montec
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Making dairy foods healthier... naturally

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CHINA BUSINESS REVIEW AND ASSOCIATED MATTERS

Directors of Montec International Limited ("Montec" or the "Company") advise that following a visit to China an assessment of the China business model has been completed. The Directors are also able to announce the signing this week of a Product Collaboration Agreement with Beijing Sanyuan Foods Co Ltd ("BSF").

The assessment of the China business concludes that whilst the longer term business model of licensing both technology and proprietary brands is expected to be viable in the longer term, it will take sometime to transition to this preferred model. Over the next six months the agreement with BSF requires that Montec through its China based agent will fund ex works product purchases and store entry fees to facilitate the roll out and pipeline fill of Montec monounsaturated milk brands in Beijing and Shanghai.

The full rollout in Beijing and Shanghai will require significant expenditure on consumer marketing and the previously unforeseen need to fund ex works product purchases. Full and timely exploitation of this opportunity will require further working capital investment. This will necessitate a capital raising in the near future, the terms and quantum of which the Directors are currently considering.

The agreement with BSF, which supersedes previously announced agreements, formalises the partnership arrangement whereby BSF will produce and sell Montec branded monounsaturated milk and so provide a secure platform for the roll out of the Montec brands in China, specifically Beijing and Shanghai.

Co-ordinated by Montec's China agent Qingdao Meng Tai Ru Trading and Commercial Co Ltd ("MTR"), distribution will be undertaken by BSF to their retail channels in Beijing and Shanghai with the support of Montec's sales development team in other channels in these cities and wider geographical coverage provided by the National Agency Network ("NAN") in selected cities plus MTR's retail channels in Qingdao. This multi channel network is expected to provide immediate access to approximately 4,000 retail outlets and potential to expand to a further 2,000 outlets by mid 2007.

The company's core liquid milk business whilst not in itself expected to provide the previously envisaged financial returns, will establish the processing partnership and an extensive distribution network with BSF as the base for further innovative product introductions. These include a range of drinking yoghurt and ice-cream products which will be the subject of the Company's proprietary intellectual property and may include patent protection. The Company is investigating opportunities for closer ties with BSF which may lead to direct investment by Montec to expand the Montec product range into chilled milk and other dairy products.

Directors are co-operating with the Australian Securities & Investment Commission ("ASIC") in response to a request for further information in relation to the Company's announcement of 21 August 2006 regarding the former Managing Director Malcolm Campbell. As previously advised effective 28 July 2006, Mr Campbell is no longer an officer of, or spokesperson for, the Company. The Directors are reviewing the structure of the board to ensure a skill set that is appropriate for the future needs of the business.

Ends

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