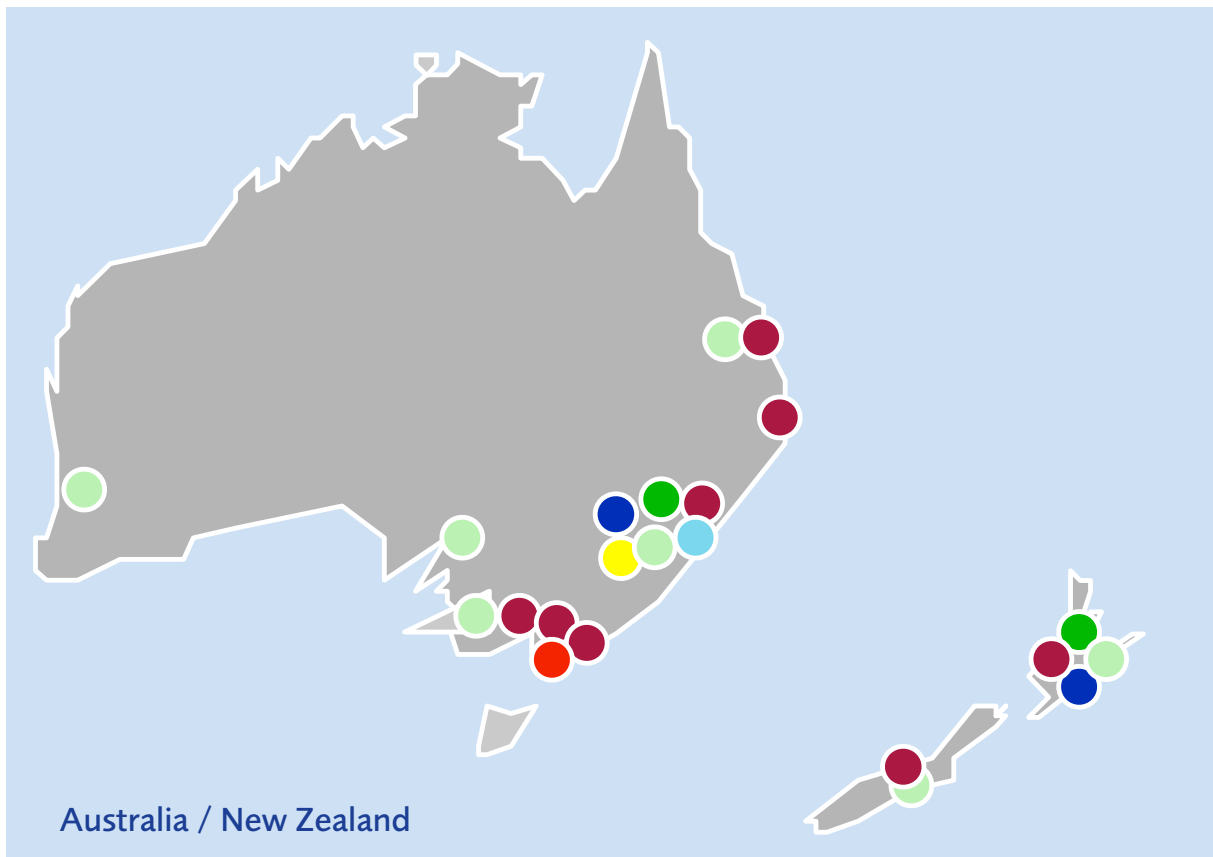


**A2 Corporation Limited**  
**Annual Report**  
**30 June 2013**





<b>Company Number</b>	1014105
<b>Issued Capital</b>	649,666,979 Fully Paid and Partly Paid Ordinary Shares as at 21 August 2013
<b>Registered Office</b>	C/-Simpson Grierson Level 27 88 Shortland Street Auckland
<b>Share Registrar</b>	Link Market Services Limited P O Box 384 Ashburton Telephone (03) 308 8887
<b>Directors</b>	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 Mr D W Mair Mr M Miles Mr M R Perich (alternate Director to Mr P R Gunner)
<b>Accountant</b>	Deloitte Dunedin
<b>Auditor</b>	Ernst & Young Sydney
<b>Bankers</b>	National Australia Bank Sydney  Bank of New Zealand Auckland
<b>Solicitor – Commercial</b>	Simpson Grierson Auckland
<b>Solicitor – Intellectual Property</b>	Catalyst Intellectual Property Wellington



- Certified Animal Testing Labs   ● Certified Milk Testing Labs   ● Certified Milk Supply   ● 3<sup>rd</sup> Party Processing   ● A2C Processing Plant
- Offices (including JV)   ● Head Office

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On behalf of the Board I am very pleased to report on another successful year for A2 Corporation Limited ("the Company").

For the 12 months ended 30 June 2013, the Company achieved Sales of \$94,304,000 and Group Profit after Tax of \$4,120,000. The result reflected a significant increase in operational profit, investment into our UK business and a significant increase in income tax when compared to the prior year. The Company continues to maintain a conservative balance sheet position with cash on hand at year-end of \$20,187,000.

The Company completed and announced the outcomes of a comprehensive Strategic Review in October 2012. This review confirmed the initiatives previously announced and prioritised opportunities to pursue further growth.

The Australian business again performed exceptionally strongly with sales growth on the prior year of 48% and operational profit well ahead of expectations.

Our UK sales and marketing joint venture completed its establishment phase during the first half and launched a2™ brand fresh milk into supermarkets from November 2012. Whilst it is early days in this new market, the Company is encouraged with the prospects for growth in the medium term.

Our plans for the launch of a2™ Platinum™ brand infant formula into China progressed well during the year with the appointment of China State Farm Holding Shanghai Company as our distributor in October 2012 and the shipment of our first containers of finished product from New Zealand in June 2013.

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

A highlight for the Company was the successful \$20 million capital raising in December 2012 which coincided with a sell down by the Company's three largest shareholders and our subsequent admission onto the main board of the NZX.

I wish to thank my fellow Directors and Staff for their on-going commitment to the Company, to the Managing Director and myself. I also wish to thank our customers and shareholders for their support. The prospects for the on-going development of the Company are outstanding and I look forward to the coming year with confidence.

A handwritten signature in black ink, appearing to read 'C J Cook'.

C J Cook  
Chairman

5 September 2013





For the 12 months ended 30 June 2013, A2C achieved a Group Profit after Tax of \$4,120,000. The trading result comprised the following key items:

- *Group Sales of \$94,304,000, an increase of 51% over the prior year;*
- *Operating EBITDA (before share of associate earnings and unusual items) of \$10,640,000 an increase of \$5,903,000 (125%) over the prior year;*
- *Share of associate earnings for A2 Milk (UK) Limited of (\$3,719,000);*
- *International Business Development Expenses of \$1,141,000;*
- *Non-recurring costs associated with a Group Strategic Review of \$824,000;*
- *Income tax charge of \$1,044,000;*

Prior year Group Profit after Tax benefitted from settlement of a legal dispute of \$1,101,000 and an income tax credit of \$287,000.

## STRATEGIC REVIEW

The Company completed and announced the outcomes of a comprehensive strategic review in October 2012. The outcome is that the Company will dedicate additional resources to initiatives previously announced and prioritise opportunities identified during the review. This includes:

- *Further developing the strong suite of IP and uniqueness of a2™ brand dairy products;*
- *Further growing the Australian and New Zealand fresh milk businesses;*
- *Accelerating investment in the UK fresh milk market;*
- *Accelerating investment in the China infant formula market;*
- *Entering new international markets in particular in North America and Europe;*
- *Entering new categories with UHT milk and Yoghurt a priority.*

## OPERATIONAL REVIEW

### AUSTRALIA AND NEW ZEALAND

The Australian fresh milk business performed very strongly in 2013 with sales growth and operational profit well ahead of expectations.

The increase in a2™ fresh milk sales represented a record increase on the prior year of 48%. a2™ brand fresh milk continued to be the fastest growing dairy brand in the Australian grocery market. Ongoing investment in marketing and communication and increased engagement with health care professionals contributed to the growth in both sales and brand recognition. Further gains in distribution also aided sales growth. We estimate the market share of a2™ brand milk by value in grocery in the last quarter of the 2013 year to approximate 7.4%.

The Company's new milk processing facility in south west Sydney performed very well for the year with volumes and efficiencies ahead of plan. This together with the absence of one off costs resulted in an increase in gross margin as a percentage of sales when compared to the prior year. In the second half, we commenced a project to review supply chain processes given volumes are building ahead of plan and established a new logistics management structure. The Company continues to work closely with and support its contract processors and entered into extended arrangements with two earlier in the year.

Now the fresh milk business is well established, we are working to broaden the product range with a2™ Platinum™ infant formula planned for launch in Australia from September 2013, and soon after in New Zealand, with further products under development.



The Company continued discussions with the sole non-exclusive licensee for a2™ brand fresh milk in New Zealand given our objective to become more involved in the the sales and marketing activities in this market. The term of the current license runs until May 2017 and while we are keen to become more involved, the timing now rests with the licensee.

## UNITED KINGDOM

A2C is encouraged with the development of the A2 Milk (UK) business during the past year.

The focus in the first half was on completing the establishment of the business and launching our brand into the UK retail trade. The management structure now comprises a motivated small team near London who manage the sales, marketing and health care professional activities with other support functions outsourced to our joint venture partner. A key strategic priority has been to develop a strong farmer supplier base to provide access to commercial quantities of a2™ milk and support volume growth in the medium term. As part of this, the business committed to a one-off incentive scheme to support aggregation of a2™ herds by a number of farmers by 2014. During the 2013 year our share of testing and conversion costs totalled £463,000.

The product launch commenced from October 2012 initially with three retailer groups and around 700 retail outlets from January 2013. The launch was supported by a public relations and print campaign followed by television advertising featuring the profile celebrity Dannii Minogue, herself a convert to the benefits of a2™ brand milk. Our share of marketing costs for the year totalled £1,057,000.

Since launch, the key priority has been to build trial and rate of sale to support existing ranging and increased distribution over time. As part of this strategy, the business implemented a promotional pricing program with key accounts, reflecting the promotionally driven nature of the UK retail market. By year end the distribution had grown to five retailer groups and around 1000 retail outlets.

