A2 Corporation Limited
Annual Report
30 June 2012

CONTENTS

FOR THE YEAR ENDED 30 JUNE 2012

CONTENTS	PAGE

COMPANY DIRECTORY
AS AT 30 JUNE 2012

Company Number	1014105
Issued Capital	604,666,979 Fully Paid and Partly Paid Ordinary Shares
Registered Office	C/-Simpson Grierson Level 27 88 Shortland Street Auckland www.a2corporation.com
Share Registrar	Link Market Services Limited PO Box 384 Ashburton Telephone (03) 308 8887
Directors	Mr C J Cook (Chairman) Mr G H Babidge (Managing Director) Mr R Le Grice Mr P R Gunner (Deputy Chairman) Mr G P Hinton (Executive Director) Mr D W Mair (Executive Director) Mr M Miles Mr M R Perich (alternate Director to Mr P R Gunner)
Accountant	Deloitte PO Box 1245 Dunedin
Auditor	Ernst & Young PO Box 2091 Christchurch
Bankers	National Australia Bank Limited NAB House 255 George Street Sydney Bank of New Zealand Deloitte Centre, Level 6 80 Queen Street Auckland
Solicitor – Commercial	Simpson Grierson Private Bag 92518 Auckland
Solicitor – Intellectual Property	Baldwins PO Box 852 Wellington

CHAIRMAN'S REPORT
FOR THE YEAR ENDED 30 JUNE 2012

The Board is extremely pleased with the performance of A2 Corporation Limited ("the Company") during the past year.

For the 12 months ended 30 June 2012, the Company achieved Sales of $62,458,000 and a Group Profit after Tax of $4,405,000 – 108% over last year's maiden profit. The Company continues to maintain a conservative balance sheet with cash on hand of $6.6 million at year end.

The Australian business continued to perform strongly with sales and operational profit well ahead of the prior year. In February 2012, the Company commenced production at its own state of the art milk processing facility in Sydney. The facility was officially opened by the Premier of New South Wales in August 2012.

The establishment of a sales and marketing joint venture in Britain in association with Robert Wiseman Dairies in November 2011 was a significant development consistent with the Company's strategic growth agenda. In addition, the plan to develop a market entry strategy for a2™ brand infant formula into Asian markets is making substantial progress.

The Company continues to be strongly supported by its major shareholders with two raisings during the year contributing fresh equity totalling $7.7m.

The Managing Director's Report contains further detail on the Company's operational performance and international business development activities.

I wish to thank my fellow Directors and our Management and staff for their outstanding contribution during the year. I also wish to thank our customers and shareholders for their continued support. We look forward to the further development of the Company in existing markets and the prospect of further growth initiatives during the 2013 year.

C J Cook
Chairman

25 September 2012

MANAGING DIRECTOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2012

For the 12 months ended 30 June 2012, the Company achieved a Group Profit after Tax of $4,405,000. This compares to a Profit of $2,116,000 for the 12 months ended 30 June 2011.

The trading result comprised the following key items:

- Sales of $62,458,000, representing an increase of 48% over the prior year;
- EBITDA before share of associate/joint venture earnings and unusual items of $4,737,000, an increase of 77% over the prior year;
- Proceeds on settlement of an outstanding legal dispute in Korea of $1,101,000 net of costs;
- Share of loss from joint venture, A2 Milk (UK) Limited of $743,000
- Costs associated with a Group Strategic Review of $522,000;
- International Business Development expenses of $870,000;
- Non-cash Expenses relating to share based incentive schemes of $251,000;
- Income tax credit of $287,000, due to a one-off tax benefit from the reset of the tax cost base of assets.

The balance sheet movement over the year reflected positive operating cash flows in Australia, proceeds from share placements and the legal settlement, funding of capital expenditure and our joint venture investment. Cash on hand at 30 June 2012 was $6,568,000. The Company maintains a prudent view of having little or no net debt whilst in a rapid expansion phase.

STRATEGIC AGENDA

The Company continued to progress the strategic agenda focused on three core growth initiatives:

- Building the beverage business in Australia and New Zealand;
- Capturing niche shares in global milk and other dairy product markets;
- Developing an Infant Formula business in highly prospective markets with an initial focus on China.

In April 2012, the Company announced a Strategic Review lead by corporate advisors Greenhill Caliburn and Clavell Capital to review the Company's options to accelerate growth and maximise shareholder value. This review is ongoing and is providing valuable assistance to our growth agenda.

OPERATIONAL REVIEW
AUSTRALIA AND NEW ZEALAND

The Australian business performance was a standout for 2012 with operational profit well ahead of budget and the prior year.

a2™ sales grew strongly and represented an increase on the prior year of 48%. The Company continued to increase its investment in marketing and communication including the introduction of a new "Thank-you a2" media campaign, effective public relations and social media initiatives and increased activity with the health care professional community.

We estimate the market share of a2™ brand milk by value in the grocery channel in the last quarter of the 2012 year to approximate 5.8%. The overall fresh milk category in Australia has continued to be impacted by the low retail pricing of generic milks which took effect in early calendar 2011.

The Company commissioned its new milk processing facility in south west Sydney in late February 2012 and efficiencies have progressively improved since that time. The new facility incorporates the most advanced proven dairy processing technologies to achieve the highest quality of fresh milk and is sized to efficiently process current requirements for New South Wales with the capability for significant growth over time. The capital cost of plant and equipment approximates AUD 8.4 million. The Company continues to source the balance of its milk requirements from its contract processing partners.

Gross Margin as a percentage of sales was lower in the second half and for the year when compared to 2011. This was due to additional milk procurement costs to meet rapidly increasing demand, a number of one off costs incurred to bring the new processing facility on stream and a change in customer mix.

The Company has progressed discussions with Fresha Valley, the sole licensee for a2™ brand milk in New Zealand, on how best to further develop a2™ brand milk within New Zealand.

UNITED KINGDOM AND IRELAND

In November 2011, the Company announced the expansion of operations in the UK and Ireland through a sales and marketing joint venture with the leading fresh milk dairy company in Britain, Robert Wiseman Dairies (RWD). The joint venture is engaged in the sourcing, processing, marketing and distribution of a2™ brand milk products on an exclusive basis in the UK and Ireland.

The UK fresh milk market is approximately 6.5 billion litres per annum and the market opportunity for a2™ brand fresh milk has the potential to be three fold that of Australia.

RWD was founded in 1947 and operates six state of the art processing dairies, 14 distribution depots and distributes around one third of fresh milk consumed in Britain. In February 2012, RWD was acquired by the highly regarded European dairy group, Unternehmensgruppe Theo Müller Group.

The Company is very pleased with the progress of the joint venture since formation. Over the period the business has established its core management team, commenced herd testing and supplier selection. RWD is a valued partner with a commitment to providing all the resources required to support the development of the business.

We originally targeted the brand launch from September 2012 with the plan now to commence from October. The Company's share of joint venture costs incurred in the establishment phase to June 2012 totalled $743,000.

For some time the UK milk market (and many other western dairy markets) has been experiencing challenges around declining returns to farmers, processors and retailers. The a2™ brand proposition provides an opportunity to bring tangible benefits to all participants in the supply chain in addition to consumers.

INTERNATIONAL BUSINESS DEVELOPMENT

During the year, the Company progressed discussions with a number of participants in key markets considered attractive for a2™ brand beverages.

The Company has continued to make significant progress in developing a market entry strategy for a2™ brand infant formula in Asia, with China a priority. In April 2012 the Company announced a strategic agreement with Synlait Milk Limited (Synlait) in New Zealand to manufacture a2™ brand nutritional powders (including milk powders and infant formulas) for A2C.

Under the agreement Synlait will source a2™ milk from accredited Canterbury dairy farms and manufacture a2™ brand nutritional powders at its facility in Dunsandel. The Company has been assessing alternatives for the associated sale and distribution of a2™ brand infant formula in China and is advanced in the development of a business plan and selection of a credentialed distribution partner.

In September 2011, the Company settled its long running dispute with a former licensee in the Republic of Korea with settlement of $1.101 million (net of costs incurred in the current year). The Company is pleased to have resolved this legacy issue which will assist our growth plans and supports the strength of our intellectual property in the Asian region.

EQUITY RAISINGS

The Company undertook two equity raisings during the year to support the ongoing development of the business and to broaden the institutional shareholder base.

In July 2011, Freedom Foods Group Limited (FFG) was issued 18.761 million ordinary shares for total cash consideration of $2.5 million pursuant to an option under the sale and purchase agreement for A2 Dairy Products Australia Pty Ltd.

In March 2012, the Company made a placement of 14 million ordinary shares to AMP Capital Investors (New Zealand) Limited (AMP Capital) to raise an amount of new equity of $5.2 million. AMP Capital assisted by facilitating the sale of a block of A2C shares to a number of institutions on terms identical to the placement by the Company to AMP Capital, and we thank them for their assistance.

G H Babidge
Managing Director

25 September 2012

Processing plant, South West Sydney.

DIRECTORS' RESPONSIBILITY STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

The Directors of A2 Corporation Limited are pleased to present to shareholders the financial statements for A2 Corporation Limited for the year ended 30 June 2012.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Company as at 30 June 2012 and the results of its operations and cash flows for the period ended on that date.

The Directors consider the financial statements of the Company have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The financial statements are signed on behalf of the Board by:

C J Cook
Chairman

25 September 2012

G H Babidge
Managing Director

25 September 2012

ERNST & YOUNG

Chartered Accountants

Independent Auditor's Report

To the Shareholders of A2 Corporation Limited

Report on the Financial Statements

We have audited the financial statements of A2 Corporation Limited and its subsidiaries on pages 8 to 58, which comprise the balance sheet of A2 Corporation Limited and the group as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor, we have no relationship with, or interest in, A2 Corporation Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 8 to 58:

- Reporting Standards; and
- give a true and fair view of the financial position of A2 Corporation Limited and the group as at 30 June 2012 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by A2 Corporation Limited as far as appears from our examination of those records.

