montec International Limited

Making dairy farming sustainable ... naturally

Annual Report 2006

MONTEC INTERNATIONAL LIMITED AND CONTROLLED ENTITIES

ACN 104 009 344

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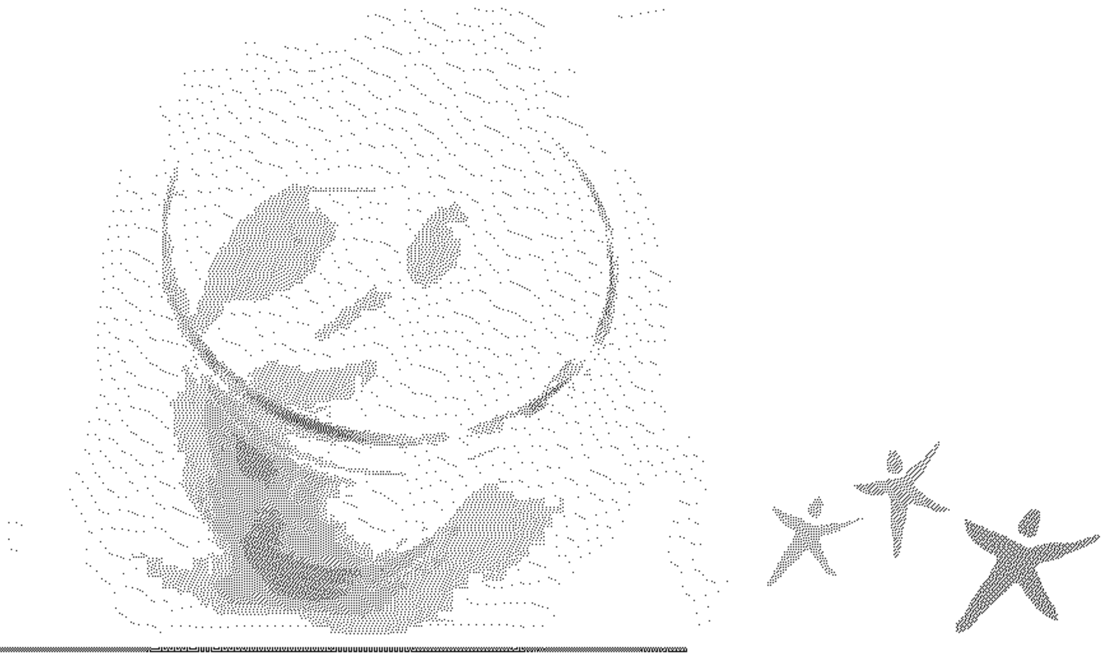
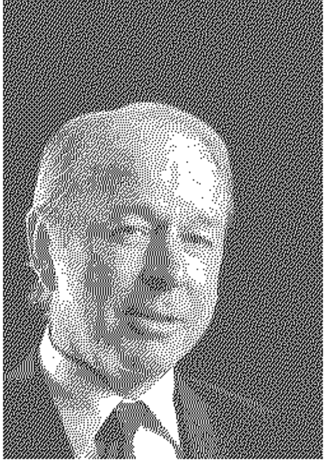




Chairman's Letter

Dear Shareholder,

I am pleased to report that subsequent to year end significant progress has been made in both improving the basis upon which Montec International Limited's ("Montec" or the "Company") business is being conducted in China and the identification and distillation of the commercial opportunity available to the Company.

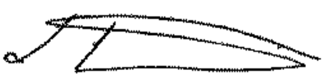
I believe the Company has laid a foundation for the future. The Company is now exploring exciting opportunities in its extended product range including monounsaturated ice-cream that could see Montec moving into a closer commercial relationship with the Beijing Sanyuan Group so as to broaden the basis on which the Company does business in China. The monounsaturated ice-cream technology is the subject of a patent application which is expected to provide worldwide opportunity.

The past financial year has been one of significant challenge for Montec as is reflected in its loss from ordinary activities of approximately $5.3 million for the financial year ended 30 June 2006. These results largely reflect the continuing delay in the execution of the Company's plans for China expansion. A review of the factors contributing to the delay and the action taken is set out in the Managing Director's report as are the immediate plans for the Company's business in China. Critical to the realisation of these plans is the need for further equity funding, the provision of which is the current focus of directors and management.

I would like to pay tribute to the work of the incumbent Managing Director Peter Herd who has provided valuable direction and stability to the business of Montec subsequent to year end, having assumed this role at a difficult point in the Company's development. Thanks must also be extended to Dr Xueqin Du and Mr Lin Yuansheng for their tireless efforts in difficult circumstances to develop and manage our partnerships in China.

On behalf of the board of directors and management, I would like to thank all stakeholders in the Company for their continued support during Montec's third year as a public company.

Yours Faithfully



Terry Cuthbertson
Chairman

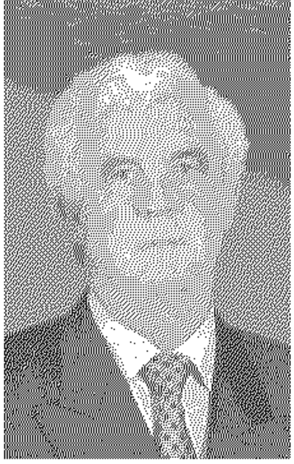
Managing Director's Report

For the most part, the year has been one of frustrations and challenges, punctuated by a number of false starts and delays, mostly not of Montec International Limited's ("Montec" or the "Company") making. These unforeseeable delays and the necessity to re-establish processing partnerships have seriously depleted working capital reserves, to the point where exploitation of opportunities already identified can only be achieved with a further capital injection. However, underlying this, the Company has been able to make significant progress in building a distribution model, gaining market access to major population centres, and in forming a firm partnership with the Beijing Sanyuan Group.

This partnership, the distribution network and Montec's specialised "healthy dairy" proposition backed by ongoing product innovation, provides the basis for confidence that with the necessary capital support, a sound base for future growth can be established in the large and rapidly expanding China dairy market.

Challenges in China

Following the large-scale market test of Montec's monounsaturated milk concept in Qingdao during 2004, attention was directed toward establishing the processing and distribution capabilities for broader market penetration in 2005. Initial agreement was reached with Tianjin Haihe Dairy to facilitate processing and packing of Montec's "Meng Tai" brand, with distribution being co-ordinated via our agreements with the National Agency Network ("NAN"). This launch was disrupted soon after start up by an incident that negatively influenced market perceptions of all products manufactured by Haihe and so forced a halt to the marketing of Montec's brand. Subsequently, agreement was reached with the Fujian Changfu Group to facilitate processing in Southern China and roll out of the company's "Meng Tai" brand in Shenzhen through the NAN distribution network. This arrangement stalled as plant capacity at Fujian Changfu was absorbed by third party contract packing demand to the extent that Fujian Changfu could not provide processing capacity for Montec brands.



In June 2005 the Company was able to announce signing of an agreement with Beijing Sanyuan Foods Limited ("BSF"), one of China's largest food, beverage and dairy companies. The partnership, in providing the combination of dairy processing capabilities and an extensive cold chain distribution structure, offers the potential to extend the Montec product range beyond ultra heat treated ("UHT") milk and yoghurt drinks into fresh milk, chilled yoghurt, ice cream and dairy desserts, and so capitalise on the development already undertaken for these products. The focus then turned to finalising working arrangements between BSF and our counter party, MTR, so building towards the full-scale launch of UHT milk in the major cities of Beijing and Shanghai. This was to be achieved in partnership with BSF by growing outlet numbers through agreements with distribution agents, major retail chains and independent stores and extending the distribution already achieved in Shenzhen through NAN.

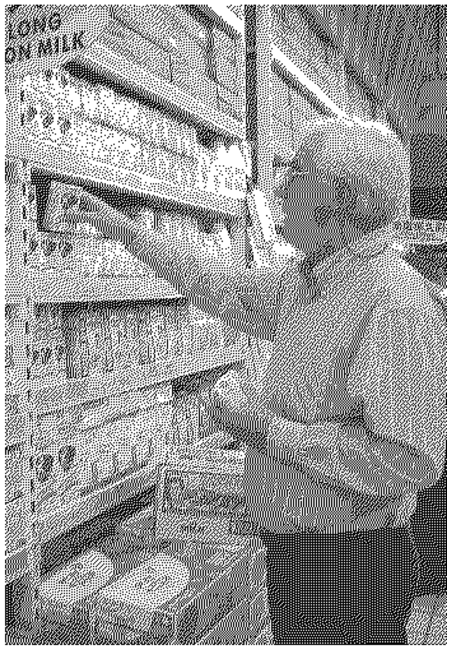
This momentum stalled at the end of 2005 through the necessity to revise both the formulation and processing procedures of Montec UHT liquid milk products. This was necessitated by the introduction of new regulations imposed by the food authorities in China, which required that milk products manufactured with reconstituted milk clearly disclose this on packaging. While it was not expected initially that these regulations would apply to Montec's products directly, independent advice indicated that changes were needed to ensure compliance. It was considered prudent to reduce the scale of the roll out during November 2005 through February 2006 to minimise the potential for product considered by retailers and/or authorities to be non-compliant and therefore returned after the new standards came into effect in January, 2006. In February the Company was able to announce compliance with these standards and the production of 48 tonnes, 60 tonnes and 80 tonnes of UHT milk in December, January and February respectively. BSF were instrumental in achieving compliance in milk processing through their capacity to supply concentrated skim milk, being one of the few processing companies in China capable of doing so. This skim milk concentrate capability makes our relationship with BSF critical to the future development of both our UHT and planned fresh liquid milk and yoghurt business.

It became apparent during the first quarter of 2006 that the speed of market penetration was and would continue to be limited by the resource limitations of our China business structure. Without multiple processing partners sharing the pipeline fill and marketing startup costs on a regional basis, as envisaged in the original model, market penetration and volume growth would be unacceptably slow. This would challenge the capital resources of both the Company and our processing partner. Negotiations with BSF, which included discussions on potential further opportunities beyond UHT milk, led to the signing of a Product Collaboration Agreement in September 2006. By this agreement BSF commits to processing of Montec brands and the sale of these brands through their distribution network, primarily in Beijing, but also Shanghai. To overcome the initial working capital stalemate, Montec through its China based agent, MTR, agreed to fund ex works product purchases and store entry fees during the initial months of launch, with the intention being to revert to a licensing model or some hybrid model in 2007.

As previously stated, the delays of the last two years have seriously depleted capital reserves to a point where the agreements now reached with Sanyuan cannot be exploited without the Company achieving a significant new capital injection.

Current Situation

Subsequent to the departure of the former Managing Director, management conducted a full review of the China business and an assessment of the business model. The assessment concluded that while the business model of licensing both technology and proprietary brands can be viable in the longer term, as a function of consumer marketing support, product extensions and geographical market penetration, it will take some time to transition to this model and generate satisfactory returns.



The Company has built the basis for a solid partnership with BSF which provides access not only to processing capacity for UHT milk, but also extension into other products and importantly, a strengthening of our distribution model in both ambient and chilled products through the important population centres of Beijing and Shanghai. Of equal significance, the Company has built a distribution model, which provides access to and ongoing management of 5,000 outlets in Beijing and Shanghai, plus geographical expansion into Shenzhen and Qingdao. This model, while a hybrid of sorts, reduces dependence on traditional agent arrangements by utilising a combination of channels, with Beijing and Shanghai serviced by BSF and a dedicated Montec market development team, Qingdao managed directly by MTR and the National Agency Network coordinating broader geographical expansion into Shenzhen and later, Fujian and Dalian. The initial priority is on outlet rather than volume growth as the Company aims to establish availability for UHT monounsaturated white and flavoured milks in not less than 6,000 outlets in these areas by June 2007. Secondly, from this availability base, grow sales volume per store through consumer marketing and continue to expand overall availability and market penetration. Although seen to be appropriate for the immediate needs, in the future consideration will be given to simplifying this model and reducing selling costs.