As previously stated, the pace of development in this market is dependent on progressively building consumer awareness of the product and its benefits and further expanding distribution. The business is continuing to refine its marketing and communication strategies taking account of changes to European regulations around messaging and claims for food and beverage products which took effect from January 2013.

A2C is committed to the successful development of a2™ brand milk in the UK. As part of this the company is continuing to assess the future level of investment and the appropriate capital structure and shareholding of the business in conjunction with its joint venture partner. The initial capital contribution of £2 million by each partner was fully expended by year end and A2C has provided a further £2 million facility to be progressively drawn during FY14.

## INFANT FORMULA INTO CHINA

The Company progressed its plan for the launch of a2™ Platinum™ infant formula into China consistent with the strategic review.

In October 2012, the Company announced the appointment of China State Farm Holding Shanghai Company (CSF) as the exclusive distributor of a2™ infant formula in Greater China and a marketing structure to jointly develop and implement the marketing and communication activities within the territory. Together with the strategic supply agreement with Synlait Milk Limited, this provides the Company an integrated model for the supply of high quality New Zealand packaged infant nutrition products into China. The farmer base able to supply a2™ milk in Canterbury has grown to 12 accredited farmers, with interest from others to join.

To support the development of this business, the company has established a new management team with experience in infant formula marketing, quality processes and supply chain and appointed an in-market manager located in Shanghai. This team will also develop further growth opportunities such as UHT milk and in time infant formula into other Asian markets. Consistent with this the company has agreed the terms of a proposed UHT supply agreement with Freedom Foods Group Limited and associates to be outlined to shareholders at our next annual meeting.



The a2™ Platinum™ proposition is about providing mothers the right nutrition for an infant's system to naturally support growth and development with the unique attributes of an infant formula that contains only the A2 type beta-casein protein. The entry strategy involves targeting the baby maternity store channel and high end supermarkets in priority regions. CSF is building the distribution network and sales structure to support the plan and also on-line sales and fulfilment capability.

The first packaging run of a2™ Platinum™ infant formula was completed in May 2013 and the first shipment to China invoiced in June 2013. Sales to consumers in China are planned from November 2013.

### **EQUITY RAISINGS, MOVE TO THE NZX**

In December 2012 the Company undertook a NZ\$20 million equity raising in conjunction with a sell down by the Company's three largest shareholders to provide additional funding and increase liquidity. As a result, the Company migrated to the main board of the NZX and in March 2013 was admitted to the NZX50 index. At year end, the number of shareholders totalled 2,823.

Receipts associated with the exercise of partly paid shares during the year also contributed additional share capital totalling \$1,582,000 for the year.

A handwritten signature in black ink, appearing to read 'G H Babidge'.

G H Babidge  
Managing Director

5 September 2013



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 2013.

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 2013 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

5 September 2013

G H Babidge  
Managing Director

5 September 2013





Ernst & Young  
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Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

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## 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 10 to 61, which comprise the statement of financial position of A2 Corporation Limited and its subsidiaries as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 company'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 company'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

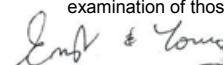
In our opinion, the financial statements on pages 10 to 61:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of A2 Corporation Limited and the group as at 30 June 2013 and its financial performance and cash flows 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 and Young

5 September 2013  
Sydney

**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 JUNE 2013

ANNUAL REPORT 2013



	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>CONTINUING OPERATIONS</b>					
Sales		94,304	62,458	-	-
Cost of sales		(60,671)	(41,531)	-	-
<hr/>					
Gross margin		33,633	20,927	-	-
Interest income		288	177	1,900	1,298
Other revenue	3.1	370	1,589	23,326	3,641
Administrative expenses	3.2	(8,024)	(5,522)	(6,828)	(2,415)
Finance costs		(120)	(204)	(3)	(1)
Marketing expenses		(4,529)	(3,185)	(8,030)	-
Occupancy expenses		(170)	(175)	(144)	-
Other expenses	3.3	(12,565)	(8,746)	(3,679)	(2,384)
<hr/>					
Profit before tax and share of associate/ joint venture earnings/(loss)		8,883	4,861	6,542	139
Share of net profits/(loss) of associates and joint ventures accounted for using the equity method	22.3	(3,719)	(743)	-	-
<hr/>					
Profit before tax		5,164	4,118	6,542	139
Income tax (expense)/benefit	4.1	(1,044)	287	(987)	(237)
<hr/>					
<b>PROFIT/(LOSS) AFTER TAX FOR THE YEAR</b>		<b>4,120</b>	<b>4,405</b>	<b>5,555</b>	<b>(98)</b>
<b>Other comprehensive income</b>					
<b>Items that will be not be reclassified to profit or loss:</b>					
		-	-	-	-
<b>Items that may be reclassified to profit or loss:</b>					
Foreign currency translation gain/(loss)	19	(2,316)	(182)	-	-
<hr/>					
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>\$1,804</b>	<b>\$4,223</b>	<b>\$5,555</b>	<b>\$(98)</b>
<hr/>					
<b>EARNINGS PER SHARE</b>					
Basic (cents per share)	15.1	0.70	0.80		
Diluted (cents per share)	15.2	0.66	0.74		

	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Equity at beginning of year		37,348	25,183	32,861	25,017
Total comprehensive income for the year		1,804	4,223	5,555	(98)
		39,152	29,406	38,416	24,919
<b>TRANSACTIONS WITH OWNERS</b>					
Issue of ordinary shares	14	21,598	7,739	21,598	7,739
Share issue costs	14	(1,099)	(48)	(1,099)	(48)
Employee equity settled payments reserve	17	279	251	279	251
Equity at end of year		\$59,930	\$37,348	\$59,194	\$32,861
<b>EQUITY COMPRISES:</b>					
Share capital					
Balance at beginning of year		63,754	56,063	63,754	56,603
Issue of ordinary shares		20,499	7,691	20,499	7,691
Balance at end of year	14	84,253	63,754	84,253	63,754
Retained Earnings/(Deficit)					
Balance at beginning of year		(28,104)	(32,509)	(32,443)	(32,345)
Net surplus/(deficit) for the period including associate/joint venture surplus/(losses)		4,120	4,405	5,555	(98)
Balance at end of year	18	(23,984)	(28,104)	(26,888)	(32,443)
<b>FOREIGN CURRENCY TRANSLATION RESERVE</b>					
Balance at beginning of year		148	330	-	-
Movements during the period		(2,316)	(182)	-	-
Balance at end of year	19	(2,168)	148	-	-
Employee Equity Settled Payments Reserve					
Balance at beginning of year		1,550	1,299	1,550	1,299
Movements during the period		279	251	279	251
Balance at end of year	17	1,829	1,550	1,829	1,550
<b>EQUITY AT END OF YEAR</b>		<b>\$59,930</b>	<b>\$37,348</b>	<b>\$59,194</b>	<b>\$32,861</b>



	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash & short term deposits	6	20,187	6,568	13,943	5,188
Trade and other receivables	8	24,375	17,189	368	1,917
Prepayments		2,399	481	118	18
Loans to subsidiaries	21.4	-	-	-	3,851
Inventories	9	742	677	-	-
<b>Total current assets</b>		<b>47,703</b>	<b>24,915</b>	<b>14,429</b>	<b>10,974</b>
<b>Non-current assets</b>					
Property, plant & equipment	10	10,290	10,991	12	10
Prepayments		-	6	-	-
Investments in subsidiaries	21.3	-	-	18,827	3,335
Investment in associates and joint ventures	22.2	-	1,582	-	-
Non current receivables in associates and joint ventures	22.2	377	-	-	-
Loans to subsidiaries	21.4	-	-	29,798	19,368
Goodwill	12	9,370	10,055	-	-
Other Intangible assets	13	3,036	1,037	996	935
Deferred tax	4.4	1,628	1,086	688	-
<b>Total non-current assets</b>		<b>24,701</b>	<b>24,757</b>	<b>50,321</b>	<b>23,648</b>
<b>TOTAL ASSETS</b>		<b>\$72,404</b>	<b>\$49,672</b>	<b>\$64,750</b>	<b>\$34,622</b>



	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Short term borrowings	7	-	4,414	-	-
Loans from subsidiaries	21.4	-	-	4,386	1,127
Accounts payable	11.1	12,093	7,225	1,126	457
Current tax liabilities		301	638	22	177
Lease liability	20.2	-	11	-	-
<b>Total current liabilities</b>		<b>12,394</b>	<b>12,288</b>	<b>5,534</b>	<b>1,761</b>
<b>Non current liabilities</b>					
Lease liability	20.2	-	36	-	-
Accounts payable	11.2	80	-	22	-
<b>Total non-current liabilities</b>		<b>80</b>	<b>36</b>	<b>22</b>	<b>-</b>
<b>Total liabilities</b>		<b>\$12,474</b>	<b>\$12,324</b>	<b>\$5,556</b>	<b>\$1,761</b>
<b>OWNERS EQUITY</b>					
<b>Equity attributable to equity holders of the parent</b>					
Share capital	14	84,253	63,754	84,253	63,754
Retained earnings (deficit)	18	(23,984)	(28,104)	(26,888)	(32,443)
Foreign currency translation reserve	19	(2,168)	148	-	-
Employee equity settled payments reserve	17	1,829	1,550	1,829	1,550
<b>Total equity</b>		<b>59,930</b>	<b>37,348</b>	<b>59,194</b>	<b>32,861</b>
<b>TOTAL LIABILITIES &amp; OWNERS EQUITY</b>		<b>\$72,404</b>	<b>\$49,672</b>	<b>\$64,750</b>	<b>\$34,622</b>