Ernst + Young

25 September 2012

Christchurch

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
CONTINUING OPERATIONS					
Milk sales		62,458	42,206	-	-
Cost of sales		(41,531)	(26,935)	-	-
Gross margin		20,927	15,271	-	-
Interest income		177	215	1,298	1,155
Other revenue	3.1	1,589	183	3,641	2,475
Administrative expenses		(5,147)	(2,959)	(2,176)	(1,390)
Finance costs		(204)	(126)	(1)	(3)
Marketing expenses		(3,185)	(2,555)	-	-
Occupancy expenses		(175)	(134)	-	-
Other expenses	3.2	(9,121)	(7,170)	(2,623)	(1,629)
Profit before tax and share of associate/ joint venture earnings/(loss)		4,861	2,725	139	608
Share of associate/joint venture earnings/(loss)	22.3	(743)	134	-	-
Profit before tax		4,118	2,859	139	608
Income tax (expense)/income	4.1	287	(743)	(237)	(104)
PROFIT/(LOSS) FOR THE YEAR		4,405	2,116	(98)	504
Other comprehensive income					
Foreign currency translation gain/(loss)	19	(182)	421	-	-
TOTAL COMPREHENSIVE INCOME		$4,223	$2,537	$(98)	$504
EARNINGS PER SHARE					
Basic (cents per share)	15.1	0.74	0.40		
Diluted (cents per share)	15.2	0.74	0.40		

 The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Group		Company	
		2012	2011	2012	2011
		$'000	$'000	$'000	$'000
Equity at beginning of year		25,183	7,267	25,017	7,924
Prior period adjustment (pre 2011 year)	30	-	-	-	1,210
Restated Equity at beginning of year		25,183	7,267	25,017	9,134
Total comprehensive income for the year		4,223	2,537	(98)	504
		29,406	9,804	24,919	9,638
TRANSACTIONS WITH OWNERS					
Employee equity settled payments reserve	17	251	271	251	271
Issue of ordinary shares	14	7,739	15,156	7,739	15,156
Share issue costs	14	(48)	(48)	(48)	(48)
EQUITY AT END OF YEAR		$37,348	$25,183	$32,861	$25,017

Refer to Notes 14, 17 and 30 for the movement in the applicable reserves.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

		Group		Company	
	Notes	2012	2011	2012	2011
		$'000	$'000	$'000	$'000
ASSETS					
Current assets					
Cash & short term deposits	6	6,568	7,467	5,188	3,456
Trade and other receivables	8	17,189	11,689	1,917	420
Prepayments		481	311	18	53
Loans to subsidiaries	21.4	-	-	6,286	-
Inventories	9	677	424	-	-
Total current assets		24,915	19,891	13,409	3,929
Non-current assets					
Property, plant & equipment	10	10,991	2,305	10	2
Prepayments		6	-	-	-
Investments in subsidiaries	21.3	-	-	3,335	3,334
Investment in associates & joint ventures	22.2	1,582	-	-	-
Loans to subsidiaries	21.4	-	-	16,933	18,047
Goodwill	12	10,055	10,167	-	-
Other Intangible assets	13	1,037	223	935	223
Deferred tax	4.4	1,086	143	-	-
Total non-current assets		24,757	12,838	21,213	21,606
TOTAL ASSETS		$49,672	$32,729	$34,622	$25,535

 The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012 (CONTINUED)

	Notes	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
LIABILITIES					
Current liabilities					
Short term borrowings	7	4,414	622	1,127	-
Accounts payable	11	7,225	6,037	457	424
Current tax liabilities		638	832	177	94
Lease liability	20.2	11	8	-	-
Total current liabilities		12,288	7,499	1,761	518
Non current liabilities					
Lease liability	20.2	36	47	-	-
Total non-current liabilities		36	47	-	-
Total liabilities		$12,324	$7,546	$1,761	$518
OWNERS EQUITY					
Equity attributable to equity holders of the parent					
Share capital	14	63,754	56,063	63,754	56,063
Retained earnings (deficit)	18	(28,104)	(32,509)	(32,443)	(32,345)
Foreign currency translation reserve	19	148	330	-	-
Employee equity settled payments reserve	17	1,550	1,299	1,550	1,299
Total equity		37,348	25,183	32,861	25,017
TOTAL LIABILITIES & OWNERS EQUITY		$49,672	$32,729	$34,622	$25,535

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from (applied to):					
Receipts from customers		56,948	39,970	34	1,833
Interest received		177	234	60	325
Other income		1,580	99	4	-
Payments to suppliers & employees		(57,663)	(38,571)	(3,974)	(3,205)
Interest paid		(199)	(121)	-	-
Taxes paid		(755)	(172)	(153)	(5)
Net cash inflow (outflow) from operating activities	28	88	1,439	(4,029)	(1,052)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from (applied to):					
Proceeds from sale of property, plant & equipment		-	11	-	-
Acquisition of subsidiaries		-	32	-	-
Funds advanced from A2 Export Limited		-	-	1,124	-
Funds advanced from/(to) A2 Dairy Products Australia Pty Limited		-	-	-	(4,507)
Payment for property, plant & equipment		(9,253)	(2,077)	(12)	-
Funds advanced to A2 Milk Company LLC		-	(50)	-	(50)
Investment in intangible assets		(878)	(223)	(738)	(223)
Investment in A2 Milk (UK) Limited		(2,301)	-	-	-
Funds advanced to A2 Holdings UK Limited		-	-	(2,301)	-
Net cash inflow (outflow) from investing activities		(12,432)	(2,307)	(1,927)	(4,780)

 The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

	Notes	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from (applied to):					
Proceeds from issue of equity shares		7,739	4,106	7,739	4,106
Short term borrowings		3,793	622	-	-
Repayment of lease liability		(9)	-	-	-
Payment for capital raising costs		(48)	(48)	(48)	(48)
Acquisition of subsidiaries		-	(1,608)	-	-
Net cash inflow (outflow) from financing activities		11,475	3,072	7,691	4,058
Net increase/(decrease) in cash & short term deposits		(869)	2,204	1,735	(1,774)
Cash & short term deposits at the beginning of the year		7,467	5,215	3,456	5,212
Effect of exchange rate changes on cash		(30)	48	(3)	18
Cash and short term deposits at the end of the year		$6,568	$7,467	$5,188	$3,456
COMPRISED OF:					
Cash & short term deposits	6	$6,568	$7,467	$5,188	$3,456

The accompanying notes form part of these financial statements.

1. CORPORATE INFORMATION

A2 Corporation Limited ("A2" or "Company") and its subsidiaries (together the "Group") is a profit-oriented entity incorporated and domiciled in New Zealand.

The principal activity of the Company is the commercialisation of a2™ brand milk and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of a2™ brand milk. The Company also sources and supplies a2™ brand milk in Australia through its 100% owned subsidiary A2 Dairy Products Australia Pty Limited.

A2 Corporation Limited is registered in New Zealand under the Companies Act 1993. The Company is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and the Companies Act 1993. The shares of A2 Corporation Limited are publicly traded on the NZAX Market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in New Zealand dollars.

Prior period adjustments have resulted in the restatement of comparative figures in the financial statements. Details of these adjustments are shown in Note 30.

Some comparative figures in the Statement of Comprehensive Income have been reanalysed to provide accurate comparisons with the current year figures. There has been no change to the reported trading result.

The same accounting policies and methods of computation are followed in these annual financial statements as were applied in the preparation of the Group's financial statements for the year ended 30 June 2011.

2.2. Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements comply with International Financial Reporting Standards ('IFRS').

2.3 Adoption of New and Revised Standards and Interpretations

i) Standards and Interpretations in Issue and Adopted during the Year

Standards that have come into effect in the period have not had a material impact on the financial statements.

ii) Standards and Interpretations in Issue Not Yet Adopted

Unless otherwise shown, the effective dates for all these standards are for the period beginning 1 July 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.3 Adoption of New and Revised Standards and Interpretations Cont.

The Directors have not yet evaluated the full impact of the following standards:

- NZ IAS 12 – Income Taxes – Deferred Tax: Recovery of underlying Assets
- NZ IAS 10 – Consolidated Financial Statements (1 July 2013)
- NZ IFRS 13 – Fair Value Measurement (1 July 2013)
- NZ IAS 27 – Separate Financial Statements (1 July 2013)
- NZ IAS 28 – Investments in Associates & Joint Ventures (1 July 2013)
- NZ IAS 19 – Employee Benefits (1 July 2013)
- NZ IFRS 9 – (2010) Financial Instruments (1 July 2015)
- NZ IFRS 9 – (2009) Financial Instruments (1 July 2015)

The standards below are disclosure standards and there is no impact to the reported results or financial position of the Company:

- Improvements to NZ Equivalents to IFRS (2011): Amendments to NZ IAS 1, NZ IAS 32, NZ IAS 34 (1 July 2013)
- NZ IFRS 12 – Disclosure of Interests in Other Entities (1 July 2013)
- NZ IFRS 7 – Amendments to NZ IFRS 7 Financial Instruments: Disclosures (1 July 2013)
- NZ IAS 32 – Amendments to NZ IAS 32 Financial Instruments: Presentation

2.4 Critical Accounting Judgements

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.5 Key Sources of Estimation Uncertainty

Judgements made by Directors in the application of the Group's accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant Notes to the Financial Statements.

Key Sources of Estimation Uncertainty include:

- Estimating impairment of investment in subsidiaries, associates and joint ventures. (refer to Note 21).
- Assessment of impairment of goodwill (refer Note 12).
- Assessment of impairment of intangible assets (refer Note 13).
- Estimation of fair value of share based payments (refer to Note 16).
- Assessment of recognition of deferred tax on temporary differences and tax losses (refer to Note 4).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be measurable under the circumstances.

2.6 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.6 Basis of Consolidation Cont.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investments in subsidiaries are recorded at cost less any impairment in the parent company's financial statements.

2.7 Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with NZ IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

2.8 Investments in Associates & Joint Ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Investments in associates are recorded at cost less any impairment in the parent company's financial statements.

The interest in a joint venture entity is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the Group's share of the results of the joint venture entity is recognised in the statement of comprehensive income, and the investment is presented as a non-current asset on the face of the statement of financial position.

2.9 Property, Plant and Equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation, and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.9 Property, Plant and Equipment Cont.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	10-15 years
Furniture and fittings	5-10 years
Office and computer equipment	3-10 years
Lease improvements	6-10 years
Motor vehicles	4 years

2.10 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.11 Intangible Assets

Intellectual Property

The cost of intellectual property including patents, trademarks and licenses is written off until such time as it becomes clear that future economic benefits attributable to that expenditure will flow to the Company and where there is sufficient evidence to support the probability of the expenditure generating sufficient future economic benefits.

Patents are considered to have a finite life and amortisation is charged on a straight line basis over the lifetime of the patent. Software is amortised on a straight line basis over 10 years. All other intellectual property, where there is a probability of generating sufficient future economic benefits, is considered to have infinite life. These assets are tested for impairment whenever there is an indication that the intangible asset may be impaired.

Project Development Costs

An intangible asset arising from project development expenditure on an internal project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the project development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from project development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

2.12 Impairment of Tangible and Intangible Assets including Goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.12 Impairment of Tangible and Intangible Assets including Goodwill Cont.
Intangible assets with indefinite useful lives, goodwill and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately unless the asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairment losses in relation to goodwill are not reversed in a subsequent period.

2.13 Share-Based Payment Transactions
The Group has an ownership-based compensation scheme for executives, senior employees and key contractors of the Group.

In accordance with the provisions of the scheme, executives, senior employees and key contractors with the Group may be issued partly paid shares.

There was a plan in place to provide these benefits during the current reporting period:

- Partly Paid Share Plan (PPSP), which provides benefits to executives and senior employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes-Merton option pricing and Binomial option pricing model. Further details of which are given in Note 16.3.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of A2 Corporation Limited if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each reporting date until vesting, the cumulative charge to the income statement is the product of:

i. The grant date fair value of the award;
ii. The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
iii. The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.13 Share-Based Payment Transactions Cont.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled transaction is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

2.14 Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable.

Sale of Goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods.

Interest Revenue
Interest revenue is accrued on a time basis, by reference to the principal and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Management Fees
Management fees are recognised on a 'cost-plus' basis and are due and payable when services are rendered.

Other Income
Licence fee income is spread over the term of the licence where there is a specified termination date. Where the licence fee is for an indefinite period, income is recognised when received.

2.15 Operating Segments

The Group has adopted NZ IFRS-8 *Operating Segments* with effect from 1 January 2009. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

Information regarding the Group's reportable segments are presented in Note 27.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.16 Borrowing Costs
All borrowing costs are recognised in the income statement in the period in which they are incurred, unless they are directly attributable to qualifying assets in which case they are capitalised.

2.17 Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited in other comprehensive income, in which case the tax is also recognised in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.18 Goods & Services Tax (GST)
Revenue, expenses and assets are recognised net of the amount of Goods and Service Tax (GST), except:

- Where the amount of GST incurred is not recovered from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.19 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using a standard weighted average method. Standard costs are regularly reviewed and, if necessary, revised to reflect actual costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.20 Financial Assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL) 'held-to-maturity' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Group does not currently hold any financial assets that are classified as 'available-for-sale', held to maturity or FVTPL.

