MONTEC INTERNATIONAL LIMITED

ACN 104 600 544

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

CONTENTS

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2005.

Directors

The names of directors in office at any time during or since the end of the year are:

Terry Cuthbertson - Non Executive Chairman, appointed Non Executive Director 22 September 2003; Appointed Non-Executive Chairman on 4 July 2004.

Malcolm Campbell - Managing Director, appointed 27 May 2003.

Peter Herd - Non Executive Director, appointed 19 September 2003.

Dr Xueqin Du - Executive Director, appointed 27 May 2003.

Lin Yuansheng – Non Executive Director, appointed 17 March 2005.

Jim Grant - Non Executive Chairman, appointed 22 September 2003; deceased 4 July 2004.

The term of office for each director is three years from the date of appointment, at which time they may offer themselves for re-election. Directors were in office from the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activity of the economic entity during the financial year was the marketing and licensing of monounsaturated dairy technology.

There was no significant change in the nature of the economic entity's principal activity during the financial year.

Operating Results

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests amounted to $4,400,842. (2004: $2,463,917).

Dividends Paid or Recommended

No interim dividend was declared or paid during the current financial year. The directors are recommending that no final dividend be paid in respect of the year ended 30 June 2005.

Review of Operations

The Company has made valuable progress over the past twelve months in the face of a number of challenges. The most significant of these challenges was the delay earlier in the year to Montec's national launch in China caused by issues associated with one of Montec's licensed processing partners. The issue is now resolved.

The directors are pleased to report that the first order under the National Agency Network (NAN) arrangement was delivered subsequent to year end during August. This delivery signaled the commencement of 'Meng Tai' product sales through the agency distribution channel. Royalty income will be earned by Montec from licensing arrangements that require the dairy processor to purchase the company's intellectual property in the form of premix.

Substantial progress has been made on developments in Montec's intellectual property portfolio through the development of monounsaturated powdered milk and refinements to ice-cream and yoghurt formulations.

Montec plans to investigate the potential for patenting certain of the new developments in intellectual property made during the past year. A good example of this is the collaboration with Tenet Jove Technological Development Co Ltd in which developments in dietary supplement formulation may have patentable potential.

Review of Operations (continued)

Importantly during the past financial year processing arrangements have been secured with three major China processing parties being Beijing Sanyuan Foods Co Ltd, Tianjin Haihe Dairy Co Ltd and Fujian Changfu Group Co Ltd in June 2005, April 2005 and November 2004 respectively. These arrangements provide for the immediate processing requirements in China of products based upon the Company's monounsaturated dairy technology.

Opportunities with niche vertical markets continued to be progressed during the past financial year with some promising prospects being explored.

A range of commercial opportunities continue to be pursued in certain of the Asia Pacific countries which will, if successful, result in further licensing arrangements being contracted.

The directors believe the Company's financial position as at 30 June 2005, and importantly cash, will be sufficient to undertake the Company's immediate commercial objectives.

Significant Changes in State of Affairs

There was no significant change in the state of affairs of the economic entity during the financial year.

After Balance Date Events

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Future Developments

The likely developments in the operations of the economic entity and the expected results of those operations in future financial years are to be:

- The recognition of royalties following the sale of commercial quantities of monounsaturated milk emanating from technology licensing arrangements that have been established by Montec to date. This activity is expected to be in a range of locations through China, including Beijing and Shanghai, and across a range of monounsaturated dairy products; and
- The licensing of Montec's proprietary technology to appropriate customers in a number of Asia Pacific countries.

Environmental Issues

The economic entity's operations are not subject to significant environmental regulation.

DIRECTORS' REPORT (CONTINUED)

Information on Directors

Terry Cuthbertson	— Director (Non-executive); Appointed Non-Executive Chairman from July 2004
Qualifications	— B. Bus, ACA
Experience	— Non-Executive Chairman of Austpac Resources N.L. and Open Telecommunication Limited, previously a Partner of KPMG and Director of KPMG Corporate Finance and NSW Partner in Charge of Mergers and Acquisitions, Group Finance Director of Tech Pacific Holding Limited, Director for Tech Pacific Holding Limited's businesses in Malaysia, Hong Kong, Singapore, India, Philippines, Indonesia and Thailand.
Interest in Shares and Options	— 10,000 ordinary shares of Montec International Limited
Special Responsibilities	— Mr. Cuthbertson is the Company's Chairman and member of both the Audit Committee and Nomination and Remuneration Committee
Listed Entity Directorships	— Mr. Cuthbertson is Chairman of Austpac Resources N.L and Open Telecommunication Limited.

Malcolm Campbell	— Managing Director
Qualifications	— B. Comm, MAICD
Experience	— Managing Director of Montec International Limited from May 2003. Previous roles have included General Manager with Woolworths and Chief Business Analyst with Provest Limited. Malcolm Campbell's former directorships include Integrated Marketing and Business Services Pty Limited, Workforce Technologies Limited and Australian Healthy Dairy Corporation Pty Limited.
Interest in Shares and Options	— 12,600,000 Ordinary Shares of Montec International Limited and options to acquire a further 5,000,000 shares in Montec International Limited.
Special Responsibilities	— Mr. Campbell as Chief Executive Officer has overall management responsibility for Company operations and performance. Mr. Campbell also holds the position and responsibility of Chief and Legal Representative of Montec International Limited within the People's Republic of China and is appropriately certified by the Chinese Government in respect of the office of these positions.
Listed Entity Directorships	— None

Peter Herd	— Director (Non-executive)
Qualifications	— B. Ec (hons), FAICD
Experience	— General Manager of Dairy Farmers' Milk and Beverage Division, Regional Director of Australasia for Coca-Cola South Pacific, Division President for Coca-Cola Far East in the Philippines and Country Manager for Hong Kong, Taiwan and Indonesia.
Interest in Shares and Options	— 10,000 ordinary shares of Montec International Limited
Special Responsibilities	— Mr. Herd is Chairman of both the Audit Committee and the Nomination and Remuneration Committee.
Listed Entity Directorships	— None

Information on Directors (continued)

Xueqin Du	— Executive Director (Product Development)
Qualifications	— Bachelor of Medicine from Harbin University of China, International Master's degree in food and nutrition planning from the University of the Philippines and a PhD degree from the Department of Food Science and Technology from the University of New South Wales.
Experience	— Vice Director of the Beijing Institute of Food Hygiene Inspection and Examination, Professional and Administrative Official of the Department of Nutrition and Food Hygiene within the Ministry of Public Health China and Research Fellow with the University of Sydney.
Interest in Shares and Options	— 10,000 ordinary shares and 100,000 options over ordinary shares of Montec International Limited
Special Responsibilities	— Technical review and development of all product extensions
Listed Entity Directorships	— None
Lin Yuansheng	— Director (Non-executive)
Qualifications	— Bachelor of Agriculture (Agronomy)
Experience	— Managing Director of BAIC Australia Pty Ltd, the Australian subsidiary of Beijing Sanyuan Group Co Limited (Sanyuan Group). Sanyuan Group is the largest food, beverage and dairy company in China and is listed on the Shanghai stock exchange. Previously Managing Director of BAIC Scriven Ltd (Hong Kong).Through his association with Sanyuan Group. He was responsible for successfully introducing Kraft, Starbucks, Hormel and Baskin & Robbins to China.
Interest in Shares and Options	— 3,846,154 ordinary shares as a consequence of his directorship of BAIC Australia Pty Limited
Special Responsibilities	— Key relationship holder with Beijing Sanyuan Foods, and integral to China business development and special project reviews within that country
Listed Entity Directorships	— None
Jim Grant	— Chairman (Non-executive) - Deceased
Qualifications	— FCA, FAICD
Experience	— Appointed Chairman in 2003. Board member since 2003. Former CEO and Chairman of Deloitte Touche Tomatsu. Former directorships include Chairman of Co-operative Farmers and Graziers Direct Meat Supply Limited, Citistate Corporation, Midware Limited, Pizzey Limited, ZK Securities Limited, Deputy Chairman of ARAB Bank Australia Limited, Integral Energy Limited, Sydney Water Corporation, Permewan Wright Limited, Anderson Meat Industries Limited, Hecla Rowe Limited, Australian Graduate School of Management, The Royal Institute for Deaf and Blind Children and Citistate Aviation Pty Limited.
Interest in Shares and Options	— 10,000 ordinary shares in Montec International Limited
Special Responsibilities	— Mr. Grant was a Member of the Audit Committee

DIRECTORS' REPORT (CONTINUED)

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Nick Geddes FCA, FCIS - Mr. Geddes is the principal of Australian Company Secretaries, a company secretarial practice, that he formed in 1993. Mr. Geddes is a member of the National Council of Chartered Secretaries Australia and Chairman of the NSW Branch of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia. Mr. Geddes is a Fellow of the Chartered Institute of Company Secretaries in Australia and a Chartered Accountant (Fellow of both the Institute of Chartered Accountants in Australia and the Institute of Chartered Accountants in England and Wales).

