31 August 2009

MONTEC INTERNATIONAL LIMITED

PRELIMINARY FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2009

Results for Announcement to the Market

Disclosure in addition to the attached Financial Report in compliance with ASX listing Rule 4.3A.

1. The revenues from ordinary activities are down by $515,839 or 59% to $359,206 from the previous corresponding period. This decrease relates primarily to the combined effect of decreases in premix royalties, sales of UHT milk and yoghurt drink.

2. The loss from ordinary activities after tax attributable to members is down by $522,346 or 21% to $1,928,196 from the previous corresponding period. The primary items of expenditure that have lead to the decrease in the current year loss is reduction in compliance expenses, advertising and marketing expenses and employment expense, along with the increase in the write down of the Australia and New Zealand patents to reflect their impairment.

3. The net loss for the period attributable to members is down 21% to $1,928,196 from the previous corresponding period.

4. No dividend has been proposed or paid for the current period, as the company is yet to achieve profitability and requires its existing reserves to fund development of the business.

5. The net tangible asset per security for the current period and the previous corresponding period is $0.002 and $0.009 respectively. The decline in net tangible asset backing relates largely to the reduction in the level of cash on hand at the respective balance dates.

6. Review of Operations
   During July 2008, prior to the emergence of the melamine contagion issue, management conducted a review of the sales and marketing model in China. This review concluded that, despite some success in developing direct selling to retail channels, the overall pace of growth and market penetration was not sufficient, on the existing resource base, to support the cost structure needed to sustain the direct selling approach and provide the returns necessary to build the business in the near term. As a result of this review, in August management began restructuring to move the business to a lower cost model, less reliant on direct selling to retail channels. This process has been completed in the year under review and has yielded significant cost savings in both marketing and staffing expenses.

   The melamine contagion issue which emerged in September 2008 and attracted worldwide publicity, caused a sudden decline in consumer confidence for all dairy products and an ongoing decline in sales across the sector, with most adverse impact being on UHT milk and infant formula powders. Although neither the licenced ice cream products nor the UHT milk and yoghurt products provided by our contract suppliers were implicated in this issue, the overall negative impact on the industry impacted our sales and effectively stalled any momentum achieved in preceding months.

The realigned and significantly lower cost business model achieved in China retains the capability to pursue opportunities previously identified. These include the supply of our monounsaturated UHT milk from Australia and the direct supply of monounsaturated and other speciality powders to major marketers of milk powder products, as both finished products and ingredients for further processing. The final specifications of various milk powder products have now been agreed with several partners and trial production of UHT milk has been undertaken. In addition, management have investigated and identified other product opportunities, both within and outside the dairy category, to be sourced in Australia and distributed through the channels already established in China.

7. Control was not lost over any subsidiary during the current financial year.

8. The Financial Report at the date of this release is still in the process of being audited.

MONTEC INTERNATIONAL LIMITED

ACN 104 600 544

AND CONTROLLED ENTITIES

FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

Montec International Limited ABN 104 600 544 and Controlled Entities

FOR THE YEAR ENDED 30 JUNE 2009

CONTENTS

Montec International Limited ABN 104 600 544 and Controlled Entities

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Revenue	2	359,206	875,045	206,444	777,424
Change in inventories of finished goods		(60,453)	32,971	-	(27,482)
Raw materials sold/used		(136,648)	(468,300)	-	(416,936)
Compliance and professional fees		(193,287)	(307,089)	(186,417)	(295,365)
Advertising and marketing expenses		(295,418)	(703,579)	(60,056)	(423,123)
Employee benefits expenses		(564,033)	(1,090,396)	(304,889)	(844,190)
Administrative expenses		(421,858)	(331,042)	(158,389)	(242,208)
Travel expenses		(56,396)	(141,212)	(40,223)	(128,810)
Insurance expenses		(42,745)	(49,838)	(42,745)	(49,838)
Depreciation and amortisation expense		(144,657)	(181,102)	(142,705)	(181,102)
Impairment write down of investments		-	-	(228,230)	(540,656)
Impairment write down of loan in subsidiary	10	-	-	(374,404)	-
Impairment write down of patents	16	(371,907)	(86,000)	(371,907)	(86,000)
Loss before income tax expense	3	**(1,928,196)**	**(2,450,542)**	**(1,703,521)**	**(2,458,286)**
Income tax expense	4	-	-	-	-
Loss after related income tax expense		**(1,928,196)**	**(2,450,542)**	**(1,703,521)**	**(2,458,286)**
Net loss attributable to members of the parent entity		**(1,928,196)**	**(2,450,542)**	**(1,703,521)**	**(2,458,286)**
Earning per share:					
Basic earnings per share (cents per share)	8	(0.012)	(0.016)		
Diluted earnings per share (cents per share)	8	(0.012)	(0.016)		

