


Welcome to

A glass bottle of a2 Milk is centered in the image, sitting on a wooden surface. The bottle is filled with white milk and has a white label with the text 'The a2 Milk Company™'. The background is a plain, light-colored wall.

The
a2 Milk
Company™

2013/14
Annual Report



OUR MISSION IS
TO PIONEER a2 MILK™
AND MAKE ITS
UNIQUE HEALTH BENEFITS
UNDERSTOOD AND
AVAILABLE TO MANY
AROUND THE WORLD

Hello world

At The a2 Milk Company™, our business was founded on a simple yet profound discovery: that different cows produce different milk proteins that behave differently in many people's bodies.

Milk that's naturally rich in the A2 protein (and free from A1 beta casein protein) has been found by many to be easier on digestion.

Once this was uncovered it was only natural that we establish the world's first pure a2™ dairy company.

Ever since, The a2 Milk Company™ has been pioneering the scientific understanding, proprietary know-how and commercialisation of a2 Milk™ products around the world.

Welcome to The a2 Milk Company™

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Year at a glance

“The Company today is stronger and better positioned than at any time previously.”

CJ Cook, Chairman



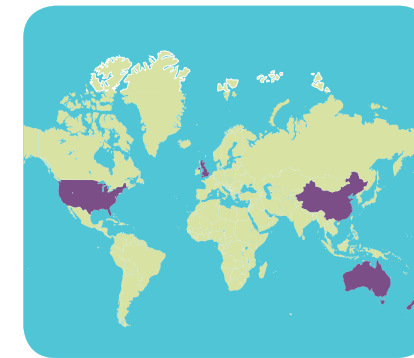
Bringing more people back to the pleasure and goodness of real and natural milk



Building a globally relevant icon brand under a new unified corporate identity



Significant advances in understanding the science that underpins the benefits of products free from A1 beta casein



Pioneering new markets

From strength

to strength



Innovation momentum building behind expanded product portfolio



Developing meaningful commercial partnerships



Advancement in new proprietary quality control systems and processes



Building a bigger, more capable a2 Milk™ team for continued growth momentum

**Moving forward,
The a2 Milk Company™ is on a
rapid journey to ensure that at the
heart of our business are unique
products, insulated by a differentiated
and compelling icon brand of
global relevance.**

**A brand that continues to be
functionally unique through our
intellectual property,
proprietary know-how and
refined quality processes...**

**In addition, a brand that is
differentiated based on its brand
values, character and marketing
execution on the global dairy stage.**

**We're proud of what we have
achieved to date.**

Chairman's report

CJ Cook

**“The Company today is stronger and
better positioned than at any time
previously and our conservative balance
sheet provides a secure basis for our
growth plans in international markets.”**

Dear Shareholder

I am pleased to report on the continuing progress of The a2 Milk Company Limited (“the Company”) during the twelve months to 30 June 2014.

The Company achieved Operating Revenue of \$111,300 million, representing an increase on the prior corresponding period of 17%. Net Profit After Tax of \$10,000 was significantly impacted by an adverse movement in the NZD/AUD exchange rate compared to the prior year.

The Company today is stronger and better positioned than at any time previously and our conservative balance sheet provides a secure basis for our growth plans in international markets.

The Australian business continued to perform strongly with sales and operational profit well ahead of the prior corresponding period. The Company acquired the interest of Muller Wiseman Dairies in the former UK joint venture from January 2014, and a refined business model has been developed for this market. Whilst changes to access arrangements for infant formula into China slowed sales momentum, we remain positive of the growth potential in this market. Further, the Company progressed its planning for a fourth growth initiative, the launch of a2 Milk™ into the United States fresh milk market during calendar 2015.

Significant progress was made in developing an enhanced brand vision for the Company which will be progressively implemented during the coming year. The first step of this was the change of company name to *The a2 Milk Company™* from April 2014.

Two new non-executive directors with specific additional responsibilities were appointed to the Board during the year. Ms Julia Hoare assumed the role of Chair of the Audit and Risk Committee and Mr David Hearn is designated the lead director for the UK and European regional markets.

The CEO's report contains further detail on the Company's operational performance for the year which I commend to you.

I wish to again thank our Management, Staff and my fellow Directors for their significant efforts and also our customers, business partners and shareholders for their continued support.

Best regards



CJ Cook
Chairman
16 September 2014

Robert

AUSTRALIAN CONSUMER



“Since switching to a2 Milk, I’m able to enjoy dairy again. This has improved my overall wellbeing...and helps me to train every day...Thanks a2 for helping me achieve my goals!”

“In my experience, many people who don’t have classic allergic reactions to cows’ milk protein nonetheless react badly to ordinary A1 cows’ milk (and products made from this), but can happily consume A2 milk without experiencing any of the same problems. Sensitivity to the opioid peptide BCM-7, which is produced from A1 but not A2 milk, could help to explain why this is so.

We still need much more research to find out which groups or individuals are sensitive to BCM-7. The evidence suggests that this kind of intolerance to standard A1 cows’ milk could affect as many as 25% of the general population in the UK, and other similar markets.”

—
Dr Alex Richardson,
Senior Research Fellow,
Oxford University, UK



Our history

2014

Company name and subsidiary names become aligned to one new brand identity: The a2 Milk Company™

a2 Milk™ UHT is launched into China

We take full ownership of the UK joint venture from Müller Wiseman, and UK business momentum continues

a2 Milk™ in Australia extends into thickened cream, and continues to drive strong market share growth in the fresh milk supermarket category

First human digestion trial published in European Journal of Clinical Nutrition reporting a digestive difference between A1 and A2 beta casein protein and supporting previous studies

2013

a2Platinum® Infant Formula is launched across China, Australia and New Zealand and total Infant Formula business gaining momentum

2012

Successfully completed capital raising and transferred listing to the NZX Main Board

Strong NZ institutional investor support

Formed a manufacturing agreement with Synlait Milk for the exclusive manufacturing of a2Platinum® nutritional powders and infant formula in New Zealand