The Company, under the Product Collaboration Agreement with BSF expects to realize revenue equivalent to $0.177 per litre, plus a trademark licencing fee and some revenue through cream recovery from raw milk processed. It must be clear however that these revenue streams will be fully absorbed in establishing the Company's milk business through the agreed re-investment in working capital, advertising and promotion support and overheads associated with the China business.

Managing Director's Report

The Future in China

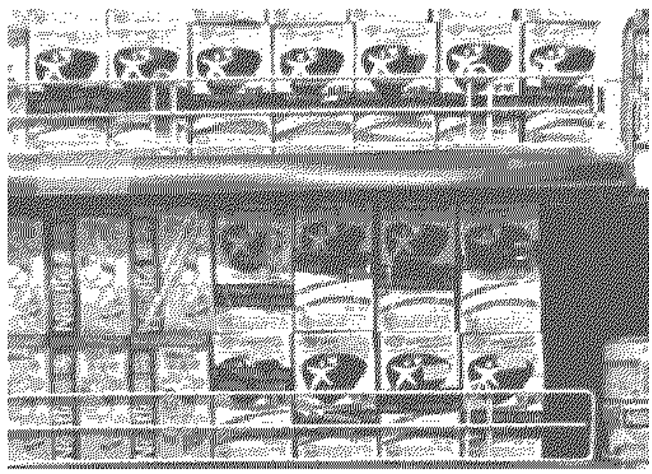
The dairy market in China continues to display strong growth, both overall and within each major segment of ice cream, yoghurt and milk. Total volume of all retail dairy sales exceeded 8.76 million tonnes in 2005 (Access Asia Limited, 2006) and displayed growth rates in excess of 10% per annum in each of the last five years. Rising incomes, a broader adoption of western-style foods, increased penetration of home refrigeration, improved cold-chain distribution systems and an increasingly sophisticated retail environment are all factors which have contributed to and will continue to drive this growth. Ice cream and yoghurt together account for 67% of this volume and represent 92% of the value of all retail dairy sales. Ice cream, at 4.78 million tonnes is the largest dairy product sector, followed by liquid milk, at 2.91 million tonnes, and yoghurt (both chilled and drinking) at 1.06 million tonnes. (Access Asia Limited, 2006).

In the medium term, satisfactory financial returns cannot be achieved from a business focused solely on UHT milk, though this may be possible in the longer term. Factors limiting volume growth include:

- While limited to UHT milk the Montec market offering addresses only 50% to 60% of the total liquid milk market, a market of 2.9 billion litres per annum;
- Market penetration will initially focus on Beijing, Shanghai and Qingdao, which together represent about 9% of total China milk consumption. (Access Asia Limited, 2006) ; and
- Penetration of Guangdong through the NAN network, while providing access to a further 12% of the market, will be slower than previously forecast.

However the early focus on UHT milk represents a prudent strategy in establishing a sales and distribution network and introducing the "dairypure" brand along with our healthy dairy consumer message, before broadening the product range to chilled dairy.

The processing partnership with BSF and a distribution network initially focused on the affluent population centres of Beijing, Shanghai and Shenzhen does provide a core business system upon which to build for the future. Efforts will continue to be directed toward strengthening market penetration in these areas to exploit the recognised potential to expand outlet numbers in the longer term. In addition, the National Agency Network has identified Fujian, Dalian and Guangxi as target markets in 2007. Marketing expenditure, primarily store entry fees, has initially been directed towards achieving outlet growth. Future expenditures will have a consumer focus to develop the brand franchise and grow volume per outlet, thereby leveraging our broadening availability.



The addition of products such as drinking yoghurt, chilled yoghurt, fresh milk and ice cream, marketed in collaboration with BSF to an expanding proportion of the total population, does offer the prospect of creating returns to shareholders. The Company is currently pursuing the strategy of strengthening our partnership with BSF and extending the "dairypure" brand to a broader dairy offering. Flavoured milks, with a taste profile specifically formulated to meet consumer preferences, have been included in the initial UHT offering. Similarly, a range of drinking yoghurts has been formulated as additional product offerings during the peak summer season of 2007. Drinking yoghurts are an increasingly popular dairy product, representing about 20 percent of the total yoghurt market. Application has been made for patent protection of monounsaturated ice cream developed by Dr. Du and her team in association with our ingredient partner, ISP in their Shanghai product development facility. This will provide access not only to the 4.7 million tonne per annum retail ice cream market which tends to be concentrated in our core distribution areas of Beijing, Shanghai and Guandong, but also the expanding food service industry. These developments offer opportunities to expand the revenue base through revenues generated across the broader dairy market and also the potential to extend the longevity of licensing arrangements and the Company's intellectual property.

The product development team, in association with ISP Shanghai, are progressing product concepts initiated with Tenet Jove Technological Development Co., Ltd, a major producer and retailer of health care products in China. These products offer the potential to extend the Company's core technology to functional foods and new growth opportunities. It should be noted however that the process of regulatory approval for these products indicates that full commercialisation will require a further 12 to 18 months development and testing.

Australia and Asia

The Company has maintained the established licensing arrangements with Dairy Farmers in Australia, under which Dairy Farmers market the "Farmers Best" brand.

Negotiations are ongoing with potential partners in both Thailand and Indonesia, with the expectation that commercial arrangements can be concluded in the near future.

Conclusion

This has been a challenging year for the Company. The false starts, delays and restructuring that punctuated the year have required significant commitment, dedication and flexibility from the executive team and the Board. I take this opportunity to thank the existing Board and senior executive team that includes Xueqin Du and Ian Maltman for their counsel, support and advice during the difficult transition period experienced in recent months.

Despite these challenges, the Company has been able to make significant progress in building a distribution model, gaining market access to major population centres, and to building the partnership with the Beijing Sanyuan Group. This partnership, the distribution network and Montec's specialised "healthy dairy" proposition backed by ongoing product innovation and extensions, provides the basis for confidence that with the necessary capital support, a sound base for future growth can be established in the large and rapidly expanding China dairy market.

Yours Faithfully,

Peter Herd
Managing Director

Montec International Limited

Corporate Governance Statement

Unless discussed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the financial year ended 30 June 2006.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The names of independent directors of the Company were:

- Terry Cuthbertson
- Peter Herd (assumed Managing Director role from 28th July 2006)

When determining whether a non-executive director is independent, the director must not fail any of the following materiality thresholds:

- Less than 5% of Company shares are held by the director and any entity or individual directly or indirectly associated with the director;

- No sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and

- None of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent director's have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expense. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the Company.

The names of the members of the nomination and remuneration committee and their attendance at meetings of the committee are detailed in the directors' report.

Trading Policy

The Company's policy regarding directors and employees trading in its securities, is set by the board of directors. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities prices.

Audit Committee

The names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee are included in the directors' report. We note that for the financial year ended 30 June 2006 the board and audit committee were chaired by different independent directors, and from 28 July 2006 to the date of this report both the board and audit committee were chaired by the same individual. Mr Herd assumed the Managing Director's role from 28th July 2006 and as a result, Mr Cuthbertson assumed the role of Chairman of the audit committee. Whilst not in accordance with best practice recommendations of the ASX, it was considered the most appropriate arrangement given the circumstances.

The Company is committed to ensuring that the most efficient and effective service is derived from the external audit function and has determined it will tender audit services on a three year cycle rather than automatically re-appointing the incumbent. The Company recognises the importance of audit partner rotation and has adopted a policy requiring lead audit partner rotation every five years.

Performance Evaluation

An annual performance evaluation of the board and all board members will be conducted by the Chairman in December 2006, as this will be approximately one year since the last evaluation. The Chairman will speak to each director individually regarding their role as director. The outcomes of these discussions will be implemented and the performance criteria and goals for the next year will be established.

Remuneration Policies

The remuneration policy, which sets the terms and conditions for the Chief Executive Officer and other senior executives, has been reviewed by the remuneration committee and approved by the board. Executives receive a base salary, superannuation and fringe benefits. The remuneration committee reviews executive packages annually by reference to the Company's performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

Executives may also be invited to participate in the employee option arrangements.

The amount of remuneration for all directors and the highest paid specified executives, including all monetary and non-monetary components, are detailed in note 6 to the financial report. All remuneration paid to executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes Option Pricing Model.

The board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best executives to run the economic entity. It will also provide executives with the necessary incentives to work to grow long-term shareholder value.

The payment of share options and other incentive payments are reviewed by the remuneration committee annually as part of the review of executive remuneration and a recommendation is put to the board for approval. All options and incentives are linked to predetermined performance criteria. The board can exercise its discretion in relation to approving incentives and options and can recommend changes to the committee's recommendations. Any change to the terms of issue must be justified by reference to measurable performance criteria.

Nomination and Remuneration Committee

The names of the members of the remuneration committee and their attendance at meetings of the committee are detailed in the directors' report.

There are no schemes for retirement benefits other than statutory superannuation for non-executive directors.

Other Information

Information relating to the Company's corporate governance practices and policies is to be made publicly available on the Company's website at www.montec-international.com.au in due course.

This material will include:

- A description of the procedure for selection and appointment of new directors to the board, and the charters for both the remuneration and nomination committee and the audit committee. Along with the audit committee charter will be the Company's policy on lead audit partner rotation and the policy for appointment of external auditors;
- The Company's share trading policy and an outline of its focus and principles of corporate governance. These principles of corporate governance are designed to promote ethical and responsible decision making;
- The Company's approach to compliance with ASX Listing Rule disclosure requirements; and
- A description of the Company's risk management policy and internal compliance and control systems.

The Company is committed to the recognition of the legitimate interests of all shareholders and complies with legal and ethical frameworks to deliver this outcome.

Directors' Report

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2006.

Directors

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

Terry Cuthbertson

Malcolm Campbell (resigned 28 July 2006)

Peter Herd

Xueqin Du

Lin Yuansheng

Roger McGrath (alternate for Mr Lin Yuansheng, appointed 19 July 2006)

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 have been in office since 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 minority interests amounted to $5,253,706 (2005: $4,458,940 after restatement under A-IFRS).

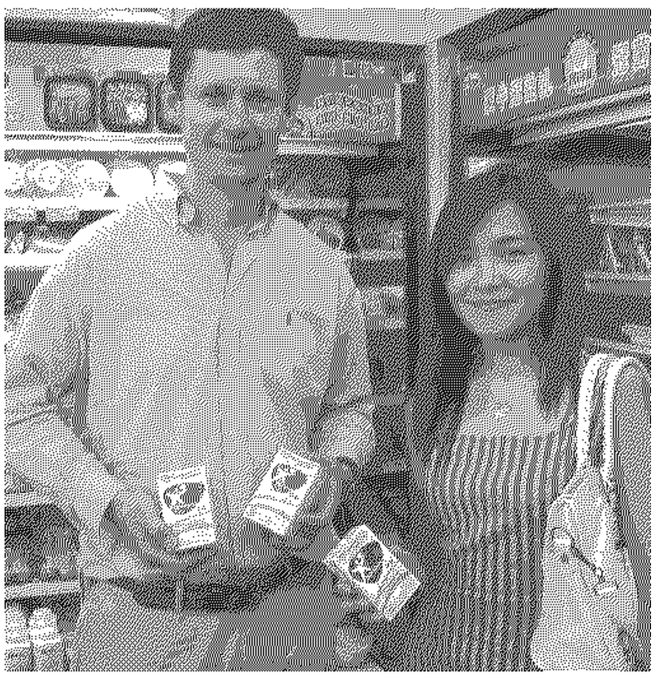
Dividends Paid or Recommended

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 2006.

Review of Operations

The financial year ended 30 June 2006 has been one of significant challenge and less visible results. The Company had been set for a full scale roll out of its monounsaturated dairy technology through Shanghai and Beijing in the form of dairypure branded milk products during December 2005. This did not happen as there was a change in food standards in China that required a re-engineering of the Company's monounsaturated technology to ensure compliance with this new standard. This compliance was subsequently achieved through valuable support from Beijing Sanyuan Foods, our processing partner in China.