	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Cash was provided from (applied to):</b>					
Receipts from customers		86,502	56,948	125	34
Interest received		274	177	274	60
Other income		225	1,580	2	4
Tax refunds		244	-	-	-
Payments to suppliers & employees		(82,932)	(57,663)	(934)	(3,974)
Interest paid		(100)	(199)	-	-
Taxes paid		(566)	(755)	(229)	(153)
<b>Net cash inflow (outflow) from operating activities</b>	28.1	<b>3,647</b>	<b>88</b>	<b>(762)</b>	<b>(4,029)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>Cash was provided from (applied to):</b>					
Funds advanced from A2 Export Limited		-	-	-	1,124
Funds advanced to A2 Dairy Products Australia Pty Limited		-	-	(2,800)	-
Payment for property, plant & equipment		(1,245)	(9,253)	(10)	(12)
Funds advanced to A2 Infant Nutrition Limited	28.2	-	-	(5,094)	-
Investment in intangible assets		(2,071)	(878)	(564)	(738)
Investment in A2 Milk (UK) Limited		(2,514)	(2,301)	-	-
Funds advanced to A2 Holdings UK Limited		-	-	(2,514)	(2,301)
<b>Net cash outflow from investing activities</b>		<b>(5,830)</b>	<b>(12,432)</b>	<b>(10,982)</b>	<b>(1,927)</b>



Notes	Group		Company		
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>Cash was provided from (applied to):</b>					
Proceeds from issue of equity shares	21,582	7,739	21,582	7,739	
Short term borrowings	(4,414)	3,793	-	-	
Repayment of lease liability	(47)	(9)	-	-	
Payment for capital raising costs	(1,099)	(48)	(1,099)	(48)	
<b>Net cash inflow from financing activities</b>	<b>16,022</b>	<b>11,475</b>	<b>20,483</b>	<b>7,691</b>	
Net increase/(decrease) in cash & short term deposits	13,839	(869)	8,739	1,735	
Cash & short term deposits at the beginning of the year	6,568	7,467	5,188	3,456	
Effect of exchange rate changes on cash	(220)	(30)	16	(3)	
<b>Cash and short term deposits at the end of the year</b>	<b>\$20,187</b>	<b>\$6,568</b>	<b>\$13,943</b>	<b>\$5,188</b>	
<b>COMPRISED OF:</b>					
Cash & short term deposits	6	\$20,187	\$6,568	\$13,943	\$5,188





## 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 sources and supplies a2™ brand milk in Australia through its 100% owned subsidiary A2 Dairy Products Australia Pty Limited and in the UK through its 50% owned joint venture A2 Milk (UK) Limited. The Company supplies a2™ brand infant nutrition through its 100% owned subsidiary A2 Infant Nutrition 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 NZSX 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.

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 2012.

### 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 2013.



## 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 IFRS 10 – Consolidated Financial Statements
- NZ IFRS 13 – Fair Value Measurement
- NZ IAS 27 – Separate Financial Statements
- NZ IAS 28 – Investments in Associates & Joint Ventures
- NZ IAS 19 – Employee Benefits
- NZ IFRS 9 – (2010) Financial Instruments (1 July 2015)
- NZ IFRS 9 – (2009) Financial Instruments (1 July 2015)
- NZ IAS 32 – Financial Instruments – offsetting Financial Assets & Liabilities (1 July 2014)
- NZ IFRS 11 – Joint Arrangements
- Improvements to NZ IFRS 2009-2011 Cycle: Amendments to NZ IFRS's arising from the Annual Improvements Project (2009-2011)

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 (2012): Amendments to NZ IAS 1, NZ IAS 32, NZ IAS 34
- NZ IFRS 12 – Disclosure of Interests in Other Entities
- NZ IFRS 7 – Amendments to NZ IFRS 7 Financial Instruments: Disclosures
- 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)
- Capitalisation of intangible assets costs (refer to Note 2.11)
- 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

### 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.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

### 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.

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 are capitalised where there is sufficient evidence to support the probability of the expenditure generating sufficient future economic benefits for the company.

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 3 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

### 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.

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 and senior employees of the Group. In accordance with the provisions of the scheme, executives and senior employees 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).



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

### 2.13 Share-Based Payment Transactions Cont.

At each reporting date until vesting, the cumulative charge to the statement of comprehensive income 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

### 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.

### 2.16 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

### 2.18 Goods & Services Tax (GST) Cont.

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.

### 2.19 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 47 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

3.1 Other Revenue

Other income from operations consisted of the following items:

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Milk royalties	235	128	588	2,156
Licence fees	-	1	22,572	1
Management fees	-	-	-	1,481
Foreign exchange gain	121	-	-	-
Settlement proceeds	-	1,429	-	-
Other	10	31	166	3
Gain on disposal, plant & equipment	4	-	-	-
	<u>\$370</u>	<u>\$1,589</u>	<u>\$23,326</u>	<u>\$3,641</u>

During the year, the Company agreed a licence fee amendment with its wholly owned subsidiary A2 Dairy Products Australia Pty Limited. This agreement came into effect from 1 July 2011 resulting in a licence fee payable of \$22,572,000. This licence fee funds marketing and other development costs incurred by the Company.

In the 2012 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 Administrative Expenses

Board meeting costs	60	47	60	47
Employee equity compensation	279	251	279	251
Management fees	-	-	3,425	-
Salary and wage costs	6,504	4,395	2,459	1,838
Travel costs	765	374	537	239
Other administrative expenses	416	455	68	40
	<u>\$8,024</u>	<u>\$5,522</u>	<u>\$6,828</u>	<u>\$2,415</u>

3.3 Other Expenses

Audit fees	125	84	15	15
Bad and doubtful debts	14	7	-	-
Consultancy, accounting & secretarial fees	1,051	861	800	617
Directors' fees and expenses	243	178	243	178
Freight	7,492	4,819	-	-
Foreign exchange loss	-	18	165	79
Legal expenses	630	639	415	252
Loss on disposal, plant & equipment	-	9	-	-
Patents, trademarks and international development	108	142	108	142
Strategic review costs	824	522	824	522
Other operating expenses	2,078	1,467	1,109	579
	<u>\$12,565</u>	<u>\$8,746</u>	<u>\$3,679</u>	<u>\$2,384</u>



4. INCOME TAXES

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>4.1 Income Tax Recognised in Profit or Loss</b>				
Current tax expense	1,826	1,571	1,085	320
Prior period adjustment to tax expense – current tax	(112)	(447)	717	5
Deferred tax expense/(income) relating to the origination and reversal of timing differences and tax losses	560	118	493	5
Prior period adjustment to tax expense – deferred tax timing differences	101	(900)	(17)	166
Tax losses utilised	(346)	(690)	(346)	(320)
Tax losses utilised in relation to previous periods	(626)	-	(626)	-
Unutilised foreign tax credits	499	231	499	231
Deferred tax asset recognised	(858)	(170)	(818)	(170)
<b>Total tax expense/(benefit)</b>	<b>\$1,044</b>	<b>\$(287)</b>	<b>\$987</b>	<b>\$237</b>

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

Profit/(Loss) from operations	8,883	4,861	6,542	139
Income tax expense/(benefit) calculated at 28%	2,487	1,361	1,832	39
Non-deductible expenses/(non-taxable income)	(101)	328	(254)	286
Tax losses utilised	(346)	(690)	(346)	(320)
Tax losses utilised in relation to previous periods	(626)	-	(626)	-
Prior period adjustment to tax expense	(11)	(1,347)	700	171
Unutilised foreign tax credits	499	231	499	231
Deferred tax asset recognised	(858)	(170)	(818)	(170)
<b>Total tax expense/(benefit)</b>	<b>\$1,044</b>	<b>\$(287)</b>	<b>\$987</b>	<b>\$237</b>

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 \$Nil not recognised at balance date (2012: \$2,384,000).

*Group*

The Group has estimated tax losses of \$2,342,000 not recognised at balance date (2012: \$5,080,000) which comprises \$Nil (2012: \$2,384,000) relating to New Zealand and \$2,342,000 (2012: \$2,696,000) 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. INCOME TAXES Cont.

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 \$1,628,000 (2012: \$1,904,000).

The Company has a deferred tax asset in relation to temporary differences of \$688,000 (2012: \$818,000) which has been recognised in the financial statements.

2013 Group	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
<b>Gross deferred tax assets</b>				
Intellectual property	1,936	(614)	1,322	1,322
Provisions	(32)	626	594	594
	<u>1,904</u>	<u>12</u>	<u>1,916</u>	<u>1,916</u>
<b>Gross deferred tax liabilities</b>				
Property, plant and equipment	-	(288)	(288)	(288)
	<u>-</u>	<u>(288)</u>	<u>(288)</u>	<u>(288)</u>
Net Deferred Tax Balance			<u>\$1,628</u>	<u>\$1,628</u>

2013 Company	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
<b>Gross deferred tax assets</b>				
Intellectual property	750	(155)	595	595
Provisions	68	25	93	93
	<u>818</u>	<u>(130)</u>	<u>688</u>	<u>688</u>
Net Deferred Tax Balance			<u>\$688</u>	<u>\$688</u>



4. INCOME TAXES Cont.

4.4 Deferred Tax Balances Cont.

2012 Group	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
<b>Gross deferred tax assets:</b>				
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

2012 Company	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
<b>Gross deferred tax assets</b>				
Intellectual property	961	(211)	750	-
Provisions	28	40	68	-
	989	(171)	818	-
Net Deferred Tax Balance			\$818	\$-

4.5 Imputation Credit Account Balances

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at beginning of the year	6	6	6	6
Resident withholding tax	74	-	74	-
Provisional tax paid/payable	219	-	150	-
Balance at end of the year	\$299	\$6	\$230	\$6

## 4. INCOME TAXES Cont.

### 4.6 Franking Credit Account Balances

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at beginning of the year	143	-	143	-
Income tax paid/payable	717	143	717	143
Balance at end of the year	<u>\$860</u>	<u>\$143</u>	<u>\$860</u>	<u>\$143</u>

Balances in the Franking Credit Account are shown in NZD and refer exclusively to credits held by the Company and available to shareholders in the event of future payment of dividends.

## 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		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Wages and salaries and other short-term employee benefits	4,184	2,070	2,082	1,709
Share-based payments	279	251	279	251
	<u>\$4,463</u>	<u>\$2,321</u>	<u>\$2,361</u>	<u>\$1,960</u>

## 6. CASH & CASH EQUIVALENTS

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Cash & cash equivalents	<u>\$20,187</u>	<u>\$6,568</u>	<u>\$13,943</u>	<u>\$5,188</u>

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 4,242,000 (2012: AUD 1,181,000) GBP 242,000 (2012: GBP 1,000,000) and USD 958,000 (2012: USD 378,000). Short term deposits earn interest at 0.08%-3.10% (2012: 0.08%-6.11%).