China State Farm is appointed as sole distributor for a2Platinum® infant formula into China

Commissioned a new, state-of-the-art milk processing facility in Sydney, Australia

2011

Entered a joint venture with Robert Wiseman Dairies to manufacture and market a2 Milk™ in the UK and Ireland

The company records a profit of NZ\$2.1m

2010

Full ownership of the Australian joint venture is purchased and Geoff Babidge is appointed Managing Director and CEO

2008

Strong support from first NZ institutional investor AMP

Major change in company strategic direction shifting from a licensing model to a branded product model. Consequently exiting license agreements in Korea and later the US

Consumer and healthcare professional advocacy in Australia starts driving considerable brand growth

2007

Entered a joint venture with Freedom Foods to produce and market a2 Milk™ in Australia

2004

Listed on the NZX – Alternative Market (NZAX)

2003

a2 Milk™ begins selling in Australia and New Zealand via licensees

2000

Our company is founded by Dr. Corran McLachlan and Howard Paterson, armed with unique intellectual property and growing belief of the effect different milk proteins have on human health

Dates provided above are for the full calendar year.

**“The a2 Milk Company™
has had another strong year with
record earnings in Australia
and continued progress on its
growth initiatives.”**

Geoffrey Babidge,
Managing Director and CEO

CEO's report

Overview

The a2 Milk Company™ (a2MC) has had a strong year and continued to progress its growth initiatives, during what has been a challenging FY14. This included significant competitor activity in our core Australian market, regulatory interruptions to our infant formula growth plans in Asia and taking full control of the former joint venture business in the UK.

Notwithstanding these challenges, progress has been made on all fronts. The Australian business achieved record sales and earnings, we have developed a broader portfolio of products to complement infant formula sales into Asia and are implementing a new business plan for the UK business. In addition, we have established a new management and board structure to support our growth agenda and the new a2 Milk™ global brand positioning is being finalised.

For the 12 months to 30 June 2014, revenue exceeded expectations in Australia and, with modest sales in the United Kingdom and to China, resulted in Group Sales of \$110.621 million for the year, an increase of 17% over the prior comparative period (pcp). EBITDA of \$3.566 million compared to the pcp of \$10.640 million. Net Profit after Tax of \$10,000 compared to the pcp of \$4.120 million. Cash on hand at year end was \$16 million.

The trading result included:

- EBITDA* before license fees for the Australian market of \$18.708 million;
- EBITDA for the UK and China markets totaling (\$7.527) million;
- Employee share scheme expenses (Non cash) of \$1.190 million;
- Other corporate costs of \$6.839 million;
- Income tax charge of \$0.710 million

The appreciation of the NZD to the AUD reduced Operating Revenue by approximately \$14 million and EBITDA by approximately \$2.7 million on the pcp.

*Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure, however, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to profit after tax is shown on page 89.

CEO's report continued

Strategic Agenda – charting the future

The Strategic Agenda of the Company is based on funding revenue growth in priority international markets from increasing Australian profits. The plan continues to be refined as a result of changing market dynamics and opportunities.

The Company previously advised of the plan to develop products such as UHT milk for sale in Asian markets. This plan is now being progressed. In addition, the sale of fresh a2 Milk™ sourced from Australia into China is a further opportunity now underway, with the first trial shipment having been made in late August 2014. These opportunities are potentially attractive in their own right and will strengthen both the a2 Milk™ brand and our infant formula business in Asia.

The Company has commented previously that an entry into the United States fresh milk market is under consideration. The Company has both strong intellectual property rights and know-how, and consumer research confirms the significant potential for a2 Milk™ brand in this market. The Company has developed market entry plans with the objective of a targeted, regionally focussed initial launch in calendar 2015. The current business model assumes a cash investment of around USD20m to be funded from cash flow and internal sources over a three year period. Our focus has been to develop a plan which captures the potential of the United States market whilst, at the same time, providing the Company an appropriate balance of risk and reward for this positive initiative.

Advances in the science supporting the a2 Milk™ proposition included the publication of the first human trial conducted by Curtin University. The trial confirmed a clear difference in gastrointestinal function in adults consuming the A1 versus A2 beta casein protein types, both for milk intolerant and normal milk drinking people.



The 2016 Revenue projection contained in the 2012 Private Placement Memorandum, amended in 2013 and adjusted for movements in exchange rate assumptions at 30 June 2014, results in adjusted Revenue from operating segments and JVs of approximately NZD230m. The Company considers this remains an appropriate overall projection based on the stages of development of each regional business and the current prospects for sale of additional products. Whilst revenue growth in China and the UK are presently well behind original plan, this shortfall should be compensated by sales of infant formula in Australia and other products in both Australia and Asia. Revenue from a prospective launch into the USA market is not included in this update.

Australia – continues strong growth

The Australian business continued to perform very strongly in FY14 with sales growth and operating earnings well ahead of plan. Total revenue growth in AUD on the pcp was 31%. Revenue and earnings were unfavourably impacted by the movement in the NZD/AUD exchange rate when compared to the prior year.

Fresh milk sales of a2 Milk™ increased on the pcp in AUD by 24%. This is a result of the growing consumer awareness to the benefits of the product and the breadth of distribution now achieved in the retail trade. We estimate the market share of fresh a2 Milk™ in Australia to have grown to around 9.0% by value in the grocery channel (Australian Grocery Weighted Scan June 2014 quarter).

The Company achieved higher efficiencies at its Smeaton Grange processing facility in Sydney which contributed to an improved gross margin for fresh milk compared to the pcp. We continue to pursue improvements in supply chain processes and building milk supply. As part of this, in November 2013, Brownes Food Operations commenced processing fresh a2 Milk™ in Western Australia under a supply and contract pack arrangement.

Sales of a2Platinum® infant formula in Australia have shown strong growth, significantly ahead of plan, in both grocery and pharmacy channels, since launch in September 2013. Conversely, sales in New Zealand have been hampered by limited distribution. Whilst sales are strong in the Australian domestic market, it is assumed a proportion is being purchased and subsequently shipped to consumers in China relying on the assurance of an Australian-sourced product. Whilst it is not possible to determine sales to this grey market, this further confirms our confidence in the China market opportunity.