Loans & Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2.21 Financial Liabilities

Financial liabilities, including trade and other payables and borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.22 Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

2.23 Provisions

Provisions are recognised when the Group has a preset obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.24 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

2.25 Foreign Currency

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in New Zealand dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.25 Foreign Currency Cont.

For the purpose of presenting the Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.26 Statement of Cash Flows

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

Operating Activities – are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing Activities – are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing Activities – are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

2.27 Trade & Other Payables

Trade and other payables are carried at amortised cost due to their short term nature and they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 46 days of recognition.

2.28 Earnings Per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for options that can be exercised at less than the current market price.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for options that can be exercised at less than the current market price. Refer to Note 15.

2.29 Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdraft. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

3. REVENUE & EXPENSES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
3.1 Other Revenue				
Other income from operations consisted of the following items:				
Milk royalties	128	90	2,156	291
Licence fees	1	-	1	-
Management fees	-	-	1,481	1,522
Foreign exchange gain	-	60	-	588
Settlement proceeds	1,429	-	-	-
Other	31	33	3	10
	$1,589	$183	$3,641	$2,411

During the year a wholly owned subsidiary of A2 Corporation Limited reached settlement with a former licensee in the Republic of Korea. A2 Exports Limited and Purmil Co Limited ("Purmil") agreed to settle the dispute which resulted in a payment by Purmil of $1,429,000. This is included in "Other Revenue" in the Statement of Comprehensive Income. Costs relating to the settlement totalled $328,000 and are included as part of "Other Expenses" in the Statement of Comprehensive Income.

3.2 Other Expenses				
Audit fees	84	61	15	24
Bad and doubtful debts	7	30	-	-
Consultancy, accounting & secretarial fees	861	692	617	404
Directors' fees and expenses	178	157	178	157
Due diligence and restructure costs	-	63	-	63
Freight	4,819	3,084	-	-
Foreign exchange loss	18	-	79	-
Legal expenses	639	507	252	309
Loss disposal, plant & equipment	9	-	-	-
Patents, trademarks and international development	142	178	142	178
Project feasibility costs	522	-	522	-
Other operating expenses	1,842	2,398	818	494
	$9,121	$7,170	$2,623	$1,629

4. INCOME TAXES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
4.1 Income Tax Recognised in Profit or Loss				
Current tax expense	1,571	822	320	85
Prior period adjustment to tax expense – current tax	(447)	-	5	-
Deferred tax expense/(income) relating to the origination and reversal of timing differences	118	271	5	234
Prior period adjustment to tax expense – deferred tax	(900)	287	166	448
Tax losses utilised	(690)	(183)	(320)	(85)
Effect on deferred tax balances due to the change in income tax rate from 30% to 28% (effective 1 July 2012)	-	(37)	-	(45)
Unutilised foreign tax credits	231	104	231	104
Deferred tax asset not recognised	(170)	(521)	(170)	(637)
Total tax expense/(income)	$(287)	$743	$237	$104

The prima facie income tax on pre-tax accounting profit from operations reconciles to:

	Group 2012	Group 2011	Company 2012	Company 2011
Profit/(Loss) from operations	4,861	2,859	139	441
Income tax expense/(income) calculated at 28% (2011: 30%)	1,361	857	39	132
Non-deductible expenses	328	236	286	188
Tax losses utilised	(690)	(183)	(320)	(85)
Effect on deferred tax balances due to the change in income tax rate from 30% to 28% (effective 1 July 2012)	-	(37)	-	(45)
Prior period adjustment to tax expense	(1,347)	287	171	448
Unutilised foreign tax credits	231	104	231	103
Deferred tax asset not recognised	(170)	(521)	(170)	(637)
Total tax expense/(income)	$(287)	$743	$237	$104

4. INCOME TAXES Cont.

4.2 Income Tax Recognised in Other Comprehensive Income

There was no current or deferred tax charged/(credited) in other comprehensive income during the period.

4.3 Tax Losses

Company

The Company has estimated tax losses of $2,384,000 not recognised at balance date (2011: $5,542,000). These are subject to confirmation by the Inland Revenue Department and subject to meeting the requirements of the Income Tax Act 2007.

Group

The Group has estimated tax losses of $5,080,000 not recognised at balance date (2011: $8,580,000) which comprises $2,384,000 relating to New Zealand and $2,696,000 (2011: $3,038,000) relating to Australia. These are subject to confirmation by the Inland Revenue Department and the Australian Tax Office and subject to meeting the requirements of the income tax legislation in each jurisdiction.

4.4 Deferred Tax Balances

Deferred tax assets are only recognised in the financial statements to the extent that it is probable that sufficient taxable profits will be available. The Group has a deferred tax asset in relation to temporary differences of $1,904,000 (2011: $1,122,000). This amount includes a deferred tax asset balance of $1,086,000 (2011: $143,000) which has been recognised in the financial statements. The prior period adjustment to deferred tax arose due to the revaluation of the tax base of certain intangible assets.

The Company has a deferred tax asset in relation to temporary differences of $818,000 (2011: $979,000) which has not been recognised in the financial statements, due to uncertainty that future taxable profits will be available to utilise those differences.

2012 Group	Opening Balance	Charged to income	Effect of tax rate change	Closing Balance	Recognised in the financial statements
Gross deferred tax assets:					
Intellectual property	961	975	-	1,936	1,186
Provisions	161	(193)	-	(32)	(100)
	1,122	782	-	1,904	1,086
Net Deferred Tax Balance				$1,904	$1,086

2011 Group	Opening Balance	Charged to income	Effect of tax rate change	Closing Balance	Recognised in the financial statements
Gross deferred tax assets:					
Intellectual property	1,470	(545)	36	961	-
Provisions	174	(13)	1	161	143
	$1,644	$(558)	$37	$1,122	$143
Net Deferred Tax Balance				$1,122	$143

4. INCOME TAXES Cont.

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
4.5 Imputation Credit Account Balances				
Balance at beginning of the year	6	6	6	6
Balance at end of the year	$6	$6	$6	$6

5. KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation of the Managing Director, Directors and other senior management, being the key management personnel of the entity, is set out below:

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Wages and salaries and other short-term employee benefits	2,070	1,450	650	593
Share-based payments	251	271	251	271
	$2,321	$1,721	$901	$864

6. CASH & CASH EQUIVALENTS

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Cash & cash equivalents	$6,568	$7,467	$5,188	$3,456

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

Cash and short term deposits include AUD 1,181,000 (2011: AUD 4,793,000) GBP 1,000,000 (2011: GBP Nil) and USD 378,000 (2011: USD 397,000). Short term deposits earn interest at 0.08%-6.11% (2011: 0.10%-5.84%).

7. SHORT TERM BORROWINGS

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Current				
Debtor facility	1,860	622	-	-
Bank loan	2,554	-	-	-
Loans from subsidiaries	-	-	1,127	-
	$4,414	$622	$1,127	-

Borrowing costs of $69,000 have been capitalised to Property, Plant & Equipment. This includes interest costs of $32,000 on borrowed funds charged at 6.77%. All other borrowing costs have been recognised in the Statement of Comprehensive Income.

8. TRADE & OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Trade receivables	16,709	11,003	12	64
Allowance for doubtful debts	(25)	(36)	-	-
Receivables from subsidiaries	-	-	1,905	-
Other receivables	505	722	-	356
	$17,189	$11,689	$1,917	$420

The average credit period on sales is 78 days (2011: 60 days). No interest is charged on trade receivables outstanding.

Included in the Group's accounts receivable balance are debtors with a carrying amount of $25,000 (2011: $153,000) which are past due at the reporting date but not considered doubtful. These relate to a number of accounts of which there is no recent history of default. The Group has not provided for these debtors as there has not been a significant change in credit quality and the amounts are still considered recoverable. The ageing of the debtors that are past due but not impaired are predominantly 30 days or more beyond the due date of commercial trading terms.

8. TRADE & OTHER RECEIVABLES Cont.

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
8.1 Movement in Allowance for Doubtful Debts				
Balance at beginning of year	36	-	-	-
Amount charged to the statement of comprehensive income	7	36	-	-
Amounts written off during the year	(18)	-	-	-
Balance at end of year	$25	$36	-	-

In determining the recoverability of a trade receivable, the Group considers any change in perceived credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for impairment losses.

9. INVENTORIES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Raw materials	368	340	-	-
Finished goods	309	84	-	-
Total inventories at the lower of cost and net realisable value	$677	$424	-	-

10. PROPERTY, PLANT & EQUIPMENT

Group	Cost 1 July 2011	Acquisition Through Business Combinations	Additions	Disposals/ Transfers	Cost 30 June 2012	Accumulated depreciation and impairment charges 1 July 2011	Acquisition Through Business Combinations	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation and impairment charges 30 June 2012	Net foreign currency exchange differences	Book Value 30 June 2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Office & Computer	150	-	58	(16)	192	113	-	26	(40)	99	-	93
Furniture & Fittings	49	-	30	-	79	7	-	6	-	13	-	66
Lease Improvements	22	-	-	-	22	2	-	5	-	7	-	15
Motor vehicles	59	-	-	-	59	16	-	13	-	29	-	30
Plant & Equipment	-	-	11,335	-	11,335	-	-	324	-	324	(224)	10,787
Capital WIP	2,170	-	-	(2,170)	-	-	-	-	-	-	-	-
	$2,450	-	$11,423	$(2,186)	$11,687	$138	-	$374	$(40)	$472	$(224)	$10,991

Group	Cost 1 July 2010	Acquisition Through Business Combinations	Additions	Disposals/ Transfers	Cost 30 June 2011	Accumulated depreciation and impairment charges 1 July 2010	Acquisition Through Business Combinations	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation and impairment charges 30 June 2011	Net foreign currency exchange differences	Book Value 30 June 2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Office & Computer	25	123	27	(25)	150	22	82	30	(21)	113	4	41
Furniture & Fittings	-	10	39	-	49	-	2	5	-	7	-	42
Lease Improvements	-	-	21	-	22	-	-	2	-	2	-	20
Motor Vehicles	-	59	-	-	59	-	1	15	-	16	1	44
Capital WIP	-	181	1,990	-	2,170	-	-	-	-	-	(12)	2,158
	$25	$373	$2,077	$(25)	$2,450	$22	$85	$52	$(21)	$137	$(7)	$2,305

Company	Cost 1 July 2011	Acquisition Through Business Combinations	Additions	Disposals/ Transfers	Cost 30 June 2012	Accumulated depreciation and impairment charges 1 July 2011	Acquisition Through Business Combinations	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation and impairment charges 30 June 2012	Net foreign currency exchange differences	Book Value 30 June 2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Office & Computer	4	-	12	-	16	2	-	4	-	6	-	10
	$4	-	$12	-	$16	$2	-	$4	-	$6	-	$10

Company	Cost 1 July 2010	Acquisition Through Business Combinations	Additions	Disposals/ Transfers	Cost 30 June 2011	Accumulated depreciation and impairment charges 1 July 2010	Acquisition Through Business Combinations	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation and impairment charges 30 June 2011	Net foreign currency exchange differences	Book Value 30 June 2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Office & Computer	25	-	4	(25)	4	22	-	1	(21)	2	-	2
	$25	-	$4	$(25)	$4	$22	-	$1	$(21)	$2	-	$2

11. ACCOUNTS PAYABLE

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Trade creditors	3,916	3,595	71	110
Accruals	2,778	1,762	102	179
Employee entitlements	531	680	284	135
	$7,225	$6,037	$457	$424

The average credit period on purchases is 55 days (2011: 46 days). No interest was charged on trade creditors outstanding.