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

Montec International Limited ABN 104 600 544 and Controlled Entities

BALANCE SHEETS

AS AT 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	9	362,430	1,209,877	360,357	1,089,156
Trade and other receivables	10	54,271	178,846	20,849	136,803
Inventories	11	40,389	170,925	-	33,165
Other current assets	12	11,373	86,344	9,533	40,127
TOTAL CURRENT ASSETS		**468,463**	**1,645,992**	**390,739**	**1,299,251**
NON-CURRENT ASSETS					
Financial assets	13	-	-	-	228,230
Plant and equipment	15	30,062	74,717	21,576	67,975
Intangible assets	16	75,000	576,160	75,000	576,160
TOTAL NON-CURRENT ASSETS		**105,062**	**650,877**	**96,576**	**872,365**
TOTAL ASSETS		**573,525**	**2,296,869**	**487,315**	**2,171,616**
CURRENT LIABILITIES					
Trade and other payables	17	230,056	213,751	55,751	94,376
Short-term provisions	18	27,232	82,533	27,232	76,655
TOTAL CURRENT LIABILITIES		**257,288**	**296,284**	**82,983**	**171,031**
TOTAL LIABILITIES		**257,288**	**296,284**	**82,983**	**171,031**
NET ASSETS		**316,237**	**2,000,585**	**404,332**	**2,000,585**
EQUITY					
Issued capital	19	19,629,084	19,524,082	19,629,084	19,524,082
Reserves		674,620	535,774	543,432	541,166
Accumulated losses		(19,987,467)	(18,059,271)	(19,768,184)	(18,064,663)
TOTAL EQUITY		**316,237**	**2,000,585**	**404,332**	**2,000,585**

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

Montec International Limited ABN 104 600 544 and Controlled Entities

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

Consolidated Group	Issued Capital $	Accumulated Losses $	Reserves: Share Options $	Reserves: Foreign Exchange $	Total $
Balance at 1 July 2007	**19,524,082**	**(15,608,729)**	**541,166**	**-**	**4,456,519**
Adjustment arising from the translation of foreign controlled entities' financial statements	-	-	-	(5,392)	(5,392)
Net income recognised directly in equity	-	-	-	(5,392)	(5,392)
Loss for the period	-	(2,450,542)	-	-	(2,450,542)
Total recognised income and expenses for the period	-	(2,450,542)	-	(5,392)	(2,455,934)
Balance at 30 June 2008	**19,524,082**	**(18,059,271)**	**541,166**	**(5,392)**	**2,000,585**
Adjustment arising from the translation of foreign controlled entities' financial statements	-	-	-	138,846	138,846
Net income recognised directly in equity	-	-	-	138,846	138,846
Loss for the period	-	(1,928,196)	-	-	(1,928,196)
Total recognised income and expenses for the period	-	(1,928,196)	-	138,846	(1,789,350)
Shares issued during the year	105,002	-	-	-	105,002
Balance at 30 June 2009	**19,629,084**	**(19,987,467)**	**541,166**	**133,454**	**316,237**

Parent Entity	Issued Capital $	Accumulated Losses $	Reserves: Share Options $	Reserves: Foreign Exchange $	Total $
Balance at 1 July 2007	**19,524,082**	**(15,606,377)**	**541,166**	**-**	**4,458,871**
Net income recognised directly in equity	-	-	-	-	-
Loss for the period	-	(2,458,286)	-	-	(2,458,286)
Total recognised income and expenses for the period	-	(2,458,286)	-	-	(2,458,286)
Balance at 30 June 2008	**19,524,082**	**(18,064,663)**	**541,166**	**-**	**2,000,585**
Net income recognised directly in equity	-	-	-	2,266	2,266
Loss for the period	-	(1,703,521)	-	-	(1,703,521)
Total recognised income and expenses for the period	-	(1,703,521)	-	2,266	(1,701,255)
Shares issued during the year	105,002	-	-	-	105,002
Balance at 30 June 2009	**19,629,084**	**(19,768,184)**	**541,166**	**2,266**	**404,332**

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		315,219	680,315	180,049	526,036
Payments to suppliers and employees		(1,296,415)	(3,103,509)	(764,856)	(2,217,840)
Interest received		32,891	142,249	32,891	141,312
Finance costs		-	-	-	-
Net cash used in operating activities	24a	**(948,305)**	**(2,280,945)**	**(551,916)**	**(1,550,492)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(5,281)	(19,000)	-	(12,258)
Proceeds from sales of property, plant and equipment		1,137	368	1,137	368
Payment for subsidiary, net of cash acquired	24b	-	-		(768,885)
Loan to related parties		-	-	(283,022)	(89,030)
Net cash used in investing activities		**(4,144)**	**(18,632)**	**(281,885)**	**(869,805)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		105,002	-	105,002	-
Net cash provided by financing activities		**105,002**	**-**	**105,002**	**-**
Net (decrease)/increase in cash and cash equivalents held		(847,447)	(2,299,577)	(728,799)	(2,420,297)
Cash and cash equivalents at start of year		1,209,877	3,509,454	1,089,156	3,509,453
Cash and cash equivalents at end of year	9	**362,430**	**1,209,877**	**360,357**	**1,089,156**

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

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, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the consolidated group 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, in their entirety. Compliance with Australian Accounting Standards 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 consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

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 14 to the financial statements. All controlled entities have a June financial year-end, except for Beijing Montec Commercial Limited, which has a December year end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Where controlled entities have entered the consolidated group 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.

b. **Income Tax**

The charge for current income tax expense is based on the result 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated group 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.

Provision for obsolescence is calculated as managements' best estimates of amounts that will be recoverable from sale of inventory at a particular point in time.

d. **Plant and equipment**

Plant and equipment are measured on the cost basis, less accumulated depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the consolidated group 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. **Plant and equipment (continued)**

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 and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognized when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transactions costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognized where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognized where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognized in profit or loss.