Further delays were then encountered by the Montec team in China emanating from a conflux of factors including protracted efforts to secure distribution arrangements that required store entry being contracted. These most recent issues causing the delay are thought to have been resolved. With these matters addressed the Company is confident of distribution execution over the next six months subject to no unforeseen issues eventuating, and sufficient capital being available.



The Company has made some progress on new technology development in addition to the modifications to existing technology mentioned above. During June 2006, Montec submitted an application for patent protection for monounsaturated ice-cream. The Company plans to develop a range of commercial opportunities from this technology development. 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.

From a financial perspective the year ended 30 June 2006 has been characterised as a period of further development where expenditure has been incurred with an expectation of future revenues being earnt.

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

Other than matters raised in Note 30 and the point noted below there are no other 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.

On 28th July 2006 the Managing Director, Mr Malcolm Campbell ceased employment with the company by way of mutual agreement. Mr Peter Herd, a non-executive director of the company has assumed the position of Managing Director on a temporary basis until a suitable replacement can be found.

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 dairy emanating from commercial 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 commercialising of Montec's proprietary technology with appropriate customers in a number of Asia Pacific countries.

These initiatives will require further capital to be made available to the Company, as highlighted in note 1q.

Environmental Issues

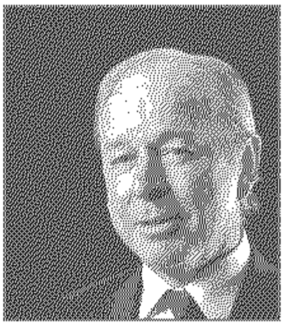
The economic entity's operations are not subject to significant environmental regulation under a law of China, or of the Commonwealth or of a state or territory of Australia.

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the Company's financial report has been prepared in accordance with those standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

Information on Directors

Terry Cuthbertson



Chairman (Non-executive)

Qualifications

B. Bus, ACA

Experience

Non-Executive Chairman of Austpac Resources N.L., S2 Net Limited and My Net Fone 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

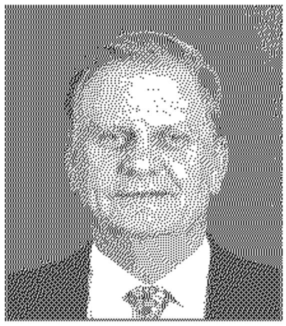
Special Responsibilities

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, S2 Net Limited and My Net Fone Limited.

Malcolm Campbell



Managing Director (resigned 28 July 2006)

Qualifications

B. Comm, MAICD

Experience

Managing Director of Montec International Limited from May 2003 to July 2006. 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.

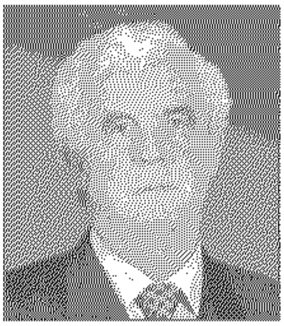
Special Responsibilities

Mr Campbell as Chief Executive Officer had overall management responsibility for Company operations and performance. Mr Campbell also held the position and responsibility of Chief and Legal Representative of Montec International Limited within the People's Republic of China.

Listed Entity Directorships

None

Peter Herd



Director (Non-executive) and Temporary Managing Director from 28 July 2006.

Qualifications

B. Ec (hons), FAICD

Experience

Previously General Manager of Dairy Farmers' Milk and Beverage Division, previously 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 directly, and an additional 4,460 Montec International Limited shares held indirectly.

Special Responsibilities

Mr Herd was Chairman of both the Audit Committee and the Nomination and Remuneration Committee until 28 July 2006, at which time these responsibilities were reassigned in view of his executive role.

Listed Entity Directorships

None

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 through 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

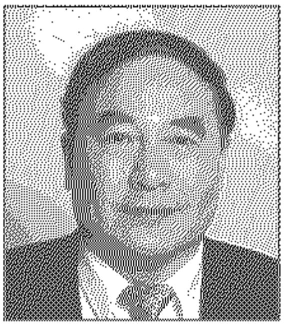
10,000 ordinary shares and 800,000 options over ordinary shares of Montec International Limited

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

Roger McGrath

Alternate Director representing Lin Yuansheng

Qualifications

Wool Classing Certificate

Experience

Previously a director of KPMG and brings to the board 40 years of experience in corporate recovery and also responsible for KPMG Hospitality, Agribusiness and Indigenous.

Interest in Shares and Options

10,000 ordinary shares of Montec International Limited

Special Responsibilities

Alternate Director

Listed Entity Directorships

None

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 details the nature and amount of remuneration for each director and executive 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, the structure of non executive director and senior management remuneration is separate and distinct.

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. Although not in accordance with the ASX Corporate Governance Best Practices, the board considers it good governance for directors to have a stake in the company.

The remuneration of non executive directors for the period ending 30 June 2006 is detailed in note 6b 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 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.

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 utilising 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 prior to his resignation, Mr Campbell was on a three year contract commencing 12 November 2003 and expiring 11 November 2006. The contract was terminated by mutual agreement effective 28th July 2006.

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.

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 $157,500 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 6c. 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 quarterly during the financial year.

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 $105,000 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 earnt a China salary equivalent to $12,000 per annum.

Details of Remuneration for the year ended 30 June 2006

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

Directors	Salary & Fees $	Superannuation Contribution $	Cash Benefit $	Non-Cash Benefit $	Options $	Total $	Performance Related %
Terry Cuthbertson	75,000	6,750	-	-	-	81,750	-
Malcolm Campbell	180,000	16,200	108,653	71,205	-	376,058	-
Peter Herd	49,050	-	-	-	-	49,050	-
Xueqin Du	105,000	9,450	25,867	13,059	28,591	181,967	-
Lin Yuansheng	45,000	4,050	8,000	-	-	57,050	-
	454,050	**36,450**	**142,520**	**84,264**	**28,591**	**745,875**	-

Specified Executives							
Ian Maltman	157,500	14,175	13,867	13,059	28,591	227,192	-
	157,500	**14,175**	**13,867**	**13,059**	**28,591**	**227,192**	-

Options issued as Part of Remuneration for the year ended 30 June 2006

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.

Specified Executives	Granted No. $	Options Granted as Part of Remuneration $	Total Remuneration Represented by Options $	Options Exercised $	Options Lapsed ($)	Total $
Xueqin Du	700,000	28,591	15.7	-	-	28,591
Ian Maltman	700,000	28,591	12.6	-	-	28,591
	1,400,000	**57,182**	**-**	**-**	**-**	**57,182**

Meetings of Directors

During the financial year, 16 meetings of directors (including committees) were held. Attendances by each director during the year were as follows:

	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	3	3	2	2
Malcolm Campbell	11	10	-	-	-	-
Peter Herd	11	11	3	3	2	2
Xueqin Du	11	7	-	-	-	-
Lin Yuansheng	11	8	-	-	-	-
Roger McGrath	-	-	-	-	-	-

Audit Committee Investigation

The Audit Committee conducted an investigation into allegations raised by external parties of improprieties involving the former Managing Director Mr Malcolm Campbell and a sales and marketing contractor to the Company Mr Spiro Lymberatos. Investigations by the Audit Committee found that an entity, International Services and Trading Limited ("ISTC"), that was controlled by Mr Lymberatos and domiciled in the British Virgin Islands, had been interposed between Montec and its supplier. A one off transaction resulted in a trading margin being extracted by ISTC at the expense of Montec. This margin extracted at Montec's expense although detrimental, was not considered by the Company to be material under Generally Accepted Accounting Standards.

Mr Lymberatos terminated his contracting arrangements with Montec following the allegations being raised and certain evidence being presented to him by the Audit Committee.

Whilst a number of inconsistencies and irregularities were noted in the information and explanations tendered to the Audit Committee by Mr Campbell during the investigation, sufficient evidence did not exist to pursue the matter further. Mr Campbell ceased employment with the Company on 28 July 2006.

Subsequent to the departure of the previous Managing Director Malcolm Campbell in July 2006 and the necessary review of operations initiated in China during August, a further but as yet incomplete review is being undertaken in relation to the Company's China business model. Further details are set out in Note 30 to the financial report.

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 $39,060 for the below directors and executives.

Terry Cuthbertson	Malcolm Campbell
Peter Herd	Xueqin Du
Lin Yuansheng	Roger McGrath
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:

- 700,000 options granted to Ian Maltman at an exercise price of $0.50 exercisable on or before 30 June 2008 under the terms of his Executive Service Agreement.

- 700,000 options granted to Xueqin Du at an exercise price of $0.50 exercisable on or before 30 June 2008 under the terms of her Executive Service Agreement.

During the year ended 30 June 2006, 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.

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

Grant Date	Date of Expiry	Price	Number Under Option
12-Oct-03	30/6/06	$0.50	5,000,000
4-Nov-03	30/6/07	$0.35	2,509,500
21-Oct-03	30/6/06	$0.50	609,826
21-Oct-03	1/7/07	$0.50	(i) 100,000
30-Nov-03 to 30-Jun-04	1/7/06	$0.50	(i) 336,667
19-Aug-04	1/7/07	$0.56	(i) 24,000
16-Sep-04	1/7/06	$0.50	(i) 168,333
16-Sep-04	1/7/07	$0.50	(i) 505,000
29-Jun-05	30/6/06	$0.55	100,000
28-Jul-05	30/6/08	$0.50	(i) 1,400,000
28-Jul-05	30/6/08	$0.50	(i) 24,000
18-Nov-05	30/6/08	$0.50	(i) 30,000
			10,807,326

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 a party to legal proceedings during the year. These proceedings have been explained at note 23 to the financial statements.

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 2006.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 63 which forms part of this report.

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

Terry Cuthbertson
Chairman
Dated this 29th day of September 2006

Peter Herd
Managing Director

Income Statement

For The Year Ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
Revenue	3	797,373	632,046	797,373	632,046
Other income		9,878	-	-	-
Raw materials sold		(479,661)	(284,769)	(479,661)	(284,769)
Compliance and professional fees		(784,151)	(445,988)	(783,597)	(445,874)
Advertising and marketing expenses		(632,137)	(601,024)	(632,137)	(601,024)
Employee benefits expenses		(1,478,647)	(1,366,089)	(1,485,166)	(1,362,435)
Administrative expenses		(546,582)	(341,451)	(519,298)	(316,504)
Travel expenses		(232,034)	(180,778)	(231,941)	(180,778)
Insurance expenses		(104,459)	(91,136)	(104,459)	(91,136)
Finance costs		-	(658)	-	(658)
Depreciation and amortisation expense		(441,922)	(570,280)	(439,484)	(567,855)
Write off of certain acquired rights		-	(959,422)	-	(959,422)
Impairment write down of patents		(1,369,356)	-	(1,369,356)	-
Other expenses		-	(251,523)	-	(347,340)
Loss from ordinary activities before income tax expense	4	**(5,253,706)**	**(4,460,912)**	**5,247,726)**	**4,525,749)**
Income tax expense relating to ordinary activities	5	-	-	-	-
Loss from ordinary activities after related income tax expense		**(5,253,706)**	**(4,460,912)**	**(5,247,726)**	**4,525,749)**
Net loss attributable to outside equity interests		-	1,972	-	-
Net loss attributable to members of the parent entity		**(5,253,706)**	**(4,458,940)**	**(5,247,726)**	**4,525,749)**
Earning per share:					
Basic earnings per share (cents per share)	9b	(0.080)	(0.072)		
Diluted earnings per share (cents per share)	9b	(0.080)	(0.072)		