Mr. Geddes was appointed Company Secretary on 18 September 2003.

Remuneration Report

This report outlines the remuneration arrangements in place for directors and executives of Montec International Limited (the Company).

Remuneration Philosophy

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;
- a significant portion of executive remuneration at risk, dependent upon meeting pre-determined performance benchmarks; and
- establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

Remuneration Committee

The remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Chief Executive Officer, Chief Financial Officer and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration Structure

In accordance with best practice corporate governance, structure of non executive director and senior manager remuneration is separate and distinct.

Remuneration Report (continued)

Non Executive Director Remuneration

Objective

The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was as outlined in the Company's Initial Public Offering prospectus of $300,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external parties as well as the fees paid to non executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company.

Non executive directors are encouraged by the board to hold shares in the company. It is considered good governance for directors to have a stake in the company on whose board he or she sits.

The remuneration of non executive directors for the period ending 30 June 2005 is detailed in note 5b of the financial statements.

Executive Officer and Executive Director Remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and make up of executive remuneration, the Remuneration Committee has had reference to external measures including independent salary surveys detailing market levels of remuneration for comparable executive roles.

Employment contracts are entered into with the Chief Executive Officer, Chief Financial Officer and Technical Director. These are summarised below.

Remuneration Report (continued)

Remuneration consists of the following key elements:

- Fixed remuneration; and
- Variable remuneration

The proportion of fixed remuneration and variable remuneration is established for each senior manager by the Remuneration Committee.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of company and individual performance, relevant comparative remuneration in the market and internally, and where appropriate external advice on policies and practices.

Structure

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits.

Variable Remuneration – Short Term Incentive

Objective

The objective of the short term incentive arrangement is to link the achievement of the company's operational targets with the remuneration received by the executive charged with meeting those targets. The total potential short term incentive available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets.

Structure

Actual short term incentive payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of key performance indicators covering both financial and non financial measures of performance. The company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive arrangement.

The aggregate of annual short term incentive payments available for executives across the company is determined and approved by the Remuneration Committee. Payments are usually delivered as a cash bonus.

Variable Remuneration - Long Term Incentive

Objective

The objective of the long term incentive arrangement is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Remuneration Report (continued)

As such, long term incentive arrangements are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the company's performance against relevant long term performance hurdles.

Structure

Long term incentive grants to executives are delivered in the form of options. The Remuneration Committee determines what is the appropriate value to be provided to the executive and delivers this in the form of options valued utilizing the Black-Scholes option valuation model. The benefit of the long term incentive that is earned by the executive is only realised through share price appreciation, thereby aligning shareholder interest and executive reward.

Employee Contracts

Chief Executive Officer and Managing Director

Pursuant to an executive service agreement between Montec and Malcolm Campbell dated 1 July 2003, as amended, Mr Campbell is on a three year contract commencing 12 November 2003 and expiring 12 November 2006. On completion of the contract period the board can renew it for one or more successive periods of one year.

Mr Campbell received a base salary of $180,000 and a superannuation contribution at a rate of 9 percent of the base salary earned during the year. Mr Campbell also received a net $60,000 living away from home allowance benefit to compensate him for the time he has been required to spend overseas, and certain other benefits such as life insurance coverage, which are subject to fringe benefits tax. As Mr Campbell has statutory responsibilities in China he was paid a China salary equivalent to $38,000 per annum, in addition to his base salary. The board also made a bonus payment to Mr Campbell during the year of $60,000 for his superior efforts in developing the company's business in China, specifically contractual arrangements with the National Agency Network.

Chief Financial Officer

Pursuant to an executive service agreement between Montec and Ian Maltman dated 5 June 2003, as amended, Mr Maltman is entitled to a three month notice period.

Mr Maltman received a base salary of $150,000 and a superannuation contribution at a rate of 9 percent of the base salary earned during the year. Mr Maltman received options over ordinary shares, details of which are set out in note 5d. Under the terms of the executive service agreement Mr Maltman received a cash benefit on a tax paid basis to compensate for income tax levied on remuneration options received. The cash benefits were paid on 17 May 2005.

Technical Director

Pursuant to an executive service agreement between Montec and Xueqin Du dated 5 September 2003, as amended, Dr Du is entitled to a three month notice period.

Dr Du received a base salary of $100,000 and a superannuation contribution at a rate of 9 percent of the base salary earned during the year.

As Dr Du has statutory responsibilities in China she was paid a China salary equivalent to $12,000 per annum. The board also made a bonus payment to Dr Du during the year of $25,000 for her superior efforts in developing the company's intellectual property interests.

Remuneration Report (continued)

Details of Remuneration for the year ended 30 June 2005

The remuneration for each director and executive officer of the consolidated entity during the year was as follows:

	Salary & Fees	Superannuation Contribution	Cash Benefit	Non-Cash Benefits	Options	Total
	$	$	$	$	$	$
Directors						
Terry Cuthbertson	74,773	6,730	-	-	-	**81,503**
Malcolm Campbell	180,000	16,200	145,111	96,174	-	**437,485**
Peter Herd	69,050	-	-	-	-	**69,050**
Xueqin Du	100,000	9,900	37,483	-	-	**147,383**
Lin Yuansheng	13,306	1,198	12,903	-	-	**27,407**
Jim Grant	1,154	104	-	-	-	**1,258**
	438,283	**34,132**	**195,497**	**96,174**	-	**764,086**
Specified Executives						
Ian Maltman	150,000	13,500	27,138	25,557	55,955	**272,150**
	150,000	**13,500**	**27,138**	**25,557**	**55,955**	**272,150**

Options issued as Part of Remuneration for the year ended 30 June 2005

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to increase goal congruence between executives, directors and shareholders.

	Granted No.	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed	Total
		$	%	$	($)	$
Specified Executives						
Ian Maltman	673,333	55,955	21	-	-	55,955
	673,333	**55,955**		**-**	**-**	**55,955**

DIRECTORS' REPORT (CONTINUED)

Meetings of Directors
During the financial year, 16 meetings of directors (including committees) were held. Attendances were:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS AUDIT COMMITTEE		NOMINATION AND REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Terry Cuthbertson	11	11	2	2	3	3
Malcolm Campbell	11	11	2	2	3	3
Peter Herd	11	11	-	-	-	-
Xueqin Du	11	6	-	-	-	-
Lin Yuansheng	4	3	-	-	-	-
Jim Grant	-	-	-	-	-	-

Indemnifying Officers or Auditor
During or since the end of the financial year the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure each of the following directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or executive of the Company, other than conduct involving a willful breach of duty in relation to the Company. The amount of the premium was $31,075 for the below directors and executives.

  Terry Cuthbertson
  Malcolm Campbell
  Peter Herd
  Xueqin Du
  Lin Yuansheng
  Jim Grant
  Ian Maltman

Options
Options that were granted over unissued shares or interest during or since the financial year by the Company or controlled entity to directors or the most highly remunerated officers as part of their remuneration are as follows:

- Options granted under the Montec International Limited Employee Option Plan were 505,000 options granted to Ian Maltman at an exercise price of $0.50 exercisable on or before 1 July 2007 under the terms of his Executive Service Agreement.

- In addition, 168,333 options were granted to Ian Maltman directly at an exercise price of $0.50 exercisable on or before 1 July 2006 under the terms of his Executive Service Agreement.

During the year ended 30 June 2005, no ordinary shares of Montec International Limited were issued on the exercise of options granted under the Montec International Limited Employee Option Plan. No shares have been issued since that date.