## 7. SHORT TERM BORROWINGS

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Current</b>				
Debtor facility	-	1,860	-	-
Bank loan	-	2,554	-	-
	<u>\$-</u>	<u>\$4,414</u>	<u>\$-</u>	<u>\$-</u>

There were no borrowing costs capitalised to Property, Plant & Equipment during the 2013 year (2012: \$69,000). The amount capitalised in 2012 included 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Trade receivables	22,405	16,709	-	12
Allowance for doubtful debts	(38)	(25)	-	-
Receivables from subsidiaries	-	-	161	1,905
Other receivables	2,008	505	207	-
	<u>\$24,375</u>	<u>\$17,189</u>	<u>\$368</u>	<u>\$1,917</u>

The average credit period on sales is 77 days (2012: 78 days). No interest is charged on trade receivables outstanding.

Included in the Group's accounts receivable balance are debtors with a carrying amount of \$151,000 (2012: \$25,000) 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.

### 8.1 Movement in Allowance for Doubtful Debts

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at beginning of year	25	36	-	-
Amount charged to the statement of comprehensive income	14	7	-	-
Amounts written off during the year	(1)	(18)	-	-
	<u>\$38</u>	<u>\$25</u>	<u>\$-</u>	<u>\$-</u>

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Raw materials	398	368	-	-
Finished goods	344	309	-	-
Total inventories at the lower of cost and net realisable value	<u>\$742</u>	<u>\$677</u>	<u>\$-</u>	<u>\$-</u>

## 10. PROPERTY, PLANT &amp; EQUIPMENT

Group	Cost 1 July 2012	Additions	Disposals/ Transfers	Cost 30 June 2013	Accumulated depreciation & impairment charges 1 July 2012	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation & impairment charges 30 June 2013	Net foreign currency exchange differences	Book Value 30 June 2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Office & Computer	192	83	(2)	273	99	53	(1)	151	(3)	119
Furniture & Fittings	79	26	(1)	104	13	9	(1)	21	(6)	77
Lease Improvements	22	-	-	22	7	3	-	10	(1)	11
Motor vehicles	59	-	(59)	-	29	15	(44)	-	-	-
Plant & Equipment	11,335	1,015	-	12,350	324	955	-	1,279	(1,104)	9,967
Capital WIP	-	121	-	121	-	-	-	-	(5)	116
Total Property, Plant & Equipment	<u>\$11,687</u>	<u>\$1,245</u>	<u>\$(62)</u>	<u>\$12,870</u>	<u>\$472</u>	<u>\$1,035</u>	<u>\$(46)</u>	<u>\$1,461</u>	<u>\$(1,119)</u>	<u>\$10,290</u>

Group	Cost 1 July 2011	Additions	Disposals/ Transfers	Cost 30 June 2012	Accumulated depreciation & impairment charges 1 July 2011	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation & 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
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)	-	-	-	-	-	-	-
Total Property, Plant & Equipment	<u>\$2,450</u>	<u>\$11,423</u>	<u>\$(2,186)</u>	<u>\$11,687</u>	<u>138</u>	<u>\$374</u>	<u>\$(40)</u>	<u>\$472</u>	<u>\$(224)</u>	<u>\$10,991</u>

10. PROPERTY, PLANT & EQUIPMENT Cont.

Company	Cost 1 July 2012	Additions	Disposals/ Transfers	Cost 30 June 2013	Accumulated depreciation & impairment charges 1 July 2012	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation & impairment charges 30 June 2013	Net foreign currency exchange differences	Book Value 30 June 2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Office & Computer	16	10	-	26	6	8	-	14	-	12
Total Property, Plant & Equipment	<u>\$16</u>	<u>\$10</u>	<u>\$-</u>	<u>\$26</u>	<u>\$6</u>	<u>\$8</u>	<u>\$-</u>	<u>\$14</u>	<u>\$-</u>	<u>\$12</u>

Company	Cost 1 July 2011	Additions	Disposals/ Transfers	Cost 30 June 2012	Accumulated depreciation & impairment charges 1 July 2011	Depreciation expense	Accumulated depreciation reversed on disposal/ transfer	Accumulated depreciation & 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
Office & Computer	4	12	-	16	2	4	-	6	-	10
Total Property, Plant & Equipment	<u>\$4</u>	<u>\$12</u>	<u>\$-</u>	<u>\$16</u>	<u>\$2</u>	<u>\$4</u>	<u>\$-</u>	<u>6</u>	<u>-</u>	<u>\$10</u>

11. ACCOUNTS PAYABLE

11.1 Accounts Payable – Current

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Trade creditors	7,150	3,916	231	71
Accruals	2,859	2,778	248	102
Employee entitlements	1,227	531	647	284
Withholding tax payable	857	-	-	-
	<u>\$12,093</u>	<u>\$7,225</u>	<u>\$1,126</u>	<u>\$457</u>

Trade creditors included \$1,213,000 (2012: \$Nil) relating to the progress payment of inventory at year end. This is included within prepayments.

The average credit period on purchases is 47 days (2012: 55 days). No interest was charged on trade creditors outstanding.

11.2 Accounts Payable – Non Current

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Employee entitlements	80	-	22	-
	<u>\$80</u>	<u>\$-</u>	<u>\$22</u>	<u>\$-</u>



## 12. GOODWILL

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Cost</b>				
Balance at beginning of the year	10,055	10,167	-	-
Effects of foreign currency exchange differences	(685)	(112)	-	-
Balance at end of the year	9,370	10,055	-	-
<b>Carrying amount</b>				
At beginning of the year	10,055	10,167	-	-
At end of the year	\$9,370	\$10,055	\$-	\$-

### Annual Test for Impairment

All Goodwill relates to the principal activity of the Company being the commercialisation of A2™ brand milk and related products.

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): 6%
- Average annual growth rate range: 5 to 34.4%
- Average range of annual market share growth: 0.5% to 4.5%

### 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 2013 \$'000					Company 2013 \$'000				
	Patents	Trademarks	Software	Project Development Costs	Total	Patents	Trademarks	Project Development Costs	Total	
<b>Cost</b>										
Balance at the beginning of the year	215	208	140	533	1,096	215	208	533	956	
Additions	81	171	36	1,783	2,071	81	171	312	564	
Transfers	-	-	-	-	-	-	-	(475)	(475)	
Balance at the end of the year	<u>296</u>	<u>379</u>	<u>176</u>	<u>2,316</u>	<u>3,167</u>	<u>296</u>	<u>379</u>	<u>370</u>	<u>1,045</u>	
<b>Amortisation</b>										
At beginning of year	(21)	-	(38)	-	(59)	(21)	-	-	(21)	
Current year change	<u>(28)</u>	<u>-</u>	<u>(44)</u>	<u>-</u>	<u>(72)</u>	<u>(28)</u>	<u>-</u>	<u>-</u>	<u>(28)</u>	
At end of year	<u>(49)</u>	<u>-</u>	<u>(82)</u>	<u>-</u>	<u>(131)</u>	<u>(49)</u>	<u>-</u>	<u>-</u>	<u>(49)</u>	
<b>Carrying Amount</b>										
At beginning of year	<u>194</u>	<u>208</u>	<u>102</u>	<u>533</u>	<u>1,037</u>	<u>194</u>	<u>208</u>	<u>533</u>	<u>935</u>	
At end of year	<u>\$247</u>	<u>\$379</u>	<u>\$94</u>	<u>\$2,316</u>	<u>\$3,036</u>	<u>\$247</u>	<u>\$379</u>	<u>\$370</u>	<u>\$996</u>	



13. OTHER INTANGIBLE ASSETS Cont.

	Group 2012 \$'000					Company 2012 \$'000				
	Patents	Trademarks	Software	Project Development Costs	Total	Patents	Trademarks	Project Development Costs	Total	
<b>Cost</b>										
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	<u>215</u>	<u>208</u>	<u>140</u>	<u>533</u>	<u>1,096</u>	<u>215</u>	<u>208</u>	<u>533</u>	<u>956</u>	
<b>Amortisation</b>										
At beginning of year	-	-	-	-	-	-	-	-	-	
Current year change	(21)	-	(38)	-	(59)	(21)	-	-	(21)	
At end of year	<u>(21)</u>	<u>-</u>	<u>(38)</u>	<u>-</u>	<u>(59)</u>	<u>(21)</u>	<u>-</u>	<u>-</u>	<u>(21)</u>	
<b>Carrying Amount</b>										
At beginning of year	147	76	-	-	223	147	76	-	223	
At end of year	<u>\$194</u>	<u>\$208</u>	<u>\$102</u>	<u>\$533</u>	<u>\$1,037</u>	<u>\$194</u>	<u>\$208</u>	<u>\$533</u>	<u>\$935</u>	

The Project Development Costs will be amortised for a maximum of five years with effect from July 2014.



## 14. SHARE CAPITAL

a) Share Capital	2013 \$'000	2012 \$'000
<b>Balance at beginning of the year</b>	63,754	56,063
Ordinary shares: Freedom Foods Group Limited issued 11 December 2012 (unpaid)	-	-
Ordinary shares: Pursuant to Placement Agreement issued 11 December 2012	20,000	-
Ordinary shares: Partly paid shares fully paid	1,598	-
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
	85,352	63,802
Less: Capital raising costs	(1,099)	(48)
<b>Balance at end of the year</b>	\$84,253	\$63,754
	2013 No.	2012 No.
<b>b) Number of Ordinary Shares on Issue</b>		
i) Fully paid ordinary shares		
<b>Balance at beginning of the year</b>	559,008,069	526,246,412
Shares issued	56,157,921	32,761,657
<b>Balance at end of the year</b>	615,165,990	559,008,069
ii) Partly paid ordinary shares		
<b>Balance at beginning of the year</b>	45,658,910	45,658,910
Shares fully paid	(15,657,921)	-
<b>Balance at end of the year</b>	30,000,989	45,658,910
<b>Total Ordinary Shares on Issue</b>	645,166,979	604,666,979

On 11 December 2012, the Company issued 40,000,000 fully paid ordinary shares pursuant to a Placement Agreement between the Company and UBS New Zealand Limited at an issue price of NZD 0.50 per share. On the same day, an additional 500,000 fully paid ordinary shares were issued to Freedom Foods Group Limited at an issue price of \$Nil, pursuant to a sale and subscription implementation agreement between Freedom Foods Group Limited and the Company dated 21 May 2010 (amended by a Deed of Amendment dated 30 June 2010).