Classification and Subsequent Measurement

(i) Financial assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. **Financial Instruments (continued)**

(ii) 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 subsequently measured at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

There were no held-to-maturity investments held during the financial year ended 30 June 2009 (2008: nil).

(iv) Available-for-sale financial assets

There were no available-for-sale financial assets held during the financial year ended 30 June 2009 (2008: nil).

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Derivative instruments

There were no derivative instruments held during the financial year ended 30 June 2009 (2008: nil).

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 of financial assets

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

Financial Guarantees

There were no financial guarantees given during the financial year ended 30 June 2009 (2008: $nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. **Financial assets**

Non-current investments are measured on the cost basis as they represent investments in wholly owned subsidiaries which are consolidated in accordance with note 1(a). 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 comparing the underlying net assets to carrying value recognized in the Company.

i. **Intangibles**

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities 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 recognised 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, where this approximates the rate at date of transaction; 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 consolidated group is 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. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

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

The consolidated group operates an ownership-based remuneration scheme through the employee option plan, details of which are provided in Note 25 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 cash flow statement, cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

n. **Revenue**

Revenue in the form of royalties from the utilisation of technology is recognised upon the sale of raw materials supplied as part of the contractual agreement with customers. Revenue is also derived from the sale of finished goods milk products into wholesales and retail channels which is recognised on the date of delivery.

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.

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 balance sheet 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 to changes in presentation for the current financial year.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. **Going concern**

The directors have performed a review of the cash flow forecasts and have considered the cash flow needs of the company and consolidated group, including their ability to reduce the level of cash expenditure if required to do so.

Directors have initiated discussions with a number of parties that have expressed interest in supporting the Company with its capital requirements. At this time no financial commitment is contracted. However, should sufficient and appropriate capital not be available to the company on a timely basis the directors will require the cessation of the pursuit of the China markets and a further 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.

r. **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

Impairment of intangibles – Patents

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.

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 indicates impair the net book value of patents in $371,907 was recognised during the year. This amount was assessed under very minimal activity being conducted in China and all the investment and loans to subsidiaries having been impaired, the only operation that is currently being undertaken is the operation of a royalty.

Key Judgments

Provision for impairment of unlisted investments

An impairment provision of $228,230 has been recognised in the Company accounts at 30 June 2009 to recognise the difference between the cost of the investment and the net book value of assets of the entity at year end. This amount is reversed on consolidation as the results of the subsidiary are include in the Group Entity.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. **Critical accounting estimates and judgments (continued)**

Stock Obsolescence Provision

Included in inventory as at 30 June 2009 is a provision for stock obsolescence relating to premix for use in UHT milk production showing signs of deterioration. The carrying value of these raw materials is unlikely to be recovered and an obsolescence provision has been made in the accounts. The amount of the provision is $54,600.

s. **Disclosure of new standards not yet operative**

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date and the directors do not expect these requirements to have any material effect on the Groups financial statement.

AASB 3 Business Combinations (March 2008) – "AASB 3R" – Operative date 1 July 2009

AASB 3R amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes have been made to this standard affecting acquisition related costs, step acquisitions, measurement of goodwill and contingent considerations. AASB 3 also replaces the term "Minority Interest" with "Non-controlling Interest".

As the entity has not been a party to a business combination during the year, this standard does not have any impact on the entity's financial report.

AASB 101 Presentation of Financial Statements (September 2007) - operative date 1 July 2009

AASB 101R contains a number of changes from the pervious AASB 101. The main changes are to require that an entity must:

- present all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income;
- present an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements
- disclose income tax relating to each component of other comprehensive income
- disclose reclassification adjustments relating to components of other comprehensive income

There are other changes to terminology, however these are not mandatory.

AASB 101R does not affect recognition or measurement criteria, therefore the changes are not expected to have any impact on the entity's reported financial position.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. **Disclosure of new standards not yet operative (continued)**

AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 –operative date 31 December 2009

AASB 2007-8 consequentially amends a number of AASB's as a result of the reissue of AASB 101. Some of the changes include changing the terms:

- 'general purposes financial report's to 'general purpose financial statements''
- 'financial report' to 'financial statements'

In application paragraphs, where relevant, of Australian Accounting Standards (including 'Interpretations) to better align with IFRS terminology.

As the changes do not affect recognition or measurement criteria, the changes are not expected to have any impact on the entity's reported financial position and performance.

AASB 127 Consolidated and Separate Financial Statements – operative date 30 June 2010

AASB 127 amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes were made to this standard affecting acquisitions and disposals which do not result in a change of control, partial disposals where control is lost, attribution of profit or loss to non-controlling interests and loss of significant influence or control in relation to Associates and Joint Ventures.

AASB 127 replaces the term "Minority Interest" with the "Non-controlling Interest".

AASB 127 is applied retrospectively, with certain exceptions relating to the significant changes made in this revision.

As the transitional provision of AASB 127 provides that the changes to the recognition and measurement criteria within AASB 127 resulting from this revision do not apply retrospectively to business combinations effected prior to the amendments being adopted, this standard is not expected to have any impact on the entity's financial report.