DIRECTORS' REPORT (CONTINUED)

Options (continued)

At the date of this report, the unissued ordinary shares of Montec International Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
4 November 2003	30/06/05	$0.50	4,312,425
12 October 2003	30/06/06	$0.50	5,000,000
4 November 2003	30/06/07	$0.35	2,509,500
21 October 2003	30/06/06	$0.50	609,826
21 October 2003	01/07/07	$0.50	(i) 100,000
30 November 2003 to 30 June 2004	01/07/06	$0.50	336,667
19 August 2004	01/07/07	$0.56	(i) 24,000
16 September 2004	01/07/06	$0.50	168,333
16 September 2004	01/07/07	$0.50	505,000
29 June 2005	30/06/06	$0.55	100,000
			13,665,751

i. These options were issued under the Company's Employee Option Plan.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

There were no non-audit services provided for which fees were paid/payable to the external auditors during the year ended 30 June 2005.

DIRECTORS' REPORT (CONTINUED)

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 49 which forms part of this report.

Signed in accordance with a resolution of the Board of Directors.

Terry Cuthbertson
Chairman
Dated this 22nd day of September 2005

Malcolm Campbell
Managing Director

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
		$	$	**$**	$
Revenues from ordinary activities	2	632,046	578,863	632,046	578,863
Raw materials sold		(284,769)	(243,784)	(284,769)	(243,784)
Compliance and professional fees		(445,908)	(567,752)	(445,874)	(561,644)
Advertising and marketing expenses		(601,024)	(483,683)	(601,024)	(483,683)
Employment expenses		(1,307,911)	(915,902)	(1,304,337)	(909,927)
Administrative expenses		(341,451)	(250,768)	(316,504)	(248,261)
Travel expenses		(180,778)	(142,849)	(180,778)	(142,849)
Insurance expenses		(91,136)	(73,448)	(91,136)	(73,448)
Borrowing costs		(658)	(1,240)	(658)	(1,240)
Depreciation and amortisation expense		(582,885)	(368,773)	(567,855)	(352,604)
Write off of certain acquired rights		(959,422)	-	(959,422)	-
Other expenses		(238,918)	-	(347,340)	-
Loss from ordinary activities before income tax expense	3	**(4,402,814)**	**(2,469,336)**	**(4,467,651)**	**(2,438,577)**
Income tax expense relating to ordinary activities	4	-	-	-	-
Loss from ordinary activities after related income tax expense		**(4,402,814)**	**(2,469,336)**	**(4,467,651)**	**(2,438,577)**
Net loss attributable to outside equity interests		1,972	5,419		-
Net loss attributable to members of the parent entity		**(4,400,842)**	**(2,463,917)**	**(4,467,651)**	**(2,438,577)**
Net exchange difference on translation of financial report of self-sustaining foreign operation	21	(24,539)	(22,140)	-	-
Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity		**(4,425,381)**	**(2,486,057)**	**(4,467,651)**	**(2,438,577)**
Total changes in equity other than those resulting from transactions with owners as owners		**(4,425,381)**	**(2,486,057)**	**(4,467,651)**	**(2,438,577)**
Applying AASB 1027:					
Basic earnings per share (cents per share)	**8b**	**(0.071)**	**(0.059)**		
Diluted earnings per share (cents per share)	**8b**	**(0.071)**	**(0.059)**		
Alternative EPS – Applying Issued Shares as at 30 June 2005:					
Basic earnings per share (cents per share)	8c	(0.067)	(0.045)		
Diluted earnings per share (cents per share)	8c	(0.067)	(0.045)		

The Financial Statements should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		$	$	$	$
CURRENT ASSETS					
Cash assets	9	5,198,307	2,090,170	5,196,864	2,089,291
Receivables	10	63,691	145,690	63,691	172,471
Inventories	11	456,711	409,257	456,711	405,238
Other	16	110,231	279,654	110,231	267,478
TOTAL CURRENT ASSETS		**5,828,940**	**2,924,771**	**5,827,497**	**2,934,478**
NON-CURRENT ASSETS					
Other financial assets	12	-	-	-	281,605
Property, plant and equipment	14	147,160	113,160	147,160	104,998
Intangible assets	15	2,793,833	4,512,190	2,793,833	4,271,447
TOTAL NON-CURRENT ASSETS		**2,940,993**	**4,625,350**	**2,940,993**	**4,658,050**
TOTAL ASSETS		**8,769,933**	**7,550,121**	**8,768,490**	**7,592,528**
CURRENT LIABILITIES					
Payables	17	190,012	215,492	205,499	209,251
Interest-bearing liabilities	18	-	8,701	-	8,701
Provisions	19	61,539	25,923	61,539	25,923
TOTAL CURRENT LIABILITIES		**251,551**	**250,116**	**267,038**	**243,875**
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	18	-	13,052	-	13,052
TOTAL NON-CURRENT LIABILITIES		-	**13,052**	-	**13,052**
TOTAL LIABILITIES		**251,551**	**263,168**	**267,038**	**256,927**
NET ASSETS		**8,518,382**	**7,286,953**	**8,501,452**	**7,335,601**
EQUITY					
Contributed equity	20	15,407,680	9,774,178	15,407,680	9,774,178
Reserves	21	(24,539)	(22,140)	-	-
Accumulated losses	22	(6,864,759)	(2,463,917)	(6,906,228)	(2,438,577)
Parent entity interest		8,518,382	7,288,121	8,501,452	7,335,601
Outside equity interest	23	-	(1,168)	-	-
TOTAL EQUITY		**8,518,382**	**7,286,953**	**8,501,452**	**7,335,601**

The Financial Statements should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		432,610	340,701	432,610	340,701
Payments to suppliers and employees		(3,081,745)	(2,849,501)	(3,082,416)	(2,789,860)
Interest received		242,723	125,439	242,723	125,439
Borrowing costs		(658)	(1,240)	(658)	(1,240)
Other		-	(21,256)	-	(21,256)
Net cash used in operating activities	27a	(2,407,070)	(2,405,857)	(2,407,741)	(2,346,216)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of non-current assets		(73,721)	(92,992)	(73,721)	(92,992)
Purchase of Intellectual property		(18,103)	(4,077,495)	(18,103)	(4,077,495)
Payment for subsidiary, net of cash acquired	27b	(4,195)	(131,605)	(4,195)	(131,605)
Loan made to subsidiary		-	-	-	(55,690)
Other		(106)	-	-	-
Net cash used in investing activities		(96,125)	(4,302,092)	(96,019)	(4,357,782)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		5,867,502	10,253,990	5,867,502	10,253,990
Cost of share issues		(234,000)	(1,456,203)	(234,000)	(1,456,203)
Payment for borrowing		(22,170)	(4,509)	(22,169)	(4,509)
Net cash provided by financing activities		5,611,332	8,793,278	5,611,333	8,793,278
Net increase in cash held		3,108,137	2,085,329	3,107,573	2,089,280
Cash at start of year		2,090,170	4,841	2,089,291	11
Cash at end of year	9	5,198,307	2,090,170	5,196,864	2,089,291

The Financial Statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Montec International Limited and controlled entities, and Montec International Limited as an individual parent entity. Montec International Limited is a listed public Company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a. Principles of Consolidation

A controlled entity is any entity controlled by Montec International Limited. Control exists where Montec International Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Montec International Limited to achieve the objectives of Montec International Limited. A list of controlled entities is contained in Note 13 to the financial statements.

All inter-Company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Where controlled entities have entered the economic entity during the year, their operating results have been included from the date control was obtained.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

b. Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs.

d. Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	*Depreciation Rate*
Plant and equipment	10% - 37.5%

e. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f. Investments

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is amortised on a straight line basis over the period of 20 years. The balance is reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable is written off.

Patents and Acquired Rights

Patents and acquired rights are recorded in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised. The patents expire on 12 June 2012. The carrying amount of patents and acquired rights are reviewed annually to ensure they do not exceed the recoverable amount.

h. Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

The assets and liabilities of the overseas controlled entities, which are self-sustaining, are translated at year-end rates and operating results are translated at the rates ruling at the end of each month. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

i. Employee Benefits

Provision is made for the economic entity liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

The economic entity operates an ownership-based remuneration scheme through the employee option plan, details of which are provided in Note 28 to the financial statements.

j. Cash

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Revenue

Revenue in the form of royalties from the utilisation of technology is recognised upon the utilisation of the technology by customers. Revenue from the recovery of raw materials supplied as part of the contractual agreement with dairy counterparties is recognised on delivery of raw materials to those customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

l. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

m. Comparative Figures

Where required by accounting standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

n. Change in Accounting Policy

There have been no changes in accounting policy during the financial year ended 30 June 2005.

o. Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (A-IFRS) effective for financial years commencing 1 January 2005. The adoption of A-IFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of A-IFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the A-IFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, in consultation with its auditors, has assessed the significance of these changes and are preparing for their implementation. The Audit Committee will oversee and manage the economic entity's transition to A-IFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The directors are of the opinion that the key differences in the economic entity's accounting policies on conversion to A-IFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current A-IFRS or interpretation of the A-IFRS requirements changes from the continuing work of the economic entity's audit committee.