12. GOODWILL

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Cost				
Balance at beginning of the year	10,167	-	-	-
Acquisitions through business combinations	-	1,538	-	-
Additional amounts recognised from business combinations occurring during the year (Note 21.5)	-	8,116	-	-
Profit on restatement to subsidiary	-	488	-	-
Effects of foreign currency exchange differences	(112)	25	-	-
Balance at end of the year	$10,055	$10,167	-	-
Accumulated impairment losses				
Balance at beginning and end of the year	-	-	-	-
Carrying amount				
At beginning of the year	10,167	-	-	-
At end of the year	$10,055	$10,167	-	-

12. GOODWILL Cont.

Annual Test for Impairment
Goodwill has been allocated for impairment testing purposes at the level of its respective cash generating unit which is also an operating segment (refer to Note 27).

The recoverable amount of this goodwill has been determined based on a value in use basis using a discounted cash flow approach, and projections based on financial budgets approved by senior management covering a 5 year period.

Key assumptions:

- Discount rate (pre tax): 8%
- Average annual growth rate range: 5.8 to 21.6%
- Average range of annual market share growth: 0% to 1%

Sensitivity to Changes in Assumptions:

Management believe that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

On the basis of this assessment no impairment write downs are considered necessary.

13. OTHER INTANGIBLE ASSETS

	Group 2012 $'000					Company 2012 $'000				
	Patents	Trademarks	Software	Project Development Costs	Total	Patents	Trademarks	Software	Project Development Costs	Total
Cost										
Balance at the beginning of the year	147	76	-	-	223	147	76	-	-	223
Additions	73	132	140	533	878	73	132	-	533	738
Abandoned	(5)	-	-	-	(5)	(5)	-	-	-	(5)
Balance at the end of the year	$215	$208	$140	$533	$1,096	$215	$208	-	$533	$956
Amortisation	(21)	-	(38)	-	(59)	(21)	-	-	-	(21)
Carrying Amount										
At beginning of year	147	76	-	-	223	147	76	-	-	223
At end of year	$194	$208	$102	$533	$1,037	$194	$208	-	$533	$935

13. OTHER INTANGIBLE ASSETS Cont.

	Group 2011 $'000					Company 2011 $'000				
	Patents	Trademarks	Software	Others	Total	Patents	Trademarks	Software	Others	Total
Cost										
Balance at the beginning of the year	-	-	-	-	-	-	-	-	-	-
Additions	147	76	-	-	223	147	76	-	-	223
Abandoned	-	-	-	-	-	-	-	-	-	-
Balance at the end of the year	$147	$76	-	-	$223	$147	$76	-	-	$223
Carrying Amount										
At beginning of year	-	-	-	-	-	-	-	-	-	-
At end of year	$147	$76	-	-	$223	$147	$76	-	-	$223

14. SHARE CAPITAL

a) Share Capital

	2012 $'000	2011 $'000
Balance at beginning of the year	56,063	40,955
Ordinary shares: Freedom Foods Group Limited issued 22 July 2010	-	10,353
Options: Freedom Foods Group Limited issued 22 July 2010	-	379
Ordinary shares: Idea Sphere Inc. issued 5 October 2010	-	350
Ordinary shares: Institutional: AMP Capital Investments (New Zealand) Limited issued 20 December 2010	-	3,000
Ordinary shares: Freedom Foods Group Limited issued 20 December 2010	-	914
Ordinary shares: Freedom Foods Group Limited issued 9 June 2011	-	160
Ordinary shares: Freedom Foods Group Limited issued 20 July 2011	2,559	-
Ordinary shares: AMP Capital Investors (New Zealand) Limited issued 15 March 2012	5,180	-
	63,802	56,111
Less: Capital raising costs: Rights issue/placement	(48)	(48)
Balance at end of the year	$63,754	$56,063

14. SHARE CAPITAL CONT.

b) Number of Ordinary Shares on Issue	2012 No.	2011 No.
i) Fully paid ordinary shares		
Balance at beginning of the year	526,246,412	361,130,850
Shares issued	32,761,657	165,115,562
Balance at end of the year	559,008,069	526,246,412
ii) Partly paid ordinary shares		
Balance at beginning of the year	45,658,910	20,000
Shares issued	-	25,659,910
Balance at end of the year	45,658,910	45,658,910
Total Ordinary Shares on Issue	604,666,979	571,905,322

During the 2011 year, the Company purchased the remaining 50% holding in A2 Dairy Products Australia Pty Limited it did not own. As part of the consideration for this purchase from Freedom Foods Group Limited (FFG), FFG had the right to acquire further shares in A2 Corporation Limited (Note 21.5).

On 20 July 2011, the Company received notice from FFG that it wished to exercise its option. The additional 18,761,657 fully paid ordinary shares were issued to FFG on 28 July 2012 at an issue price of NZD 0.1364 per share.

On 15 March 2012, the Company issued 14,000,000 fully paid ordinary shares to AMP Capital Investors (New Zealand) Limited at an issue price of NZD 0.37 per share. AMP Capital Investors (New Zealand) Limited assisted the Company by facilitating the sale of this block of 14,000,000 shares to a number of institutions in New Zealand and therefore its own shareholding in the Company remained unchanged.

15. EARNINGS PER SHARE

	2012 Cents per Share	2011 Cents per Share
15.1 Basic Earnings Per Share		
From continuing operations	0.74	0.40
Total basic earnings per share	0.74	0.40

15. EARNINGS PER SHARE Cont.

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2012 $	2011 $
Net surplus/(deficit):		
From continuing operations	4,405	2,116
	$4,405	$2,116

	No.	No.
Weighted average number of ordinary shares for the purpose of basic earnings per share	593,735	528,896

	2012 Cents per Share	2010 Cents per Share
15.2 Diluted Earnings Per Share		
From continuing operations	0.74	0.40
	0.74	0.40

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	2012 $	2011 $
Net surplus/(deficit)		
From continuing operations	4,405	2,116
	$4,405	$2,116

	No.	No.
Weighted average number of ordinary shares for the purpose of basic earnings per share	593,735	528,896
Effect of dilution due to share options	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	593,735	528,896

As no existing employee partly paid shares were exercised during the year, there has been no impact on diluted earnings per share.

16. EQUITY SETTLED SHARE-BASED PAYMENTS

Partly Paid Shares
The Group has ownership-based compensation schemes for executives, senior employees and key contractors of the Group. This has been undertaken historically through the issue of partly paid shares.

Partly paid ordinary shares are issued to certain key management personnel and contractors (the purchasers).

The partly paid shares are issued on the following terms:

a) *Restrictions on Transfer*
Each partly paid share is issued on terms that require a vesting period (settlement date) to pass before the purchaser can transfer the shares (settlement date). This restriction applies even if the shares have been fully paid prior to the settlement date. Under the various agreements these vesting periods range from 2-5 years.

b) *Issue Price*
The issue price of each partly paid share is set at the lesser of:

- The closing price quoted on the New Zealand Exchange Limited's NZAX Market for the Group's shares as at the date the parties enter into the share subscription agreement; and

- The average closing price on the New Zealand Exchange Limited's NZAX Market for the Group's shares over the three months prior to the date the parties enter into the share subscription agreement;

provided that such price must not be lower than 10 cents per share.

Under the share subscription agreements the issue prices were calculated as 10 cents per share. These were issued as partly paid shares at 0.1 cents per share.

The purchasers have an unconditional right to put the partly paid shares to the Company prior to settlement date and receive a full refund of any monies paid.

c) *Rights*
Each partly paid ordinary share issued carries a fractional right to a distribution and a fractional voting right, such fractions being the equivalent to the proportion which the amount paid is of the total amount paid and amounts still payable on the shares.

16.1 Partly Paid Shares Issued
There were no further issues of partly paid ordinary shares during the year. As at 30 June 2012, purchasers had paid $44,200 for tranches I to VII. This payment has been recognised as a financial liability until such time as vesting conditions are met.

16. EQUITY SETTLED SHARE BASED PAYMENTS Cont.

16.2 Summary of Share-Based Payments

The following share-based payment arrangements were in existence during the current reporting period:

Party Paid Shares Series	Number	Grant Date	Vesting Date	Expiry Date	Exercise Price	Fair Value at Grant Date
(1) Partly Paid Shares – Tranche I	10,000,000	22 May 2009	22 May 2014	24 Aug 2014	$0.10	$656,000
(2) Partly Paid Shares – Tranche II	5,000,000	10 Sep 2009	10 Sep 2011	10 Sep 2012	$0.10	$107,500
(3) Partly Paid Shares – Tranche III	5,000,000	24 Nov 2009	10 Sep 2011	10 Sep 2012	$0.10	$149,500
(4) Partly Paid Shares – Tranche IV	10,000,000	25 Aug 2010	25 Aug 2015	25 Aug 2015	$0.10	$390,000
(5) Partly Paid Shares – Tranche V	3,000,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	$0.15	$131,700
(6) Partly Paid Shares – Tranche VI	3,000,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	$0.15	$131,700
(7) Partly Paid Shares – Tranche VII	3,500,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	$0.15	$153,650

Partly Paid Shares Exercised/Forfeited During Period

No partly paid shares were exercised or lapsed during the year ended 30 June 2012 (2011: Nil).

Partly Paid Shares Expired During Period

No partly paid shares expired during the year ended 30 June 2012 (2011: Nil). Note that the expiry date of Tranche II and Tranche III is an estimate as the date is triggered by the tranche holders ceasing to be executive directors.

Weighted Average Remaining Contractual Life

The weighted average remaining contractual life of the partly paid shares at 30 June 2012 is 2.04 years (2011: 3.04 years).

Weighted Average Exercise Price

The weighted average exercise price of the partly paid shares outstanding as at 30 June 2012 is $0.112 (2011: $0.112). The weighted average exercise price of the options exercisable as at 30 June 2012 is $0.112 (2011: $0.112).

16. EQUITY SETTLED SHARE-BASED PAYMENTS Cont.

16.3 Estimation of Fair Value of Partly Paid Shares at Measurement Date

Valuation Methodology

Partly paid shares have previously been valued using the Black-Scholes-Merton option pricing model, for valuing European call options. During the year a review of the valuation methodology used to value Tranches IV-VII was undertaken. Employees can purchase the remaining balance of the shares at any point up until the expiry date, and this is consistent with 'American' options. Accordingly a Binomial Option pricing model was used as this allows for exercising prior to the expiry date. Tranches II and III continue to be valued using the Black-Scholes-Merton option pricing model. Tranche I PPS are held by a former employee and an acceleration of vesting was recognised in the 2010 and 2011 income years.

Input Assumptions

The fair values above have been derived using the following input assumptions:

	Valuation Date	Share Price	Exercise Price	Volatility	Time to Expiry (years)	Expected Dividends	Risk- Free Rate
(1) Partly paid shares – Tranche I	22 May 09	$0.12	$0.10	50%	2.00	$0.00	4.91%
(2) Partly paid shares – Tranche II	10 Sep 09	$0.085	$0.10	50%	1.00	$0.00	4.84%
(3) Partly paid shares – Tranche III	24 Nov 09	$0.10	$0.10	50%	1.00	$0.00	5.43%
(4) Partly paid shares – Tranche IV	25 Aug 10	$0.087	$0.10	50%	4.00	$0.00	4.37%
(5) Partly paid shares – Tranche V	28 Mar 11	$0.11	$0.15	50%	4.00	$0.00	4.28%
(6) Partly paid shares – Tranche VI	28 Mar 11	$0.11	$0.15	50%	4.00	$0.00	4.28%
(7) Partly paid shares – Tranche VII	28 Mar 11	$0.11	$0.15	50%	4.00	$0.00	4.28%

Early Exercise

No allowance has been made for the possibility of early exercise. The partly paid shares are held by a small number of executives and the Company has no reason to believe that the partly paid shares will be exercised early, particularly as the Company is not expected to pay a dividend over the life of the partly paid shares.