AASB 123 Borrowing Costs (June 2007)- "AASB 123R"- operative date 1 July 2009

AASB 123R incorporates amendments removing the option to immediately expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

As the entity does not have borrowings associated with qualifying assets, these amendments are not expected to have any impact on the entity's financial report.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 8 Operating Segments (February 2007) – Operative date 1 July 2009

AASB 8 supersedes AASB 114. AASB 8 has a different scope of application to AASB 114; it is applicable only to listed entitles and those in the process of listing, and requires that segment information be disclosed using the management approach. This may result in a different set of segments being identified than those previously disclosed under AASB 114.

AASB 8 is a disclosure standard therefore has no impact on the entity's reported position and performance. However, AASB 8 will result in a change in the segment disclosures presented in the financial report such that the segments presented will not be based on primary and secondary segments but reflect those segments and amounts regularly reviewed by the entity's chief operating decision maker. The segment reporting - note 23 has been prepared on this basis.

AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations

AASB 2008-1 was issued after the AASB made changes to AASB 2 Share Based Payments including:

- Clarifying that vesting conditions are service conditions and performance conditions only, and that other features of a share-based payment are not vesting conditions.

Cancellations, whether by the entity or by other parties, should be accounting for consistently.

As the entity has not been entered into share-based payment transaction during the year, these amendments have not had any impact on the entity's financial report.

NOTE 2: REVENUE

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Operating activities:				
— royalties	173,553	199,795	173,553	199,795
— milk sales	65,854	215,641	-	165,433
— yoghurt drinks	50,851	294,630	-	86,078
— cream sales	-	18,805	-	8,474
— sales of other goods	36,057	3,905	-	176,312
— interest income – other persons	32,891	142,249	32,891	141,312
— other revenue	-	20	-	20
Total Revenue	**359,206**	**875,045**	**206,444**	**777,424**

NOTE 3: LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax has been determined after:				
Depreciation of non-current assets:				
— plant and equipment	(15,404)	(27,139)	(13,452)	(27,139)
Amortisation of non-current assets:				
— patents and acquired rights	(129,253)	(153,963)	(129,253)	(153,963)
Rental expense on property	(78,059)	(103,993)	(40,532)	(63,417)
Foreign currency translation (losses)	1,970	(29,517)	1,152	(21,836)
Impairment write down:				
— Patents	(371,907)	(86,000)	(371,907)	(86,000)
— Investments	-	-	(228,230)	-
— Loan to subsidiaries	-	-	(374,404)	-
Other expenses:				
— Legal fees	(23,404)	(47,841)	(23,404)	(47,841)
Loss on disposal of plant and equipment	(32,066)	-	(31,810)	-

NOTE 4: INCOME TAX EXPENSE

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
The prima facie tax on loss before income tax is reconciled to income tax as follows:				
a. Prima facie tax receivable on loss at 30% (2008*:* 30%)	(578,459)	(735,163)	(511,056)	(737,486)
Add:				
Tax effect of:				
— non-deductible amortisation	3,530	3,530	3,530	3,530
— other non-allowable items	345,433	57,931	324,176	220,128
Less:				
Tax effect of:				
— foreign currency exchange profit not subject to income tax	7,708	9,048	7,708	9,048
— other allowable items	180,520	141,384	122,165	141,384
Tax effect of deferred tax assets not brought to account	417,724	824,134	313,223	664,260
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 $9,882,564 (2008: $8,490,197) 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 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Personnel	
Mr Terry Cuthbertson	Chairman — Non-Executive
Mr Peter Herd	Acting Managing Director — Executive
Ms Xueqin Du	Director — Executive
Mr Mei Zhan Yan	Director — Non-Executive
Mr James Manny	Director — Non-Executive
Mr Kenneth Lee	Acting Chief Financial Officer

b. Options and Rights Holdings

Number of options held by Key Management Personnel

	Balance 01/07/08	Granted as Compensation	Options Exercised	Net Change Other	Balance 30/06/09	Total Vested 30/06/09	Total Exercisable	Total Unexercisable
Key Management Personnel								
Mr Terry Cuthbertson	5,000,000	-	-	-	5,000,000	5,000,000	5,000,000	-
Mr Peter Herd	5,000,000	-	-	-	5,000,000	5,000,000	5,000,000	-
Ms Xueqin Du	3,000,000	-	-	-	3,000,000	3,000,000	3,000,000	-
Mr James Manny	1,600,000	-	-	-	1,600,000	1,600,000	1,600,000	-
Mr Ian Maltman	3,000,000	-	-	-	3,000,000	3,000,000	3,000,000	-
Mr Kenneth Lee	-	-	-	-	-	-	-	-
Total	**17,600,000**	**-**	**-**	**-**	**17,600,000**	**17,600,000**	**17,600,000**	**-**

c. Shareholdings

Number of shares held by Key Management Personnel

	Balance 1/7/08	Received as Compensation	Options Exercised	Net Change Other*	Balance 30/6/09
Key Management Personnel					
Mr Terry Cuthbertson	20,000	-	-	-	20,000
Mr Peter Herd	148,920	-	-	-	148,920
Ms Xueqin Du	140,000	-	-	-	140,000
Mr Mei Zhan Yan (i)	7,692,308	-	-	-	7,692,308
Mr James Manny	477,825	-	-	-	477,825
	8,479,053	-	-	-	8,479,053

(i) Note that Mr Mei Zhan Yan as at 30 June 2009 holds the 7,692,308 (2008: 7,692,308) ordinary shares indirectly through BAIC Australia Pty Ltd.

