow, reference should be made to previous Appendix 4C announcements including the Company's June Appendix 4C, lodged with ASX on 25 July 2005.

Ends

For further enquiries:

Terry Cuthbertson
Chairman
02 9299 0011

Malcolm Campbell
Managing Director
02 9299 0011

Rules 4.1, 4.3

Appendix 4E

Preliminary Final Report

Introduced 30/6/2002.

Name of entity

Montec International Limited

ABN or equivalent company reference	Half yearly *(tick)*	Preliminary final *(tick)*	Financial year ended ('current period')
62 104 600 544		√	30 June 2005

For announcement to the market

Extracts from this report for announcement to the market (see note 1). $A'000

Revenues from ordinary activities *(item 1.1)*	up	9%	to	632
Profit (loss) from ordinary activities after tax attributable to members (*item 1.22*)	up	78%	to	(4,401)
Profit (loss) from extraordinary items after tax attributable to members (*item 2.5(d)*)	gain (loss) of		to	-
Net profit (loss) for the period attributable to members *(item 1.11)*	up	78%	to	(4,401)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend *(Preliminary final report only - item 15.4)*	-¢	-¢
Previous corresponding period *(Preliminary final report - item 15.5)*	-¢	-¢

+Record date for determining entitlements to the dividend,
(in the case of a trust, distribution) *(see item 15.2)*

Not applicable

Brief explanation of any of the figures reported above (see Note 1) and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

+ See chapter 19 for defined terms.

1. Consolidated statement of financial performance

		Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
1.1	Revenues from ordinary activities *(see items 1.23 -1.25)*	632	579
1.2	Expenses from ordinary activities (*see items 1.26 & 1.27)*	(5,034)	(3,047)
1.3	Borrowing costs	(1)	(1)
1.4	Share of net profits (losses) of associates and joint venture entities (*see item 16.7*)		
1.5	**Profit (loss) from ordinary activities before tax**	**(4,403)**	**(2,469)**
1.6	Income tax on ordinary activities *(see note 4)*	-	-
1.7	**Profit (loss) from ordinary activities after tax**	**(4,403)**	**(2,469)**
1.8	Profit (loss) from extraordinary items after tax (*see item 2.5*)	-	-
1.9	**Net profit (loss)**	**(4,403)**	**(2,469)**
1.10	Net profit (loss) attributable to outside +equity interests	(2)	(5)
1.11	**Net profit (loss) for the period attributable to members**	**(4,401)**	**(2,464)**
Non-owner transaction changes in equity			
1.12	Increase (decrease) in revaluation reserves	-	-
1.13	Net exchange differences recognised in equity	(25)	(22)
1.14	Other revenue, expense and initial adjustments recognised directly in equity	-	-
1.15	Initial adjustments from UIG transitional provisions	-	-
1.16	Total transactions and adjustments recognised directly in equity (items 1.12 to 1.15)	(25)	(22)
1.17	**Total changes in equity not resulting from transactions with owners as owners**	**(4,426)**	**(2,486)**

Earnings per security (EPS)		Current period	Previous corresponding Period
1.18	Basic EPS	$(0.071)	$(0.046)
1.19	Diluted EPS	$(0.071)	$(0.046)

+ See chapter 19 for defined terms.

Notes to the consolidated statement of financial performance

Profit (loss) from ordinary activities attributable to members

		Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
1.20	Profit (loss) from ordinary activities after tax (*item 1.7*)	(4,403)	(2,469)
1.21	Less (plus) outside +equity interests	(2)	(5)
1.22	**Profit (loss) from ordinary activities after tax, attributable to members**	**(4,401)**	**(2,464)**

Revenue and expenses from ordinary activities

(see note 15)

		Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
1.23	Revenue from sales or services	389	453
1.24	Interest revenue	243	126
1.25	Other relevant revenue	-	-
1.26	Details of relevant expenses		
	- Cost of goods sold	(285)	(244)
	- Employment expenses	(1,308)	(916)
	- Advertising and Marketing expenses	(601)	(484)
	- Compliance and professional fees	(446)	(568)
	- Administrative expenses	(324)	(251)
	- Travel expenses	(181)	(143)
	- Other expenses	(92)	(74)
	- Provision for write off on investment	(256)	-
	- Write off of certain acquired rights	(959)	-
1.27	Depreciation and amortisation excluding amortisation of intangibles *(see item 2.3)*	(34)	(19)
Capitalised outlays			
1.28	Interest costs capitalised in asset values	-	-
1.29	Outlays capitalised in intangibles (unless arising from an +acquisition of a business)	-	-

Consolidated retained profits

		Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
1.30	Retained profits (accumulated losses) at the beginning of the financial period	(2,464)	-
1.31	Net profit (loss) attributable to members (*item 1.11*)	(4,401)	(2,464)
1.32	Net transfers from (to) reserves *(details if material)*	-	-
1.33	Net effect of changes in accounting policies	-	-
1.34	Dividends and other equity distributions paid or payable	-	-
1.35	**Retained profits (accumulated losses) at end of financial period**	**(6,865)**	(2,464)

+ See chapter 19 for defined terms.

2. Intangible and extraordinary items

		Consolidated - current period			
		Before tax $A'000 (a)	Related tax $A'000 (b)	Related outside +equity interests $A'000 (c)	Amount (after tax) attributable to members $A'000 (d)
2.1	Amortisation of goodwill	(13)	-	-	(13)
2.2	Amortisation of other intangibles	(536)	-	-	(536)
2.3	**Total amortisation of intangibles**	(549)	-	-	(549)
2.4	Extraordinary items	-	-	-	-
2.5	**Total extraordinary items**	-	-	-	-

3. Comparison of half year profits

(Preliminary final report only)

		Current year - $A'000	Previous year - $A'000
	Consolidated profit (loss) from ordinary activities after tax attributable to members reported for the *1st* half year (item 1.22 in the half yearly report)	(1,535)	(828)
3.2	Consolidated profit (loss) from ordinary activities after tax attributable to members for the *2nd* half year	(2,866)	(1,636)

+ See chapter 19 for defined terms.

4. Consolidated statement of financial position

		At year ended of 30/6/05 $A'000	At year ended of 30/6/04 $A'000
	Current assets		
4.1	Cash	5,198	2,090
4.2	Receivables	46	146
4.3	Investments	-	-
4.4	Inventories	457	409
4.5	Tax assets	-	-
4.6	Other - Prepayment	128	280
4.7	**Total current assets**	**5,829**	**2,925**
	Non-current assets		
4.8	Receivables		
4.9	Investments (equity accounted)		
4.10	Other investments		
4.11	Inventories		
4.12	Exploration and evaluation expenditure capitalised *(see para .71 of AASB 1022)*		
4.13	Development properties (+mining entities)		
4.14	Other property, plant and equipment (net)	147	113
4.15	Intangibles (net)	2,794	4,512
4.16	Tax assets		
4.17	Other (provide details if material)		
4.18	**Total non-current assets**	**2,941**	**4,625**
4.19	**Total assets**	**8,770**	**7,550**
	Current liabilities		
4.20	Payables	62	215
4.21	Interest bearing liabilities	-	9
4.22	Tax liabilities		
4.23	Provisions exc. tax liabilities	190	26
4.24	Other (provide details if material)		
4.25	**Total current liabilities**	**252**	**250**
	Non-current liabilities		
4.26	Payables		
4.27	Interest bearing liabilities	-	13
4.28	Tax liabilities		
4.29	Provisions exc. tax liabilities		
4.30	Other (provide details if material)		
4.31	**Total non-current liabilities**	-	**13**

+ See chapter 19 for defined terms.

Consolidated statement of financial position continued

4.32	**Total liabilities**	**252**	**263**
4.33	**Net assets**	**8,518**	**7,287**
	Equity		
4.34	Capital/contributed equity	15,408	9,774
4.35	Reserves	(25)	(22)
4.36	Retained profits (accumulated losses)	(6,865)	(2,464)
4.37	**Equity attributable to members of the parent entity**	**8,518**	**7,288**
4.38	Outside +equity interests in controlled entities	-	(1)
4.39	**Total equity**	**8,518**	**7,287**
4.40	Preference capital included as part of 4.37		

5. Exploration and evaluation expenditure capitalised

Not applicable

6. Development properties

Not applicable

+ See chapter 19 for defined terms.