Volatility

Volatility has been assessed by considering the historical volatility of the Company's shares, as well as other factors that influence expected future volatility. The Company's historical stock price movements have been characterised by infrequent share trading and wide trading spreads giving rise to volatile price movements. Such share price returns can be as much (if not more) reflective of trading conditions as much as of underlying value. As a result, A2 Corporation's annualised historical volatility is considered to be too high to be predictive of future volatility. However, the Company is still considered to have high volatility relative to the market in general. Highly volatile stocks typically have annualised volatilities of between 40% and 60%. A volatility of 50% has been adopted for each of the Company's share option and partly paid share valuations.

Other Factors

No other factors have been incorporated into the PPSP valuations.

16. EQUITY SETTLED SHARE-BASED PAYMENTS Cont.

16.3 Estimation of Fair Value of Partly Paid Shares at Measurement Date Cont.

Amounts Recognised in Financial Statements

The impact of the share based payments on the financial statements of the Company is summarised as follows:

Period Ended	30 June 2012		30 June 2011	
	Amount recognised as employee expense in profit or loss	Amount recognised in other comprehensive income	Amount recognised as employee expense in profit or loss	Amount recognised in other comprehensive income
	$'000	$'000	$'000	$'000
(1) Partly paid shares – Tranche I	-	-	46	46
(2) Partly paid shares – Tranche II	57	57	54	54
(3) Partly paid shares – Tranche III	57	57	83	83
(4) Partly paid shares – Tranche IV	77	77	66	66
(5) Partly paid shares – Tranche V	35	35	8	8
(6) Partly paid shares – Tranche VI	30	30	7	7
(7) Partly paid shares – Tranche VII	30	30	7	7
Total	286	286	271	271
Less: Adjustment due to change in valuation methodology	35	35	-	-
	$251	$251	$271	$271

17. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Balance at beginning of the year	1,299	1,028	1,299	1,028
Movements during the period	251	271	251	271
Balance at end of the year	$1,550	$1,299	$1,550	$1,299

The employee equity settled payments reserve is used to record the value of share based payments provided to employees and contractors, including key management personnel.

18. RETAINED EARNINGS (DEFICIT)

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Balance at beginning of the year	(32,509)	(34,625)	(32,345)	(34,059)
Prior period adjustment (pre 2011 year)	-	-	-	1,210
Restated balance at beginning of the year	(32,509)	(34,625)	(32,345)	(32,849)
Net surplus/(deficit) for the period excluding				
Associate/joint venture surplus/(losses):	5,148	1,982	(98)	504
Share of associate/joint venture surplus/(losses)	(743)	134	-	-
	4,405	2,116	(98)	504
Balance at end of year	$(28,104)	$(32,509)	$(32,443)	$(32,345)

19. FOREIGN CURRENCY TRANSLATION RESERVE

	Group	
	2012	2011
	$'000	$'000
Balance at the beginning of the year	330	(91)
Arising on translation of foreign operations	(182)	421
Balance at end of the year	$148	$330

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

20. OPERATING & FINANCE LEASE COMMITMENTS

Operating leases relate to A2 Corporation Limited and A2 Dairy Products Australia Pty Limited. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company has an option to purchase some leased assets at the expiry of the relevant lease period.

20.1 Non-cancellable operating lease payments

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Not longer than 1 year	972	418	-	-
Longer than 1 year and not longer than 5 years	2,502	2,514	-	-
Longer than 5 years	1,812	2,180	-	-
	$5,286	$5,112	-	-

20.2 Finance Lease Commitments

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Not longer than 1 year	11	8	-	-
Longer than 1 year and not longer than 5 years	36	47	-	-
	$47	$55	-	-

21. INVESTMENT IN SUBSIDIARIES

21.1 Formation of Subsidiaries

During the year, the Company formed three 100% owned subsidiaries. A2 Holdings UK Limited ("A2H") and A2 Infant Nutrition Limited ("A2IN") are New Zealand incorporated companies. A2 Exports Australia Pty Limited is an Australian incorporated company.

A2H was established to hold the 50% interest in a new joint venture, A2 Milk (UK) Limited ("A2M"). Refer Note 22 Investment in Associates and Joint Ventures.

A2 Infant Nutrition Limited and A2 Exports Australia Pty Limited are currently non-trading companies.

21. INVESTMENT IN SUBSIDIARIES Cont.

21.2 Subsidiaries Owned

Details of the Company's subsidiaries at 30 June 2012 are as follows:

Name of Subsidiary	Place of Incorporation & Operation	Proportion of Ownership Interest		Principal Activity
		2012	2011	
A2 Exports Limited	New Zealand	100%	100%	Non active
A2 Holdings UK Limited	New Zealand	100%	-	Investment in A2 Milk (UK) Limited
A2 Infant Nutrition Limited	New Zealand	100%	-	Non active
A2 Australian Investments Pty Limited	Australia	100%	100%	Investment in A2 Dairy Products Australia Pty Limited
A2 Botany Pty Limited (formerly A2 Exports Pty Limited)	Australia	100%	100%	Non active
A2 Dairy Products Australia Pty Limited	Australia	100%	100%	Distribution and marketing of a2™ brand milk in Australia and Japan
A2 Exports Australia Pty Limited	Australia	100%	-	Non active
A2 Milk Company LLC	USA	100%	100%	Non active

All subsidiaries have a balance date of 30 June except for A2 Milk Company LLC which has a balance date of 31 December.

A2 Corporation Limited is incorporated in New Zealand and is the parent entity of the Group.

21. INVESTMENT IN SUBSIDIARIES Cont.

21.3 Shares Held in Subsidiaries

	Company 2012 $'000	Company 2011 $'000
Investments in Subsidiaries		
Balance at beginning of period		
A2 Botany Pty Limited (formerly A2 Exports Pty Limited)	2,983	2,983
A2 Milk Company LLC	351	-
	3,334	2,983
Additions during the period		
A2 Milk Company LLC	-	351
A2 Holdings UK Limited (Uncalled shares)	-	-
A2 Infant Nutrition Limited	1	-
Balance at end of period	$3,335	$3,334

Investments are also held in A2 Australian Investments Pty Limited and A2 Exports Limited represented by uncalled equity.

The Directors are satisfied that no impairment write down is required to the carrying value of A2 Botany Pty Limited, A2 Milk Company LLC, A2 Holdings UK Limited and A2 Infant Nutrition Limited at 30 June 2012.

21.4 Loans to Subsidiaries

	Company 2012 $'000	Company 2011 $'000
At balance date, A2 Corporation Limited had loans to subsidiaries as follows:		
Current Assets		
A2 Dairy Products Australia Pty Limited – Transactional loan	3,851	-
A2 Holdings UK Limited	2,435	-
Total Current Assets	6,286	-
Non-Current Assets		
A2 Australian Investments Pty Limited	12,604	13,379
A2 Dairy Products Australia Pty Limited – Interest Bearing Loan	4,329	4,668
Total Non Current Assets	16,933	18,047
Total Loans	$23,219	$18,047

21. INVESTMENT IN SUBSIDIARIES Cont.

21.4 Loans to Subsidiaries Cont

A loan for AUD 8,721,000 was advanced to A2 Australian Investments Pty Limited in the prior year to fund the purchase of the shares in A2 Dairy Products Australia Pty Limited. The loan is for a period of 10 years with interest charged at the bank bill rate plus a margin of 2.00% p.a.

An initial loan for NZD 3,400,000 was advanced to A2 Dairy Products Australia Pty Limited during the 2011 year, for a period of 10 years with interest charged at 8.00% p.a. The accrued interest is capitalised to the principal outstanding.

The transactional loan to A2 Dairy Products Australia Pty Limited represents inter-company transactions and includes accruals for management fees and royalties less costs paid on behalf of the Company by A2 Dairy Products Australia Pty Limited.

The above balances include interest accrued on the principal amounts outstanding. As at balance date, the accrued interest has been capitalised to the principal outstanding.

The loan to A2 Holdings UK Limited is to fund the investment in the joint venture A2 Milk (UK) Limited. The loan was advanced on 15 November 2011 and is interest free and repayable on demand.

21.5 Prior Acquisitions of Subsidiaries

During the 2011 year, the Company purchased the 50% interest in two associates it did not already own A2 Milk Company LLC and A2 Dairy Products Australia Pty Limited. As a result the Company now owns 100% of the shares in both entities.

Name	Principal Activity	Date of Acquisition	Proportion of Shares Acquired %	Cost of Acquisition $'000
A2 Milk Company LLC	Licensing rights for the supply, distribution and marketing of a2™ brand milk in USA	5/10/10	50	351
A2 Dairy Products Australia Pty Limited	Distribution and marketing of a2™ brand milk in Australia and Japan	22/7/10	50	10,731
				$11,082

The cost of acquiring the remaining 50% of both entities was $11,082,000 and the fair value of assets and liabilities acquired was $2,966,000. This resulted in goodwill on acquisition of $8,116,000.

Included as consideration to acquire the 50% holding in A2DP owned by Freedom Foods Group Limited (FFG) was the option, for a period of 12 months to July 2012, to acquire further shares in A2 Corporation. This option was exercised in July 2011 and FFG acquired 18,761,657 fully paid shares at a total cost of $2,559,000.

22. INVESTMENT IN ASSOCIATES/JOINT VENTURES

22.1 Interest in Associates/Joint Ventures

During the year, the Group, through its subsidiary A2 Holdings UK Limited ("A2H"), entered into an investment agreement with Robert Wiseman & Sons Limited ("RWS") to establish a business of sourcing, marketing and selling a2™ brand milk products in the United Kingdom and Ireland. A2H and RWS invested £1,000,000 ($1,995,000) each for a 50% interest in a joint venture company, A2 Milk (UK) Limited.

Funding for the investment by A2H was provided by A2C by way of an intercompany loan. This loan is interest free and repayable on demand.

In the 2011 year the Company purchased the 50% interest in the associates it did not already own. The entities were A2 Milk Company LLC and A2 Dairy Products Australia Pty Limited and these entities are now 100% owned subsidiaries (refer Note 21). Details of movements in the investment in these entities, prior to becoming subsidiaries, are shown in the 2011 year of note 22.2 below.

22.2 Movements in the Amount of the Group's Investment in Associates/Joint Ventures

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Carrying value at beginning of year	-	2,742	-	-
Funds advanced/(repaid)	2,325	50	-	-
Share of net surplus/(deficit) – 2012 income year	(743)	-	-	-
Share of net surplus/(deficit) – 2011 income year	-	134	-	-
Foreign exchange translation movement	-	40	-	-
	1,582	2,966	-	-
Carrying value derecognised when associates become subsidiaries	-	(2,966)	-	-
Carrying value at end of year	$1,582	-	-	-

Funds advanced include capitalised costs of $330,000 relating to costs incurred in the formation of A2 Milk (UK) Limited.

22. INVESTMENT IN ASSOCIATES/JOINT VENTURES Cont.

22.3 Summarised Financial Information

The following summarises financial information relating to the Group's associate/joint venture:

	Group	
	30 June 2012 $'000	30 June 2011 $'000
Extract from the associate/joint venture's balance sheets:		
Current assets	3,791	-
Non-current assets	4	-
Total assets	3,795	-
Current liabilities	1,242	-
Net assets	2,553	-
Share of associate/joint venture's net assets	1,276	-
Less impairment losses	-	-
Plus capitalised costs	330	-
Less foreign exchange translation movement	(24)	-
Carrying value at end of year	$1,582	-

22. INVESTMENT IN ASSOCIATES/JOINT VENTURES Cont.

22.3 Summarised Financial Information Cont.

Extract from the associates/joint ventures' income statements:

	Group	
	30 June 2012 $'000	30 June 2011 $'000
The 2011 figures are to the date the associates became subsidiaries.		
Revenue	-	2,235
Net surplus/(deficit)	(1,487)	217
Share of associates/joint ventures surplus/(deficit)	(743)	134
Share of profit/(loss) & other obligations of associates/joint ventures		
Represented by:		
A2 Milk (UK) Limited – share of loss	(743)	-
A2 Milk Company LLC – profit adjustment/(share of loss)	-	16
A2 Dairy Products Australia Pty Limited – share of profit	-	93
A2 Dairy Products Australia Pty Limited – profit on restatement of subsidiary	-	25
	$(743)	$134

The current year figures are for A2 Milk (UK) Limited.