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

Balance Sheet

For The Year Ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
CURRENT ASSETS					
Cash and cash equivalents	10	2,271,951	5,198,307	2,270,123	5,196,864
Trade and other receivables	11	67,002	63,691	67,002	63,691
Inventories	12	175,740	456,711	175,740	456,711
Other current assets	13	127,127	110,231	127,127	110,231
TOTAL CURRENT ASSETS		**2,641,820**	**5,828,940**	**2,639,992**	**5,827,497**
NON-CURRENT ASSETS					
Financial assets	14	-	-	1	-
Property, plant and equipment	16	128,057	147,160	128,057	147,160
Intangible assets	17	1,027,733	2,793,833	1,027,733	2,793,833
TOTAL NON-CURRENT ASSETS		**1,155,790**	**2,940,993**	**1,155,791**	**2,940,993**
TOTAL ASSETS		**3,797,610**	**8,769,933**	**3,795,783**	**8,768,490**
CURRENT LIABILITIES					
Trade and other payables	18	258,200	190,012	261,598	205,499
Short-term provisions	19	222,360	61,539	222,360	61,539
TOTAL CURRENT LIABILITIES		**480,560**	**251,551**	**483,958**	**267,038**
TOTAL LIABILITIES		**480,560**	**251,551**	**483,958**	**267,038**
NET ASSETS		**3,317,050**	**8,518,382**	**3,311,825**	**8,501,452**
EQUITY					
Issued capital	20	15,407,680	15,407,680	15,407,680	15,407,680
Reserves		128,929	76,555	159,193	101,094
Accumulated losses		(12,219,559)	(6,965,853)	(12,255,048)	(7,007,322)
TOTAL EQUITY		**3,317,050**	**8,518,382**	**3,311,825**	**8,501,452**

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

Statement of Changes in Equity

For The Year Ended 30 June 2006

	Note	Share Capital Ordinary $	Accumulated Losses $	Share Options $	Foreign Exchange $	Minority Interests $	Total $
Economic Entity							
Balance at 1 July 2004	2	9,774,178	(2,506,913)	42,996	(22,140)	(1,168)	7,286,953
Adjustment arising from the translation of foreign controlled entities' financial statements		-	-	-	(2,399)	-	(2,399)
Net income recognised directly in equity		-	-	-	(2,399)	-	(2,399)
Loss for the period		-	(4,458,940)	-	-	1,168	(4,457,772)
Total recognised income and expenses for the period		-	(4,458,940)	-	(2,399)	1,168	(4,460,171)
Equity remuneration reserve on recognition of employee share options expenses	21a	-	-	58,098	-	-	58,098
Shares issued during the year		5,867,502	-	-	-	-	5,867,502
Transaction costs		(234,000)	-	-	-	-	(234,000)
Balance at 30 June 2005		15,407,680	(6,965,853)	101,094	(24,539)	-	8,518,382
Adjustment arising from the translation of foreign controlled entities' financial statements		-	-	-	(5,725)	-	(5,725)
Net income recognised directly in equity		-	-	-	(5,725)	-	(5,725)
Loss for the period		-	(5,253,706)	58,099	-	-	(5,195,607)
Total recognised income and expenses for the period		-	(5,253,706)	58,099	(5,725)	-	(5,201,332)
Balance at 30 June 2006		**15,407,680**	**(12,219,559)**	**159,193**	**(30,264)**	**-**	**3,317,050**
Parent Entity							
Balance at 1 July 2004	2	9,774,178	(2,481,573)	42,996	-	-	7,335,601
Net income recognised directly in equity		-	-	-	-	-	-
Loss for the period		-	(4,525,749)	-	-	-	(4,525,749)
Total recognised income and expenses for the period		-	(4,525,749)	-	-	-	(4,525,749)
Equity remuneration reserve on recognition of employee share options expenses	21a	-	-	58,098	-	-	58,098
Shares issued during the year		5,867,502	-	-	-	-	5,867,502
Transaction costs		(234,000)	-	-	-	-	(234,000)
Balance at 30 June 2005		15,407,680	(7,007,322)	101,094	-	-	8,501,452
Net income recognised directly in equity		-	-	-	-	-	-
Loss for the period		-	(5,247,726)	58,099	-	-	(5,189,627)
Total recognised income and expenses for the period		-	(5,247,726)	58,099	-	-	(5,189,627)
Balance at 30 June 2006		**15,407,680**	**(12,255,048)**	**159,193**	**-**	**-**	**3,311,825**

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

Cash Flow Statement

For The Year Ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		621,573	432,610	621,573	432,610
Payments to suppliers and employees		(3,716,200)	(3,081,745)	(3,716,585)	(3,082,416)
Interest received		191,910	242,723	191,910	242,723
Finance costs		-	(658)	-	(658)
Net cash used in operating activities	25a	**(2,902,717)**	**(2,407,070)**	**(2,903,102)**	**(2,407,741)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(23,638)	(73,721)	(23,638)	(73,721)
Purchase of Intellectual property		-	(18,103)	-	(18,103)
Payment for subsidiary, net of cash acquired	25b	(1)	(4,195)	(1)	(4,195)
Other		-	(106)	-	-
Net cash used in investing activities		**(23,639)**	**(96,125)**	**(23,639)**	**(96,019)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	5,867,502	-	5,867,502
Cost of share issues		-	(234,000)	-	(234,000)
Payment for borrowing		-	(22,170)	-	(22,169)
Net cash provided by financing activities		**-**	**5,611,332**	**-**	**5,611,333**
Net (decrease)/increase in cash held		(2,926,356)	3,108,137	(2,926,741)	3,107,573
Cash at start of year		5,198,307	2,090,170	5,196,864	2,089,291
Cash at end of year	10	**2,271,951**	**5,198,307**	**2,270,123**	**5,196,864**

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

Notes To The Financial Statements For The Year Ended 30 June 2006

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 of Montec International Limited and controlled entities, and Montec International Limited as an individual parenting entity, complies with Australian Accounting Standards, which include A-IFRS, in their entirety. Compliance with A-IFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

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.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Montec International Limited and the controlled entities, and Montec International Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (A-IFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of A-IFRS have been applied retrospectively to 2005 comparative figures. These consolidated accounts are the first financial statements of Montec International Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. Reconciliations of the transition from previous Australian GAAP to A-IFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

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 15 to the financial statements. All controlled entities have a June financial year-end.

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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

Minority 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 charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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.

As all the controlled entities are foreign companies Montec International Limited has not formed a tax consolidated group under the tax consolidation regime.

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 been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets 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%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

e. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged on a straight-line basis unless another method is more representative of the time pattern of the users benefits.

f. Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorized as held for trading unless they are designated as hedges. Realised and unrealized gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

There are no held-to-maturity investments during the financial year ended 30 June 2006.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealized gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

There are no derivative instruments during the financial year ended 30 June 2006.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

g. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. 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 been discounted to their present value in determining the recoverable amounts.

i. 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 on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 and adjusted for any impairment losses. 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.

j. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

k. 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, 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 26 to the financial statements.

l. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

m. Cash and Cash Equivalents

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.

n. 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 customers 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).

o. 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.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

p. Comparative Figures

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

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Provision for Management Restructure

Whilst no final decision had been made in relation to a management restructure as at 30 June 2006 (nor obligation crystallised) there was a reasonable expectation of the need for certain management changes as at 30 June 2006. Subsequent to year end a management restructure did occur. As such, a provision of $111,854 has been booked for the management restructure as at 30 June 2006.

Patent Impairment

An impairment review of both the Australian and New Zealand patents held by Montec that relate to monounsaturated dairy production has been conducted. This review has necessitated a write down of the carrying value of these two patents. This amount was assessed after discounting the currently anticipated future cash flows associated with these patents and comparing it with the net book value. The net write down which has resulted from this impairment testing, and which has been reflected in the financial accounts, is $1,369,356.

For further details of the calculation of the patent impairment, refer to Note 17.

Key Judgments

Stock Obsolescence Provision

Included in inventory as at 30 June 2006 is a provision for stock obsolescence relating to certain forms of packaging printed for use in China. The carrying value of this packaging is unlikely to be recovered and an obsolescence provision has been made in the accounts. The amount of the provision is $67,637.

q. Going Concern

An assessment of the Company's China business model has been completed following a visit to China in August 2006. 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. This transitional arrangement was not envisaged in the initial planning, but is seen as essential in overcoming factors which restricted growth through out 2006 and to provide the initial critical mass in overall distribution and outlet numbers, specifically in Beijing and Shanghai. Over the immediate future an agreement with Beijing Sanyuan Foods Co Ltd ("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 at the time of signing the financial report are considering.

The September 2006 agreement with BSF, which supersedes all previously 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.

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.

The Directors, at the time of signing the Financial Report, have initiated discussions with a number of parties that have expressed interest in supporting the Company with its capital requirements. At the time of signing, no financial commitment is contracted.

Given the above outlook the Directors are confident that if sufficient and appropriate capital is made available, the Company will be able to continue as a going concern.

However, should sufficient and appropriate capital not be available to the Company on a timely basis the Directors will be required to significantly alter the Company's existing business plan and model. This would see the Company continue on a substantially smaller scale with a cessation of the pursuit of the China and broader Asia Pacific markets and a reduction in expenditure on staff and directors. The business would, under this scenario, operate on existing capital reserves combined with the ongoing licensing arrangement with Dairy Farmers which has provided a monthly income stream historically. The Company has prepared cash flow forecasts for this "worst case" scenario and the directors are therefore satisfied that the Company would be able to continue to operate as a going concern on this basis.

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards

	Note	Previous GAAP at 1 July 2004 $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS at 1 July 2004 $
Economic Entity				
Reconciliation of Equity at 1 July 2004				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		2,090,170	-	2,090,170
Trade and other receivables		145,690	-	145,690
Inventories		409,257	-	409,257
Other current assets		279,654	-	279,654
TOTAL CURRENT ASSETS		**2,924,771**	**-**	**2,924,771**
NON-CURRENT ASSETS				
Financial assets		-	-	-
Property, plant and equipment		113,160	-	113,160
Intangible assets		4,512,190	-	4,512,190
TOTAL NON-CURRENT ASSETS		**4,625,350**	**-**	**4,625,350**
TOTAL ASSETS		**7,550,121**	**-**	**7,550,121**
CURRENT LIABILITIES				
Trade and other payables		215,492	-	215,492
Short-term borrowings		8,701	-	8,701
Short-term provisions		25,923	-	25,923
TOTAL CURRENT LIABILITIES		**250,116**	**-**	**250,116**
NON-CURRENT LIABILITIES				
Long-term borrowings		13,052	-	13,052
TOTAL NON-CURRENT LIABILITIES		**13,052**	**-**	**13,052**
TOTAL LIABILITIES		**263,168**	**-**	**263,168**
NET ASSETS		**7,286,953**	**-**	**7,286,953**
EQUITY				
Issued capital		9,774,178	-	9,774,178
Reserves	2(a)	(22,140)	42,996	20,856
Accumulated losses	2(b)	(2,463,917)	(42,996)	(2,506,913)
Parent interest		7,288,121	-	7,288,121
Minority interest		(1,168)	-	(1,168)
TOTAL EQUITY		**7,286,953**	**-**	**7,286,953**

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

	Note	Previous GAAP at 30 June 2005 $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS at 30 June 2005 $
Economic Entity				
Reconciliation of Equity at 30 June 2005				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		5,198,307	-	5,198,307
Trade and other receivables		63,691	-	63,691
Inventories		456,711	-	456,711
Other current assets		110,231	-	110,231
TOTAL CURRENT ASSETS		**5,828,940**	**-**	**5,828,940**
NON-CURRENT ASSETS				
Financial assets		-	-	-
Property, plant and equipment		147,160	-	147,160
Intangible assets		2,793,833	-	2,793,833
TOTAL NON-CURRENT ASSETS		**2,940,933**	**-**	**2,940,933**
TOTAL ASSETS		**8,769,933**	**-**	**8,769,933**
CURRENT LIABILITIES				
Trade and other payables		190,012	-	190,012
Short-term borrowings		-	-	-
Short-term provisions		61,539	-	61,539
TOTAL CURRENT LIABILITIES		**251,551**	**-**	**251,551**
NON-CURRENT LIABILITIES				
Long-term borrowings		-	-	-
TOTAL NON-CURRENT LIABILITIES		**-**	**-**	**-**
TOTAL LIABILITIES		**251,551**	**-**	**251,551**
NET ASSETS		**8,518,382**	**-**	**8,518,382**
EQUITY				
Issued capital		15,407,680		15,407,680
Reserves	2(a)	(24,539)	101,094	76,555
Accumulated losses	2(b)	(6,864,759)	(101,094)	(6,965,853)
Parent interest		8,518,382	-	8,518,382
Minority interest		-	-	-
TOTAL EQUITY		**8,518,382**	**-**	**8,518,382**