During the 2013 year, a total of 15,657,921 partly paid ordinary shares became fully paid in the following tranches: 2,000,000 on 2 October 2012; 5,000,000 on 13 December 2012; 8,000,000 on 8 March 2013; 170,000 on 15 March 2013; 53,693 on 30 May 2013; 330,000 on 12 June 2013 and 104,228 on 18 June 2013.

Partly paid ordinary shares carry the same rights and entitlements on a fractional basis, as fully paid ordinary shares, which 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.



15. EARNINGS PER SHARE

15.1 Basic Earnings Per Share

From continuing operations

Total basic earnings per share

2013 Cents per Share	2012 Cents per Share
0.70	0.80
<u>0.70</u>	<u>0.80</u>

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

Net surplus/(deficit):

From continuing operations

Weighted average number of ordinary shares for the purpose of basic earnings per share

2013 \$	2012 \$
4,120	4,405
<u>\$4,120</u>	<u>\$4,405</u>
No.	No.
588,240	548,120
<u>588,240</u>	<u>548,120</u>



15. EARNINGS PER SHARE Cont.

15.2 Diluted Earnings Per Share

From continuing operations

Total diluted earnings per share

	2013 Cents per Share	2012 Cents per Share
	0.66	0.74
	0.66	0.74

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

Net surplus/(deficit)  
From continuing operations

Weighted average number of ordinary shares for the purpose of basic earnings per share  
Effect of dilution due to partly paid ordinary shares

Weighted average number of ordinary shares for the purpose of diluted earnings per share

	2013 \$	2012 \$
	4,120	4,405
	\$4,120	\$4,405
	No.	No.
	588,240	548,120
	38,839	45,615
	627,079	593,735

## 16. EQUITY SETTLED SHARE-BASED PAYMENTS

### Partly Paid Shares

The Group has ownership-based compensation schemes for executives and senior employees 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 (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 for Tranches II-IV and 15 cents per share for Tranches V-VII.

Under the share subscription agreements the issue prices were calculated as 10 cents per share for Tranches II-IV and 15 cents per share for Tranches V-VII. 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 2013, purchasers had paid \$36,109 for tranches IV 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 as at 30 June 2013:

Partly Paid Shares Series	Number	Grant Date	Vesting Date	Expiry Date	Exercise Price	Fair Value at Grant Date
(1) Partly Paid Shares – Tranche II	5,000,000	10 Sep 2009	10 Sep 2011	20 Nov 2013	\$0.10	\$140,000
(2) Partly Paid Shares – Tranche IV	10,000,000	25 Aug 2010	1 Sep 2011 – 1 Sep 2015	25 Aug 2015	\$0.10	\$389,236
(3) Partly Paid Shares – Tranche V	2,500,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	\$0.15	\$151,358
(4) Partly Paid Shares – Tranche VI	3,000,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	\$0.15	\$151,358
(5) Partly Paid Shares – Tranche VII	3,500,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	\$0.15	\$176,584

#### *Partly Paid Shares Exercised/Forfeited During Period*

During the year 15,500,000 partly paid shares were exercised and fully paid to the issue price. 15,000,000 were fully paid to \$0.10 and 500,000 were fully paid to \$0.15 (2012: \$Nil)

No partly paid shares lapsed during the year ended 30 June 2013 (2012: Nil).

#### *Partly Paid Shares Expired During Period*

No partly paid shares expired during the year ended 30 June 2013 (2012: Nil).

#### *Weighted Average Remaining Contractual Life*

The weighted average remaining contractual life of the partly paid shares at 30 June 2013 is 2.63 years (2012: 2.04 years).

This has increased over the year due to the exercising of the 15,500,000 partly paid shares referred to above.

#### *Weighted Average Exercise Price*

The weighted average exercise price of the partly paid shares outstanding as at 30 June 2013 is \$0.122 (2012: \$0.112).



**16. EQUITY SETTLED SHARE-BASED PAYMENTS Cont.**

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

*Valuation Methodology*

Tranche II is valued using the Black-Scholes-Merton option pricing model for valuing 'European' call options.

Tranches IV-VIII are valued using a Binomial Option pricing model. Employees holding these tranches can purchase the remaining balance of the shares at any point up until the expiry date and this is consistent with 'American' Options. The Binomial Option pricing model allows for this.

*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 II	10 Sep 09	\$0.085	\$0.10	50%	1.00	\$0.00	4.84%
(2) Partly paid shares – Tranche IV	25 Aug 10	\$0.087	\$0.10	50%	4.00	\$0.00	4.37%
(3) Partly paid shares – Tranche V	28 Mar 11	\$0.11	\$0.15	50%	4.00	\$0.00	4.28%
(4) Partly paid shares – Tranche VI	28 Mar 11	\$0.11	\$0.15	50%	4.00	\$0.00	4.28%
(5) 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 2013		30 June 2012	
	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 II	8	8	57	57
(2) Partly paid shares – Tranche III	15	15	57	57
(3) Partly paid shares – Tranche IV	77	77	77	77
(4) Partly paid shares – Tranche V	114	114	30	30
(5) Partly paid shares – Tranche VI	30	30	30	30
(6) Partly paid shares – Tranche VII	35	35	35	35
<b>Total</b>			<b>286</b>	<b>286</b>
Less: Adjustment due to change in valuation methodology	-	-	35	35
	<b>\$279</b>	<b>\$279</b>	<b>\$251</b>	<b>\$251</b>

Tranche V are partly paid shares held by a former employee. An acceleration of vesting was recognised in the 2013 year for Tranche V. Tranches II and III are fully amortised to fair value at 30 June 2013.

**17. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE**

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at beginning of the year	1,550	1,299	1,550	1,299
Movements during the period	279	251	279	251
<b>Balance at end of the year</b>	<b>\$1,829</b>	<b>\$1,550</b>	<b>\$1,829</b>	<b>\$1,550</b>

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at beginning of the year	(28,104)	(32,509)	(32,443)	(32,345)
Net surplus/(deficit) for the period excluding Associate/joint venture net profits/(losses)	7,839	5,148	5,555	(98)
Share of net profits/(loss) of associates and joint ventures accounted for using the equity method	(3,719)	(743)	-	-
	4,120	4,405	5,555	(98)
Balance at end of year	<u><u>\$(23,984)</u></u>	<u><u>\$(28,104)</u></u>	<u><u>\$(26,888)</u></u>	<u><u>\$(32,443)</u></u>

19. FOREIGN CURRENCY TRANSLATION RESERVE

	Group	
	2013 \$'000	2012 \$'000
Balance at the beginning of the year	148	330
Arising on translation of foreign operations	(2,316)	(182)
Balance at end of the year	<u><u>\$(2,168)</u></u>	<u><u>\$148</u></u>

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Not longer than 1 year	922	972	228	-
Longer than 1 year and not longer than 5 years	2,816	2,502	531	-
Longer than 5 years	2,066	1,812	-	-
	<u>\$5,804</u>	<u>\$5,286</u>	<u>\$759</u>	<u>\$-</u>

**20.2 Finance Lease Commitments**

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Not longer than 1 year	-	11	-	-
Longer than 1 year and not longer than 5 years	-	36	-	-
	<u>\$-</u>	<u>\$47</u>	<u>\$-</u>	<u>\$-</u>

**21. INVESTMENT IN SUBSIDIARIES**

**21.1 Formation of Subsidiaries**

During the year, the Company formed one 100% owned subsidiary being A2 Infant Nutrition Australia Pty Limited which is an Australian incorporated company and commenced trading in August 2013.



21. INVESTMENT IN SUBSIDIARIES Cont.

21.2 Subsidiaries Owned

Details of the Company's subsidiaries at 30 June 2013 are as follows:

Name of Subsidiary	Place of Incorporation & Operation	Proportion of Ownership Interest		Principal Activity
		2013	2012	
A2 Exports Limited	New Zealand	100%	100%	Non active
A2 Holdings UK Limited	New Zealand	100%	100%	Investment in A2 Milk (UK) Limited
A2 Infant Nutrition Limited	New Zealand	100%	100%	Distribution and marketing of a2™ brand infant nutrition in New Zealand and China
A2 Australian Investments Pty Limited	Australia	100%	100%	Investment in other Australian subsidiaries
A2 Botany Pty Limited (formerly A2 Exports Pty Limited)	Australia	100%	100%	Collecting interest from related companies
A2 Dairy Products Australia Pty Limited	Australia	100%	100%	Distribution and marketing of a2™ brand milk in Australia
A2 Exports Australia Pty Limited	Australia	100%	100%	Non active
A2 Infant Nutrition 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.

21.3 Shares Held in Subsidiaries

	Company	
	2013 \$'000	2012 \$'000
<b>Investments in Subsidiaries</b>		
Balance at beginning of period		
A2 Botany Pty Limited (formerly A2 Exports Pty Limited)	2,983	2,983
A2 Milk Company LLC	351	351
A2 Infant Nutrition Limited	1	-
Additions during the period		
A2 Australian Investments Pty Limited	15,492	-
A2 Infant Nutrition Limited	-	1
Balance at end of period	<u>\$18,827</u>	<u>\$3,335</u>

The Directors are satisfied that no impairment write down is required to the carrying value of A2 Exports Limited, A2 Holdings UK Limited, A2 Infant Nutrition Limited, A2 Australian Investments Pty Limited, A2 Botany Pty Limited and A2 Milk Company LLC at 30 June 2013.



**21. INVESTMENT IN SUBSIDIARIES Cont.**

**21.4 Loans to Subsidiaries**

At balance date, A2 Corporation Limited had loans to subsidiaries as follows:

**Current Assets**

A2 Dairy Products Australia Pty Limited – Transactional Loan

Total Current Assets

**Non-Current Assets**

A2 Australian Investments Pty Limited

A2 Dairy Products Australia Pty Limited – Interest Bearing Loan

A2 Holdings UK Limited

A2 Infant Nutrition Limited

Total Non Current Assets

**Current Liabilities**

A2 Dairy Products Australia Pty Limited – Transactional loan

A2 Exports Limited

Total Current Liabilities

**Net Loans to Subsidiaries**

	Company	
	2013	2012
	\$'000	\$'000
	-	3,851
	-	3,851
	7,573	12,604
	11,708	4,329
	4,948	2,435
	5,569	-
	29,798	19,368
	3,259	-
	1,127	1,127
	4,386	1,127
	\$25,412	\$22,092



## 21. INVESTMENT IN SUBSIDIARIES Cont.

### 21.4 Loans to Subsidiaries

A loan for AUD 8,721,000 was advanced to A2 Australian Investments Pty Limited in the 2011 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. Repayments occur from time to time as agreed between the parties.