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. However, no impairments have been identified on first time adoption.

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 Company has elected under AASB 1: Business Combinations, First Time Adoption of Australian Equivalents to International Financial Reporting Standards not to restate any prior business acquisitions, as such on opening balances, the net book value of goodwill will be the company's deemed costs. For a quantification of the financial impact, refer to 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. The economic entity has not been impacted in respect of income tax on first time adoption of the A-IFRS.

Share Based Remuneration

Currently, options over unissued shares provided to executives as part of their remuneration are not expensed through the statement of financial performance. With the introduction of 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. For a quantification of the financial impact, refer to the reconciliation below.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial impact of A-IFRS, but for adoption, on the financial statements of the company and economic entity for the year ended 30 June 2005 will be as follows:

Reconciliation of Net Profit		Economic Entity Year ended 30 June 2005 $	Parent Entity Year ended 30 June 2005 $
Net loss reported under existing Australian Accounting Standards		(4,400,842)	(4,467,651)
Transitional adjustments:			
Expense employee equity benefits	i.	(58,098)	(58,098)
Amortisation of goodwill on consolidation	ii.	12,605	-
Total transitional adjustments		(45,493)	(58,098)
Adjusted net loss under A-IFRS		(4,446,335)	(4,525,749)

Reconciliation of Equity		Economic Entity Year ended 30 June 2005 $	Parent Entity Year ended 30 June 2005 $
Equity reported under existing Australian Accounting Standards		8,518,382	8,501,452
Retrospective adjustments to equity:			
Equity remuneration reserve	i.	101,094	101,094
Retained earnings - 1/7/04	iii.	(42,996)	(42,996)
Increase in current year losses due to transitional adjustments to A-IFRS		(45,493)	(58,098)
Adjusted equity under A-IFRS		8,530,987	8,501,452

A- IFRS adjustment notes:

i. The adjustment reflects the expensing of the fair value of options over ordinary shares issued and vest as remuneration with the recognition of an associated equity remuneration reserve. The impact of the expense in the current financial year of $58,098 has been taken to current year losses, with the impact of the 2004 financial year expense of $42,996 taken to opening retained earnings. The combined impact of the expensing of current and prior financial year equity remuneration of $101,094 is reflected in an equity remuneration reserve.

ii. The adjustment reflects the adding back of 2005 financial year goodwill amortisation expense of $12,605 to reduce the current year net loss.

iii. The opening retained earnings balance comprises the net equity remuneration expense attributable to the 2004 financial year.

NOTE 2: REVENUE

	Economic Entity		Parent Entity	
	Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
	$	$	$	$
Operating activities:				
— royalties	295,737	227,424	295,737	227,424
— sales of goods	91,286	220,547	91,286	220,547
— interest received	242,723	125,439	242,723	125,439
— other revenue	2,300	5,453	2,300	5,453
Total Revenue	**632,046**	**578,863**	**632,046**	**578,863**

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

	Economic Entity		Parent Entity	
	Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
	$	$	$	$
Loss from ordinary activities before income tax has been determined after:				
Depreciation of non-current assets:				
— plant and equipment	(33,984)	(13,217)	(31,559)	(8,403)
— leased plant and equipment	-	(5,853)	-	(5,853)
Total depreciation	**(33,984)**	**(19,070)**	**(31,559)**	**(14,256)**
Amortisation of non-current assets:				
— patents and acquired rights	(536,296)	(338,348)	(536,296)	(338,348)
— goodwill on consolidation	(12,605)	(11,355)	-	-
Total amortisation	**(548,901)**	**(349,703)**	**(536,296)**	**(338,348)**
Rental expense on property	(67,177)	(56,488)	(67,177)	(56,488)
Foreign currency translation (losses)/gains	(7,716)	4,957	(7,018)	4,957
Write off of certain acquired rights	(959,422)	-	(959,422)	-
Other expenses:				
— provision for write down on investment	-	-	(285,800)	-
— provision for write down on goodwill	(226,634)	-	-	-
— provision for write down on net assets of subsidiary	(12,284)	-	-	-
— Loss on reserve	-	-	(61,540)	-
Total other expenses	(238,918)	-	(347,340)	-

NOTE 4: INCOME TAX EXPENSE

	Economic Entity		Parent Entity	
	Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
	$	$	$	$
The difference between income tax expense provided in the financial statements and the prima facie tax expense is reconciled as follows:				
a. Prima facie tax revenue on loss from ordinary activities at 30% (2004: 30%)	(1,320,844)	(740,801)	(1,340,295)	(731,573)
Add:				
Tax effect of:				
— non-deductible amortisation	49,177	31,778	45,395	28,372
— other non-allowable items	40,388	880	40,388	880
Less:				
Tax effect of:				
— foreign currency exchange profit not subject to income tax	2,315	1,487	2,105	1,487
— other allowable items	103,087	-	103,087	-
Tax effect of future income tax benefit not brought to account	1,336,681	709,630	1,359,704	703,808
Income tax expense attributable to ordinary activities	-	-	-	-

The directors estimate that the Parent Entity and its controlled entities have carry-forward income tax losses of $6,821,036 (2004: $2,365,433) available to offset against future years' taxable income. The benefits of these losses have not been brought to account as realisation is not virtually certain. The benefit will only be obtained if:

(i) The parent entity and its controlled entities derive future assessable income of the nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised.

(ii) The parent entity and its controlled entities continue to comply with the conditions for deductibility imposed by the law; and

(iii) No changes in tax legislation adversely affect the parent entity and its controlled entities in realising the benefit from the deductions for the losses.

NOTE 5: DIRECTORS AND EXECUTIVE REMUNERATION

a. Names and positions held of Parent Entity Directors and Specified Executive in office at any time during the financial year are:

Parent Entity Directors

Terry Cuthbertson	Chairman — Non-Executive
Malcolm Campbell	Managing Director — Executive
Peter Herd	Director — Non-Executive
Xueqin Du	Director — Executive
Lin Yuansheng	Director — Non-Executive
Jim Grant	Chairman — Non-Executive — Deceased 4 July 2004

Specified Executive

Ian Maltman	Chief Financial Officer

The company only has one non-director who meets the definition of executive under AASB 1046: Director and Executive Remuneration.

b. Parent Entity Directors' Remuneration

2005		Primary				Post Employment	Equity		Total
		Salary & Fees	Superannuation Contribution	Cash Benefit	Non-Cash Benefits	Super-annuation	Shares	Options	
		$	$	$	$	$	$	$	$
Terry Cuthbertson		74,773	6,730	-	-	-	-	-	**81,503**
Malcolm Campbell		180,000	16,200	145,111	96,174	-	-	-	**437,485**
Peter Herd		69,050	-	-	-	-	-	-	**69,050**
Xueqin Du		100,000	9,900	37,483	-	-	-	-	**147,383**
Lin Yuansheng	(i)	13,306	1,198	12,903	-	-	-	-	**27,407**
Jim Grant	(ii)	1,154	104	-	-	-	-	-	**1,258**
		438,283	**34,132**	**195,497**	**96,174**	**-**	**-**	**-**	**764,086**

i. Remuneration paid for period from 17 March 2005 to 30 June 2005.

ii. Remuneration paid for period from 1 July 2004 to 4 July 2004.