NOTE 6: AUDITORS' REMUNERATION	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Remuneration of the auditor of the parent entity (Grant Thornton NSW) for:				
— auditing and reviewing the financial reports	54,000	76,000	76,000	76,000
— other services	-	-	-	-
Remuneration of Grant Thornton Hong Kong the auditor of the subsidiaries for:				
— Auditing and reviewing the financial reports	-	13,000	-	13,000
— Conducting a stocktakes of subsidiary	1,785	-	1,785	-

NOTE 7: DIVIDENDS

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

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

No final dividend was paid in the previous financial year.

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
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.	-	-	-	-
	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 8: EARNINGS PER SHARE

		Consolidated Group 2009 $	Consolidated Group 2008 $
a. Reconciliation of earnings to net loss			
Net loss		(1,928,196)	(2,450,542)
Earnings used in the calculation of basic and diluted EPS		(1,928,196)	(2,450,542)
b. Applying AASB 133:			
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		154,795,719	151,364,518
Weighted average number of options outstanding not treated as dilutive	(i)	19,200,000	19,200,000
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS		154,795,719	151,364,518

(i) As options exercise prices are in excess of the average market price for ordinary shares and the Company has made a loss during the year, they are considered anti-dilutive.

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Cash at bank and in hand	362,430	1,209,877	360,357	1,089,156
	362,430	**1,209,877**	**360,357**	**1,089,156**
Reconciliation of Cash				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:				
Cash and cash equivalents	**362,430**	**1,209,877**	**360,357**	**1,089,156**

NOTE 10: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
CURRENT					
Trade receivables		83,005	138,572	13,359	19,854
Provision for doubtful debts	10a	(36,852)	-	-	-
		46,153	138,572	13,359	19,854
Term receivables		6,675	6,675	6,675	6,675
Other receivables		21,281	54,589	20,653	39,882
Provision for impairment of other receivables	10a	(19,838)	(20,990)	(19,838)	(20,990)
Amount receivable from:					
Wholly-owned subsidiaries		-	-	374,404	91,382
Provision for impairment of amount due from subsidiaries		-	-	(374,404)	-
	10a	**54,271**	**178,846**	**20,849**	**136,803**

a. Provision for Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 60 day terms. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the administrative expense items in the income statement.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance 1.07.2008	Charge for the Year	Amounts Written Off	Closing Balance 30.06.2009
	$	$	$	$
Consolidated Group				
Current trade receivable	-	36,852	-	36,852
Current other receivable	20,990	(1,152)	-	19,838
	20,990	**35,700**	**-**	**56,690**
Parent Entity				
Current other receivable	20,990	(1,152)	-	19,838
	20,990	**(1,152)**	**-**	**19,838**

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 11: INVENTORIES	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
CURRENT				
At cost				
Raw materials and consumables	94,989	247,083	54,600	109,323
Provision for stock obsolescence	(54,600)	(76,158)	(54,600)	(76,158)
	40,389	**170,925**	**-**	**33,165**

NOTE 12: OTHER CURRENT ASSETS

Prepayments	11,373	86,344	9,533	40,127
	11,373	**86,344**	**9,533**	**40,127**

NOTE 13: FINANCIAL ASSETS

NON-CURRENT					
Unlisted investments, at cost					
— Shares in controlled entities	13a,14	-	-	768,886	768,886
Less: Impairment provision		-	-	(768,886)	(540,656)
		-	**-**	**-**	**228,230**

a. Unlisted investments movement during the year

Balance at beginning of the financial year	-	-	228,230	1
— Additional investment	-	-	-	768,885
— Impairment	-	-	(228,230)	(540,656)
Balance at the end of the financial year	**-**	**-**	**-**	**228,230**

NOTE 14: CONTROLLED ENTITIES

a. Controlled Entities	Country of Incorporation	Percentage Owned	
		2009	2008
Parent Entity:			
Montec International Limited			
Subsidiaries of Montec International Limited:			
— Beijing Montec Commercial Limited	China	100%	100%
— Montec International (HK) Limited	Hong Kong	100%	100%

b. Controlled Entities Acquired

No controlled entities acquired during the year ended 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 15: PLANT AND EQUIPMENT

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
PLANT AND EQUIPMENT				
Plant and equipment				
At cost	132,114	191,753	120,092	185,011
Accumulated depreciation	(102,052)	(117,036)	(98,516)	(117,036)
Total Plant and Equipment	**30,062**	**74,717**	**21,576**	**67,975**

a. Movements in Carrying Amounts

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

2009	Plant and Equipment	Total
	$	$
Consolidated Group:		
Balance at 1 July 2007	83,224	83,224
Additions	19,000	19,000
Disposals	(368)	(368)
Depreciation expense	(27,139)	(27,139)
Balance at 30 June 2008	**74,717**	**74,717**
Additions	5,281	5,281
Disposals	(32,947)	(32,947)
Movement on exchange	(1,585)	(1,585)
Depreciation expenses	(15,404)	(15,404)
Balance at 30 June 2009	**30,062**	**30,062**
Parent Entity:		
Balance at 1 July 2007	83,224	83,224
Additions	12,258	12,258
Disposals	(368)	(368)
Depreciation expense	(27,139)	(27,139)
Balance at 30 June 2008	**67,975**	**67,975**
Additions	-	-
Disposals	(32,947)	(32,947)
Depreciation expenses	(13,452)	(13,452)
Balance at 30 June 2009	**21,576**	**21,576**