An initial loan for NZD 3,400,000 was advanced to A2 Dairy Products Australia Pty Limited during the 2011 year. A further loan for NZD 8,479,000 was advanced in 2013. The loan is for a period of 10 years with interest charged at 6% p.a. The accrued interest is capitalised to the principal outstanding.

The transactional loan from A2 Dairy Products Australia Pty Limited represents 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.

The loan from A2 Exports Limited relates to settlement proceeds received by A2 Exports Limited and banked by A2 Corporation. The loan is interest free and repayable on demand.



**22. INVESTMENT IN ASSOCIATES/JOINT VENTURES**

**22.1 Interest in Associates/Joint Ventures**

During the 2012 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 (A2M).

Initial 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 June 2013, A2H agreed to provide further funding to A2M with an unsecured interest bearing loan facility of up to £2,000,000.

As at 30 June 2013, A2H had advanced £250,000 of the loan facility to A2M. Interest accrues annually at the rate of 3% p.a. above LIBOR. Funding for the investment by A2H has been provided by way of intercompany loan from A2C. The loan is interest free and repayable on demand.

**22.2 Movements in the Amount of the Groups Investment in Associates/Joint Ventures**

The carrying value of the Group's investment in Associates/Joint Ventures is recognised as a non-current receivable.

	Group	
	2013 \$'000	2012 \$'000
Carrying value at beginning of year	1,582	-
Funds advanced/(repaid)	2,514	2,325
Share of net surplus/(deficit)	(3,719)	(743)
	377	1,582
Carrying value at end of year	\$377	\$1,582
Represented by:		
Investment in Associates/Joint Ventures	-	1,582
Non current receivables in Associates/Joint Ventures	377	-
	\$377	\$1,582

The current year carrying value of the investment of \$377,000 is the balance of the loan of £250,000 referred to in note 22.1 and is a non current receivable owing to A2H.

The prior year carrying value represents the initial funding for the investment after deducting the Group's share of losses.

## 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

	Group	
	2013 \$'000	2012 \$'000
Extract from the associate/joint venture's balance sheets:		
Total assets	3,578	3,795
Current liabilities	(4,906)	(1,242)
Net assets	(1,328)	2,553
Share of associate/joint venture's net assets	(664)	1,276
	2013 \$'000	2012 \$'000
Extract from the associates/joint ventures' income statements:		
Revenue	979	-
Net surplus/(deficit)	(7,438)	(1,487)
Share of associates/joint ventures surplus/(deficit)	(3,719)	(743)



**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.

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		Other Transactions with Related Parties		Outstanding Transactions with Related Parties	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Company</b>						
<b>Subsidiaries:</b>						
A2 Dairy Products Australia Pty Limited – intercompany interest received by A2 Corporation Limited	-	-	802	287	-	-
A2 Australian Investments Pty Limited – intercompany interest received by A2 Corporation Limited	-	-	825	950	-	-
A2 Dairy Products Australia Pty Limited – license fees and management fees received by A2 Corporation Limited	22,572	1,481	-	-	-	-
A2 Dairy Products Australia Pty Limited – royalties received by A2 Corporation Limited	571	2,147	-	-	-	-
<b>Associate/Joint Venture:</b>						
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	116	195	-	-	82	144
<b>Company</b>						
<b>Other:</b>						
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	-	-
A2 Holdings (UK) Limited – consultancy fees paid to M Miles, a Director of the Company. The fees were charged at commercial rates	-	-	15	-	-	-



## 24. COMMITMENTS FOR EXPENDITURE

### 24.1 Capital Expenditure Commitments

As at 30 June 2013, there were no capital expenditure commitments (2012: AUD 50,000).

## 25. CONTINGENT LIABILITY

At 30 June 2013, there were no material contingent liabilities (2012: \$Nil).

## 26. SUBSEQUENT EVENTS

### 26.1 Modified Share Issue Arrangements with Freedom Foods Group Limited

As part of the consideration to acquire the remaining 50% holding in A2 Dairy Products Australia Pty Limited from Freedom Foods Group Limited (FFG) during the 2011 year, FFG received certain anti-dilution protections.

In August 2013, the Company and FFG agreed to modify the arrangements with a view to simplification and certainty such that:

- FFG would be allowed to pay up its partly paid ordinary shares at any time prior to 31 March 2014, regardless of whether the relevant Company executives pay up their partly paid ordinary shares;
- The Company would issue 400,000 new fully paid ordinary voting shares; and
- FFG would forego all remaining anti-dilution rights in relation to the Company.

### 26.2 New Issues of Partly Paid Shares

In July and August 2013, the Company issued 4,500,000 partly paid ordinary shares in aggregate to two senior employees at an issue price of \$0.55 per share. These shares were issued on the same basis as the partly paid ordinary shares issued under Tranches IV – VII.

## 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.



**27. OPERATING SEGMENT INFORMATION Cont.**

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Continuing operations</b>				
Australia	92,450	62,605	3,627	3,945
New Zealand	2,224	1,442	6,625	1,227
United Kingdom	-	-	(207)	-
Adjustments and eliminations	-	-	(229)	144
	<u>\$94,674</u>	<u>\$64,047</u>	<u>\$9,816</u>	<u>\$5,316</u>
Interest income			288	177
Interest expense			(114)	(199)
Share of losses from associates/joint ventures			(3,719)	(743)
Depreciation and amortisation			(1,107)	(433)
Income tax income/(expense)			(1,044)	287
<b>Consolidated segment profit/(loss)</b>			<u>\$4,120</u>	<u>\$4,405</u>

Over 90% of milk and infant formula sales come from three customers. (2012: 97% from three customers)

	Depreciation & Amortisation		Additions to Non-Current Assets	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Australia	1,070	408	1,232	11,411
New Zealand	37	25	13	12
	<u>\$1,107</u>	<u>\$433</u>	<u>\$1,245</u>	<u>\$11,423</u>
	Assets		Liabilities	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Australia	72,134	52,910	43,940	39,750
New Zealand	64,119	35,695	3,588	1,783
United Kingdom	499	1,726	5,090	2,445
Adjustments and eliminations	(64,348)	(40,659)	(40,144)	(31,654)
	<u>\$72,404</u>	<u>\$49,672</u>	<u>\$12,474</u>	<u>\$12,324</u>

## 28 NOTES TO THE CASH FLOW STATEMENT

### 28.1 Reconciliation of Net Surplus/(Deficit) after Taxation with Net Cash Flows from Operating Activities

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Net surplus /(deficit) for the year	4,120	4,405	5,555	(1,981)
<b>Adjustments for non-cash items:</b>				
Depreciation & amortisation expense	1,107	433	36	31
Loss on disposal	-	21	-	-
Expense recognised in profit & loss in respect of equity-settled share-based payments	279	251	279	251
Net foreign exchange (gain)/loss	(545)	115	1,407	180
Share of (profit)/loss of associates/joint ventures and other obligations	3,719	743	-	-
Deferred tax	(542)	(943)	(688)	-
Income & expenses credited to inter-company loan	-	-	(7,609)	(5,591)
	8,138	5,025	(1,020)	(3,148)
<b>Movements in working capital</b>				
(Increase)/decrease in trade and other receivables	(7,186)	(5,496)	(184)	(1,492)
(Increase)/decrease in prepayments	(1,918)	(177)	(115)	37
(Increase)/decrease in inventories	(65)	(252)	-	-
Increase/(decrease) in accounts payable	4,948	1,193	712	27
Increase/(decrease) in current tax liabilities	(337)	(194)	(155)	82
	3,580	99	(762)	(4,494)
Plus/(Less) items classified as investing and financing activities				
Amounts owing by UK JV	-	-	-	(134)
Reclassification of lease liability to financing activities	47	(11)	-	-
Amounts in receivables relating to investing activities	20	-	-	-
Reclassification of Loan to A2 Australian Investments Pty Limited to accounts receivable	-	-	-	599
<b>Net cash inflow (outflow) from operating activities</b>	<b>\$3,647</b>	<b>\$88</b>	<b>\$(762)</b>	<b>\$(4,029)</b>

### 28.2 Funds advanced to A2 Infant Nutrition Limited

Funds advanced by the company to A2 Infant Nutrition Limited of \$5,094,000 (2012: \$Nil) were used to purchase inventory and to make advance payment for inventory being produced.



## 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Financial Assets</b>				
Loans and receivables				
Trade and other receivables	24,375	17,189	368	1,917
Loans to subsidiaries	-	-	29,798	23,219
Cash and Short Term Deposits	20,187	6,568	13,943	5,188
<b>Financial Liabilities</b>				
Financial liabilities at amortised cost				
Trade creditors	7,150	3,916	231	71
Lease liability	-	47	-	-
Short term borrowings	-	4,414	-	-
Loans from subsidiaries	-	-	4,386	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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>US Dollars</b>				
Assets:				
Cash and short term deposits	4	474	4	474
Accounts receivable	2,149	-	-	-
	<u>\$2,153</u>	<u>\$474</u>	<u>\$4</u>	<u>\$474</u>
<b>AUS Dollars</b>				
Assets:				
Cash and short term deposits	5,037	1,415	28	35
Accounts receivable	21,912	18,938	161	1,905
Loans to subsidiaries	-	-	7,573	12,604
	<u>\$26,949</u>	<u>\$20,353</u>	<u>\$7,762</u>	<u>\$14,544</u>
Liabilities:				
Trade creditors	6,945	3,844	-	-
Short term borrowings	-	4,414	-	-
	<u>\$6,945</u>	<u>\$8,258</u>	<u>\$-</u>	<u>\$-</u>



**29. FINANCIAL INSTRUMENTS Cont.**

**29.5 Foreign Currency Risk Management Cont.**

**GB Pounds**

Assets:

Cash and short term deposits

Loans to subsidiaries

	476	1,957	476	1,957
	-	-	4,948	2,435
	<u>\$476</u>	<u>\$1,957</u>	<u>\$5,424</u>	<u>\$4,392</u>
<b>Euro</b>				
Assets:				
Cash and short term deposits	2	-	2	-
	<u>\$2</u>	<u>\$-</u>	<u>\$2</u>	<u>\$-</u>

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2013 and 30 June 2012.