NOTE 5: DIRECTORS AND EXECUTIVE REMUNERATION (CONTINUED)

b. Parent Entity Directors' Remuneration (continued)

2004		Primary				Post Employment	Equity		Total
		Salary & Fees	Superannuation Contribution	Cash Benefit	Non-Cash Benefits	Super-annuation	Shares	Options	
		$	$	$	$	$	$	$	$
Terry Cuthbertson	(i)	30,000	2,700	-	-	-	5,000	-	**37,700**
Malcolm Campbell	(i)	120,000	10,800	50,000	68,102	-	-	-	**248,902**
Peter Herd	(i)	32,700	-	-	-	-	5,000	-	**37,700**
Xueqin Du	(i)	63,192	5,687	5,715	5,382	-	11,580	11,783	**103,339**
Jim Grant	(i)	50,000	4,500	-	-	-	5,000	-	**59,500**
Spiro Lymberatos	(ii)	75,000	-	-	-	-	200,000	-	**275,000**
		370,892	**23,687**	**55,715**	**73,484**	**-**	**226,580**	**11,783**	**762,141**

Options issued to directors and executives as remuneration are valued using the Black-Scholes Option Pricing Model. The value of shares issued to directors and executives as remuneration is assessed as the fair market value prevailing at the time of issue having regard to the market price of the shares, or other such indicator of value, at the time of issue.

i. Remuneration paid for period from 1 November 2003 to 30 June 2004.
ii. Remuneration paid for period from 1 July 2003 to 31 January 2004.

c. Specified Executives' Remuneration

2005	Primary				Post Employment	Equity		Total
	Salary & Fees	Superannuation Contribution	Cash Benefit	Non-Cash Benefits	Super-annuation	Shares	Options	
	$	$	$	$	$	$	$	$
Ian Maltman	150,000	13,500	27,138	25,557	-	-	55,955	**272,150**
	150,000	**13,500**	**27,138**	**25,557**	**-**	**-**	**55,955**	**272,150**

The equity valuation methodology adopted is described in Note 5b above.

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (CONTINUED)

c. Specified Executives' Remuneration (continued)

2004	Primary				Post Employment	Equity		Total
	Salary & Fees	Superannuation Contribution	Cash Benefit	Non-Cash Benefits	Super-annuation	Shares	Options	
	$	$	$	$	$	$	$	$
Ian Maltman (i)	90,000	8,100	15,138	14,256	-	-	31,213	**158,707**
Michael See (ii)	80,769	7,269	-	-	-	10,000	-	**98,038**
	170,769	**15,369**	**15,138**	**14,256**	**-**	**10,000**	**31,213**	**256,745**

The equity valuation methodology adopted is described in Note 5b above.

i. Remuneration paid for period from 1 November 2003 to 30 June 2004.
ii. Remuneration paid for period from 19 January 2004 to 21 April 2004.

d. Remuneration Options

Options Granted As Remuneration

			Terms & Conditions for each Grant				
	Vested No.	Granted Number	Grant Date	Average Value per Option at Grant Date	First Exercise Price	Exercise Date	Last Exercise Date
Specified Executives							
Ian Maltman	168,333	168,333	16/9/04	$0.0645	$0.50	Current	1/07/06
	505,000	505,000	16/9/04	$0.0893	$0.50	Current	1/07/07
	673,333	673,333					

All options granted to the above executive have vested. The options will expire following the last date for exercise noted in the table above. The exercise price is $0.50 per option in accordance with the Executive Service Agreement. The service and performance criteria set to determine remuneration are included per Note 5h below.

e. Shares Issued on Exercise of Remuneration Options

	No. of ordinary shares issued	Amount paid per share	Amount unpaid per share
Parent Entity Directors			
Xueqin Du	-	-	-
Specified Executives			
Ian Maltman	-	-	-
	-		

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (CONTINUED)

f. Options and Rights Holdings

Number of options held by Directors & Specified Executives

	Balance 01/07/04	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/05	Total Vested 30/06/05	Total Exercisable	Total Unexercis-able
Parent Entity Directors								
Malcolm Campbell	5,000,000	-	-	-	5,000,000	5,000,000	-	5,000,000
Xueqin Du	100,000	-	-	-	100,000	100,000	100,000	-
Specified Executives								
Ian Maltman	336,667	673,333	-	-	1,010,000	1,010,000	1,010,000	-
Total	**5,436,667**	**673,333**	**-**	**-**	**6,110,000**	**6,110,000**	**1,110,000**	**5,000,000**

g. Shareholdings

Number of shares held by Parent Entity Directors and Specified Executives

	Balance 1/7/04	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/6/05
Parent Entity Directors					
Terry Cuthbertson	10,000	-	-	-	10,000
Malcolm Campbell	12,615,000	-	-	(15,000)	12,600,000
Peter Herd	10,000	-	-	-	10,000
Xueqin Du	10,000	-	-	-	10,000
Lin Yuansheng	-	-	-	3,846,154	3,846,154
Jim Grant	10,000	-	-	-	10,000
Specified Executives					
Ian Maltman	-	-	-	-	-
	12,655,000	-	-	3,831,154	16,486,154

* Net Change Other refers to shares purchased or sold during the financial year.

h. Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, seeks to emphasise payment for results by ensuring that executive interests are aligned with those of the Company through equity ownership and/or entitlement.

The objective of the remuneration structure is to both reinforce the short and long-term goals of the Company and to provide a common interest between management and shareholders.

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (CONTINUED)

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and executives are paid employee benefit entitlements accrued to date of retirement.

A notice period of 3 months is provided for under each executive's service agreement, with the exception of the Managing Director. The Managing Director is on a 3 year contract which commenced on 12 November 2003. On completion of the contract the board can renew it for one or more successive periods of 1 year.

All options have been issued in accordance with the terms provided for under each Executive Service Agreement, and as outlined in the Company's prospectus at the time of listing. The key metrics of options on issue are detailed in note 5, table (d) above and note 28 below.

Malcolm Campbell had received a cash benefit during the year in the form of a Living Away from Home Allowance paid monthly. This benefit is provided on a tax paid basis to Mr. Campbell under the term of his Executive Service Agreement.

Ian Maltman received a cash benefit under the terms of his Executive Service Agreement whereby he receives this benefit on a tax paid basis to compensate for income tax levied on remuneration options received. The cash benefit was paid on 17 May 2005.

NOTE 6: AUDITORS' REMUNERATION	Economic Entity		Parent Entity	
	Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
	$	$	$	$
Remuneration of the auditor of the parent entity for:				
— auditing and reviewing the financial reports	47,750	45,600	47,750	45,600
— other services: acting as independent accountant for the IPO	-	81,992	-	81,992
	47,750	**127,592**	**47,750**	**127,592**
Remuneration of other auditors of subsidiaries for:				
— auditing and reviewing the financial reports of subsidiaries	2,446	2,500	2,446	2,500

NOTE 7: DIVIDENDS

a. No interim dividends have been declared or paid during the current financial year, nor in the previous financial year.

The directors are not recommending a final dividend be paid in the current financial year.

No final dividend was paid in the previous financial year.

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
b. Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years	-	-	-	-

NOTE 8: EARNINGS PER SHARE	Economic Entity Year ended 30 June 2005	Economic Entity Year ended 30 June 2004
	$	$
a. Reconciliation of earnings to net loss		
Net loss	(4,402,814)	(2,469,336)
Net loss attributable to outside equity interest	1,972	5,419
Earnings used in the calculation of basic and diluted EPS	(4,400,842)	(2,463,917)
b. Applying AASB 1027:		
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	62,089,414	42,087,602
Weighted average number of options outstanding not treated as dilutive	13,471,036	8,175,769
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	62,089,414	42,087,602
c. Alternative method - applying shares on issue as at 30 June 2005:		
Number of ordinary shares outstanding at year end used in calculation of basic EPS	65,916,002	54,319,843
Number of options outstanding at year end not treated as dilutive	13,665,751	12,918,423
Number of ordinary shares outstanding at year end used in calculation of dilutive EPS	65,916,002	54,319,843

The alternative method has been included as a measure of earnings per share as it reflects the earnings per share attributable to shares on issue as at 30 June 2005, rather than a weighted average as presented in note 8b above.