The launch of a2™ Thickened Cream into grocery has also been successful with sales in the period achieving expectation. The success of these latest innovations provides confidence in further broadening the product portfolio and plans are being progressed to build on the growing reputation of the brand.

The business experienced the first significant responses from competitors during the year. One company challenged the science around dairy free from A1 beta casein protein and a second more recently highlighting the protein composition of their own milks. a2MC has actively responded to these initiatives and encouragingly our sales have continued to grow. The Company welcomes a broader focus on the positive attributes of the A2 protein content of dairy milk on the proviso consumers are not misled by claims that the unique benefits of a2™ brand products are available from any other dairy products or brands which contain A1 beta casein protein.

CEO's report continued

United Kingdom – new business plan under way

The UK business has operated as a wholly owned subsidiary, with a new local board and management structure in place, since the acquisition of the 50% interest of Muller Wiseman Dairies (MWD) in the former joint venture from January 2014. This new structure enables the business to build sales and distribution in a more focused way whilst continuing to access the scale and operational capabilities of MWD under a supply and contract pack agreement. The new UK Board comprises three directors – David Hearn as non-executive Chairman; William (Billy) Keane, the former Managing Director of Robert Wiseman Dairies (RWD) and current Chairman of Dairy UK, who is also a non-executive Director; and Geoffrey Babidge.

The original joint venture established with RWD intended to grow sales quickly across the UK fresh milk market. The sale of RWD to the Muller Group in early 2012, with the resulting change in priorities of our partner, contributed to a slower than planned distribution build and ultimately created the necessity to restructure this alliance going forward. Taking back control of the venture has ensured the Company will benefit from 100% of the future value created in this market.

These events have resulted in much lower sales than originally planned and consequently required a new approach to the market. The Board and Management have developed a new positioning strategy more targeted on providing a solution to the approximately 20% of individuals who have an issue with consuming standard dairy milk – to bring them back to the pleasure of drinking dairy milk. The revised plan is being implemented on a phased basis to meet customer requirements and we anticipate being fully in-market by the first quarter of calendar 2015.

The new model focuses on three key elements - building distribution in existing accounts from the current small base, particularly in the South East UK market; increasing awareness of the unique attributes of the product in a more targeted manner, primarily through alternative direct and digital media; and enhancing our price positioning through new packaging formats to improve margins. Therefore, while the model draws on the experience in Australia, the revised plan recognises that market dynamics and pricing in the UK are more challenging.

The Company is committed to the development of the UK business, whilst at the same time conscious of the need to balance investment and returns to build shareholder value. The investment in the business during the second half FY14 was £2.2m. The revised business model assumes a lower funding requirement in calendar 2014 than advised in February 2014 and an investment for the FY15 year of approximately £3.5m. We are targeting cash breakeven on a monthly basis during the second half FY16.

Infant formula into China – regulation changes slowed momentum

The launch of a2Platinum® infant formula to Chinese consumers commenced in November 2013 targeting baby maternity stores, high end supermarkets and on-line sales.

The regulatory environment for infant formula sold in China has been evolving, given the Chinese Government's aim to improve product quality and bring confidence back to the industry. As part of this, there have been changes to access arrangements for imported infant formula including a requirement for manufacturing companies and brands to achieve a new form of registration from May 2014. Whilst we believe this approach should ultimately be positive for quality producers, the short term impact of these changes has brought uncertainty into the market which has impacted many participants including a2MC.

The initial round of registrations did not include our manufacturing partner, Synlait Milk Limited (Synlait), primarily because its new canning facility had not been commissioned. The Minister of Primary industry advised in April 2014 that most if not all New Zealand based infant formula manufacturers will ultimately achieve registration.

As a result of the uncertainties around registration impacting the confidence of sub-distributors and a slower build of the network by our distributor China State Farm, our infant formula sales into China were well below plan in the second half FY14. A delay in shipments from December 2013 to February 2014 arising from new quality processes and an ingredient supply shortage also slowed sales. Notwithstanding this, our infant formula sales at a group level were ahead of plan given the strong performance in Australia.

The access arrangements into China continue to unfold and a2MC continues to monitor developments. In July 2014, the Company advised that an interim contract provider, New Zealand New Milk Limited (New Milk), had achieved manufacturer registration with Certification and Accreditation of the People's Republic of China, which enabled a2MC to resume shipments of a2Platinum® packed by New Milk.

A further requirement advised by Chinese authorities will be to demonstrate "close association" between brand owner and manufacturer over the manufacturing process and formulation of brands. a2MC is of the view the form of its relationship with Synlait and the quality management processes across the entire supply chain should ultimately satisfy this test. We are also in discussion with China State Farm on ways to enhance our business processes and build momentum as the regulatory environment stabilises and confidence is restored.

The Company remains confident both in the infant formula opportunity in China and the processes in place in conjunction with Synlait to achieve continued access to this growing market. We are also pursuing opportunities in China and other Asian markets for sale of both UHT and fresh milk which will strengthen the a2 Milk™ brand and broaden our business in Asia.

Intellectual capital – investment and development continues

Advances in the science around the benefits of dairy products free from A1 beta casein protein have been reported in respected international publications over the past year. They support the position that a2 Milk™ makes dairy nutrition accessible to many consumers who limit or avoid their intake of dairy. In addition, a2MC's research and development program continues to improve efficiencies around proprietary processes and have contributed to the filing of additional patents.

The results of a human digestion trial conducted by Curtin University of WA and sponsored by a2MC have been published in the European Journal of Clinical Nutrition in August 2014. This trial established strong support for the digestive benefits of a2 Milk™ (free from A1 beta casein protein) in humans. These findings complement the broad conclusions of the substantial body of earlier animal studies conducted in New Zealand and other countries. As the first human digestion study of its type in the world, this new research marks a significant step forward in understanding the difference between A1 and A2 beta casein milk proteins on digestion.