7. Consolidated statement of cash flows

		Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
	Cash flows related to operating activities		
7.1	Receipts from customers	432	341
7.2	Payments to suppliers and employees	(3,082)	(2,850)
7.3	Dividends received from associates		
7.4	Other dividends received		
7.5	Interest and other items of similar nature received	243	125
7.6	Interest and other costs of finance paid	(1)	(1)
7.7	Income taxes paid		
7.8	Other (provide details if material)		(21)
7.9	**Net operating cash flows**	**(2,408)**	**(2,406)**
	Cash flows related to investing activities		
7.10	Payment for purchases of property, plant and equipment	(74)	(93)
7.11	Proceeds from sale of property, plant and equipment		
7.12	Payment for purchases of equity investments	(4)	(132)
7.13	Proceeds from sale of equity investments		
7.14	Loans to other entities		
7.15	Loans repaid by other entities		
7.16	Other – Payment for purchase of intellectual property.	(18)	(4,077)
7.17	**Net investing cash flows**	**(96)**	**(4,302)**
	Cash flows related to financing activities		
7.18	Proceeds from issues of +securities (shares, options, etc.)	5,868	10,254
7.19	Proceeds from borrowings		
7.20	Repayment of borrowings	(22)	(5)
7.21	Dividends paid		
7.22	Other – IPO costs	(234)	(1,456)
7.23	**Net financing cash flows**	**5,612**	**8,793**
7.24	**Net increase (decrease) in cash held**	3,108	2,085
7.25	Cash at beginning of period *(see Reconciliation of cash)*	2,090	5
7.26	Exchange rate adjustments to item 7.25.		
7.27	**Cash at end of period** *(see Reconciliation of cash)*	5,198	2,090

+ See chapter 19 for defined terms.

Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows. *(If an amount is quantified, show comparative amount.)*

No non cash financing or investing activities were undertaken during the financial year that had a material effect on consolidated assets and liabilities.

8. Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
8.1 Cash on hand and at bank	44	194
8.2 Deposits at call	5,154	1,896
8.3 Bank overdraft		
8.4 Other (provide details)		
8.5 Total cash at end of period *(item 7.27)*	**5,198**	**2,090**

Other notes to the financial statements

9. Ratios

		Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
9.1	**Profit before tax / revenue** Consolidated profit (loss) from ordinary activities before tax (*item 1.5*) as a percentage of revenue (*item 1.1*)	(696)%	(426)%
9.2	**Profit after tax / +equity interests** Consolidated net profit (loss) from ordinary activities after tax attributable to members (*item 1.11*) as a percentage of equity (similarly attributable) at the end of the period (*item 4.37*)	(52)%	(34)%

10. Earnings per security (EPS)

10.1 Details of basic and diluted EPS reported separately in accordance with paragraph 9 and 18 of *AASB 1027: Earnings Per Share* are as follows.

Basic and diluted EPS has been calculated on the basis of a weighted average number of shares of 62,089,414 through the financial year ended 30 June 2005. Options over ordinary shares have not been included in the calculation of diluted EPS as losses were made during the period.

+ See chapter 19 for defined terms.

11. NTA backing

(see note 7)

		Year ended 30/6/05 $A'000	Year ended 30/6/04 $A'000
11.1	Net tangible asset backing per +ordinary security	$0.087	$0.051

12. Discontinuing Operations

(Entities must report a description of any significant activities or events relating to discontinuing operations in accordance with paragraph 7.5 (g) of AASB 1029: Interim Financial Reporting, or, the details of discontinuing operations they have disclosed in their accounts in accordance with AASB 1042: Discontinuing Operations (see note 17).)