NOTE 9: CASH ASSETS

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Cash at bank	5,198,307	2,090,170	5,196,864	2,089,291
	5,198,307	2,090,170	5,196,864	2,089,291

Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Cash	5,198,307	2,090,170	5,196,864	2,089,291

NOTE 10: RECEIVABLES

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
CURRENT				
Trade debtors	57,120	89,366	46,079	89,366
Provision for doubtful debts	(11,041)	-	-	-
	46,079	89,366	46,079	89,366
Short term deposits	17,612	8,321	17,612	8,321
Other debtors	-	48,003	-	47,037
Amounts receivable from:				
— partly-owned subsidiaries	-	-	-	27,747
	63,691	145,690	63,691	172,471

NOTE 11: INVENTORIES

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
CURRENT				
At cost				
Raw materials and stores	545,215	409,257	541,571	405,238
Provision for Stock Obsolescence	(88,504)	-	(84,860)	-
	456,711	409,257	456,711	405,238

NOTE 12: OTHER FINANCIAL ASSETS

	Note	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
NON-CURRENT					
Unlisted investments, at cost					
— shares in controlled entities	12a,13	-	-	285,800	281,605
— Provision for write down to recoverable amount		-	-	(285,800)	-
		-	-	-	281,605

NOTE 12: OTHER FINANCIAL ASSETS (CONTINUED)

a. Unlisted investments movement during the year

	Note	Economic Entity 2005	Economic Entity 2004	Parent Entity 2005	Parent Entity 2004
		$	$	$	$
Balance at beginning of the financial year		-	-	281,605	131,605
— addition investment		-	-	4,195	150,000
Balance at the end of the financial year		-	-	285,800	281,605

NOTE 13: CONTROLLED ENTITIES

a. Controlled Entities	Country of Incorporation	Percentage Owned 2005	Percentage Owned 2004
		$	$
Parent Entity:			
Montec International Limited			
Subsidiaries of Montec International Limited:			
— Chongqing Montec Co Limited	China	100%	85%

b. Controlled Entities Acquired

On 29 June 2005 the parent entity acquired the remaining 15% of Chongqing Montec Co Limited for a purchase consideration comprising 100,000 options over unissued shares in Montec exercisable at $0.55 and expiring 30 June 2006, and $4,195 cash. Montec International Limited is entitled to a corresponding share of profits earned from this date.

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Economic Entity 2005	Economic Entity 2004	Parent Entity 2005	Parent Entity 2004
	$	$	$	$
PLANT AND EQUIPMENT				
Plant and equipment				
At cost	205,722	92,096	192,975	79,120
Provision for write off plant and equipment	(5,737)	-	-	-
Accumulated depreciation	(52,825)	(13,217)	(45,815)	(8,403)
	147,160	78,879	147,160	70,717
Leased plant and equipment				
Capitalised leased assets	-	40,134	-	40,134
Accumulated depreciation	-	(5,853)	-	(5,853)
	-	34,281	-	34,281
Total Property, Plant and Equipment	147,160	113,160	147,160	104,998

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

2005	Plant and Equipment $	Leased Plant and Equipment $	Total $
Economic Entity:			
Balance at the beginning of year	78,879	34,281	113,160
Additions	73,721	-	73,721
Transfer asset in or out	34,281	(34,281)	-
Provision disposals of assets	(5,737)	-	(5,737)
Depreciation expense	(33,984)	-	(33,984)
Carrying amount at the end of year	147,160	-	147,160
Parent Entity:			
Balance at the beginning of year	70,717	34,281	104,998
Additions	73,721	-	73,721
Transfer asset in or out	34,281	(34,281)	-
Depreciation expense	(31,559)	-	(31,559)
Carrying amount at the end of year	147,160	-	147,160

NOTE 15: INTANGIBLE ASSETS	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
Goodwill, at cost	250,594	252,098	-	-
Accumulated amortisation	(23,960)	(11,355)	-	-
Provision for write down to recoverable amount	(226,634)	-	-	-
	-	240,743	-	-
Patents and acquired rights, at cost	3,441,704	4,609,795	3,441,704	4,609,795
Accumulated amortisation	(647,871)	(338,348)	(647,871)	(338,348)
	2,793,833	4,271,447	2,793,833	4,271,447
Total Intangible Assets	2,793,833	4,512,190	2,793,833	4,271,447

NOTE 16: OTHER ASSETS

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		$	$	$	$
Prepayments		110,231	279,654	110,231	267,478
		110,231	279,654	110,231	267,478

NOTE 17: PAYABLES

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
CURRENT				
Unsecured liabilities				
Trade creditors	61,748	83,099	61,748	83,098
Sundry creditors and accrued expenses	128,264	132,393	128,264	126,153
Amount payable to :				
- wholly-owned subsidiaries	-	-	15,487	-
	190,012	215,492	205,499	209,251

NOTE 18: INTEREST BEARING LIABILITIES

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		$	$	$	$
CURRENT					
Lease liability	24	-	8,701	-	8,701
		-	8,701	-	8,701
NON-CURRENT					
Lease liability	24	-	13,052	-	13,052
		-	13,052	-	13,052

Lease liabilities are secured against the leased asset, being a motor vehicle in Qingdao, China.

NOTE 19: PROVISIONS

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
CURRENT				
Employee benefits	61,539	25,923	61,539	25,923
	61,539	25,923	61,539	25,923
a. Number of employees at year-end	9	7	8	6

NOTE 20: CONTRIBUTED EQUITY

	Note	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
65,916,002 (2004: 54,319,843) fully paid ordinary shares	20a	15,407,680	9,774,178	15,407,680	9,774,178

a. Ordinary shares	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
At the beginning of the reporting period	9,774,178	11	9,774,178	11
Share movements during the year:				
- Conversion of 50,005 options over ordinary shares at a $0.35 exercise price per share on 29/11/04	17,502	-	17,502	-
- Share placement of 7,700,000 ordinary shares at $0.50 per share on 28/9/2004	3,850,000	-	3,850,000	-
- 1st tranche of share placement of 1,923,077 ordinary shares at $0.52 per share on 26/11/04	1,000,000	-	1,000,000	-
- 2nd tranche of share placement of 1,923,077 ordinary shares at $0.52 per share on 31/1/05	1,000,000	-	1,000,000	-
-Issued shares consolidated to 14,412,682 on 21/8/03	-	-	-	-
-Issued 19,831,505 shares on 8/9/03	-	1,126,241	-	1,126,241
-Issued 55,656 shares on 19/9/03	-	50	-	50
-Issued 20,000,000 shares on 4/11/03	-	10,000,000	-	10,000,000
-Issued 20,000 shares on 7/5/04	-	10,000	-	10,000
Transaction costs relating to share issues	(234,000)	(1,362,124)	(234,000)	(1,362,124)
At reporting date	15,407,680	9,774,178	15,407,680	9,774,178

b. Number of ordinary shares	No.	No.	No.	No.
At the beginning of reporting period	54,319,843	60,000,000	54,319,843	60,000,000
Share consolidation during year				
- 21 August 2003	-	(45,587,318)	-	(45,587,318)
Shares issued during year				
- 8 September 2003	-	19,831,505	-	19,831,505
- 19 September 2003	-	55,656	-	55,656
- 4 November 2003	-	20,000,000	-	20,000,000
- 7 May 2004	-	20,000	-	20,000
- 28 September 2004	7,700,000	-	7,700,000	-
- 26 November 2004	1,923,077	-	1,923,077	-
- 31 January 2005	1,923,077	-	1,923,077	-
Options converted to ordinary shares during year				
-29 November 2004	50,005	-	50,005	-
At reporting date	65,916,002	54,319,843	65,916,002	54,319,843

NOTE 20: CONTRIBUTED EQUITY (CONTINUED)

The fair value ascribed to ordinary shares issued is based on the level of cash subscribed or the fair value assessed for services rendered or assets acquired with those issued shares.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

c. Options

i. For information relating to the Montec International Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end refer to Note 28.
ii. For information relating to share options issued to directors and executives during the financial year refer to Note 28.
iii. On 29 June 2005, 100,000 options were granted to accept ordinary shares at an exercise price of $0.55 each and exercisable on or before 30 June 2006.

At 30 June 2005, there were 13,665,751 (30 June 2004: 12,918,423) unissued ordinary shares for which options were outstanding.