The potential for a2 Milk™ to benefit children predisposed to neurological or behavioral conditions has also been supported by a study undertaken at North Eastern University (Boston) and sponsored by a2MC and was recently published in the Journal of Nutritional Biochemistry.

The Company made significant progress in developing a new global brand vision which will be progressively implemented during the coming year.



Geoffrey Babidge
Chief Executive Officer
16 September 2014



The A2 Protein
Discovery



The Natural
A2 Protein



Pure Bred
a2™ Cows



100%
Pure



Tummy
Approved



a2 Milk™
Happiness

We're big enough to have
global ambitions

We're young enough to know
they can happen

We're small enough to have
a sharp focus on our objectives

We're mature enough to
know it won't all happen at once

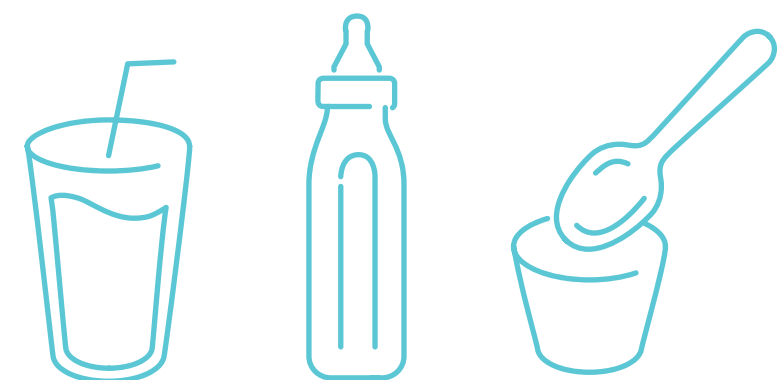
We're successful
enough to continue
to experience
exceptional revenue
growth year on year



a2 Milk™ from
 The a2 Milk Company™ is a pure and naturally occurring cow's milk, free from additives and preservatives.

A2-certified cows make exceptional milk, and we go to great lengths to ensure the freshest tasting quality milk for you and your loved ones.

We conduct several proprietary tests so we can rest easy in the knowledge that you're getting pure and true a2 Milk™ – with nothing added and nothing taken away, just as nature intended.



Friends of
a2 milk™

Sarah

UK CONSUMER



“a2 Milk has truly changed our lives. My son, Noah, has terrible reflux and was constantly ill. It wasn’t until I discovered a2 Milk that I realised the cause was the A1 protein. Almost immediately his reflux stopped and he was happy again.”

“As a general paediatrician with a special interest in allergy and developmental behavioural paediatrics, I often speak to families regarding diet and nutrition. I have found the science behind a2 Milk convincing and often recommend it for families in whom there is a family history of diabetes or cardiovascular disease, for children with a history of constipation or other gastrointestinal intolerances and for children who have outgrown cow milk protein allergy.

As a mother of four, I buy a2 Milk for my family as a small investment in their future and current health.”

—
Dr Elisa Rough,
General Paediatrician,
Australia

Financials

Directors' responsibility statement

For the year ended 30 June 2014

The Directors of The a2 Milk Company Limited are pleased to present to shareholders the financial statements for The a2 Milk Company Limited for the year ended 30 June 2014.

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 2014 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.



CJ Cook
Chairman
16 September 2014

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:



GH Babidge
Managing Director



Ernst & Young
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Sydney NSW 2000 Australia
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Independent Auditor's Report

To the Shareholders of The a2 Milk Company Limited

Report on the Financial Statements

We have audited the financial statements of The a2 Milk Company Limited and its subsidiaries on pages 28 to 76, which comprise the statement of financial position of The a2 Milk Company Limited and its subsidiaries as at 30 June 2014, 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 judgment, 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 The a2 Milk Company 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 28 to 76:

- ▶ 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 The a2 Milk Company Limited and the group as at 30 June 2014 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 The a2 Milk Company Limited as far as appears from our examination of those records.

Ernst and Young
16 September 2014
Sydney

Statement of comprehensive income

For the year ended 30 June 2014

	Notes	Group		Company	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Continuing operations					
Sales		110,621	94,304	-	-
Cost of sales		(70,802)	(60,671)	-	-
Gross margin		39,819	33,633	-	-
Interest income		455	288	2,967	1,900
Other revenue	3.1	224	370	20,598	23,326
Administrative expenses	3.2	(11,753)	(8,024)	(4,467)	(6,828)
Finance costs		(81)	(120)	(586)	(3)
Marketing expenses		(9,706)	(4,529)	(9,199)	(8,030)
Occupancy expenses		(456)	(170)	(109)	(144)
Other expenses	3.3	(16,421)	(12,565)	(6,106)	(3,679)
Profit before tax and share of associate/ joint venture earnings/(loss)		2,081	8,883	3,098	6,542
Share of net profits/(loss) of associates and joint ventures accounted for using the equity method	22.3	(1,361)	(3,719)	-	-
Profit before tax		720	5,164	3,098	6,542
Income tax (expense)/benefit	4.1	(710)	(1,044)	(1,395)	(987)
PROFIT AFTER TAX FOR THE YEAR		10	4,120	1,703	5,555
OTHER COMPREHENSIVE INCOME/ (LOSS)					
Items that will be not be reclassified to profit or loss		-	-	-	-
Items that may be reclassified to profit or loss:					
Foreign currency translation gain/(loss)	18	(4,497)	(2,316)	631	-
TOTAL COMPREHENSIVE INCOME /(LOSS)		(\$4,487)	\$1,804	\$2,334	\$5,555
Earnings per share					
Basic (cents per share)	14.1	-	0.70		
Diluted (cents per share)	14.2	-	0.66		

The accompanying notes form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2014