The share of loss from A2 Milk (UK) Limited represents trading for a 7 month period.

Prior year figures are for A2 Milk Company LLC (A2M) and A2 Dairy Products Australia Pty Limited (A2DP).

A2M became a wholly owned subsidiary on 5 October 2010 and A2DP became a wholly owned subsidiary on 22 July 2010.

23. RELATED PARTY TRANSACTIONS

All inter-group balances and transactions have been eliminated in the group financial statements, but are disclosed in the notes below for completeness.

23.1 Ultimate Parent
A2 Corporation Limited is the parent of the Group. The Group consists of A2 Corporation Limited and its subsidiaries.

23.2 Key Management Personnel
Details relating to key management personnel, including wages, salaries and other short term benefits are included in Note 5.

23.3 Transactions with Related Parties
The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given and no expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

23. RELATED PARTY TRANSACTIONS Cont.

The following table provides details of transactions that were entered into with related parties for the relevant financial year and any outstanding balances on related party trade receivables and payables at year-end.

Related Party	Sales to Related Parties		Purchases from Related Parties		Other Transactions with Related Parties		Outstanding Transactions with Related Parties	
Company	2012 $'000	2011 $'000	2012 $"000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Subsidiaries:								
A2 Dairy Products Australia Pty Limited – intercompany interest received by A2 Corporation Limited					287	162		
A2 Australian Investments Pty Limited – intercompany interest received by A2 Corporation Limited					950	903		
A2 Dairy Products Australia Pty Limited – management fees received by A2 Corporation Limited	1,481	1,522						
A2 Dairy Products Australia Pty Limited – royalties received by A2 Corporation Limited	2,147	281						197
Associate/Joint Venture:								
A2 Milk (UK) Limited – expenses recharged for overseas travel and accommodation incurred by A2 Corporation Limited in relation to the business activities of A2 Milk (UK) Limited	195						144	
Company								
Other:								
Consultancy fees paid to DJD Management Limited, in which Mr D W Mair, a Director of the Company, is a shareholder.					-	36		
Consultancy fees paid to Mr G P Hinton, a Director of the Company.					-	13		
Support service fees received from NSI Management Limited, in which Mr C J Cook and Mr G P Hinton, both Directors of the Company, are Directors, and of which Mr C J Cook has a non-beneficial interest. The fees were charged at commercial rates.					-	61		
Support service fees received from/(paid to) Freedom Foods Group Ltd (FFG), in which Messers P R Gunner, M Miles and G H Babidge, Directors of the Company, are Directors of FFG. The fees were charged at commercial rates.					20	(21)		
A2 Australian Investments Pty Limited intercompany interest paid to A2 Botany Pty Limited					158	267		

24. COMMITMENTS FOR EXPENDITURE

24.1 Capital Expenditure Commitments

As at 30 June 2012, there was a commitment of AUD 50,000 relating to the Milk Processing Facility being undertaken by A2 Dairy Products Australia Pty Limited (2011: AUD 5,311,000).

25. CONTINGENT LIABILITY

At 30 June 2012, there were no material contingent liabilities (2011: $Nil).

26. SUBSEQUENT EVENTS

There have been no subsequent events.

27. OPERATING SEGMENT INFORMATION

For management purposes, the group is organised into business units based on their geographical location and has three reportable operating segments as follows:

- The New Zealand segment receives royalty, licence fee and management fee income,
- The Australian segment receives income from milk sales and interest income from investment in Australian associates.
- The United Kingdom segment receives a share of joint venture profits and losses.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Segment Revenue		Segment Profit	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Continuing operations				
Australia	62,605	42,206	3,945	2,885
New Zealand	1,442	183	1,227	(252)
Unallocated	-	-	-	50
Adjustments and eliminations	-	-	144	-
	$64,047	$42,389	$5,316	$2,683
Interest income			177	215
Interest expense			(199)	(121)
Share in profits/(losses) from associates/joint ventures			(743)	134
Depreciation and amortisation			(433)	(52)
Income tax income/(expense)			287	(743)
Consolidated segment profit/(loss)			$4,405	$2,116

Over 97% of milk sales come from three customers in Australia. (2011: 86% from two customers)

27. OPERATING SEGMENT INFORMATION Cont.

	Depreciation & Amortisation		Additions to Non-Current Assets	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Australia	408	52	11,411	2,073
New Zealand	25	-	12	4
	$433	$52	$11,423	$2,077

	Assets		Liabilities	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Australia	52,910	38,686	39,750	28,020
New Zealand	35,695	24,108	1,783	518
Unallocated	1,726	-	2,445	-
Adjustments and eliminations	(40,659)	(30,065)	(31,654)	(20,992)
	$49,672	$32,729	$12,324	$7,546

28. NOTES TO THE CASH FLOW STATEMENT

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Reconciliation of Net Surplus/(Deficit) after Taxation with Net Cash Flows from Operating Activities				
Net surplus /(deficit) for the year	4,405	2,116	(98)	504
Adjustments for non-cash items:				
Depreciation & amortisation expense	433	52	31	-
Loss on disposal	21	-	-	-
Expense recognised in profit & loss in respect of equity-settled share-based payments	251	271	251	271
Net foreign exchange (gain)/loss	115	(91)	180	(551)
Share of (profit)/loss of associates/joint ventures and other obligations	743	(134)	-	-
Deferred tax	(943)	(143)	-	-
Income & expenses credited to inter-company loan	-	-	(3,512)	(1,063)
	5,025	2,071	(3,148)	(839)
Movements in working capital				
(Increase)/decrease in trade and other receivables	(5,496)	(11,409)	(1,492)	214
(Increase)/decrease in prepayments	(177)	(282)	37	(24)
(Increase)/decrease in inventories	(252)	(425)	-	-
Increase/(decrease) in accounts payable	1,193	5,031	27	(517)
Increase/(decrease) in current tax liabilities	(194)	837	82	99
	99	(4,177)	(4,494)	(1,067)
Plus/(Less) items classified as investing and financing activities				
Payment for partly paid shares	-	(32)	-	(32)
A2 Milk Company LLC expenses	-	-	-	50
Amounts owing by UK JV	-	-	(134)	-
Acquisition of working capital	-	5,648	-	(3)
Reclassification of lease liability to financing activities	(11)	-	-	-
Reclassification of Loan to A2 Australian Investments Pty Limited to accounts receivable	-	-	599	-
Net cash inflow (outflow) from operating activities	$88	$1,439	$(4,029)	$(1,052)

29. FINANCIAL INSTRUMENTS

29.1 Financial Risk Management Objectives

Exposure to credit, interest rate, foreign currency, equity price and liquidity risks arises in the normal course of the Company's business.

The Group's corporate treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by reviewing compliance with policies and exposure limits on a continuous basis.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Specific risk management objectives and policies are set out below.

29.2 Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and short term deposits, and equity attributable to equity holders of the parent comprising issued capital, retained earnings and reserves as disclosed in Notes 6, 14, 17, 18 and 19 respectively.

The Group is not subject to externally imposed capital requirements and the Group's Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

29.3 Categories of Financial Instruments

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial Assets				
Loans and receivables				
Trade and other receivables	17,189	11,689	1,917	420
Loans to subsidiaries	-	-	23,219	18,047
Cash and Short Term Deposits	6,568	7,467	5,188	3,456
Financial Liabilities				
Financial liabilities at amortised cost				
Trade creditors	3,916	3,595	71	110
Lease liability	47	55	-	-
Short term borrowings	4,414	622	1,127	-

29. FINANCIAL INSTRUMENTS Cont.

29.4 Market Risk

Market risk is the potential for change in the value of on and off balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities, both on and off balance sheet, and from controlled funding undertaken in pursuit of profit. The Group's activities expose it to the financial risks of change in foreign currency exchange rates and interest rates (see 29.6, 29.7, 29.8 and 29.9 below).

Market risk exposures continue to be monitored by management on an ongoing basis and there has been no change during the year to the Group's exposure to market risks or the manner in which it manages and measures risk.

29.5 Foreign Currency Risk Management

In the course of normal trading activities, the Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Company does not hedge this risk.

The carrying amount of the Company's foreign currency denominated financial instruments at the balance date are as follows:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
US Dollars				
Assets:				
Cash and short term deposits	474	479	474	479
	$474	$479	$474	$479
AUS Dollars				
Assets:				
Cash and short term deposits	35	2,802	35	2,802
Accounts receivable	1,905	1,092	1,905	1,092
Loans to subsidiaries	-	-	12,604	11,267
	$1,940	$3,894	$14,544	$15,161
GB Pounds				
Assets:				
Cash and short term deposits	1,957	-	1,957	-
Loans to subsidiaries	-	-	2,435	-
	$1,957	-	$4,392	-

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2012 and 30 June 2011.

29. FINANCIAL INSTRUMENTS Cont.

29.6 Foreign Currency Sensitivity Analysis

The Group is exposed to foreign currency risk arising from license revenue denominated in currencies other than the Group's functional currency. The majority of foreign currency related exposures relate to balances of inter-entity advances. The Company is mainly exposed to the currency of Australia (AUD), the currency of the United Kingdom (GBP) and the currency of the United States of America (USD).

The following table details the Group's sensitivity to a 10% increase and decrease in the New Zealand dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external bank accounts and external receivables as well as loans to foreign operations within the group where the denomination of the loan is in currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where the New Zealand dollar strengthens 10% against the relevant currency. For a 10% weakening of the New Zealand dollar against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Currency Impact on Profit or Loss				
Strengthening in NZD/AUD	326	225	1,146	1,024
Weakening in NZD/AUD	(486)	(193)	(1,400)	(1,252)
Currency Impact on Equity				
Strengthening in NZD/AUD	(217)	167	1,322	1,378
Weakening in NZD/AUD	265	(125)	(1,616)	(1,685)
Strengthening in NZD/USD	43	44	43	44
Weakening in NZD/USD	(53)	(53)	(53)	(53)
Strengthening in NZD/GBP	178	-	399	-
Weakening in NZD/GBP	(217)	-	(438)	-

The Group's sensitivity to Australian currency has increased during the current period due to an increase in funds advanced to Australian subsidiaries by the parent entity. The Group's sensitivity to US currency has decreased during the current period as no trading activity is currently being undertaken in the US.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. But with the continuing volatile global financial markets, management continue to monitor offshore monetary investments on a regular basis.

29.7 Interest Rate Risk

The Group is exposed to interest rate risk as it invests cash on call at floating interest rates and cash in short term deposits at fixed interest rates.

The Groups interest bearing financial liabilities are short term borrowings and a lease liability.

The Directors consider that the Group's sensitivity to a reasonably possible change in interest rates would not have a material impact on profit or equity.

29. FINANCIAL INSTRUMENTS Cont.

29.8 Other Price Risk Management

The Company is not exposed to equity price risks arising from equity investments. All equity investments are investments in 100% owned subsidiaries.