## 29. FINANCIAL INSTRUMENTS Cont.

### 29.6 Foreign Currency Sensitivity Analysis

The Group is exposed to foreign currency risk arising from revenues and costs 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 and vice versa for a weakening of the New Zealand dollar.

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Currency Impact on Profit or Loss</b>				
Strengthening in NZD/AUD	245	502	706	1,322
Weakening in NZD/AUD	110	(702)	(863)	(1,616)
Strengthening in NZD/GBP	256	178	493	399
Weakening in NZD/GBP	(619)	(217)	(603)	(488)
Strengthening in NZD/USD	265	43	-	43
Weakening in NZD/USD	(324)	(53)	-	(53)
<b>Currency Impact on Equity</b>				
Strengthening in NZD/AUD	2,580	(1,372)	706	1,322
Weakening in NZD/AUD	(3,153)	(1,677)	(863)	(1,616)
Strengthening in NZD/USD	265	43	-	43
Weakening in NZD/USD	(324)	(53)	-	(53)
Strengthening in NZD/GBP	256	178	493	399
Weakening in NZD/GBP	(619)	(217)	(603)	(488)

The Group's sensitivity to Australian currency has decreased during the current period due to the recapitalisation of A2 Australian Investments Pty Limited during the year. The Group's sensitivity to USD currency and GBP currency has increased during the current period as trading activity is commencing in the UK and with China.

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 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
The maximum exposures to credit risk at balance date are:				
Cash, short term deposits and short term borrowings	20,187	2,154	12,816	4,061
Trade and other receivables	24,358	17,189	351	1,917
Loans to subsidiaries	-	-	26,539	23,219
	<u>\$44,545</u>	<u>\$19,343</u>	<u>\$39,706</u>	<u>\$29,197</u>

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

	Weighted Average Effective Interest Rate %	Fixed Maturity Dates					Total
		Less than 1 month	1-3 months	3 months-1 Year	1-5 years	5+ Years	
2013		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities:</b>							
Trade creditors		7,150	-	-	-	-	7,150
		<u>7,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,150</u>

	Weighted Average Effective Interest Rate %	Fixed Maturity Dates					Total
		Less than 1 month	1-3 months	3 months-1 Year	1-5 years	5+ Years	
2012		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities:</b>							
Short term borrowings	6.77%	4,414	-	-	-	-	4,414
Trade creditors	0%	3,384	453	79	-	-	3,916
Lease liability		-	2	8	37	-	47
		<u>7,798</u>	<u>455</u>	<u>87</u>	<u>37</u>	<u>\$-</u>	<u>8,377</u>

Company

	Weighted Average Effective Interest Rate %	Fixed Maturity Dates					Total
		Less than 1 month	1-3 months	3 months-1 Year	1-5 years	5+ Years	
2013		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities:</b>							
Trade creditors		231	-	-	-	-	231
		<u>231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231</u>

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





## CORPORATE GOVERNANCE

The Board and management are committed to ensuring that the Company maintains the highest standards of corporate governance. This statement of corporate governance provides a summary of the Company's corporate governance policies.

### Code of Ethics

The Company's Code of Ethics governs its conduct. Its purpose is to:

- Set policy and provide guidance for ethical issues;
- Establish compliance standards and procedures;
- Provide mechanisms to report unethical behaviour; and
- Provide for disciplinary measures.

### Role of the Board of Directors

The Board is elected to direct and supervise the management of the Company. The Board's role is to:

- Establish the strategic direction and objectives of the Company;
- Set the policy framework within which the Company will operate;
- Appoint the Chief Executive Officer;
- Delegate appropriate authority to the Chief Executive Officer for the day-to-day management of the Company;
- Monitor performance of the Chief Executive Officer and the Board Committees on a regular basis; and
- Approve the Company's system of internal financial control; monitor and approve budgets; and monitor monthly financial performance.

### Board Size and Structure

The Board is currently comprised of six non-executive Directors and one executive Director. Non-executive Directors are selected to ensure that a broad range of skills and experience are available. One of the non-executive Directors is appointed as Chairman.

At least one third, or the number nearest to one third, of the total number of Directors (two currently) shall be independent Directors. The Board has determined that Mr DW Mair, Mr GP Hinton and Mr R Le Grice are independent Directors of the Company.

Board procedures ensure that all Directors have the information needed to contribute to informed discussion on all monthly agenda items and effectively carry out their duties. Senior managers make direct presentations to the Board on a regular basis to give the Directors a broad understanding of management philosophies and capabilities.

### Board Committees

The Board has three standing committees, described below. The Board regularly reviews the performance of the standing committees against written charters specific to each committee.



## CORPORATE GOVERNANCE Cont.

### 1. Audit and Risk Management Committee

This committee comprises three non-executive Directors at least two of whom should be independent and one of whom is appointed as Chairman. The Chief Executive Officer and the Chief Financial Officer attend as ex-officio members; and the external auditors attend by invitation of the Chairman. This Committee meets a minimum of four times each year. Its responsibilities are to:

- Ensure that the Company has adequate risk management controls in place;
- Advise the board on accounting policies, practices and disclosure;
- Review the scope and outcome of the external audit; and
- Review the annual and half-yearly statements prior to approval by the Board.

The current composition of the committee is Mr GP Hinton (Chair), Mr M Miles and Mr R Le Grice.

### 2. Remuneration Committee

This committee comprises two non-executive Directors. It meets as required to:

- Review the remuneration packages of the Chief Executive Officer and Senior Managers; and
- Make recommendations to shareholders in relation to non-executive Director remuneration packages.

Remuneration packages are reviewed annually. Independent external surveys are used as a basis for establishing competitive packages.

The current composition of the Remuneration Committee is Mr DW Mair (Chair) and Mr PR Gunner.

### 3. Board Nomination Committee

This committee comprises three non-executive Directors. It meets as required to recommend new appointments to the Board.

The current composition of the Board Nomination Committee is Mr CJ Cook (Chair), Mr DW Mair and Mr PR Gunner.

Every new appointment to the Board that is made by the Board is considered and decided by the Board as a whole taking into account the range of skills and experience a potential new director may offer the Board and his or her ability to fully commit the time needed to be effective as a Director of the Company.

### Organisational Structure and Financial Reporting

The Board has delegated the management responsibilities of the Company to the Chief Executive Officer.

Delegation of capital expenditure is limited and clearly defined with a Board-approved annual budget. This is monitored monthly.



## CORPORATE GOVERNANCE Cont.

### Internal Financial Control and Risk Management

The Board, advised by the Audit and Risk Management Committee, approves the Company's system of internal financial control. This system includes clearly defined policies controlling treasury operations and capital expenditure authorisation.

The Chief Financial Officer is responsible to the Chief Executive Officer for ensuring that all operations within the Company adhere to the Board approved financial control policies.

The Board has established a framework for the relationship between the Company and the external auditor. This framework ensures that:

- Recommendations made by the external auditor and other independent advisers are critically evaluated and, where appropriate, applied; and
- The Company has defined policies and procedures in place as appropriate internal controls to manage risk effectively.

The Board ensures that adequate external insurance cover is in place appropriate to the Company's size and risk profile.

The Company has a risk register that identifies the key risks facing the business, and the status of initiatives implemented to manage them.

This risk register is reviewed and updated on a regular basis.

### Shareholder Relations

The Board aims to ensure that shareholders are kept informed of major developments affecting the Company. Information is communicated to shareholders primarily through the annual and interim reports.

Any material information concerning the Company during the intervening period is immediately reported to NZX Limited to the extent required by the 'continuous disclosure' regime which applies pursuant to the NZSX Listing Rules.

The Board encourages shareholders to attend and participate fully at the Annual Meeting to ensure a high level of accountability.

Investors can obtain information on the Company from its website ([www.a2corporation.com](http://www.a2corporation.com)).

### NZX Corporate Governance Best Practice Code

In almost all respects, the Company's corporate governance practices conform with the NZX Corporate Governance Best Practice Code (the "Code"). The only areas in which the Company's practices vary from the Code are: it does not remunerate Directors under a performance based equity compensation plan, does not impose specific training requirements on its Directors and the nominations committee is not required to comprise a majority of independent Directors.



ADDITIONAL STOCK EXCHANGE INFORMATION

The Company's ordinary shares are listed on the main board of the New Zealand stock exchange (the NZX Main Board). 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 21 August 2013 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	11 December 2012	57,558,701	8.86%
Milford Asset Management Limited	18 July 2013	57,903,520	8.91%
AMP Capital Investors (New Zealand) Limited	7 March 2013	71,033,546	10.93%
Freedom Foods Group Limited	11 December 2012	110,377,219	16.99%
EGI – Fund (08-10) Investors, LLC	12 December 2012	30,000,000	4.62%

The total number of voting securities on issue at 21 August 2013 was 649,666,979 consisting of 617,231,832 fully paid shares and 32,435,147 partly paid shares.