	Notes	Group		Company	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Equity at the beginning of year		59,930	37,348	59,194	32,861
Total comprehensive income /(loss) for the year		(4,487)	1,804	2,334	5,555
		55,443	39,152	61,528	38,416
TRANSACTIONS WITH OWNERS					
Issue of ordinary shares	13	2,011	21,598	2,011	21,598
Share issue costs	13	-	(1,099)	-	(1,099)
Employee equity settled payments reserve	16	1,190	279	1,190	279
Equity at end of year		\$58,644	\$59,930	\$64,729	\$59,194
EQUITY COMPRISES:					
Share capital					
Balance at beginning of year		84,253	63,754	84,253	63,754
Issue of ordinary shares		2,011	20,499	2,011	20,499
Balance at end of year	13	86,264	84,253	86,264	84,253
Retained earnings/(deficit)					
Balance at beginning of year		(23,984)	(28,104)	(26,888)	(32,443)
Net surplus/(deficit) for the period including associate/joint venture surplus/(losses)		10	4,120	1,703	5,555
Balance at end of year	17	(23,974)	(23,984)	(25,185)	(26,888)
Foreign currency translation reserve					
Balance at beginning of year		(2,168)	148	-	-
Movements during the period		(4,497)	(2,316)	631	-
Balance at end of year	18	(6,665)	(2,168)	631	-
Employee equity settled payments reserve					
Balance at beginning of year		1,829	1,550	1,829	1,550
Movements during the period		1,190	279	1,190	279
Balance at end of year	16	3,019	1,829	3,019	1,829
EQUITY AT END OF YEAR		\$58,644	\$59,930	\$64,729	\$59,194

The accompanying notes form part of these financial statements.

Statement of financial position

As at 30 June 2014

	Notes	Group		Company	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
ASSETS					
Current assets					
Cash & short term deposits	6	15,979	20,187	4,251	13,943
Trade and other receivables	7	27,358	24,375	153	368
Prepayments		1,992	2,399	227	118
Inventories	8	5,583	742	-	-
Current tax assets		225	-	611	-
Total current assets		51,137	47,703	5,242	14,429
Non-current assets					
Property, plant & equipment	9	9,163	10,290	167	12
Investments in subsidiaries	20.2	-	-	18,827	18,827
Non-current receivables in associates and joint ventures	22.2	-	377	-	-
Loans to subsidiaries	20.3	-	-	42,215	29,798
Goodwill	11	10,587	9,370	-	-
Other Intangible assets	12	4,194	3,036	2,462	996
Deferred tax	4.4	1,562	1,628	557	688
Total non-current assets		25,506	24,701	64,228	50,321
TOTAL ASSETS		\$76,643	\$72,404	\$69,470	\$64,750
LIABILITIES					
Current liabilities					
Loans from subsidiaries	20.3	-	-	2,854	4,386
Accounts payable	10.1	17,875	12,093	1,852	1,126
Current tax liabilities		-	301	-	22
Total current liabilities		17,875	12,394	4,706	5,534
Non-current liabilities					
Accounts payable	10.2	124	80	35	22
Total non-current liabilities		124	80	35	22
TOTAL LIABILITIES		\$17,999	\$12,474	\$4,741	\$5,556
EQUITY					
Equity attributable to equity holders of the parent					
Share capital	13	86,264	84,253	86,264	84,253
Retained earnings/ (deficit)	17	(23,974)	(23,984)	(25,185)	(26,888)
Foreign currency translation reserve	18	(6,665)	(2,168)	631	-
Employee equity settled payments reserve	16	3,019	1,829	3,019	1,829
Total equity		58,644	59,930	64,729	59,194
TOTAL LIABILITIES & EQUITY		\$76,643	\$72,404	\$69,470	\$64,750

The accompanying notes form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2014

	Notes	Group		Company	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from (applied to):					
Receipts from customers		107,446	86,502	-	125
Interest received		403	274	2,967	274
Other income		224	225	20,644	2
Tax refunds		756	244	109	-
Payments to suppliers & employees		(106,699)	(82,932)	(19,149)	(934)
Interest paid		(40)	(100)	(579)	-
Taxes paid		(1,655)	(566)	-	(229)
Net cash inflow (outflow) from operating activities	28.1	435	3,647	3,992	(762)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from (applied to):					
Funds advanced to The a2 Milk Company (Australia) Pty Ltd		-	-	(3,872)	(2,800)
Payment for property, plant & equipment		(871)	(1,245)	(182)	(10)
Funds advanced to A2 Infant Nutrition Limited		-	-	(6,735)	(5,094)
Investment in other intangible assets		(2,042)	(2,071)	(1,758)	(564)
Investment in The a2 Milk Company Limited (UK)	22.2	(4,574)	(2,514)	-	-
Funds advanced to A2 Holdings UK Limited		-	-	(4,877)	(2,514)
Funds advanced from A2 Exports Limited		-	-	(3)	-
Funds borrowed from A2 Infant Nutrition Australia Pty Limited		-	-	1,728	-
Funds borrowed from other subsidiaries		-	-	10	-
Net cash outflow from investing activities		(7,487)	(5,830)	(15,689)	(10,982)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net cash outflow from financing activities					
Proceeds from issue of equity shares		2,011	21,582	2,011	21,582
Short term borrowings		-	(4,414)	-	-
Repayment of lease liability		-	(47)	-	-
Payment for capital raising costs		-	(1,099)	-	(1,099)
Net cash outflow from financing activities		2,011	16,022	2,011	20,483
Net increase/(decrease) in cash & short term deposits		(5,041)	13,839	(9,686)	8,739
Cash & short term deposits at the beginning of the year		20,187	6,568	13,943	5,188
Effect of exchange rate changes on cash		(605)	(220)	(6)	16
Cash acquired with The a2 Milk Company Limited (UK)		1,438	-	-	-
Cash and short term deposits at the end of the year		\$15,979	\$20,187	\$4,251	\$13,943
COMPRISED OF:					
Cash & short term deposits	6	\$15,979	\$20,187	\$4,251	\$13,943

The accompanying notes form part of these financial statements.