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

	Note	Previous GAAP at 1 July 2004 $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS at 1 July 2004 $
Parent Entity				
Reconciliation of Equity at 1 July 2004				
ASSETS				
CURRENT ASSETS				
Cash & cash equivalents		2,089,291	-	2,089,291
Trade and other receivables		172,471	-	172,471
Inventories		405,238	-	405,238
Other current assets		267,478	-	267,478
TOTAL CURRENT ASSETS		**2,934,478**	**-**	**2,934,478**
NON-CURRENT ASSETS				
Financial assets		281,605	-	281,605
Property, plant and equipment		104,998	-	104,998
Intangible assets		4,271,447	-	4,271,447
TOTAL NON-CURRENT ASSETS		**4,658,050**	**-**	**4,658,050**
TOTAL ASSETS		**7,592,528**	**-**	**7,592,528**
CURRENT LIABILITIES				
Trade and other payables		209,251	-	209,251
Short-term borrowings		8,701	-	8,701
Short-term provisions		25,923	-	25,923
TOTAL CURRENT LIABILITIES		**243,875**	**-**	**243,875**
NON-CURRENT LIABILITIES				
Long-term borrowings		13,052	-	13,052
TOTAL NON-CURRENT LIABILITIES		**13,052**	**-**	**13,052**
TOTAL LIABILITIES		**256,927**	**-**	**256,927**
NET ASSETS		**7,335,601**	**-**	**7,335,601**
EQUITY				
Issued capital		9,774,178	-	9,774,178
Reserves	2(a)	-	42,996	42,996
Retained earnings	2(b)	(2,438,577)	(42,996)	(2,481,573)
TOTAL EQUITY		**7,335,601**	**-**	**7,335,601**

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

	Note	Previous GAAP at 30 June 2005 $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS at 30 June 2005 $
Parent Entity				
Reconciliation of Equity at 30 June 2005				
ASSETS				
CURRENT ASSETS				
Cash & cash equivalents		5,196,864		5,196,864
Trade and other receivables		63,691		63,691
Inventories		456,711		456,711
Other current assets		110,231		110,231
TOTAL CURRENT ASSETS		**5,827,497**		**5,827,497**
NON-CURRENT ASSETS				
Financial assets		-		-
Property, plant and equipment		147,160		147,160
Intangible assets		2,793,833		2,793,833
TOTAL NON-CURRENT ASSETS		**2,940,993**		**2,940,993**
TOTAL ASSETS		**8,768,490**	**-**	**8,768,490**
CURRENT LIABILITIES				
Trade and other payables		205,499		205,499
Short-term provisions		61,539		61,539
TOTAL CURRENT LIABILITIES		**267,038**		**267,038**
TOTAL LIABILITIES		**267,038**		**267,038**
NET ASSETS		**8,501,452**		**8,501,452**
EQUITY				
Issued capital		15,407,680	-	15,407,680
Reserves	2(a)	-	101,094	101,094
Retained earnings	2(b)	(6,906,228)	(101,094)	(7,007,322)
TOTAL EQUITY		**8,501,452**	**-**	**8,501,452**

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

	Note	Previous GAAP $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS $
Economic Entity				
Reconciliation of profit or loss for the full year to 30 June 2005				
Revenues		632,046	-	632,046
Raw materials sold		(284,769)	-	(284,769)
Employee benefits expense	2(c)	(1,307,911)	(58,098)	(1,366,009)
Advertising and Marketing expenses		(601,024)	-	(601,024)
Compliance and professional fees		(445,908)	-	(445,908)
Administrative expenses		(341,451)	-	(341,451)
Travel expenses		(180,778)	-	(180,778)
Insurance expenses		(91,136)	-	(91,136)
Finance costs		(658)	-	(658)
Depreciation and amortisation expense	2(d)	(582,885)	12,605	(570,280)
Write off of certain acquired rights	2(d)	(959,422)	-	(959,422)
Other expenses from ordinary activities		(238,918)	(12,605)	(251,523)
Loss before income tax expense		**(4,402,814)**	**(58,098)**	**(4,460,912)**
Income tax expense		-	-	-
Loss after income tax expense		**(4,402,814)**	**(58,098)**	**(4,460,912)**
Loss attributable to minority interest		1,972	-	1,972
Loss attributable to members of the parent entity		**(4,400,842)**	**(58,098)**	**(4,458,940)**

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

	Note	Previous GAAP $	Effect of transition to Australian equivalents to IFRS $	Australian equivalents to IFRS $
Parent Entity				
Reconciliation of profit or loss for 2005				
Revenues from ordinary activities		632,046	-	632,046
Raw materials sold		(284,769)	-	(284,769)
Employee benefits expense	2(c)	(1,304,337)	(58,098)	(1,362,435)
Advertising and Marketing expenses		(601,024)	-	(601,024)
Compliance and professional fees		(445,874)	-	(445,874)
Administrative expenses		(316,504)	-	(316,504)
Travel expenses		(180,778)	-	(180,778)
Insurance expenses		(91,136)	-	(91,136)
Finance costs		(658)	-	(658)
Depreciation and amortisation expense		(567,855)	-	(567,855)
Write off of certain acquired rights		(959,422)	-	(959,422)
Other expenses from ordinary activities		(347,340)	-	(347,340)
Loss before income tax expense		**(4,467,651)**	**(58,098)**	**(4,525,749)**
Income tax expense		-	-	-
Loss after income tax expense		**(4,467,651)**	**(58,098)**	**(4,525,749)**
Loss attributable to members of the parent entity		**(4,467,651)**	**(58,098)**	**(4,525,749)**

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

		30 June 2005 $	1 July 2004 $
a	Reserves comprise:		
	Economic Entity		
	Equity Remuneration reserve	101,094	42,996
	Total	101,094	42,996
b	Retained earnings comprise:		
	Economic Entity		
	Recognition of employee share option expenses	(101,094)	(42,996)
	Total	(101,094)	(42,996)

c The A-IFRS adjustment reflects the expensing of the fair value of options over ordinary shares issued and vested as remuneration with the recognition of an associated equity remuneration reserve. The combined impact of the expensing of 2004 and 2005 financial year equity remuneration of $101,094 is reflected in an equity remuneration reserve.

d The adjustment reflects the adding back of the 2005 financial year goodwill amortisation expenses of $12,605. At 30 June 2005 the company provided for the entire balance of goodwill, so reversal of amortisation of $12,605 would result in an additional provision.

Note 3: Revenue

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
Operating activities:				
— royalties	335,054	295,737	335,054	295,737
— cream sales	20,795	-	20,795	-
— sales of goods	237,549	91,286	237,549	91,286
— interest income – other persons	191,910	242,723	191,910	242,723
— other revenue	12,065	2,300	12,065	2,300
Total Revenue	**797,373**	**632,046**	**797,373**	**632,046**

Note 4: Loss From Ordinary Activities

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
Loss from ordinary activities before income tax has been determined after:					
Depreciation of non-current assets:					
— plant and equipment		(45,179)	(33,984)	(42,741)	(31,559)
Amortisation of non-current assets:					
— patents and acquired rights		(396,743)	(536,296)	(396,743)	(536,296)
Rental expense on property		(106,087)	(67,177)	(106,087)	(67,177)
Foreign currency translation (losses)/gains		845	(7,716)	2,861	(7,018)
Write off of certain acquired rights		-	(959,422)	-	(959,422)
Impairment write down:					
— patents		(1,369,356)	-	(1,369,356)	-
— investments		-	-	-	(285,800)
— goodwill		-	(226,634)	-	-
— net assets of subsidiary		9,870	(12,284)	-	-
Other expenses:					
— Loss on reserve		-	-	-	(61,540)
— Legal fees		(518,392)	(182,938)	(518,392)	(182,938)
Total other expenses		**(518,392)**	**(182,938)**	**(518,392)**	**(244,478)**

Note 5: Income Tax Expense

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax as follows:					
a. Prima facie tax receivable on loss from ordinary activities at 30% (2005: 30%)		(1,576,112)	(1,338,274)	(1,574,318)	(1,357,725)
Add:					
Tax effect of:					
— non-deductible amortisation		3,530	45,395	3,530	45,395
— other non-allowable items		440,913	316,957	440,913	316,957
Less:					
Tax effect of:					
— foreign currency exchange profit not subject to income tax		2,964	2,867	2,964	2,867
— other allowable items		(22,409)	27,938	(22,409)	27,938
Tax effect of deferred tax assets not brought to account		1,112,224	1,006,727	1,110,430	1,026,178
Income tax expense attributable to entity		-	-	-	-
The applicable weighted average effective tax rates are as follows:		-%	-%	-%	-%

The directors estimate that the Parent Entity and its controlled entities have carry-forward income tax losses of $3,707,413(2005: $3,355,757) available to offset against future years' taxable income. The benefits of these losses have not been brought to account as there is no convincing evidence of future taxable profits to offset losses. 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 6: Key Management Personnel Compensation

a. Names and positions held of parent entity key management personnel in office at any time during the financial year are:

Key Management Personnel	
Terry Cuthbertson	Chairman — Non-Executive
Malcolm Campbell	Managing Director — Executive
Peter Herd	Director — Non-Executive
Xueqin Du	Director — Executive
Lin Yuansheng	Director — Non-Executive
Ian Maltman	Chief Financial Officer

b. Key Management Personnel

2006	Primary				Post Employment	Equity		Total
	Salary & Fees	Super-annuation Contribution	Cash Benefit	Non-Cash Benefits	Super-annuation	Shares	Options	
	$	$	$	$	$	$	$	$
Terry Cuthbertson	75,000	6,750	-	-	-	-	-	**81,750**
Malcolm Campbell	180,000	16,200	108,653	71,205	-	-	-	**376,058**
Peter Herd	49,050	-	-	-	-	-	-	**49,050**
Xueqin Du	105,000	9,450	25,867	13,059	-	-	28,591	**181,967**
Lin Yuansheng	45,000	4,050	8,000	-	-	-	-	**57,050**
Ian Maltman	157,500	14,175	13,867	13,059	-	-	28,591	**227,192**
	611,550	**50,625**	**156,387**	**97,323**	**-**	**-**	**57,182**	**973,067**

2005	Primary				Post Employment	Equity		Total
	Salary & Fees	Super-annuation 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**
Ian Maltman	150,000	13,500	27,138	25,557	-	-	55,955	**272,150**
	588,283	**47,632**	**222,635**	**121,731**	**-**	**-**	**55,955**	**1,036,236**

i. Compensation paid for period from 17 March 2005 to 30 June 2005.
ii. Compensation paid for period from 1 July 2004 to 4 July 2004.