NOTE 21: RESERVES	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		$	$	$	$
Foreign currency translation	21a	(24,539)	(22,140)	-	-
		(24,539)	(22,140)	-	-

a. Foreign Currency Translation Reserve

Movements During the Year:

Opening balance	(22,140)	-	-	-
Adjustment arising from the translation of foreign controlled entities' financial statements	(2,399)	(22,140)	-	-
Closing balance	(24,539)	(22,140)	-	-

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

NOTE 22: ACCUMULATED LOSSES

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
Accumulated losses at the beginning of the financial year	(2,463,917)	-	(2,438,577)	-
Net loss attributable to the members of the parent entity	(4,400,842)	(2,463,917)	(4,467,651)	(2,438,577)
Accumulated losses at the end of the financial year	(6,864,759)	(2,463,917)	(6,906,228)	(2,438,577)

NOTE 23: OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
Outside equity interest comprises:				
Share capital	-	18,000	-	-
Reserves	-	1,945	-	-
Retained losses	-	(21,113)	-	-
	-	(1,168)	-	-

NOTE 24: CAPITAL AND LEASING COMMITMENTS

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		$	$	$	$
a. Finance Lease Commitments					
Payable					
— not later than 1 year		-	10,620	-	10,620
— later than 1 year but not later than 5 years		-	15,045	-	15,045
— later than 5 years		-	-	-	-
Minimum lease payments		-	25,665	-	25,665
Less: future finance charges		-	3,912	-	3,912
Total Lease Liability	19	-	21,753	-	21,753

The finance lease liability with respect to a motor vehicle utilised for business purposes in Qingdao, China was paid out during the year.

NOTE 24: CAPITAL AND LEASING COMMITMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
b. Operating Lease Commitments				
Non-cancelable operating leases contracted for but not capitalised in the financial statements				
Payable				
— not later than 1 year	20,708	38,741	20,708	38,741
— later than 1 year but not later than 5 years	-	-	-	-
— later than 5 years	-	-	-	-
	20,708	38,741	20,708	38,741

The property lease is a non-cancelable lease with a one-year term, with rent payable monthly in advance.

NOTE 25: CONTINGENT LIABILITIES

There are no contingent liabilities of a material nature identified as at the date of this report.

NOTE 26: SEGMENT REPORTING

	Australia	China	Eliminations	Economic Entity
Primary reporting — Geographic segments	$	$	$	$
2005				
REVENUE				
External sales	276,451	112,872	-	389,323
Other segments	-	-	-	-
Total sales revenue	276,451	112,872	-	389,323
Unallocated revenue	-	-	-	242,723
Total revenue from ordinary activities	276,451	112,872	-	632,046
SEGMENT RESULT				
Expenses	(2,255,107)	(2,779,753)	-	(5,034,860)
Loss from ordinary activities before income tax expense	(1,978,656)	(2,666,881)	-	(4,402,814)
Income tax expense	-	-	-	-
Loss from ordinary activities after income tax expense	(1,978,656)	(2,666,881)	-	(4,402,814)
ASSETS				
Segment assets	8,111,325	674,095	(15,487)	8,769,933
Total assets	8,111,325	674,095	(15,487)	8,769,933
LIABILITIES				
Segment liabilities	250,480	16,558	(15,487)	251,551
Total liabilities	250,480	16,558	(15,487)	251,551
OTHER				
Acquisitions of non current segment assets	11,884	79,940	-	91,824
Depreciation and amortisation of segment assets	(482,103)	(100,782)	-	(582,885)

NOTE 26: SEGMENT REPORTING

Primary reporting — Geographic segments 2004	Australia $	China $	Eliminations $	Economic Entity $
REVENUE				
External sales	179,820	273,604	-	453,424
Other segments	-	-	-	-
Total sales revenue	179,820	273,604	-	453,424
Unallocated revenue	-	-	-	125,439
Total revenue from ordinary activities	179,820	273,604	-	578,863
SEGMENT RESULT				
Expenses	(2,480,337)	(567,862)	-	(3,048,199)
Loss from ordinary activities before income tax expense	(2,300,517)	(294,258)	-	(2,469,336)
Income tax expense	-	-	-	-
Loss from ordinary activities after income tax expense	(2,300,517)	(294,258)	-	(2,469,336)
ASSETS				
Segment assets	7,551,666	26,201	(27,746)	7,550,121
Total assets	7,551,666	26,201	(27,746)	7,550,121
LIABILITIES				
Segment liabilities	256,927	33,987	(27,746)	263,168
Total liabilities	256,927	33,987	(27,746)	263,168
OTHER				
Acquisitions of non current segment assets	4,170,487	-	-	4,170,487
Depreciation and amortisation of segment assets	(368,773)	-	-	(368,773)

Primary reporting — Geographical segments

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists.

Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses, provisions and borrowings.

NOTE 26: SEGMENT REPORTING (CONTINUED)

Inter-segment Transfers

Segment revenues, expenses and result include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length. These transfers are eliminated on consolidation.

Secondary Reporting - Business Segments

Montec International has only one line of business, that being the sale and marketing of monounsaturated dairy technology.

NOTE 27: CASH FLOW INFORMATION

	Economic Entity		Parent Entity	
	Year ended 30 June 2005	Year ended 30 June 2004 $	Year ended 30 June 2005	Year ended 30 June 2004 $
a. Reconciliation of Cash Flow from Operations with loss from Ordinary Activities after Income Tax				
Loss from ordinary activities after income tax	(4,402,814)	(2,469,336)	(4,467,651)	(2,438,577)
Non-cash flows in loss from ordinary activities				
Amortisation	548,901	349,703	536,296	338,348
Depreciation	33,984	19,070	31,559	14,256
Expensing of shares issued for services	-	200,000	-	200,000
Write-off of certain Acquired Rights	959,422	-	959,422	-
Provision for write down on investment	-	-	285,800	-
Provision for write down on goodwill	226,634	-	-	-
Provision for write down on net asset of subsidiary	12,284	-	-	-
Other non cash items	415	-	415	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease/(increase) in trade and other receivables	81,999	(130,889)	108,780	(130,889)
Decrease/(increase) in prepayments	169,423	(180,952)	157,247	(178,461)
Decrease/(increase) in inventories	(47,454)	(409,257)	(51,473)	(405,238)
Increase/(decrease) in trade creditors and accruals	(25,480)	189,881	(3,752)	228,422
Increase/(decrease) in provisions	35,616	25,923	35,616	25,923
Cash flow from operations	(2,407,070)	(2,405,857)	(2,407,741)	(2,346,216)

NOTE 27: CASH FLOW INFORMATION (CONTINUED)

	Economic Entity		Parent Entity	
	Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
		$	$	$
b. Acquisition of Entities				
During the prior year 15% of the controlled entity Chongqing Montec Co Limited was acquired, taking Montec International Limited's investment in this entity from 70% to 85%				
During the current year the remaining 15% of the controlled entity Chongqing Montec Co Limited was acquired. Details of this transaction are:				
Purchase consideration	4,195	150,000	4,195	150,000
Cash consideration	4,195	-	-	-
Cash (outflow)/inflow	(4,195)	(131,605)	-	-
Assets and liabilities held at acquisition date:				
Receivables	6,874	16,531	-	-
Inventories	547	-	-	-
Property, plant and equipment	762	12,976	-	-
Creditors	(2,484)	-	-	-
Goodwill/(Discount) on consolidation	(1,504)	252,098	-	-
Outside equity interests in acquisitions	-	-	-	-

c. Non-cash Financing and Investing Activities

i. Share issues

The remaining 15% of Chongqing Montec Co Ltd which Montec did not already own was acquired on 29 June 2005. Part consideration for this transaction comprised 100,000 Montec International Ltd options expiring on 30 June 2006 and exercisable at $0.55 per share for 10% of Chongqing Montec Co Ltd. The remaining 5% of Chongqing Montec Co Ltd was acquired from Dr Xueqin Du for $4,195 as full consideration. As a result of these transactions Montec International Ltd owns 100% of Chongqing Montec Co Ltd.

NOTE 28: EMPLOYEE BENEFITS

Employee Share Option Arrangements

i. On 16 September 2004, 505,000 share options were granted to an executive to take up ordinary shares at an exercise price of $0.50 per share in accordance with an Executive's Service Agreement. These options are exercisable on or before 1 July 2007. The options have no voting or dividend rights.

ii. On 16 September 2004, 168,333 share options were granted to an executive to take up ordinary shares at an exercise price of $0.50 per share in accordance with an Executive's Service Agreement. These options are exercisable on or before 1 July 2006. The options have no voting or dividend rights.

iii. On 19 August 2004, 72,000 employee share options were granted to staff to take up ordinary shares at an exercise price of $0.56 per share in accordance with the company's Employee Share Option Plan. Of the total options issued, 48,000 lapsed due to a staff member's departure. The remaining options are exercisable on or before 1 July 2006. The options have no voting or dividend rights.