Notes

to the financial statements

1. Corporate information and	
2. Summary of significant accounting policies

1. CORPORATE INFORMATION

The a2 Milk Company Limited (“Company”) (formerly A2 Corporation Limited) 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 The a2 Milk Company (Australia) Pty Limited and in the UK through its subsidiary The a2 Milk Company Limited (UK). The Company supplies a2™ brand infant nutrition through its 100% owned subsidiaries A2 Infant Nutrition Limited and A2 Infant Nutrition Australia Pty Limited.

The a2 Milk Company 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 The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange (NZX).

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 2013.

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

In the current year, the Group has applied for the first time NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities, NZ IFRS 13 Fair Value Measurement, NZ IAS 27 Separate Financial Statements (revised 2011) and NZ IAS 28 Investments in Associates and Joint Ventures (revised 2011).

NZ IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The basis of accounting for the Group has not changed as a result of the adoption of this Standard.

2. Summary of significant accounting policies cont.

2.3 Adoption of new and revised standards and interpretations cont.

NZ IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under NZ IFRS 11, there are only two types of joint arrangement – joint operations and joint ventures. The classification of joint arrangements under NZ IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangements. A joint venture is a joint arrangement whereby the parties that have control of the arrangement (ie joint venturers) have rights to the net assets of the arrangement.

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method. Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The adoption of this standard has not led to any changes in the Group's accounting policies or impacted the presentation of the financial statements.

The Group has adopted NZ IFRS 13 Fair Value Measurements for the first time in the current year. NZ IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The fair value measurement requirements of NZ IFRS 13 apply to both financial instrument items and non-financial instrument items for which other NZ IFRS require or

permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of NZ IFRS 2 Share-based Payment, leasing transactions that are within the scope of NZ IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value.

NZ IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under NZ IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also NZ IFRS 13 includes extensive disclosure requirements.

The application of NZ IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

2. Summary of significant accounting policies cont.

2.3 Adoption of new and revised standards and interpretations cont.

The adoption of other Standards, Interpretations and Amendments that became effective in the current period has not led to any changes in the Group's accounting policies or measurement and recognition impacts on the periods presented in these financial statements.

ii) *Standards and Interpretations in Issue Not Yet Adopted*

The following new standards and amendments to existing standards are not a comprehensive list of standards and amendments but are only those that are likely to affect the Group.

NZ IFRS 9 (2010) 'Financial instruments' (effective from 1 January 2017): Classification and measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determinations are made at initial recognition. The classification depends on the Group's business model for managing the financial assets, for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements.

The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. The Group is yet to assess NZ IFRS 9's full impact. The Group will also consider the impact of the remaining phases of NZ IFRS 9 (2013 and 2014) when completed by the International Accounting Standards Board. The International Accounting Standards Board (IASB) has published the final version of IFRS 9 'Financial Instruments'. The Standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after 1 January 2018. This has not yet been approved in New Zealand.

The New Zealand Financial Reporting Framework is changing. The Company is expected to be a Tier One reporting entity under the revised financial reporting framework. The impacts of this are currently being considered by the Company, but are not expected to require changes to recognition or disclosure requirements.

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. Summary of significant accounting policies cont.

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 20).
- Assessment of impairment of goodwill (refer Note 11).
- Assessment of impairment of intangible assets (refer Note 12).
- Capitalisation of intangible assets (refer Note 2.11).
- Estimation of fair value of share based payments (refer to Note 15).
- Assessment of recognition of deferred tax on temporary differences and tax losses (refer to Note 4).

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

2.6 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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.

2. Summary of significant accounting policies cont.

2.7 Business combinations cont.

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

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

non-current asset on the face of the statement of financial position.

2.9 Property, plant and equipment

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

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. Summary of significant accounting policies cont.

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 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 an infinite life. These assets are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

Project Development Costs

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

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

2.12 Impairment of tangible and intangible assets including goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

2. Summary of significant accounting policies cont.

2.12 Impairment of tangible and intangible assets including goodwill cont.

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 15.3.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of The a2 Milk Company Limited if applicable.

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

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

- The grant date fair value of the award;
- 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
- 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.

2. Summary of significant accounting policies cont.

2.13 Share-based payment transactions cont.

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. 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.

Royalties

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

Management Fees

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

Other Income

Licence fee income is spread over the term of the licence where there is a specified termination date. Where

the licence fee is for an indefinite period, income is recognised when received.

2.15 Operating segments

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

Information regarding the Group's reportable segments is 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

2. Summary of significant accounting policies cont.

2.17 Taxation cont.

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) and other similar taxes such as Value Added Tax, except:

- Where the amount of GST incurred is not recovered from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

- For receivables and payables which are recognised inclusive of GST.

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

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

2.19 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.

2. Summary of significant accounting policies cont.

2.20 Financial assets cont.

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.

2.22 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. Summary of significant accounting policies cont.

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.

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. Summary of significant accounting policies cont.

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 48 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 14.

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.

Notes to the financial statements

For the year ended 30 June 2014

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
3. REVENUE & EXPENSES				
3.1 Other revenue				
Other income from operations consisted of the following items:				
Milk royalties	140	235	10	588
Licence fees	-	-	20,571	22,572
Foreign exchange gain	-	121	-	-
Other	84	10	17	166
Gain on disposal, plant & equipment	-	4	-	-
	<u>\$224</u>	<u>\$370</u>	<u>\$20,598</u>	<u>\$23,326</u>
3.2 Administrative expenses				
Board meeting costs	38	60	38	60
Employee equity compensation	1,190	279	1,190	279
Management fees	-	-	-	3,425
Salary and wage costs	7,564	6,504	2,000	2,459
Travel costs	1,592	765	623	537
Other administrative expenses	1,369	416	616	68
	<u>\$11,753</u>	<u>\$8,024</u>	<u>\$4,467</u>	<u>\$6,828</u>
3.3 Other expenses				
Audit fees	186	125	95	15
Bad and doubtful debts	12	14	-	-
Consultancy, accounting & secretarial fees	2,359	1,051	759	800
Directors' fees and expenses	352	243	352	243
Freight	7,942	7,492	-	-
Foreign exchange loss	597	-	2,548	165
Legal expenses	1,199	630	669	415
Patents, trademarks and international development	253	108	230	108
Strategic review costs	-	824	-	824
Other operating expenses	3,521	2,078	1,453	1,109
	<u>\$16,421</u>	<u>\$12,565</u>	<u>\$6,106</u>	<u>\$3,679</u>