Note 6: Key Management Personnel Compensation (Continued)

c. Compensation Options

Options Granted As Compensation

Key Management Personnel	Vested No.	Granted Number	Grant Date	Average Value per Option at Grant Date	First Exercise Price	Exercise Date	Last Exercise Date
	Terms and Conditions for Each Grant						
Xueqin Du	700,000	700,000	28/7/05	0.04084	$0.50	Current	30/6/08
Ian Maltman	700,000	700,000	28/7/05	0.04084	$0.50	Current	30/6/08
	1,400,000	**1,400,000**					

All options granted to the above key management personnel 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 compensation are included per Note 6h below.

d. Shares Issued on Exercise of Compensation Options

Key Management Personnel	No. of ordinary shares issued	Amount paid per share	Amount unpaid per share
Xueqin Du	-	-	-
Ian Maltman	-	-	-
	-		

e. Options and Rights Holdings

Number of options held by Key Management Personnel

Key Management Personnel	Balance 01/07/05	Granted as compensation	Options Exercised	Net Change Other	Balance 30/06/06	Total Vested 30/06/06	Total Exercisable	Total Unexercisable
Malcolm Campbell	5,000,000	-	-	-	5,000,000	5,000,000	5,000,000	-
Xueqin Du	100,000	700,000	-	-	800,000	800,000	800,000	-
Ian Maltman	1,010,000	700,000	-	-	1,710,000	1,710,000	1,710,000	-
Total	**6,110,000**	**1,400,000**	**-**	**-**	**7,510,000**	**7,510,000**	**7,510,000**	**-**

Note 6: Key Management Personnel Compensation (Continued)

f. Shareholdings

Number of shares held by Key Management Personnel

Key Management Personnel	Balance 1/7/05	Received as Compensation	Options Exercised	Net Change Other*	Balance 30/6/06
Terry Cuthbertson	10,000	-	-	-	10,000
Malcolm Campbell	12,600,000	-	-	-	12,600,000
Peter Herd	10,000	-	-	-	10,000
Xueqin Du	10,000	-	-	-	10,000
Lin Yuansheng	3,846,154	-	-	-	3,846,154
	16,476,154	**-**	**-**	**-**	**16,476,154**

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

h. Compensation Practices

The board's policy for determining the nature and amount of compensation of key management personnel of the company is as follows:

The compensation structure for key management personnel 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 compensation structure is to both reinforce the short and long-term goals of the Company and to provide a common interest between management and shareholders.

The compensation structure for key management personnel 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 key management personnel are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

A notice period of three months is provided for under each executive's service agreement, with the exception of the Managing Director. The Managing Director was on a three year contract that commenced on 12 November 2003, but which was terminated by mutual agreement on 28 July 2006.

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 6, table (c) above and note 26 below.

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

Xueqin Du and Ian Mallman received cash benefits under the terms of their Executive Service Agreement whereby they receive this benefit on a tax paid basis to compensate for income tax levied on compensation options received. The cash benefits were paid quarterly during the financial year.

Note 7: Auditors' Remuneration

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
Remuneration of the auditor of the parent entity for:				
– auditing and reviewing the financial reports	**47,000**	**47,750**	**47,000**	**47,750**
Remuneration of other auditors of subsidiaries for:				
– auditing and reviewing the financial reports of subsidiaries	-	**2,446**	-	**2,446**

Note 8: 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	
	2006 $	2005 $	2006 $	2005 $
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 recognised as a liability and franking credits that may be prevented from distribution in subsequent financial years	-	-	-	-
Impact of any proposed dividends not recognised as a liability.	-	-	-	-
	-	-	-	-

Note 9: Earnings Per Share

	Economic Entity 2006 $	Economic Entity 2005 $
a. Reconciliation of earnings to net loss		
Net loss	(5,253,706)	(4,460,912)
Net loss attributable to outside equity interest	-	1,972
Earnings used in the calculation of basic and diluted EPS	(5,253,706)	(4,458,940)
b. Applying AASB 133:		
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	65,916,002	62,089,414
Weighted average number of options outstanding not treated as dilutive	10,572,712	13,471,036
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	65,916,002	62,089,414

Note 10: Cash And Cash Equivalents

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
Cash at bank and in hand	2,271,951	5,198,307	2,270,123	5,196,864
	2,271,951	**5,198,307**	**2,270,123**	**5,196,864**
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:				
Cash and cash equivalents	**2,271,951**	**5,198,307**	**2,270,123**	**5,196,864**

Note 11: Trade And Other Receivables

CURRENT				
Trade receivables	41,618	57,120	29,969	46,079
Provision for doubtful debts	(11,649)	(11,041)	-	-
	29,969	46,079	29,969	46,079
Term receivables	37,033	17,612	37,033	17,612
	67,002	**63,691**	**67,002**	**63,691**

Note 12: Inventories

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
CURRENT					
At cost					
Raw materials and consumables		247,259	545,215	243,377	541,571
Provision for Stock Obsolescence		(71,519)	(88,504)	(67,637)	(84,860)
		175,740	**456,711**	**175,740**	**456,711**

Note 13: Other Current Assets

Prepayments		127,127	110,231	127,127	110,231
		127,127	**110,231**	**127,127**	**110,231**

Note 14: Financial Assets

NON-CURRENT					
Unlisted investments, at cost					
— Shares in controlled entities	14a,15	-	-	285,801	285,800
— Provision for write down to recoverable amount		-	-	(285,800)	(285,800)
		-	**-**	**1**	**-**

a. Unlisted investments movement during the year

Balance at beginning of the financial year		-	-	-	285,800
— Additional investment		-	-	1	-
Balance at the end of the financial year		**-**	**-**	**1**	**285,800**

Note 15: Controlled Entities

a. Controlled Entities

	Country of Incorporation	Percentage Owned 2006 $	Percentage Owned 2005 $
Parent Entity:			
Montec International Limited			
Subsidiaries of Montec International Limited:			
— Chongqing Montec Co Limited	China	100%	100%
— Montec International (HK) Limited	Hong Kong	100%	-

b. Controlled Entities Acquired

On 23 March 2006 the parent entity acquired 100% of Montec International (HK) Limited for a purchase consideration of $1. Montec International (HK) Limited had been dormant prior to, and since the date of purchase by Montec International Limited.

Note 16: Property, Plant And Equipment

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
PLANT AND EQUIPMENT					
Plant and equipment					
At cost		228,702	205,722	216,612	192,975
Provision for write off plant and equipment		(2,938)	(5,737)	-	-
Accumulated depreciation		(97,707)	(52,825)	(88,555)	(45,815)
Total Property, Plant and Equipment		**128,057**	**147,160**	**128,057**	**147,160**

Note 16: 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.

	Plant and Equipment $	Leased Plant and Equipment $	Total $
Economic Entity:			
Balance at the beginning of year	147,160	-	147,160
Additions	23,638	-	23,638
Transfer asset in or out	-	-	-
Movement on exchange	(361)	-	(361)
Movement on provision disposals of assets	2,799	-	2,799
Depreciation expense	(45,179)	-	(45,179)
Carrying amount at the end of year	**128,057**	**-**	**128,057**
Parent Entity:			
Balance at the beginning of year	147,160	-	147,160
Additions	23,638	-	23,638
Transfer asset in or out	-	-	-
Depreciation expense	(42,741)	-	(42,741)
Carrying amount at the end of year	**128,057**	**-**	**128,057**

Note 17: Intangible Assets

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Goodwill, at deemed cost		250,594	250,594	-	-
Impairment write down of goodwill		(250,594)	(250,594)	-	-
		-	-	-	-
Patents and acquired rights, at cost		3,441,704	3,441,704	3,441,704	3,441,704
Accumulated amortisation		(1,044,615)	(647,871)	(1,044,615)	(647,871)
Impairment write down of patents		(1,369,356)	-	(1,369,356)	-
		1,027,733	2,793,833	1,027,733	2,793,833
Total Intangible Assets		**1,027,733**	**2,793,833**	**1,027,733**	**2,793,833**

Note 17: Intangible Assets (Continued)

Impairment Disclosures – Patents and acquired rights

Patents are allocated to cash generating units which are based on the groups reporting segments. All patents recognised relate to the Australian segment. The recoverable amounts of the patents are determined based on value-in-use calculations. Value in use is calculated based on present value of cash flow projections over a 6 year period. The cash flows are discounted using the yield of 10 year government bonds at the beginning of the budget period, adjusted for a market risk premium and the company's Weighted Average Cost Capital (WACC). The following assumptions were used in the value-in-use calculations:

	Discount Rate	Growth Rate
Acquired patents	17.1%	-

Management has based the value in use calculations on budgeted results for the acquired patents. Discount rates are pre-tax and adjusted to incorporate risks associated with the company.

No growth rate after 6 years has been factored into the calculations as the Patents expire at that future point in time.

Impairment Disclosures – Goodwill

Goodwill is allocated to cash generating units which are based on the groups reporting segments. Upon first-time adoption of A-IFRS, goodwill was reviewed for impairment on 1 July 2004 and 30 June 2005, using value-in-use calculations. The value-in-use calculations based on present value cash flow forecasts, discounted government bond yield rates (adjusted for a market risk premium and the company's WACC as used above) calculated that as at 30 June 2005 the goodwill recoverable amount was $nil and therefore an impairment loss was recognised.

Note 18: Trade And Other Payables

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
CURRENT					
Unsecured liabilities					
Trade creditors		98,195	61,748	98,195	61,748
Sundry creditors and accrued expenses		160,005	128,264	160,005	128,264
Amount payable to :					
- wholly-owned subsidiaries		-	-	3,398	15,487
		258,200	**190,012**	**261,598**	**205,499**

Note 19: Short-term Provisions

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Employee benefits		110,506	61,539	110,506	61,539
Provision for management restructure		111,854	-	111,854	-
		222,360	**61,539**	**222,360**	**61,539**
a. Number of employees at year-end		9	9	8	8

Note 20: Contributed Equity

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
65,916,002 (2005: 65,916,002) fully paid ordinary shares	20a	15,407,680	15,407,680	15,407,680	15,407,680
a. Ordinary shares					
At the beginning of the reporting period		15,407,680	9,774,178	15,407,680	9,774,178
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
Transaction costs relating to share issues		-	(234,000)	-	(234,000)
At reporting date		**15,407,680**	**15,407,680**	**15,407,680**	**15,407,680**

b. Number of ordinary shares	**No.**	**No.**	**No.**	**No.**
At the beginning of reporting period	65,916,002	54,319,843	65,916,002	54,319,843
Shares issued during the year:				
- 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 the year:				
- 29 November 2004	-	50,005	-	50,005
At reporting date	**65,916,002**	**65,916,002**	**65,916,002**	**65,916,002**

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 26.

ii. For information relating to share options issued to directors and executives during the financial year refer to Note 26.

At 30 June 2006, there were 10,807,326 (30 June 2005:13,665,751) unissued ordinary shares for which options were outstanding.

Note 21: Reserves

a. Foreign Currency Translation Reserve

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

b. Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

Note 22: Capital And Leasing Commitments

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
Operating Lease Commitments					
Non-cancelable operating leases contracted for but not capitalised in the financial statements					
Payable					
- not later than 1 year		-	20,708	-	20,708
		-	**20,708**	**-**	**20,708**

The property lease is currently on a month to month basis, with rent payable in advance.

Note 23: Contingent Assets And Liabilities

Other than the contingent assets and liabilities noted in Note 30, and contingent liabilities noted below, there were no other contingent assets or contingent liabilities at 30 June 2006.

Charles Stuart Baxter

There has been a claim made against Montec International Limited in proceedings commenced by Charles Baxter against Malcolm Campbell and Montec International Limited in the Supreme Court of New South Wales.

Basis for Proceedings

The proceedings derive from Mr Baxter's claim to be entitled to shares of Montec International Limited held by Mr Campbell. The entitlement is alleged to arise under arrangements which Mr Baxter entered into with Mr Campbell prior to Montec International Limited's listing on the ASX. Under those arrangements, Mr Baxter has already received some shares in Montec International Limited from Mr Campbell, but not the entire amount that he alleges he is due.

Nature of Proceedings

Montec International Limited is the second defendant in the proceedings.

The only orders sought against Montec International Limited are conditional orders which, in the event that judgement is entered against Mr Campbell, require Montec International Limited to take the necessary steps to put into effect any order made for the transfer of shares.

As a result of this conditional nature of the orders sought against it, Montec International Limited has submitted to judgement and taken no active role in defending the proceedings on the basis that there be no costs order against it.

Since the submitting appearance was filed, Mr Campbell has continued to defend the proceedings, and has filed a cross-claim against Mr Baxter, seeking to enforce a concurrent obligation under which Mr Baxter is allegedly required to transfer shares in a separate company to Mr Campbell.

The proceedings are presently still in the interlocutory stages. On 9 August 2006, Montec International Limited was served with a subpoena from Mr Baxter, seeking documents in Montec International Limited's possession concerning, amongst other things, Mr Campbell's previous dealings with Montec International Limited. The directors believe that no liability is likely to accrue in relation to this matter.