12.1 Discontinuing Operations

A decision was taken to make provision for the planned liquidation of Chongqing Montec Co Ltd. This entity, whilst originally intended to facilitate Montec International Ltd's business in China, has become redundant to the Company's needs. The Company intends to incorporate an alternative China subsidiary with greater flexibility and a more suitable geographic location in due course.

13. Control gained over entities having material effect

Not applicable

14. Loss of control of entities having material effect

Not applicable

15. Dividends (in the case of a trust, distributions)

Not applicable

16. Details of aggregate share of profits (losses) of associates and joint venture entities

Not applicable

17. Material interests in entities which are not controlled entities

Not applicable

+ See chapter 19 for defined terms.

18. Issued and quoted securities at end of current period

(Description must include rate of interest and any redemption or conversion rights together with prices and dates)

Category of +securities		Total number	Number quoted	Issue price per security (see note 14) (cents)	Amount paid up per security (see note 14) (cents)
18.1	**Preference+securities** *(description)*	N/A			
18.2	Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions				
18.3	**+Ordinary securities**	65,916,002	48,046,352	-	-
18.4	Changes during current period (a) Increases through issues	50,005 7,700,000 3,846,154	50,005 7,700,000 3,846,154	\$0.35 \$0.50 \$0.52	\$0.35 \$0.50 \$0.52
	(b) Decreases through returns of capital, buybacks	-	-	-	-
18.5	**+Convertible debt securities** *(description and conversion factor)*	N/A			
18.6	Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				
18.7	**Options** *(description and conversion factor)*			*Exercise price*	*Expiry date (if any)*
		4,312,425		\$0.50	30/06/05
		5,609,826		\$0.50	30/06/06
		2,509,500		\$0.35	30/06/07
		505,000		\$0.50	01/07/06
		605,000		\$0.50	01/07/07
		100,000		\$0.55	30/06/06
		24,000		\$0.56	01/07/07
	Total:	13,665,751			
18.8	Issued during current period	168,333		\$0.50	01/07/06
		505,000		\$0.50	01/07/07
		72,000		\$0.56	01/07/07
		100,000		\$0.55	30/06/06
	Total:	845,333			
18.9	Exercised during current period	50,005		\$0.35	30/6/07
18.10	Expired during current period	48,000		\$0.56	01/07/07
18.11	**Debentures** *(description)*	N/A			
18.12	Changes during current period (a) Increases through issues (b)Decreases through securities matured, converted				
18.13	**Unsecured notes** *(description)*	N/A			
18.14	Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				

+ See chapter 19 for defined terms.

19. Comments by directors

(Comments on the following matters are required by ASX or, in relation to the half yearly report, by *AASB 1029: Interim Financial Reporting*. The comments do not take the place of the directors' report and statement (as required by the Corporations Act) and may be incorporated into the directors' report and statement. For both half yearly and preliminary final reports, if there are no comments in a section, state NIL. If there is insufficient space to comment, attach notes to this report.)

Basis of financial report preparation

19.1 Material factors affecting the revenues and expenses of the economic entity for the current period. In a half yearly report, provide explanatory comments about any seasonal or irregular factors affecting operations.

> Montec International Limited is currently in the development phase of its business. As such expenditures have been incurred with the expectation of future revenues, resulting in losses in the year being reported.

19.2 A description of each event since the end of the current period which has had a material effect and which is not already reported elsewhere in this Appendix or in attachments, with financial effect quantified (if possible).

> No material subsequent events.

19.3 Franking credits available and prospects for paying fully or partly franked dividends for at least the next year.

> No income tax paid, therefore no franking credits available to be paid.

19.4 Unless disclosed below, the accounting policies, estimation methods and measurement bases used in this report are the same as those used in the last annual report. Any changes in accounting policies, estimation methods and measurement bases since the last annual report are disclosed as follows. (Disclose changes and differences in the half yearly report in accordance with *AASB 1029: Interim Financial Reporting*. Disclose changes in accounting policies in the preliminary final report in accordance with *AASB 1001: Accounting Policies-Disclosure*).

> No change.