The closing share market price of an ordinary share of Montec International Limited on the Australian Stock Exchange at 30 June 2005 was $0.39 (30 June 2004: $0.56).

		Economic Entity		Parent Entity	
		Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2004
		No.	No.	No.	No.
a.	Movement in the number of share options held by employees are as follows:				
	Opening balance	436,667	-	436,667	-
	Granted during the year	745,333	436,667	745,333	436,667
	Exercised during the year	-	-	-	-
	Lapsed during the year	48,000	-	48,000	-
	Closing Balance	1,134,000	436,667	1,134,000	436,667

NOTE 28: EMPLOYEE BENEFITS (CONTINUED)

b. Details of share options outstanding as at end of year:

Grant Date	Expiry and Exercise Date	Exercise Price	Economic Entity Year ended 30 June 2005 No.	Economic Entity Year ended 30 June 2004 No.	Parent Entity Year ended 30 June 2005 No.	Parent Entity Year ended 30 June 2004 No.
19/8/2004	1/7/07	$0.56	24,000	-	24,000	-
16/9/2004	1/7/06	$0.50	168,333	-	168,333	-
16/9/2004	1/7/07	$0.50	505,000	-	505,000	-
12/11/2003	1/07/2007	$0.50	100,000	100,000	100,000	100,000
30/11/03 to 30/06/04	1/07/2006	$0.50	336,667	336,667	336,667	336,667
			1,134,000	436,667	1,134,000	436,667

Fair value of shares issued during the reporting period is estimated to be the market price of shares of the parent entity on the Australian Stock Exchange as at close of trading on each of the issue dates.

c.

Date Shares Granted	30 June 2005 Number of Shares Granted	Fair Value at Issue Date: Per Share	Aggregate Proceeds Received	Fair Value at Issue Date: Aggregate
Nil	-	-	-	-
	-	-	-	-

Date Shares Granted	30 June 2004 Number of Shares Granted	Fair Value at Issue Date: Per Share	Aggregate Proceeds Received	Fair Value at Issue Date: Aggregate
8-Sep-03	10,000	$0.50	-	$5,000
7-May-04	20,000	$0.50	-	$10,000
	30,000		-	$15,000

NOTE 29: EVENTS SUBSEQUENT TO REPORTING DATE

There were no material events subsequent to reporting date.

NOTE 30: RELATED PARTY TRANSACTIONS

	Economic Entity		Parent Entity	
	Year ended 30 June 2005 $	Year ended 30 June 2004 $	Year ended 30 June 2005 $	Year ended 30 June 2004 $
Transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.	-	-	-	-
Transactions with related parties:				
i. Controlled entities				
The inter-company position with Chongqing Montec Co Ltd is as follows:				
- inter-company receivable	-	-	-	27,747
- inter-company payable	-	-	15,487	-
The outstanding loan has been eliminated on consolidation.				
ii. Director-related Entities				
No transactions with director related entities occurred in the year ended 30 June 2005.				
In the prior year Montec International Limited made payments to wholly owned and controlled entities of Malcolm Campbell as follows:				
- payment of consideration for acquisition of acquired rights and interest in Chongqing Montec Co Ltd as outlined in the prospectus dated 22 September 2003.	-	785,500	-	785,500
- reimbursement of costs incurred on behalf of Montec International Ltd in relation to the offer as outlined in the prospectus dated 22 September 2003	-	150,000	-	150,000
- payment made to reimburse Montec Holdings Pty Ltd for costs incurred on behalf of Montec International Limited in respect of operations prior to listing.	-	165,000	-	165,000
- payment made to IMBS Pty Ltd, a wholly owned and controlled entity of Malcolm Campbell for services provided to Montec International prior to listing.	-	10,000	-	10,000

NOTE 30: RELATED PARTY TRANSACTIONS (CONTINUED)

	Economic Entity		Parent Entity	
	Year ended 30 June 2005 $	Year ended 30 June 2004 $	Year ended 30 June 2005 $	Year ended 30 June 2004 $
iii. Directors				
The following related party transactions with directors of Montec International Limited or controlled entities occurred during the financial year ended 30 June 2005:				
- a payment of $4,195 was made to Dr Du as consideration for the purchase of 5% of Chongqing Montec Co Ltd.	4,195	-	4,195	-
- the issue of 100,000 Montec International Limited options exercisable at $0.55 per share and expiring on 30 June 2006 was made as consideration for 10% of Chongqing Montec Co Limited to Dr Weiyuan Wang, a director of that entity. The implied value of this consideration was $8,390 applying the Black Scholes option valuation methodology.	8,390	-	8,390	-
- A payment to Peter Herd for consulting services related to arrangements with Dairy Farmers	20,000	-	20,000	-
- Consulting fees payable to Lin Yuansheng for strategic advice and marketing services related to China expansion.	12,903	-	12,903	-
iv. Share Transactions of Directors				
No share transactions of directors occurred during the financial year ended 30 June 2005, other than the following:				
- The purchase by BAIC Australia Pty Limited, of which Mr Lin Yuansheng is a director, of fully paid ordinary shares in Montec International Limited in accordance with a placement agreement dated 22nd October 2004. At the time of the share subscription, Mr Lin Yuansheng was not a director of Montec International Limited.	2,000,000	-	2,000,000	-
- Malcolm Campbell sold 15,000 ordinary shares in the company that had been acquired on market in the prior financial year.	7,500	-	7,500	-

NOTE 31: FINANCIAL INSTRUMENTS

a. Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing: Within Year 1		Fixed Interest Rate Maturing: To 5 Years		Fixed Interest Rate Maturing: Over 5 Years		Non-interest Bearing		Total	
			$000		$000		$000		$000		$000		$000	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Financial Assets:														
Cash	5.22%	4.80%	5,198	2,090	-	-	-	-	-	-	-	-	5,198	2,090
Financial Liabilities:														
Lease liabilities	-	6.00%	-	-	-	9	-	13	-	-	-	-	-	22

All other assets and liabilities are non-interest bearing.

b. Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The Company has no exposure to forward exchange contracts or interest rate swaps, nor other forms of derivative financial instruments.

Except for the following concentrations of credit risks, the economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

c. Net Fair Values

The net fair values of unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment. For other assets and other liabilities the net fair value approximates their carrying value.

d. Derivatives

The economic entity has not participated in the use of any derivative financial instruments during the year.

NOTE 32: COMPANY DETAILS

The registered office of the Company is:

Montec International Limited
C/O Australian Company Secretaries Pty Ltd
Level 5, 255 George St
Sydney NSW 2000 Australia

The principal places of business are:

Montec International Limited
Sydney, Australia
Level 6, 55 York Street
Sydney NSW 2000

Qingdao, China
Room 7A2, Shum Yip Centre B,
No.9 Shandong Road
Qingdao PRC 266071

Chongqing Montec Co Limited
Chongqing, China
Suite 214, No 106 Keyuan 3rd
Hi-tech Industrial Development Zone
Chongqing PRC 400039

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 13 to 47 are in accordance with the *Corporations Act 2001*:

a. comply with Accounting Standards and the *Corporations Regulations 2001*; and

b. gives a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the Company and economic entity;

2. The Chief Executive Officer and Chief Financial Officer have each declared that:

a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

b. the financial statements and notes for the financial year comply with the Accounting Standards; and

c. the financial statements and notes for the financial year give a true and fair view.

3. In the directors' opinion 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 is made in accordance with a resolution of the Board of Directors.

Terry Cuthbertson	Malcolm Campbell
Chairman	Managing Director
Dated this 22nd day of September 2005	

Chartered Accountants
Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF MONTEC INTERNATIONAL LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Montec International Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

M A ADAM-SMITH
Partner
Grant Thornton NSW

Sydney 22 September 2005

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T +61 2 8297 2400
F +61 2 9299 4445
E info@gtnsw.com.au
W www.grantthornton.com.au

Grant Thornton NSW
A New South Wales Partnership
ABN 25 034 787 757

Chartered Accountants
Business Advisers and Consultants

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF MONTEC INTERNATIONAL LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Montec International Limited (the company) and Montec International Limited and controlled entities(the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T +61 2 8297 2400
F +61 2 9299 4445
E info@gtnsw.com.au
W www.grantthornton.com.au

Grant Thornton NSW
A New South Wales Partnership
ABN 25 034 787 757

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF MONTEC INTERNATIONAL LIMITED (cont)

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Montec International Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the 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.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney 22 September 2005