29.9 Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with banks that are rated the equivalent of investment grade and above. The Group utilises information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

The Group has credit risk exposure as the majority of sales are to three customers. However this risk is mitigated as these customers are all creditworthy, have sufficient collateral and are not related entities.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial instruments, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
The maximum exposures to credit risk at balance date are:				
Cash, short term deposits and short term borrowings	2,154	6,845	4,061	3,456
Trade and other receivables	17,189	11,689	1,917	420
Loans to subsidiaries	-	-	23,219	18,047
	$19,343	$18,534	$29,197	$21,923

At balance date, the Group's bank accounts were held with National Australia Bank Limited and Bank of New Zealand Limited. The Group does not have any other concentrations of credit risk. The Group does not require any collateral or security to support financial instruments.

29.10 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profiles of the Group's interest bearing investments are disclosed later in this note.

29. FINANCIAL INSTRUMENTS Cont.

29.11 Liquidity & Interest Risk Tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of financial liabilities including interest that will accrue to those assets or liabilities except where the Group is entitled and intends to repay a liability before its maturity. The tables also disclose those financial liabilities subject to interest rate risk.

Group

2012	Weighted Average Effective Interest Rate %	Less than 1 month $'000	1-3 months $'000	3 months-1 Year $'000	Fixed Maturity Dates 1-5 years $'000	5+ Years $'000	Total $'000
Financial liabilities:							
Short term borrowings	6.11%	4,414	-	-	-	-	4,414
Trade creditors	0%	3,384	453	79	-	-	3,916
Lease liability		-	2	8	37	-	47
		$7,798	$455	$87	$37	-	$8,377

2011	Weighted Average Effective Interest Rate %	Less than 1 month $'000	1-3 months $'000	3 months-1 Year $'000	Fixed Maturity Dates 1-5 years $'000	5+ Years $'000	Total $'000
Financial liabilities:							
Short term borrowings	7.3%	622	-	-	-	-	622
Trade creditors	0.0%	2,797	780	18	-	-	3,595
Lease liability		-	2	6	47	-	55
		$3,419	$782	$24	$47	-	$4,272

Company

2012	Weighted Average Effective Interest Rate %	Less than 1 month $'000	1-3 months $'000	3 months-1 Year $'000	Fixed Maturity Dates 1-5 years $'000	5+ Years $'000	Total $'000
Financial liabilities:							
Trade creditors		29	42	-	-	-	71
		$29	$42	-	-	-	$71

2011	Weighted Average Effective Interest Rate %	Less than 1 month $'000	1-3 months $'000	3 months-1 Year $'000	Fixed Maturity Dates 1-5 years $'000	5+ Years $'000	Total $'000
Financial liabilities:							
Bank overdraft	-	-	-	-	-	-	-
Trade creditors	0.0%	85	25	-	-	-	110
		$85	$25	-	-	-	$110

30. PRIOR PERIOD ADJUSTMENTS

(a) Expense Reimbursements & Loans to Subsidiary

During the 2008 and 2009 years, expense reimbursements were paid by A2 Corporation Limited (A2C) to A2 Australian Investments Limited (A2AI) to reimburse A2AI for losses it had incurred in relation to its investment in A2 Dairy Products Australia Limited (A2DP). During this time A2DP was a 50% owned associate of A2AI and under a joint sharing agreement, A2AI was required to introduce further funds to cover costs incurred above a specified threshold.

A review of the joint sharing agreement has determined that these funds were considered as payment for convertible notes and should therefore form part of the cost base of the investment in A2DP by A2AI. Accordingly funds advanced by A2C to A2AI are interest bearing loans rather than a payment for expense reimbursements. This results in the reversal of expenses in A2C and an additional subsidiary loan asset. There is no change to the Group net reporting position.

(b) Changes to the Comparative Expense Analysis

Changes to the comparative expense analysis of some figures in the 2011 year have been undertaken to provide accurate comparisons to the 2012 year expenditure figures. This has resulted in a change to "Gross Margin" and "Expenses" at the Group level but has not changed the reported profit for the year.

	Group			Company		
Revenue Statement	2011 (Reported Position) $'000	Adjustment $'000	2011 (Restated Position) $'000	2011 (Reported Position) $'000	Adjustment $'000	2011 (Restated Position) $'000
CONTINUING OPERATIONS						
Gross margin	14,527	744	15,271	-	-	-
Share of associate earnings	134	-	134	-	-	-
Interest income	215	-	215	1,052	103	1,155
Other revenue	183	-	183	2,411	64	2,475
Expenses	(12,200)	(744)	(12,944)	(3,022)	-	(3,022)
Profit/(loss) before tax	2,859	-	2,859	441	167	608
Income tax expense	(743)	-	(743)	(104)	-	(104)
PROFIT/(LOSS) FOR THE YEAR	2,116	-	2,116	337	167	504
OTHER COMPREHENSIVE INCOME						
Foreign currency translation gain/(loss)	421	-	421	-	-	-
TOTAL COMPREHENSIVE INCOME	$2,537	-	$2,537	$337	$167	$504
EARNINGS/(LOSS) PER SHARE						
Basic (cents per share)	0.40		0.40			
Diluted (cents per share)	0.40		0.40			

30. PRIOR PERIOD ADJUSTMENTS Cont.

(b) Changes to the Comparative Expense Analysis Cont.

Balance Sheet	Group			Company		
	2011 (Reported Position) $'000	Adjustment $'000	2011 (Restated Position) $'000	2011 (Reported Position) $'000	Adjustment $'000	2011 (Restated Position) $'000
ASSETS						
Current assets						
Loans to subsidiaries	-	-	-	12,002	1,377	13,379
Deferred tax	143	-	143	-	-	-
Other current assets	19,891	-	19,891	3,929	-	3,929
Total current assets	20,034	-	20,034	15,931	1,377	17,308
Non-current assets						
Total non-current assets	12,695	-	12,695	8,227	-	8,227
TOTAL ASSETS	$32,729	-	$32,729	$24,158	$1,377	$25,535
LIABILITIES						
Current liabilities						
Accounts payable	6,037	-	6,037	424	-	424
Current tax liabilities	832	-	832	94	-	94
Other current liabilities	622	-	622	-	-	-
Total current liabilities	7,491	-	7,491	518	-	518
Non-current liabilities	55	-	55	-	-	-
Total liabilities	$7,546	-	$7,546	$518	-	$518
OWNERS EQUITY						
Equity attributable to equity holders of the parent						
Share capital	56,063	-	56,063	56,063	-	56,063
Retained earnings (deficit)	(32,509)	-	(32,509)	(33,722)	1,377	(32,345)
Foreign currency translation reserve	330	-	330	-	-	-
Other reserves	1,299	-	1,299	1,299	-	1,299
Total equity	25,813	-	25,183	23,640	1,377	25,017
TOTAL LIABILITIES & OWNERS EQUITY	$32,729	-	$32,729	$24,158	$1,377	$25,535

CORPORATE GOVERNANCE

Board and management are committed to ensuring that the Company maintains corporate governance structures which ensure that the Company operates efficiently and effectively in shareholders' best interest, but at the same time recognised that certain elements of international "best practice" corporate governance are not appropriate for a small company.

This statement of corporate governance provides a summary of the Company's corporate governance processes.

The Company's corporate governance policies meet the nine principles of corporate governance issued by the Securities Commission. The nine principles are:

- Ethical standards
- Board composition and performance
- Use of Board committees where this would enhance effectiveness
- Reporting and disclosure
- Remuneration of Directors and executives
- Risk management
- Quality and independence of the external audit process
- Shareholder relations
- Shareholder interest

Financial Statements
The Directors are responsible for ensuring that the Company's financial statements give a true and fair view of the financial position of the company and its financial performance and cash flows for the year. The external auditors are responsible for expressing an opinion on the financial statements, based on their review and assessment of the conclusions drawn from evidence obtained in the course of the audit.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial reporting Act 1993.

After reviewing internal management financial reports and budgets, the Directors believe that the Company will continue to be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE Cont.

Role of the Board of Directors
Directors are elected by the shareholders to govern the Company in the shareholders' best interests. The Board is the overall and final body of responsibility for all decision making within the Company.

The Directors have a diverse range of expertise and experience, and are committed to use this to benefit the Company. The Board is responsible to shareholders for charting the direction of the Company by participating in the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the Company to the Managing Director within this framework.

The primary responsibilities of the Board include:

- Establishing the long term goals of the Company and strategic plans to achieve those goals;
- Succession planning for the Managing Director and the Board;
- Risk management in order to protect its employees, assets, earnings and reputation;
- Reviewing and adopting the five-year plan and operating budget produced annually;
- Monitoring environmental, social and financial performance;
- Ensuring that the Company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities;
- Appointing and monitoring the Managing Director and other executive management and determining their remuneration;
- Communicating with shareholders and other stakeholders; and
- Approving the annual and half-year financial reports.

The Directors appoint a Chair from amongst their members. The Board supports separation of the role of Chairman and Chief Executive Officer. The Chairman's role is to provide leadership and to manage the Board effectively. Where necessary the Board will meet without the Managing Director being present.

The Board receives reports from management and has access to all of the information necessary for it to effectively discharge its duties.

Board Membership and Independence
The Constitution currently sets the size of the Board at a minimum of four and a maximum of seven members. At least three Directors must be resident in New Zealand. The Board currently comprises seven Directors, comprising a Chairman and six Directors appointed for their mix of commercial and technical skills. The Board aims to meet on at least six occasions in the financial year. Under the Company's constitution, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible.

Two of the Company's directors, Gregory Hinton and David Mair also serve in an executive director capacity. There are two independent members, David Mair and Richard Le Grice. A director is "independent" when he or she does not have any direct or indirect interest or relationship with the Company which could reasonably influence, in a material way, that Director's decisions relating to the Company. The Board uses the NZSX definitions of an Independent Director for guidance.

CORPORATE GOVERNANCE Cont.

Board Membership and Independence Cont.

The Company has no requirement for Directors to hold shares in the Company but actively encourages them to do so.

The Board as a whole is involved with recommending candidates to act as Directors to shareholders. When considering candidates for nomination, the Board will consider, amongst other things, the individual's experience, qualifications and skills in comparison to the experience, qualifications and skills of other Directors, whether that individual is "independent" and whether that individual would be able to work effectively with other Directors. The Board has the ability to appoint an individual to fill a casual vacancy on the Board until the Company's next Annual Meeting.

The procedures for the appointment and removal of Directors are governed by the Company's Constitution. The Constitution provides for one third of the Company's Directors (rounded, if necessary, to the nearest number) to retire and stand for re-election at every Annual Meeting, those Directors to retire being those who have been in office longest since they were elected or deemed to be elected.

Total Directors' remuneration is fixed by shareholders at the Company's Annual Meeting, upon the recommendation of the Board as a whole. Within that cap, the Board is responsible for determining the remuneration paid to each Director.

Conflicts of Interest

The Company's Constitution sets out the procedure to be followed where Directors are faced with a conflict of interest. At all times a Director must be able to act in the interests of the organisation as a whole and in accordance with all relevant laws, including the NZAX Listing Rules. The interests and associates, individual shareholders and the personal interests of the Director and his family must not be allowed to prevail over those of the Company and its shareholders generally.

Audit, Risk Management and Internal Financial Control

The Board has overall responsibility for risk management and the Company's system of internal financial control, for liaising with the Company's external auditors, and for ensuring the integrity of the Company's financial reporting. The Board constantly monitors the operational and financial aspects of the Company's activities and has established procedures and policies that are designed to provide effective internal financial control. Annual budgets and business plans are prepared, and agreed by the Board. Monthly management accounts are prepared and reviewed by the Board throughout the year to monitor performance against budget.

The Board considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the Company. The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

Given the size of the Company an internal audit function is not considered necessary.