European Patent Litigation

Option Agreement

On 5 August 2005, Montec International Limited entered into an option agreement with Mr Robert Baxter, Mr Denis Pickwell, Mr Hassan Kokab and Belland Corporation Pty Limited (Option Agreement). Mr Baxter, Mr Pickwell and Mr Kokab (the Grantors) have rights under a Settlement Agreement in relation to European patents in fourteen European countries for mono-premix technology (European Patents). The European Patents relate to the same mono-premix technology as the patents currently held by Montec International Limited for Australia and New Zealand. At the time of signing the financial report for the year ended 30 June 2005 the expenditure incurred was not considered material and therefore no disclosure as a subsequent event was deemed necessary at that time.

Pursuant to the Option Agreement:

- The Grantors and Belland Corporation have agreed with Montec International Limited to enforce their rights to an assignment of the European Patents with a view to requiring the present patent holder to assign the European Patents to Belland Corporation;
- The Grantors and Belland Corporation grant Montec International Limited an option to take an assignment of the Patents. The consideration for the grant of the option is the payment by Montec International Limited of the amount of AUD$25,004 and the indemnification of the Grantors by Montec International Limited in respect of certain legal and other costs;
- On the exercise of the option by Montec International Limited, Belland Corporation and Montec International Limited (or a nominee of Montec International Limited) will execute a Patent Assignment Agreement pursuant to which Belland Corporation will assign to Montec International Limited (or its nominee) its interest in the European Patents. The purchase price of the European Patents is AUD$3,000,000 less certain legal and other costs. The purchase price will be payable partly by way of shares in Montec International Limited and partly by way of cash. Shares issued in settlement will be valued at not less than $0.50 per share under the arrangement.

Note 23: Contingent Assets And Liabilities (continued)

Enforcement of rights

On 9 August 2005, Mr Baxter exercised (by notice) his rights to the European Patents under the Settlement Agreement (the other Grantors have assigned their rights under the Settlement Agreement to Mr Baxter). However, in breach of the Settlement Agreement and contrary to the notice given by Mr Baxter, Associated Food Technology Pty Limited (AFT) (the patentee of the European Patents) failed to assign the European Patents to Belland Corporation and purported to assign the European Patents to an American company, Coolham Holdings Inc.

Subsequently, Mr Baxter and Belland Corporation commenced proceedings against AFT, AFI Management Pty Limited (AFIM) and Coolham in the Supreme Court of New South Wales seeking, among other things, a declaration that Belland Corporation is entitled to the European Patents and that AFT should forthwith assign the European Patents to Belland Corporation. These proceedings are continuing. Pursuant to the Option Agreement, Montec International Limited is indemnifying Mr Baxter in respect of the legal costs he incurs in the proceedings.

Cross-Claim

On 28 July 2006, AFT and AFIM brought a Cross-Claim against Mr Malcolm Campbell, Montec International Limited and Mr Baxter. The Cross-Claim alleges that Mr Campbell, on his own behalf and on behalf of Montec International Limited, conspired with Robert Mervyn Baxter wrongfully with the sole or predominant intention of injuring AFT and AFIM and causing loss to AFT and AFIM by interfering with the business relationship between AFT and Coolham Holdings Inc, including interfering with a purported assignment by AFT to Coolham of the European Patents.

Outlook

Montec International Limited understands that, if the case proceeds to a final hearing, it will not be heard and determined before the end of 2007. Montec International Limited believes that Mr Baxter and Belland Corporation's claim is reasonably arguable and that the Cross-Claimants' conspiracy claim has only a remote prospect of success. Other than in respect of legal costs, the directors believe that it is not possible to quantify any likely liability at this stage.

Note 24: Segment Reporting

Primary reporting — Geographic segments 2006	Australia $	China $	Eliminations $	Economic Entity $
REVENUE				
External sales	278,190	327,273	-	605,463
Other segments	-	-	-	-
Total sales revenue	278,190	327,273	-	605,463
Unallocated revenue	-	-	-	201,780
Total revenue from ordinary activities				**807,243**
SEGMENT RESULT				
Expenses	(3,556,254)	(2,504,695)	-	(6,060,949)
Loss from ordinary activities before income tax expense				**(5,253,706)**
Income tax expense	-	-	-	**-**
Loss from ordinary activities after income tax expense				**(5,253,706)**
ASSETS				
Segment assets	2,920,143	880,865	(3,398)	3,797,610
Total assets	**2,920,143**	**880,865**	**(3,398)**	**3,797,610**
LIABILITIES				
Segment liabilities	471,958	-	(3,398)	468,560
Total liabilities	**471,958**	**-**	**(3,398)**	**468,560**
OTHER				
Acquisitions of non current segment assets	317	23,321	-	23,638
Depreciation and amortisation of segment assets	226,027	215,895	-	441,922

Note 24: Segment Reporting (Continued)

Primary reporting — Geographic segments 2005	Australia $	China $	Eliminations $	Economic Entity $
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				**632,046**
SEGMENT RESULT				
Expenses	(2,313,205)	(2,779,753)	-	(5,092,958)
Loss from ordinary activities before income tax expense				**(4,460,912)**
Income tax expense -				**-**
Loss from ordinary activities after income tax expense				**(4,460,912)**
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)

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.

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.

Impairment Loss

An impairment loss amounting to $1,369,356 relating to acquired rights within the Australian segment was recognised as an expense for the year ended 30 June 2006.

Note 25: Cash Flow Information

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
a. Reconciliation of Cash Flow from Operations with loss from Ordinary Activities after Income Tax					
Loss from ordinary activities after income tax		(5,253,706)	(4,460,912)	(5,247,726)	(4,525,749)
Non-cash flows in loss from ordinary activities					
Amortisation		396,743	548,901	396,743	536,296
Depreciation		45,179	33,984	42,741	31,559
Write-off of certain Acquired Rights		-	959,422	-	959,422
Impairment write down patents		1,369,356	-	1,369,356	-
Staff share option expenses		58,099	58,098	58,099	58,098
Impairment write down investment		-	-	-	285,800
Impairment write down goodwill		-	226,634	-	-
Impairment write down net asset of subsidiary		(9,870)	12,284	-	-
Other non cash items		3,058	415	1	415
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries					
Decrease/(increase) in trade and other receivables		23,409	81,999	(3,311)	108,780
Decrease/(increase) in prepayments		(16,080)	169,423	(16,896)	157,247
Decrease/(increase) in inventories		280,733	(47,454)	280,971	(51,473)
Increase/(decrease) in trade creditors and accruals		39,541	(25,480)	56,099	(3,752)
Increase/(decrease) in provisions		160,821	35,616	160,821	35,616
Cash flow from operations		**(2,902,717)**	**(2,407,070)**	**(2,903,102)**	**(2,407,741)**

Note 25: Cash Flow Information (Continued)

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
b. Acquisition of Entities				
During the current year 100% of the controlled entity Montec International (HK) Limited was acquired. Details of this transaction are:				
Purchase consideration	1	4,195	1	4,195
Cash consideration	1	4,195	1	4,195
Cash (outflow)/inflow	(1)	(4,195)	(1)	(4,195)
Assets and liabilities held at acquisition date:				
Cash	1	-	1	-
Receivables	-	6,874	-	6,874
Inventories	-	547	-	547
Property, plant and equipment	-	762	-	762
Creditors	-	(2,484)	-	(2,484)
Goodwill/(Discount) on consolidation	-	(1,504)	-	(1,504)
Minority interests in acquisitions	-	-	-	-
During the prior year the remaining 15% of the controlled entity Chongqing Montec Co Limited was acquired.	**1**	**4,195**	**1**	**4,195**

c. Non-cash Financing and Investing Activities

i. Share issues

There were no non cash financing or investing activities undertaken during the financial year ended 30 June 2006.

Note 26: Employee Benefits

Employee Share Option Arrangements

i. On 28 July 2005, 700,000 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 30 June 2008. The options have no voting or dividend rights.

ii. On 28 July 2005, 700,000 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 30 June 2008. The options have no voting or dividend rights.

iii. On 23 July 2005, 24,000 employee share options were granted to staff to take up ordinary shares at an exercise price of $0.50 per share in accordance with the company's Employee Share Option Plan. The options are exercisable on or before 30 June 2008. The options have no voting or dividend rights.

iv. On 18 November 2005, 30,000 employee share options were granted to staff to take up ordinary shares at an exercise price of $0.50 per share in accordance with the company's Employee Share Option Plan. The options are exercisable on or before 30 June 2008. 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 2006 was $0.22 (30 June 2005: $0.39).

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
a. Movement in the number of share options held by employees are as follows:					
Opening balance		1,134,000	436,667	1,134,000	436,667
Granted during the year		1,454,000	745,333	1,454,000	745,333
Exercised during the year		-	-	-	-
Lapsed during the year		-	48,000	-	48,000
Closing Balance		**2,588,000**	**1,134,000**	**2,588,000**	**1,134,000**

Note 26: Employee Benefits (Continued)

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

			Economic Entity		Parent Entity	
Grant Date	Expiry	Exercise	2006 $	2005 $	2006 $	2005 $
19/8/2004	1/7/07	$0.56	24,000	24,000	24,000	24,000
16/9/2004	1/7/06	$0.50	168,333	168,333	168,333	168,333
16/9/2004	1/7/07	$0.50	505,000	505,000	505,000	505,000
12/11/2003	1/7/07	$0.50	100,000	100,000	100,000	100,000
30/11/2003 to 30/6/2004	1/7/06	$0.50	336,667	336,667	336,667	336,667
23/7/2005	1/7/08	$0.50	24,000	-	24,000	-
28/7/2005	1/7/08	$0.50	1,400,000	-	1,400,000	-
18/11/2005	1/7/08	$0.50	30,000	-	30,000	-
			2,588,000	**1,134,000**	**2,588,000**	**1,134,000**

c. Details of Shares Granted

There were no shares granted to employees as remuneration in the financial year ended 30 June 2006 (2005: nil granted)

Note 27: Events Subsequent To Reporting Date

Other than the subsequent event noted in Note 30 and those noted below, there were no other material events subsequent to reporting date.

Cessation of Managing Director's Employment

The board of Montec International Limited resolved not to reappoint Malcolm Campbell to a future term as Managing Director of the Company. They further resolved that it would be in the best interest of the Company to end the current contract appointing Malcolm Campbell as Managing Director. The cessation of Malcolm Campbell's employment occurred on 28 July 2006 by mutual agreement.

Peter Herd was appointed by the board on 28 July 2006 to the act as temporary Managing Director until a suitable replacement can be engaged.

Appointment of Roger McGrath as an Alternate Director

The board of Montec International Limited resolved to appoint Mr Roger McGrath as an Alternate Director of the Company for Mr Lin Yuansheng, effective 19 July 2006.

Mr McGrath was previously a Director of KPMG and brings to the Board over 40 years of experience.

Note 28: Related Party Transactions

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
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 payable	-	-	3,398	15,487
The outstanding loan has been eliminated on consolidation. There were no inter-company receivables or payables with respect to Montec International (HK) Limited.				
ii. Director-related Entities				
No transactions with director related entities occurred in the year ended 30 June 2006.				
iii. Directors				
The following related party transactions with directors of Montec International Limited occurred during the financial year ended 30 June 2006:				
- Consulting fees payable to Lin Yuansheng for strategic advice and marketing services related to china expansion.	8,000	-	8,000	-
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

Note 28: Related Party Transactions (Continued)

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
iv. Share Transactions of Directors				
No share transactions of directors occurred during the financial year ended 30 June 2006.				
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 29: 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 $000		Fixed Interest Rate Maturing: Within Year 1 $000		To 5 Years $000		Over 5 Years $000		Non-interest Bearing $000		Total $000	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Financial Assets:														
Cash	5.65%	5.22%	2,272	5,198	-	-	-	-	-	-	-	-	2,272	5,198
Financial Liabilities														
Lease liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All other assets and liabilities are non-interest bearing.