Notes to the financial statements

For the year ended 30 June 2014

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
4. INCOME TAXES				
4.1 Income tax recognised in profit or loss				
Current tax expense	1,522	1,826	1,110	1,085
Prior period adjustment to tax expense - current tax	(917)	(112)	114	717
Deferred tax expense/(income) relating to the origination and reversal of timing differences and tax losses	(810)	560	234	493
Prior period adjustment to tax expense - deferred tax timing differences	560	101	(103)	(17)
Tax losses utilised	(195)	(346)	-	(346)
Tax losses utilised in relation to previous periods	-	(626)	-	(626)
Effect on deferred tax balances due to the change in UK income tax rate from 23.75% to 20%	80	-	-	-
Unutilised foreign tax credits forfeited	40	499	40	499
Deferred tax asset not recognised / (recognised)	430	(858)	-	(818)
Total tax expense/(benefit)	\$710	\$1,044	\$1,395	\$987
The prima facie income tax on pre-tax accounting profit from operations reconciles to:				
Profit/(Loss) from operations	2,081	8,883	3,098	6,542
Income tax expense/(benefit) calculated at 28%	583	2,487	867	1,832
Difference in UK (23.75%) and Australian (30%) income tax rates	115	(73)	-	-
Non-deductible expenses/(non-taxable income)	14	(28)	477	(254)
Tax losses utilised	(195)	(346)	-	(346)
Tax losses utilised in relation to previous periods	-	(626)	-	(626)
Prior period adjustment to tax expense	(357)	(11)	11	700
Effect on deferred tax balances due to the change in UK income tax rate from 23.75% to 20%	80	-	-	-
Unutilised foreign tax credits forfeited	40	499	40	499
Deferred tax asset not recognised / (recognised)	430	(858)	-	(818)
Total tax expense/(benefit)	\$710	\$1,044	\$1,395	\$987

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 (2013: \$Nil).

Group

The Group has estimated tax losses of \$12,388,000 not recognised at balance date (2013: \$2,342,000) which comprises \$9,378,000 relating to the United Kingdom (the UK business became a subsidiary from 1 January 2014), \$1,211,000 (2013: \$1,357,000) relating to the United States and \$1,799,000 (2013: \$2,342,000) relating to Australia. These are subject to confirmation by the HM Revenue & Customs, the Internal Revenue Service and the Australian Tax Office and subject to meeting the requirements of the income tax legislation in each jurisdiction.

Notes to the financial statements

For the year ended 30 June 2014

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 of \$1,562,000 (2013: \$1,628,000).

The Company has a deferred tax asset of \$557,000 (2013: \$688,000) which has been recognised in the financial statements.

	2014 Group	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax assets					
Intellectual property	1,322	(853)	469	469	469
Provisions	594	(31)	563	563	563
Tax losses	-	1,008	1,008	1,008	1,008
	1,916	124	2,040	2,040	2,040
Gross deferred tax liabilities					
Property, plant and equipment	(288)	(190)	(478)	(478)	(478)
	(288)	(190)	(478)	(478)	(478)
Net Deferred Tax Balance			\$1,562	\$1,562	\$1,562
2014 Company					
	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements	
	\$'000	\$'000	\$'000	\$'000	
Gross deferred tax assets					
Intellectual property	595	(167)	428	428	428
Provisions	93	36	129	129	129
	688	(131)	557	557	557
Net Deferred Tax Balance			\$557	\$557	\$557
2013 Group					
	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements	
	\$'000	\$'000	\$'000	\$'000	
Gross deferred tax assets					
Intellectual property	1,936	(614)	1,322	1,322	1,322
Provisions	(32)	626	594	594	594
	1,904	12	1,916	1,916	1,916
Gross deferred tax liabilities					
Property, plant and equipment	-	(288)	(288)	(288)	(288)
	-	(288)	(288)	(288)	(288)
Net Deferred Tax Balance			\$1,628	\$1,628	\$1,628

Notes to the financial statements

For the year ended 30 June 2014

4.4 Deferred tax balances cont.

2013 Company	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
	\$'000	\$'000	\$'000	\$'000
Gross deferred tax assets				
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>

Company	
2014	2013
\$'000	\$'000

4.5 Imputation credit account balances

Balance at beginning of the year	230	6
Resident withholding tax	-	74
Provisional tax paid/payable	84	150
Balance at end of the year	<u>\$314</u>	<u>\$230</u>

4.6 Franking credit account balances

Balance at beginning of the year	860	143
Income tax paid/payable	1,175	717
Balance at end of the year	<u>\$2,035</u>	<u>\$860</u>

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	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Wages and salaries and other short-term employee benefits	3,419	4,184	2,709	2,082
Share-based payments	1,190	279	1,190	279
	<u>\$4,609</u>	<u>\$4,463</u>	<u>\$3,899</u>	<u>\$2,361</u>

6. CASH & CASH EQUIVALENTS

Cash & cash equivalents	<u>\$15,979</u>	<u>\$20,187</u>	<u>\$4,251</u>	<u>\$13,943</u>
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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 10,939,000 (2013: AUD 4,242,000) GBP 20,000 (2013: GBP 242,000) USD 3,582,000 (2013: USD 958,000) and EUR 3,000 (2013: EUR nil). Short term deposits earn interest at 2.78% - 4.14% (2013: 0.08% - 3.10%).

Notes to the financial statements

For the year ended 30 June 2014

7. TRADE & OTHER RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Trade receivables	24,811	22,405	-	-
Allowance for doubtful debts	(46)	(38)	-	-
Receivables from subsidiaries	-	-	-	161
Other receivables	2,593	2,008	153	207
	<u>\$27,358</u>	<u>\$24,375</u>	<u>\$153</u>	<u>\$368</u>

The average credit period on sales is 78 days (2013: 77 days). No interest is charged on trade receivables outstanding.