2. Directors' Shareholdings

Directors had a Relevant Interest in the following equity securities in the Company at 30 June 2013:

Name of Director	Registered Holder	Beneficial No's	%	Non Beneficial No's	%
Cliff Cook	Mountain Road Investments Limited	57,558,701	8.92	-	0.00
Greg Hinton	Kawerau Trust	5,000,000	0.77	-	0.00
Greg Hinton	Greg Hinton	3,000,000	0.46	-	0.00
Greg Hinton	Nikau Investments (2001) Limited	101,872	0.02	-	0.00
David Mair	David Mair	5,000,000	0.77	-	0.00
David Mair	DM2 Investment Trust	2,000,000	0.31	-	0.00
Richard Le Grice	Richard Le Grice	100,000	0.02	-	0.00
Geoff Babidge	GHB Investment Trust	10,000,000	1.55	-	0.00
Geoff Babidge	Freedom Foods Group Limited	116,274	0.02	116,104,013	99.98
Mel Miles	Freedom Foods Group Limited	254,670	0.04	115,965,617	99.96
Perry Gunner	Freedom Foods Group Limited	608,385	0.09	115,611,902	99.91
Michael Perich	Freedom Foods Group Limited	75,621,039	11.72	40,599,248	88.28



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 21 August 2013 are listed below:

	No's	%
Freedom Foods Group Limited	116,536,129	17.94
Cogent Nominees Limited	68,321,681	10.52
Mountain Road Investments Limited	57,558,701	8.86
Tea Custodians Limited	46,134,582	7.10
HSBC Nominees (New Zealand) Limited	35,054,492	5.40
New Zealand Superannuation Fund Nominees Limited	34,376,330	5.29
Accident Compensation Corporation	24,356,038	3.75
J P Morgan Chase Bank	22,483,366	3.46
HSBC Nominees (New Zealand) Limited	20,885,707	3.21
Premier Nominees Limited	10,949,700	1.69
GHB Investment Trust	10,000,000	1.54
JB Were (NZ) Nominees Limited	7,905,118	1.22
Ulrike Mclachlan	7,135,163	1.10
New Zealand Permanent Trustees Limited	5,338,033	0.82
Citibank Nominees (NZ) Limited	5,164,947	0.80
Gregory Paul Hinton & Rosslyn Heather Audrey Hinton	5,000,000	0.77
David Mair	5,000,000	0.77
Holem Pty Limited	5,000,000	0.77
Forsyth Barr Custodians Limited	4,325,453	0.67
TP Trustee Bendermmer Limited	4,000,000	0.62
	<u>495,525,440</u>	<u>76.27</u>



**ADDITIONAL STOCK EXCHANGE INFORMATION Cont.**

**4. Spread of Security Holders as at 21 August 2013:**

**a) Fully Paid Ordinary Shareholders**

Size of Shareholding

1-1,000  
 1,001-5,000  
 5,001-10,000  
 10,001-50,000  
 50,001-100,000  
 100,001-500,000  
 500,001-1,000,000  
 1,000,001 shares or more

Number of Holders	%	Numbers
99	0.01	82,012
829	0.43	2,664,528
701	0.95	5,871,991
901	3.51	21,674,441
165	2.04	12,622,071
136	4.82	29,726,959
22	2.67	16,493,720
26	85.56	528,096,110
<b>2,879</b>	<b>100.00</b>	<b>617,231,832</b>

Total

**b) Partly Paid Ordinary Shareholders**

Size of Holding

1,000,001 shares or more

Number of Holders	%	Numbers
8	100.00	32,435,147
<b>8</b>	<b>100.00</b>	<b>32,435,147</b>

Total

**5. Credit Rating Status**

Not applicable.

**6. Waivers Granted by NZX or Market Surveillance Panel**

No material waivers were sought or granted during the financial year.

**7. Changes in Directors**

During the year G P Hinton and D W Mair resigned as Executives but remain Directors of the Company.



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.
- M Perich declared his interest as a Director of Milk2Market, a company in discussion to supply a1-free milk to the Company.
- R Le Grice declared his interest as a Director/Shareholder of Colorite Group Limited, a company supplying a supplier of A2 Infant Nutrition products to the Company.
- GH Babidge declared his resignation as a Director of Freedom Foods Group Limited.
- M Perich declared his resignation as a Director of Milk2Market Pty Limited.

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	45 South Cherries Limited	Shareholder
	45 South Investments Limited	Shareholder
	Chain Hill Farm Limited	Director/Shareholder
	Chesapeake Limited	Director
	Cook Advisory Services Limited	Director/Shareholder
	Gingold Holdings Limited	Director/Shareholder
	HSI Holdings Limited	Director/Shareholder
	HSI Investments Limited	Director
	Les Moulieres (NZ) Limited	Director
	Martinborough Cottage Grove Limited	Director
	NSI Management Limited	Director/Shareholder
	Newmarket Limited	Director/Shareholder
	PHC Treasury (UK) Limited	Director/Shareholder
	Pisa Holdings Limited	Shareholder
Private Health Care (NZ) Limited and various subsidiaries and related companies	Director/Shareholder	
Rail Land Lease Limited	Shareholder	
D W Mair	DDD Investments Limited	Director/Shareholder
	DJD Management Limited	Director/Shareholder
	Skellerup Holdings Limited and various subsidiaries and related companies	Director/Shareholder
M Miles	Freedom Foods Group Ltd	Director/Shareholder
	Brewtique Pty Ltd	Director/Shareholder



STATUTORY INFORMATION Cont.

Other Positions Held Cont.

Name of Director	Entity	Position
R Le Grice	Colorite Group Limited	Director/Shareholder
	Colorite Engraving Limited	Director
	Energi New Zealand Limited	Director
	Foxtan Properties Limited	Shareholder
	Lonsdale 2005 Limited	Shareholder
	Multi Vision Technologies Limited	Director
	NZ Saw Limited	Director/Shareholder
	Pacifica Trading Company Limited	Shareholder
	Riverside Lodge (2005) Limited	Shareholder
	Tamura Paki Properties Limited	Shareholder
Thode Knife & Saw Limited	Director/Shareholder	
G P Hinton	45 South Cherries Limited	Director/Shareholder
	45 South Cherry Orchards Limited	Director
	45 South Investments Limited	Director
	45 South Management Limited	Director
	Arney Developments Limited	Director/Shareholder
	Belmont Trading Coy Limited	Director/Shareholder
	Chain Hill Farm Limited	Shareholder
	Healthphone Holdings Limited	Director
	HSA Global Limited	Director/Shareholder
	Les Moulieres (NZ) Limited	Director
	Lifecare Residences Limited	Director
	Marne Street Hospital Limited	Director
	Nikau Investments (2001) Limited	Director/Shareholder
	North Harbour Property 369 Limited	Shareholder
	Paradise Trust Company Limited	Director
	Pisa Holdings Limited	Director/Shareholder
	Rail Land Lease Limited	Director/Shareholder
	Remuera Rise Limited	Director
	Renaissance Holdings (NZ) Limited	Shareholder
	Renaissance Lifecare Limited	Director
	Ripponvale Irrigation Company Limited	Director/Shareholder
	Sanctuary Residences (Australia) Limited	Director
	South Island Crop Protection Limited	Director
	Southern Nursing Bureau Limited	Director
	Waiata Investments (2010) Limited	Director/Shareholder
	Waiheke Retirement Village Limited	Director



STATUTORY INFORMATION Cont.

Other Positions Held Cont.

Name of Director	Entity	Position
P R Gunner	Australian Vintage Ltd	Director
	Freedom Foods Group Ltd	Director/Shareholder
	Gemlake Pty Ltd	Director/Shareholder
	Viterra Inc	Deputy Chairman
M Perich	Arrovest Pty Limited	Director/Shareholder
	Australian Dairy Conference Limited	Director
	Greenfields Development Company Pty Limited	Alternate Director
	Greenfields Management Pty Limited	Director
	Greenfields Narellan Holdings Pty Limited	Director/Shareholder
	Leppington Pastoral Co Pty Limited	Director
	Miciona Pty Limited	Director/Shareholder
	Organic Fertilisers (Leppington) Pty Limited	Director
	Pactum Australia Pty Limited	Alternate Director
	Perich Enterprises Pty Limited	Director
	Perich Family Holdings Pty Limited	Director
	Perich Property Holdings Pty Limited	Director
	Australian Natural Foods Holdings Pty Limited	Director
	Freedom Foods Pty Limited	Director
	Nutrition Ventures Pty Limited	Director
	Nutrition Ventures Financing Pty Limited	Director
	Pactum Australia Pty Limited	Director
	Paramount Seafoods Pty Limited	Director
Thorpedo Foods Pty Limited	Director	
Thorpedo Foods Group Pty Limited	Director	
Dairy NSW Limited	Director	
Australian Fresh Milk Pty Limited	Director	

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**STATUTORY INFORMATION Cont.**

**Directors' Share Dealings**

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

Name of Director	Relevant Interest in Shares Acquired (Disposed)	Date	Consideration Paid (Received)
GP Hinton	(5,000,000)	7 December, 2012	(2,600,000)
GP Hinton	5,000,000	13 December, 2012	495,000
C J Cook	(80,000,000)	11 December, 2012	(40,000,000)
R Le Grice	100,000	12 December 2012	52,000

**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 H Babidge S L Kolkman
A2 Australian Investments Pty Limited	G H Babidge S L Kolkman
A2 Botany Pty Limited	G H Babidge S L Kolkman
A2 Dairy Products Australia Pty Limited	G H Babidge P J Nathan
A2 Infant Nutrition Limited	G H Babidge S C Hennessy
A2 Holdings UK Limited	G H Babidge S L Kolkman
A2 Infant Nutrition Australia Pty Limited	G H Babidge S C Hennessy P J Nathan
A2 Exports Australia Pty Limited	G H Babidge S L Kolkman
A2 Dairy Products New Zealand Limited	G H Babidge P J Nathan



**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	71,000
G P Hinton	34,816
R Le Grice	34,350
D W Mair	34,816
P R Gunner	34,107
M Miles	33,661
	<hr/>
	242,750
	<hr/> <hr/>

**Use of Company Information**

The Board received no notices during the period from Directors requesting to use 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 2013 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
\$120,000-\$129,999	1
\$130,000-\$139,999	2
\$150,000-\$159,999	1
\$160,000-\$169,999	1
\$170,000-\$179,999	1
\$200,000-\$209,999	1
\$230,000-\$239,999	2
\$290,000-\$299,999	1
\$400,000-\$409,000	1
\$470,000-\$479,999	1
\$1,330,000-\$1,399,999*	1

\*Includes a one-time bonus of \$625,000 during the year.

**Donations**

The Company made donations of cash and inventories totalling \$34,000 during the year ended 30 June 2013 (2012: Nil).

**Sub-Committees**

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

<b>Audit &amp; Risk:</b>	<b>Remuneration:</b>	<b>Board Nomination:</b>
G P Hinton (Chair)	D W Mair (Chair)	C J Cook (Chair)
M Miles	P R Gunner	D W Mair
R Le Grice		P R Gunner



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