NOTE 16: INTANGIBLE ASSETS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Patents and acquired rights, at cost	3,423,601	3,423,601	3,423,601	3,423,601
Accumulated amortisation	(1,496,348)	(1,367,095)	(1,496,348)	(1,367,095)
Impairment write down of patents	(1,852,253)	(1,480,346)	(1,852,253)	(1,480,346)
Total Intangible Assets	**75,000**	**576,160**	**75,000**	**576,160**

	Patent	Acquired Rights	Total
	$	$	$
Consolidated Group			
Year ended 30 June 2008			
Balance at the beginning of year	758,769	57,354	816,123
Disposals	-	-	-
Amortisation charge	(142,198)	(11,765)	(153,963)
Impairment losses	(86,000)	-	(86,000)
Closing value at 30 June 2008	530,571	45,589	576,160
Year ended 30 June 2009			
Balance at the beginning of year	530,571	45,589	576,160
Amortisation charge	(117,488)	(11,765)	(129,253)
Impairment losses	(338,083)	(33,824)	(371,907)
Closing value at 30 June 2009	75,000	-	75,000

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement.

Impairment Disclosures – Patents and acquired rights

Patents and acquired rights are allocated to cash generating units which are based on the groups reporting segments. All patents and acquired rights recognised relate to the Australian segment, as there are very minimal activity being conducted in China and all of the investments and loans to Beijing Montec having been impaired. Management has based the costs that are currently being incurred relate to the royalty stream being generated by the patents and acquired rights, therefore, the carrying value of the patents and acquired rights was impaired by $371,907 in the current year.

The recoverable amounts of the patents and acquired rights are determined based on value-in-use calculations. Value in use is calculated based on present value of cash flow projections over the remaining 3 year life of the patent. The cash flows are discounted using the target cash rate of Reserve Bank Australia 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	
	2009	2008	2009	2008
Patents and acquired rights	17.1%	19.3%	0%	0%

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

NOTE 16: INTANGIBLE ASSETS (CONTINUED)

No terminal value cash flow after 3 years has been factored into the calculations as the Patents expire at that future point in time. The acquired rights economic life has been determined to be the same as the Patents.

The impairment loss recognised during the year is the excess of the recoverable amount over the carrying amount.

NOTE 17: TRADE AND OTHER PAYABLES

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
CURRENT				
Unsecured liabilities				
Trade creditors	66,084	98,796	6,737	27,300
Sundry creditors and accrued expenses	163,972	114,955	49,014	67,076
	230,056	**213,751**	**55,751**	**94,376**

NOTE 18: SHORT-TERM PROVISIONS

CURRENT				
Employee benefits	27,232	82,533	27,232	76,655
	27,232	**82,533**	**27,232**	**76,655**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 19: ISSUED CAPITAL		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
	Note	$	$	$	$
154,864,539 (2008: 151,364,518) fully paid ordinary shares	19a	**19,629,084**	**19,524,082**	**19,629,084**	**19,524,082**
a. Ordinary shares					
At the beginning of the reporting period		19,524,082	19,524,082	19,524,082	19,524,082
Share movements during the year:					
- Share placement of 3,500,000 ordinary shares at $0.03 per share on 8/07/2008		105,000	-	105,000	-
-Share placement of 21 ordinary shares under rights issue at $0.10 per share on 8/07/2008		2	-	2	-
At reporting date		**19,629,084**	**19,524,082**	**19,629,084**	**19,524,082**
b. Number of ordinary shares		No.	No.	No.	No.
At the beginning of reporting period		151,364,518	151,364,518	151,364,518	151,364,518
Shares issued during the year:					
- Share placement of 3,500,000 ordinary shares at $0.03 per share on 8/07/2008		3,500,000	-	3,500,000	-
-Share placement of 21 ordinary shares under rights issue at $0.10 per share on 8/07/2008		21	-	21	-
At reporting date		**154,864,539**	**151,364,518**	**154,864,539**	**151,364,518**

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.

The ordinary shares have no par value.

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 25.

ii. For information relating to share options issued to directors and executives during the financial year refer to Note 25.

At 30 June 2009, there were 19,200,000 (30 June 2008:19,200,000) unissued ordinary shares for which options were outstanding.

NOTE 19: ISSUED CAPITAL (CONTINUED)

d. Capital Management

Management controls the capital of the group in order to ensure that the group can fund its operations and continue as a going concern.

The groups debt and capital includes ordinary share capital, and financial liabilities, supported by financial assets. The group has no debt during the year ended 30 June 2009 (2008: $nil), therefore there are no externally imposed capital requirements.