NZX Corporate Best Practice Code

The Company's Corporate Governance processes do not materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

ADDITIONAL STOCK EXCHANGE INFORMATION

The Company's ordinary shares are listed on the Alternative Market ("NZAX") on the New Zealand Stock Exchange. Details in regard to such securities are as follows.

1. Substantial Security Holders

Pursuant to sub-part 3 of the Securities Markets Act 1988, the following persons have given notice as at 6 September 2012, that they were substantial security holders in the Company and held a 'relevant interest' in the number of fully paid and partly paid ordinary shares shown below:

Name	Date of Notice	Numbers	%
Mountain Road Investments	13 December 2011	137,558,701	22.75%
AMP Capital Investors (New Zealand) Limited	4 September 2012	73,008,924	12.07%
Freedom Foods Group Limited	28 July 2011	156,036,129	25.81%
EGI – Fund (08-10) Investors, LLC	22 July 2010	50,000,000	8.30%

The total number of voting security on issue at 6 September 2012 was 604,666,979 consisting of 559,008,069 fully paid shares and 45,658,910 partly paid shares.

2. Directors' Shareholdings

Directors held the following equity securities in the Company at 30 June 2012:

Name of Director	Associated Entity	Beneficial No's	%	Non Beneficial No's	%
Cliff Cook	Mountain Road Investments Limited	137,558,701	22.75	-	0.00
Greg Hinton	Kawerau Trust	5,000,000	0.83	-	0.00
Greg Hinton	Personal	8,000,000	1.32	-	0.00
Greg Hinton	Nikau Investments (2001) Limited	101,872	0.02	-	0.00
David Mair	Private	5,000,000	0.83	-	0.00
David Mair	Private	-	0.00	2,000,000	0.33
David Mair	Private	-	0.00	2,000,000	0.33
Geoff Babidge	GHB Investment Trust	10,000,000	1.65	-	0.00
Geoff Babidge	Freedom Foods Group Limited	198,023	0.03	149,679,196	24.75
Mel Miles	Freedom Foods Group Limited	426,813	0.07	149,450,406	24.72
Perry Gunner	Freedom Foods Group Limited	1,031,407	0.17	148,845,812	24.62

ADDITIONAL STOCK EXCHANGE INFORMATION Cont.

3. Twenty Largest Fully Paid Equity Security Holders

The names of the 20 largest holders of equity securities as at 6 September 2012 are listed below:

	No's	%
Freedom Foods Group Limited	149,877,219	26.8
Mountain Road Investments Limited	137,558,701	24.6
HSBC Nominees (New Zealand) Limited	50,708,249	9.1
AMP Investment Strategic Equity Growth Trust Fund	36,165,982	6.5
New Zealand Superannuation Fund Nominees Limited	22,366,265	4.0
NZGT Nominees Limited (AIF Equity Fund A/C)	21,838,577	3.9
Child Health Research Foundation	13,915,962	2.5
Accident Compensation Corporation	13,660,743	2.4
Gregory Paul Hinton	8,000,000	1.4
Ulrike McLachlan	7,178,563	1.3
TEA Custodians Limited	6,888,328	1.2
TP Trustee Brendemeer Limited (Brendemeer A/c)	5,000,000	0.9
New Zealand Permanent Trustees Limited	4,500,000	0.8
Idea Sphere Inc	4,000,000	0.7
Peter Bruce Hinton	3,293,064	0.6
AMP Capital NZ Equity Opportunity Fund	2,421,745	0.4
Forsyth Barr Custodians Limited	2,200,000	0.4
David William Mair & John Gordon Phipps	2,000,000	0.4
John Gordon Phipps & Kathron Anne Phipps & David William Mair	2,000,000	0.4
Darcy Frederick Quinn & Heather Jean Quinn & David Brendon Quinn	2,000,000	0.4
	495,573,398	88.7

ADDITIONAL STOCK EXCHANGE INFORMATION Cont.

4. Spread of Security Holders as at 6 September 2012:
a) Fully Paid Ordinary Shareholders

Size of Shareholding	Number of Holders	%	Numbers
1-1,000	13	0.00	10,960
1,001-5,000	339	0.19	1,067,247
5,001-10,000	294	0.42	2,349,774
10,001-50,000	440	1.91	10,658,532
50,001-100,000	95	1.30	7,278,790
100,001-500,000	88	3.39	18,949,512
500,001-1,000,000	13	1.59	8,865,961
1,000,001 shares or more	20	91.20	509,827,293
Total	1,302	100.00	559,008,069

b) Partly Paid Ordinary Shareholders

Size of Holding	Number of Holders	%	Numbers
1,000,001 shares or more	8	100.00	45,658,910
Total	8	100.00	45,658,910

Credit Rating Status
Not applicable.

Waivers Granted by NZX or Market Surveillance Panel
No material waivers were sought or granted during the financial year.

Corporate Governance Policies
In conjunction with its advisors, the Company applies best practice philosophy wherever possible in the execution of its operations, financial management, corporate business administration and practices. In every arena, due regard is given to the consideration of compliance in operational performance and reporting in order to ensure this outcome.

Changes in Directors
M R Perich was appointed as Alternate Director to P R Gunner of A2 Corporation Limited on 22 August 2011.

STATUTORY INFORMATION

Particulars of notices or statements given to or approved by the Board

Interests Register
Directors have declared interests during the period as follows:

- The Company has arranged and paid for policies for Directors' liability insurance which ensure that the Directors are protected against liabilities and costs for acts or omissions by them in their capacity as Directors of the Company.

Other Positions Held
Directors also hold the following positions with the following entities. This declaration serves as notice that the director may benefit from any transactions between the Company and the disclosed entities.

Name of Director	Entity	Position
C J Cook	Chain Hill Farm Limited	Director/Shareholder
	Chesapeake Limited	Director
	Chesapeake Cook Limited	Director
	Chesapeake Lake View Limited	Director
	Chesapeake Tasman Limited	Director
	DHT Limited	Director/Shareholder
	Gingold Holdings Limited	Director/Shareholder
	GNLC Limited	Director
	HSI Holdings Limited	Director/Shareholder
	HSI Investments Limited	Director
	Layard Estates Limited	Shareholder
	Les Moulieres (NZ) Limited	Director
	Martinborough Cottage Grove Limited	Director
	Newmarket Limited	Director
	NSI Management Limited	Director
	Private Health Care (NZ) Limited and various subsidiaries and associated companies	Director
	PHC Treasury (UK) Limited	Director/Shareholder
	Rail Land Lease Limited	Shareholder
	Shubourne Holdings Limited	Director
D W Mair	DDD Investments Limited	Director/Shareholder
	DJD Management Limited	Director/Shareholder
	Skellerup Holdings Limited	Director/Shareholder/CEO
M Miles	Freedom Foods Group Ltd	Director/Shareholder
	Brewtique Pty Ltd	Director / Shareholder
G Babidge	Freedom Foods Group Ltd	Director/Shareholder

STATUTORY INFORMATION Cont.

Other Positions Held Cont.

Name of Director	Entity	Position
G P Hinton	45 South Cherries Limited	Director/Shareholder
	45 South Exports Limited and subsidiary	Director/Shareholder
	Arney Developments Limited	Director/Shareholder
	Belmont Trading Coy Limited	Director
	Chain Hill Farm Limited	Shareholder
	Chesapeake Lake View Limited	Director
	Chesapeake Cook Limited	Director
	Chesapeake Limited	Director
	Chesapeake Tasman Limited	Director
	Gingold Holdings Limited	Director
	Great Northern Land Company Limited	Director/Shareholder
	Healthphone Holdings Limited	Director
	Hobsonville Land Company Limited	Director
	HSA Global Limited	Director/Shareholder
	Layard Estates Limited	Director
	Les Moulieres (NZ) Limited	Director
	Marne Street Hospital Limited	Director
	Martinborough Cottage Grove Limited	Director
	Newmarket Limited	Director
	Nikau Investments (2001) Limited	Director/Shareholder
	North Harbour Property 369 Limited	Shareholder
	NSI Management Limited	Director
	Paradise Trust Company Limited	Director
	PHC Treasury (UK) Limited	Director
	Pisa Holdings Limited	Director/Shareholder
	Private Health Care (NZ) Limited and various subsidiaries and associated companies	Director
	Rail Land Lease Limited	Director/Shareholder
	Shubourne Holdings Limited	Director
	Southern Nursing Bureau Limited	Director
	Waiata Investments (2010) Limited	Director/Shareholder
R Le Grice	Braveheart Moke Lake Limited	Shareholder
	Colorite Group Limited	Director/Shareholder
	Colorite Engraving Limited	Director
	Eady Le Grice Limited	Director/Shareholder
	Energi New Zealand Limited	Director/Shareholder
	Foxton Properties Limited	Shareholder
	Golconda Investments Limited	Director/Shareholder
	Lonsdale 2005 Limited	Shareholder
	Multivision Technologies Limited	Director/Shareholder
	NZ Saw Limited	Director/Shareholder
	Thode Knife & Saw Limited	Director/Shareholder
	Riverside Lodge (2005) Limited	Shareholder
P R Gunner	Australian Vintage Ltd	Director
	Freedom Foods Group Ltd	Director/Shareholder
	Gemlake Pty Ltd	Director / Shareholder
	Viterra Inc	Deputy Chairman

STATUTORY INFORMATION Cont.

Directors' Share Dealings

During the year the following directors acquired or disposed of equity securities in the Company.

Name of Director	Shares Acquired (Disposed)	Date	Consideration Paid (Received)
GP Hinton	(500,000)	29 June 2012	Nil
	(500,000)	24 February 2012	Nil
	(500,000)	24 February 2012	Nil
	(1,000,000)	24 February 2012	$(100,000)
	(500,000)	24 February 2012	Nil
	11,000,000	13 December 2011	$3,080,000 Cash and non-cash
C J Cook	(11,000,000)	13 December 2011	$(3,080,000) Cash and non-cash
D W Mair	2,000,000	10 January 2012	Nil

Directorships of Subsidiary Companies

No Director of any subsidiary company received any director fees or any other benefits during the year.

Subsidiary	Directors
A2 Exports Limited	G P Hinton D W Mair
A2 Australian Investments Pty Limited	G H Babidge D W Mair
A2 Botany Pty Limited	G H Babidge G P Hinton D W Mair
A2 Dairy Products Australia Pty Limited	G H Babidge G P Hinton D W Mair P J Nathan
A2 Infant Nutrition Limited	G H Babidge S C Hennessy G P Hinton
A2 Holdings UK Limited	G H Babidge C J Cook

STATUTORY INFORMATION Cont.

Directors' Remuneration
The following fees were paid or payable to Directors during the year for their services as Directors of the Company:

C J Cook	53,917
G P Hinton	23,783
R Le Grice	22,583
D W Mair	23,783
P R Gunner	22,583
M Miles	22,583
	169,233

Use of Company Information
The Board received no notices during the period from Directors requesting to use the Company information received in their capacity as Directors which would not have been otherwise available to them.

Employee Remuneration
During the twelve months to 30 June 2012 the following numbers of employees received remuneration of at least $100,000.

	Number of employees
$100,000-$109,999	1
$110,000-$119,999	2
$140,000-$149,999	1
$150,000-$159,999	2
$180,000-$189,999	2
$220,000-$229,999	1
$380,000-$389,999	1
$400,000-$409,999	1
$650,000-$659,999	1

Donations
The Company made no donations during the period ended 30 June 2012 (2011: Nil).

Sub-Committees
The Board has formally constituted the following sub-committees, which convene twice annually or as required:

Audit & Risk:	Remuneration:	Nomination & Corporate Governance:
G P Hinton	P R Gunner	C J Cook
M Miles	D W Mair	D W Mair
		P R Gunner