19.5 Revisions in estimates of amounts reported in previous interim periods. For half yearly reports the nature and amount of revisions in estimates of amounts reported in previous +annual reports if those revisions have a material effect in this half year.

> No material change.

+ See chapter 19 for defined terms.

19.6 Changes in contingent liabilities or assets. For half yearly reports, changes in contingent liabilities and contingent assets since the last + annual report.

No material change.

20. Adoption of Australian Equivalents to International Financial Reporting Standards

Australia has adopted Australian Equivalents to International Financial Reporting Standards (A-IFRS) effective for financial years commencing 1 January 2005. This has required the production of accounting data for comparative purposes from the beginning of the current financial year.

The economic entity's directors and management, in consultation with its auditors, has assessed the significance of these changes and has prepared for their implementation. The Audit Committee will continue to oversee and manage the economic entity's transition to A-IFRS.

The directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of A-IFRS are:

Impairment of Assets

The economic entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

The impact of impairment testing of intangibles on A-IFRS adoption on the financial performance and position of the company was nil as at 1 July 2004 and 30 June 2005.

Goodwill on Consolidation

Under AASB 3: Business Combinations, goodwill is to be capitalised in the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is to be prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over the period of 20 years.

The effect of this change in accounting policy is shown in the reconciliation below.

Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 1020: Income Taxes, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

As the economic entity is currently in the development phase of its business, tax losses have been recognised since inception. The company does not meet the virtual certainty test under current Australian AASB 1020 Income Taxes Standard nor does it believe it meets the balance of probabilities/beyond reasonable doubt requirements under A-IFRS AASB 1020 Income Taxes. Hence the company does not believe there will be an impact on adoption of A-IFRS.

Share Based Remuneration

Currently, options over unissued shares provided to executives as part of their remuneration are not expensed through the profit and loss. With the introduction of change through AASB 2: Share Based Payment, the economic entity will be required to expense the fair value of the options granted as remuneration over the period that the options vest.

The effect of this change in accounting policy is shown in the reconciliation below.

+ See chapter 19 for defined terms.

The financial impact of A-IFRS, but for its adoption, on the financial statements of the company for the year ended 30 June 2005 is as follows:

A-IFRS adjustments		Economic Entity Year ended 30 June 2005 $000
Profit and Loss		
Net loss reported under existing Australian Accounting Standards		(4,401)
Transitional adjustments:		
Expense employee equity benefits	i.	(58)
Add back amortisation of goodwill on consolidation	ii.	13
Total transitional adjustments		(45)
Adjusted net loss on adopting A-IFRS		(4,446)
Balance Sheet		
Equity reported under existing Australian Accounting Standards		8,518
Retrospective adjustments to equity:		
Equity remuneration reserve	i.	101
Retained earnings - 1/7/04	iii.	(43)
Increase in current year losses due to transitional adjustments to A-IFRS		(45)
Adjusted equity on adopting A-IFRS		8,531

A-IFRS adjustment notes:

i. The adjustment reflects the expensing of the fair value of options over ordinary shares issued and vesting as remuneration with the recognition of an associated equity remuneration reserve. The impact of the expense in the current financial year of $58,000 has been taken to current year losses, with the impact of the 2004 financial year expense of $43,000 taken to opening retained earnings. The combined impact of the expensing of current and prior financial year equity remuneration of $101,000 is reflected in an equity remuneration reserve.

ii. The adjustment reflects the adding back of 2005 financial year goodwill amortisation expense of $13,000 to reduce the current year net loss.

Annual meeting

(Preliminary final report only)

The annual meeting will be held as follows:

Place	Deacons , Level 8, 1 Alfred Street Circular Quay, Sydney
Date	Friday, 18th November 2005
Time	10 am.
Approximate date the +annual report will be available	14th October 2005

Compliance statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX (see note 12).

Identify other standards used	N/A

2 This report, and the +accounts upon which the report is based, use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on +accounts which are in the process of being audited.

5 The entity has a formally constituted audit committee.

Sign here: Original Signed (Company Secretary) Date: 18th August 2005

Print name: **NJV Geddes**

+ See chapter 19 for defined terms.