NOTE 20: RESERVES

a. Option Reserve

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

b. Foreign Currency Translation Reserve

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

NOTE 21: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
- not later than 1 year	-	-	-	-
	-	-	-	-

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

NOTE 22: CONTINGENT ASSETS AND LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: SEGMENT REPORTING

Primary reporting — Geographic segments 2009	Australia $	China $	Eliminations $	Consolidated Group $
REVENUE				
External sales	206,444	152,762	-	359,206
Other segments	-	-	-	-
Total sales revenue				359,206
Total revenue				**359,206**
SEGMENT RESULT				
Expenses	(905,018)	(1,382,384)	-	(2,287,402)
Loss before income tax expense				**(1,928,196)**
Income tax expense				**-**
Loss after income tax expense				**(1,928,196)**
ASSETS				
Segment assets	280,663	547,266	(254,404)	573,525
Total assets	280,663	547,266	(254,404)	573,525
LIABILITIES				
Segment liabilities	82,983	428,709	(254,404)	257,288
Total liabilities	82,983	428,709	(254,404)	257,288
OTHER				
Acquisitions of non current segment assets	-	5,281	-	5,281
Depreciation and amortisation of segment assets	142,705	1,952	-	144,657
OTHER NON-CASH SEGMENT EXPENSES				
Impairment of patents and acquired rights	371,907	-	-	371,907
Impairment of loan in subsidiary	347,404	-	(347,404)	-

NOTE 23: SEGMENT REPORTING (CONTINUED)

Primary reporting — Geographic segments 2008	Australia $	China $	Eliminations $	Consolidated Group $
REVENUE				
External sales	341,128	922,852	(388,935)	875,045
Other segments	-	-	-	-
Total sales revenue	**341,128**	**922,852**	**(388,935)**	**875,045**
Total revenue				**875,045**
SEGMENT RESULT				
Expenses	(1,374,443)	(1,951,144)	-	(3,325,587)
Loss before income tax expense				**(2,450,542)**
Income tax expense				**-**
Loss after income tax expense				**(2,450,542)**
ASSETS				
Segment assets	1,512,026	963,814	(178,971)	2,296,869
Total assets	1,512,026	963,814	(178,971)	2,296,869
LIABILITIES				
Segment liabilities	171,032	304,223	(178,971)	296,284
Total liabilities	171,032	304,223	(178,971)	296,284
OTHER				
Acquisitions of non current segment assets	12,258	6,742	-	19,000
Depreciation and amortisation of segment assets	181,102	-	-	181,102

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: SEGMENT REPORTING (CONTINUED)

Inter-segment Transfers

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

Secondary Reporting - Business Segments

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

NOTE 24: CASH FLOW INFORMATION

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
a. Reconciliation of Cash Flow from Operations with loss after Income Tax				
Loss after income tax	(1,928,196)	(2,450,542)	(1,703,521)	(2,458,286)
Non-cash flows in loss				
Amortisation	129,253	153,963	129,253	153,963
Depreciation	15,404	27,139	13,452	27,139
Write-off of certain Acquired Rights	-	-	-	-
Impairment write down patents	371,907	86,000	371,907	86,000
Impairment of investments	-	-	228,230	540,656
Impairment of loan to subsidiaries	-	-	374,404	-
Write-off of obsolete stock	157,325	-	-	-
Net loss on disposal of property, plant and equipment	32,066	-	31,810	-
Other non cash items	-	(5,392)	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease/(increase) in trade and other receivables	107,425	(64,223)	26,838	69,202
Decrease/(increase) in prepayments	74,971	73,935	30,594	120,152
Decrease/(increase) in inventories	130,536	(47,940)	33,165	89,820
Increase/(decrease) in trade creditors and accruals	16,305	(64,872)	(38,625)	(184,247)
Increase/(decrease) in provisions	(55,301)	10,987	(49,423)	5,109
Cash flow used in operations	**(948,305)**	**(2,280,945)**	**(551,916)**	**(1,550,492)**

NOTE 24: CASH FLOW INFORMATION (CONTINUED)

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
b. Entities established				
During the year 100% of the controlled entity Beijing Montec Commercial Limited was established. Details of this transaction are:				
Capital consideration	-	-	-	768,885
Cash consideration	-	-	-	768,885
Cash (outflow)/inflow	-	-	-	(768,885)
Assets and liabilities held at acquisition date:				
Cash	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Property, plant and equipment	-	-	-	-
Creditors	-	-	-	-
Goodwill/(Discount) on consolidation	-	-	-	-
Minority interests in acquisitions	-	-	-	-
Shares issued	-	-	-	768,885

c. Non-cash Financing and Investing Activities

There were no non cash financing or investing activities undertaken during the financial year ended 30 June 2009 (2008:$nil).

NOTE 25: SHARE BASED PAYMENTS

There were no new employee share options issued during the financial year.

The closing share market price of an ordinary share of Montec International Limited on the Australian Stock Exchange at 30 June 2009 was $0.01 (30 June 2008: $0.01).

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	No.	No.	No.	No.
a. Movement in the number of share options held by employees are as follows:				
Opening balance	19,200,000	22,883,000	19,200,000	22,883,000
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	(2,083,000)	-	(2,083,000)
Net change other	-	(1,600,000)	-	(1,600,000)
Closing Balance	**19,200,000**	**19,200,000**	**19,200,000**	**19,200,000**
Exercisable at year end	**19,200,000**	**19,200,000**	**19,200,000**	**19,200,000**

There were no options exercised during the year ended 30 June 2009.

The options outstanding at 30 June 2009 had a weighted average exercise price of $0.183 and a weighted average remaining contractual life of 1.50 years. Exercise prices range from $0.12 to $0.50 in respect of options outstanding at 30 June 2009.

Included under employee benefits expenses in the income statement is nil (2008: nil), and relates, in full, to equity-settled share-based payment transactions.