Note 29: Financial Instruments (Continued)

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 30: China Business Structure

The Company's business activities in China have necessitated dealing with a local company (counterparty) domiciled in China. This arrangement has been required as the Company does not have the relevant business license or tax status to effectively conduct business as a principal in the country.

The Company has therefore conducted business in a manner whereby the China domiciled counterparty incurred expenses in relation to advertising and marketing support, and related administrative expenses including salaries of counterparty staff, which the Company agreed to be charged for by the counterparty. The Company remitted funds in advance (under loan agreement) with all approved charges deducted from the loan balance. This expenditure was to support the marketing of finished products purchased, owned and traded by the counterparty that were in-turn manufactured with input of certain raw materials sourced from Montec including the Company's proprietary premix for which it charged the counterparty a royalty. The Company did also derive income from the sale of cream recovered by the counterparty through its contracting of product manufacture. Based on these arrangements the Company did not generally enter into agreements with processors to manufacture stock on the Company's behalf, or into arrangements with supermarkets to sell stock. This was to be completed by the engaged counterparty. In the case of Beijing Sanyuan Foods a direct agreement was entered into in June 2005 to express the special relationship with this party, which is also a substantial shareholder in the Company. However, the transactions regarding processing and trading arrangements were contracted with the counterparty in the usual manner.

Subsequent to year end, an ongoing and yet incomplete review, has shown that differences exist between the information Montec historically relied upon for financial reporting and the historical financial records of the counterparty recently provided to the Company at the Company's request.

Review of this information subsequently provided by the counterparty indicates that the counterparty believed that the arrangement was that it was not acting on its own behalf, but on behalf of the Company, by producing inventory and selling this onto customers at a margin.

The Company has reviewed all agreements it understands to be in place with the counterparty and is satisfied that its understanding of the arrangements in place between the Company and the counterparty, as described above and as accounted for by the Company, correctly reflect the Company's rights and obligations under these agreements.

While the inconsistencies require further investigation the counterparty has confirmed that the net prepaid balance the Company understands to be available as at 30 June 2006 is consistent with that reflected in the Company's accounts.

The Company does not believe that the implications of any irregularities will be material to the historical financial information previously reported. However, further investigation may result in either a claim made by the Company or against the Company or a combination of these outcomes. However, at this stage of the review it is not possible to reliably estimate whether any such actions will arise or the likely amounts of any such contingent assets or liabilities. The results of the Company's further investigation will be made available to its shareholders as this information becomes available and any monies found to be outstanding on account of the Company will be aggressively pursued by the Company.

Note 31: 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

Beijing China

Room 3802, Building No.1,
88 Jian Guo Road,
Beijing PRC 100025

Shanghai China

Room 407, Building No.2,
500 Cao Bao Road,
Shanghai PRC 200233

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 20 to 61 are in accordance with the Corporations Act 2001: and
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2006 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
Chairman
Dated this 29th day of September 2006

Peter Herd
Managing Director

Auditor's Independence Declaration

Chartered Accountants
Business Advisers and Consultants

Grant Thornton

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 2006, 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.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney 29 September 2006

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Grant Thornton

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 balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for both Montec International Limited (the company) and the company and its controlled entities (the consolidated entity), for the year ended 30 June 2006. 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.

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Grant Thornton

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 2006 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 29 September 2006

Additional Information

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies.

1. Shareholding

a. Distribution of Shareholders Number as at 29 September 2006

Category (size of Holding)	Ordinary
1 - 1,000	24
1,001 - 5,000	209
5,001 - 10,000	213
10,001 - 100,000	407
100,001 - and over	93
	946

b. The number of shareholdings held in less than marketable parcels is 177.

c. The names of the substantial shareholders listed in the Company's register as at 29 September 2006 are:

Shareholder	Number Ordinary
Mr Malcolm Campbell	10,795,634
Acorn Capital Limited	4,000,000
BAIC Australia Pty Limited	3,846,154

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– The right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share).

e. 20 Largest Shareholders as at 29 September 2006 — Ordinary Shares

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	Mr Malcolm Campbell	10,795,634	16.38
2	BAIC Australia Pty Limited	3,846,154	5.83
3	National Nominees Limited	3,044,400	4.62
4	GE Commercial Corporation (Australia) Pty Limited	2,210,257	3.35
5	Invia Custodian Pty Limited <Thirty Five A/C>	2,200,000	3.34
6	RBC Global Services Australia Nominees Pty Limited <MLCI A/C>	2,144,650	3.26
7	Dr Gregory John Slater <Slater Family Account>	1,200,000	1.82
8	Allserene Enterprises Pty Limited	1,052,074	1.60
9	Mrs Kerri Ann Hendry	1,003,000	1.52
10	PEK Investments Pty Ltd	1,000,000	1.52
11	JP Morgan Nominees Australia Limited	964,600	1.46
12	Mr Stephen Thomas Pirrie	821,900	1.25
13	Whorouly Pty Ltd <Carisima Family A/C>	800,000	1.21
14	Mr Boris Jansen	741,400	1.12
15	Mrs Janice Margaret Hocking	650,000	0.99
16	Feltrim Pastoral Co Pty Ltd <Staughton Exec S/Fund A/C>	600,244	0.91
17	Ziba Pty Ltd <Michael Manning No 2 A/C>	566,000	0.86
18	Bevilles Executives Super Fund Pty Ltd <Bevilles Executive S/F A/C>	501,413	0.76
19	Ms Gail Patricia Cleary	500,000	0.76
20	Mrs Prudence Ann Lowther	450,000	0.68
		35,091,726	**53.24**

2. The name of the Company Secretary is Mr Nick Geddes. Mr Geddes qualifications are:

Fellow -The Institute of Chartered Accountants in England and Wales (FCA)
Fellow- The Institute of Chartered Accountants in Australia
Fellow- Chartered Secretaries Australia
Fellow- Chartered Institute of Chartered Secretaries

3. The address of the registered office in Australia is:
Level 5, 255 George St
Sydney NSW 2000
Telephone: 02 9252 1933

The address of the Company's Australian Head Office is:
Level 6, 55 York St
Sydney NSW 2000
Telephone: 02 9299 0011

Additional Information

4. Registers of securities are held at the following address

New South Wales	Registries Limited 28 Margaret St Sydney NSW 2000

5. Stock Exchange Listing

   Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

6. Difference in Results Reported to Australian Stock Exchange

   The results reported on 13 September 2006 to the Australian Stock Exchange in the preliminary final report do not differ from the results reported in these accounts.

7. Unquoted Securities

   Options over Unissued Shares

   A total of 10,807,326 options were on issue as at 30 June 2006 to 33 holders of ordinary securities. 800,000 options are on issue to a director under the Montec International Limited employee option plan.

8. Restricted Securities

   Ordinary Shares

   Of the 65,916,002 ordinary shares on issue as at 30 June 2006, 57,249,336 were quoted on the Australian Stock Exchange. The remainder was subject to escrow restrictions as follows:

Ordinary Shares	Escrow release	Period
4,466,666	12/11/06	36 months (voluntary)
4,200,000	12/11/07	48 months (voluntary)
8,666,666		

   Options

   Of the 10,807,326 unlisted options on issue as at 30 June 2006 none were subject to escrow restrictions.

9. Cash Utilisation

   Montec International Limited has applied the cash, and assets readily convertible to cash, held at the time of admission to the official list of the Australian Stock Exchange on a basis entirely consistent with its business objectives, as outlined in the company's listing prospectus dated 22 September 2003.

Corporate Directory

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Level 5, 255 George Street
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Phone: 02 9252 1933
Facsimile: 02 9252 2487

Australian Head Office
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Sydney NSW 2000
Phone: 02 9299 0011
Facsimile: 02 9299 1499

Investor Relations
Phone: 02 9299 0011
Facsimile: 02 9299 1499
Email: investors@montec-international.com.au

Auditors
Grant Thornton NSW
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Sydney NSW 2000

Solicitors
Deacons
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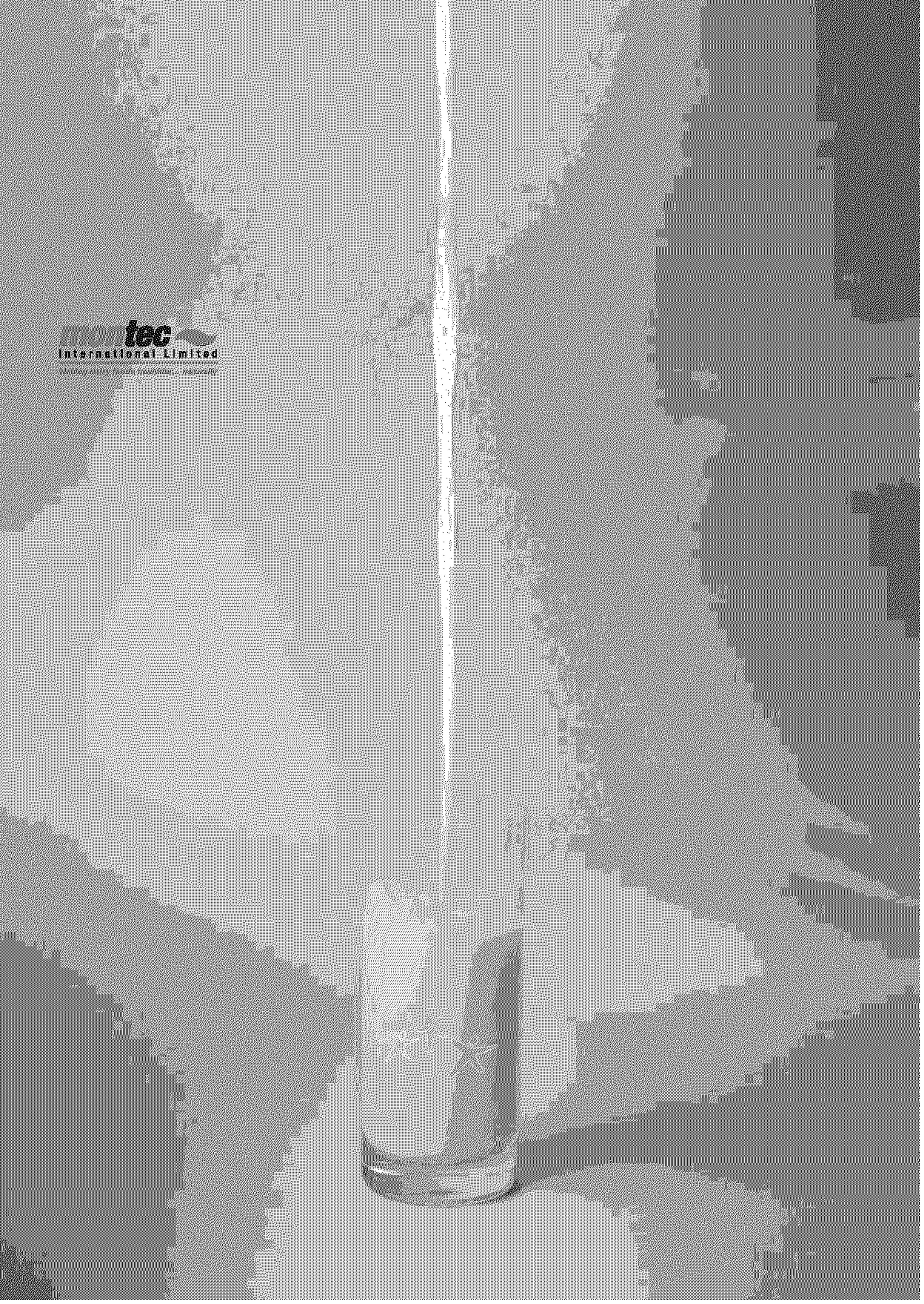
Circular Quay
Sydney NSW 2000

Share Registry
Registries Limited
Level 2, 28 Margaret Street
Sydney NSW 2000
Phone: 02 9290 9600
Facsimile: 02 9279 0664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International Limited