			Consolidated Group		Parent Entity	
			2009	2008	2009	2008
			No.	No.	No.	No.
b. Details of share options outstanding as at end of year:						
Grant Date	Expiry and Exercise Date	Exercise Price				
1 May 2007	31/12/10	$0.12	6,600,000	6,600,000	6,600,000	6,600,000
1 May 2007	31/12/10	$0.18	6,600,000	6,600,000	6,600,000	6,600,000
1 May 2007	31/12/10	$0.25	6,000,000	6,000,000	6,000,000	6,000,000
			19,200,000	**19,200,000**	**19,200,000**	**19,200,000**

c. Details of Shares Granted

There were no shares granted to employees as remuneration in the financial year ended 30 June 2009 (2008: nil granted).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26: EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

NOTE 27: RELATED PARTY TRANSACTIONS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
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				
Sales and other costs paid on behalf of Beijing Montec Commercial Limited.	-	-	87,622	-
The inter-company position with Beijing Montec Commercial Limited is as follows:				
- inter-company receivable at 30 June 2009	-	-	364,799	84,909
At year end account receivable from controlled entities have been fully impaired.				
Sales and other costs paid on behalf of Montec International (HK) Limited.	-	-	3,132	4,121
The inter-company position with Montec International (HK) Limited is as follows:				
- inter-company receivable	-	-	9,605	6,473
The outstanding receivables have been eliminated on consolidation.				
ii. Director-related Entities				
Director's fee payable to BAIC Australia Pty Ltd in relation to Mr Mei Zhan Yan as a director of Montec International Limited during the financial year.	8,175	49,050	8,175	49,050
iii. Key Management Personnel				
No other related party transactions with directors or executives of Montec International Limited or controlled entities occurred during the financial year ended 30 June 2009.				
iv. Share Transactions of Key Management Personnel				
No share transactions of directors during the financial year ended 30 June 2009.				
Share transactions of directors during the financial year ended 30 June 2008 were:				
- Ms Xueqin Du bought 100,000 shares on market on	-	3,400	-	3,400

17th November 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 28: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Financial Risk Management Policy

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries.

The Board and Management monitor risks on a regular basis as part of formal board meeting and ah-hoc management discussion.

i. Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are liquidity risks, foreign currency risk and credit risk.

Liquidity risks

The group manages liquidity risk by continually monitoring forecast cash flows and generating when required additional capital funding as necessary. It is noted that the group does not have any borrowing facilities.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The management managed the foreign currency transactions on a monthly basis to avoid the fluctuation on the exchange rate.

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 balance sheet and notes to the financial statements.

There are no material amounts of collateral held as security at 30 June 2009.

The consolidated group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated group.

b. Financial Instruments

i. Derivative Financial Instruments
The consolidated group has not participated in the use of any derivative financial instruments during the year.

ii. Financial instrument composition and maturity analysis
The tables below reflect the weighted average effective interest rate on classes of financial assets and financial liabilities.

NOTE 28: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing Over 1 Years		Non-interest Bearing		Total	
			$		$		$		$		$	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Financial Assets:												
Cash	4.38%	6.02%	362,430	1,209,877	-	-	-	-	-	-	362,430	1,209,877
Trade and other receivable	-	-	-	-	-	-	-	-	54,271	178,846	54,271	178,846

Trade and sundry payables are expected to be paid as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Less than 6 months	55,751	213,751	55,751	94,376
Over 6 months	174,305	-	-	-
	230,056	**213,751**	**55,751**	**94,376**

All other assets and liabilities are non-interest bearing. All trade and other payables are expected to be paid within 12 months.

iii. 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.

iv. Sensitivity Analysis

Interest Rate Risk and Foreign Currency Risk

The group has performed a sensitively analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

NOTE 28: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest Rate Sensitivity Analysis

At 30 June 2009, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Change in profit				
- Increase in interest rate by 2%	658	2,845	658	2,826
- Decrease in interest rate by 2%	(658)	(2,845)	(658)	(2,826)
Change in equity				
- Increase in interest rate by 2%	658	2,845	658	2,826
- Decrease in interest rate by 2%	(658)	(2,845)	(658)	(2,826)

Foreign Currency Risk Sensitivity Analysis

At 30 June 2009, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Chinese Renminbi, with all other variables remaining constant is as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Change in profit				
- Improvement in AUD to RMB by 5%	(35,209)	(36,639)	(35,209)	(31,805)
- Decline in AUD to RMB by 5%	35,209	36,639	35,209	31,805
Change in equity				
- Improvement in AUD to RMB by 5%	(35,209)	(36,639)	(35,209)	(31,805)
- Decline in AUD to RMB by 5%	35,209	36,639	35,209	31,805

NOTE 29: COMPANY DETAILS

The registered office of the Company is:

Montec International Limited
C/O Australian Company Secretaries Pty Ltd
Level 9, 20 Hunter Street
Sydney NSW 2000 Australia

The principal places of business are:

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

Beijing Montec Commercial Limited
Beijing China
Room 320, Ju An Office Building,
18 Bai Zi Wan Road,
Chaoyang District
Beijing PRC 100022

Montec International (HK) Limited
C/O KCS Limited
8th Floor, Gloucester Tower,
The Landmark
15 Queen’s Road,
Central Hong Kong