Included in the Group's accounts receivable balance are debtors with a carrying amount of \$394,000 (2013: \$151,000) 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.

	Group		Company	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
7.1 Movement in allowance for doubtful debts				
Balance at beginning of year	38	25	-	-
Amount charged to the statement of comprehensive income	12	14	-	-
Amounts written off during the year	-	(1)	-	-
Net foreign currency exchange differences	(4)	-	-	-
Balance at end of year	<u>\$46</u>	<u>\$38</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.

	Group		Company	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
8. INVENTORIES				
Raw materials	486	398	-	-
Finished goods	5,097	344	-	-
Total inventories at the lower of cost and net realisable value	<u>\$5,583</u>	<u>\$742</u>	<u>\$-</u>	<u>\$-</u>

Notes to the financial statements

For the year ended 30 June 2014

9. PROPERTY, PLANT & EQUIPMENT

Group	Office & Computer	Furniture & Fittings	Lease Improve ments	Motor Vehicles	Plant & Equipment	Capital WIP	Total Property, Plant & Equipment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost 1 July 2013	273	104	22	-	12,350	121	12,870
Acquisition through business combination ..	32	-	-	-	-	-	32
Additions	130	4	-	-	441	296	871
Disposals/Transfers	-	-	-	-	-	-	-
Net foreign currency exchange differences ..	(52)	(16)	(4)	-	(2,241)	(23)	(2,336)
Cost 30 June 2014	383	92	18	-	10,550	394	11,437
Accumulated depreciation & impairment charges 1 July 2013	151	21	10	-	1,279	-	1,461
Depreciation expense	69	9	3	-	983	-	1,064
Accumulated depreciation reversed on disposal/transfer	-	-	-	-	-	-	-
Net foreign currency exchange differences ..	(28)	(3)	(2)	-	(218)	-	(251)
Accumulated depreciation and impairment charges 30 June 2014	192	27	11	-	2,044	-	2,274
Book Value 30 June 2014	\$191	\$65	\$7	\$-	\$8,506	\$394	\$9,163

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

Notes to the financial statements

For the year ended 30 June 2014

9. PROPERTY, PLANT & EQUIPMENT CONT.

Company	Office & Computer	Furniture & Fittings	Total Property, Plant & Equipment
	\$'000	\$'000	\$'000
Cost 1 July 2013	26	-	26
Additions	9	173	182
Disposals/Transfers	-	-	-
Net foreign currency exchange difference	-	(5)	(5)
Cost 30 June 2014	35	168	203
Accumulated depreciation & impairment charges 1 July 2013	14	-	14
Depreciation expense	9	14	23
Accumulated depreciation reversed on disposal/transfer	-	-	-
Net foreign currency exchange differences	-	(1)	(1)
Accumulated depreciation and impairment charges 30 June 2014	23	13	36
Book Value 30 June 2014	\$12	\$155	\$167

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

Notes to the financial statements

For the year ended 30 June 2014

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
10. ACCOUNTS PAYABLE				
10.1 Accounts payable - current				
Trade creditors	8,391	7,150	683	231
Accruals	7,160	2,859	617	248
Employee entitlements	1,167	1,227	537	647
Withholding tax payable	1,157	857	15	-
	<u>\$17,875</u>	<u>\$12,093</u>	<u>\$1,852</u>	<u>\$1,126</u>

The average credit period on purchases is 48 days (2013: 47 days). No interest was charged on trade creditors outstanding.

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
10.2 Accounts payable - non current				
Employee entitlements	124	80	35	22
	<u>\$124</u>	<u>\$80</u>	<u>\$35</u>	<u>\$22</u>

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
11. GOODWILL				
Cost				
Balance at beginning of the year	9,370	10,055	-	-
Acquisition of The a2 Milk Company Limited (UK)	2,061	-	-	-
Effects of foreign currency exchange differences	(844)	(685)	-	-
Balance at end of the year	<u>10,587</u>	<u>9,370</u>	<u>-</u>	<u>-</u>
Carrying amount				
At beginning of the year	9,370	10,055	-	-
At end of the year	<u>\$10,587</u>	<u>\$9,370</u>	<u>\$-</u>	<u>\$-</u>

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) as follows: Australia \$8.179m; UK \$2.061m; and NZ/other \$0.347m.

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 and business plans approved by senior management covering a 5 year period.

Key assumptions:

Discount rate (pre-tax): 9.5% to 11%

Terminal growth rate range: 1% to 2.5%

Average range of annual market share growth: 0% to 1%

Sensitivity to changes in assumptions:

Management believe that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to exceed its recoverable amount. On the basis of this assessment no impairment write downs are considered necessary.

Notes to the financial statements

For the year ended 30 June 2014

12. OTHER INTANGIBLE ASSETS

	Group 2014					Company 2014				
	Patents	Trade marks	Soft ware	Project Development costs	Total	Patents	Trade marks	Soft ware	Project Development costs	Total
Cost										
Balance at the beginning of the year ..	296	379	176	2,316	3,167	296	379	-	370	1,045
Additions	50	147	533	1,312	2,042	50	147	372	1,189	1,758
Transfers	-	-	86	(86)	-	-	-	82	(82)	-
Net foreign currency exchange differences	-	-	(32)	(31)	(63)	-	-	(8)	(23)	(31)
Balance at the end of the year	<u>346</u>	<u>526</u>	<u>763</u>	<u>3,511</u>	<u>5,146</u>	<u>346</u>	<u>526</u>	<u>446</u>	<u>1,454</u>	<u>2,772</u>
Amortisation										
At beginning of year	(49)	-	(82)	-	(131)	(49)	-	-	-	(49)
Current year change	(31)	-	(95)	(710)	(836)	(31)	-	(26)	(205)	(262)
Net foreign currency exchange differences	-	-	13	2	15	-	-	1	-	1
At end of year	<u>(80)</u>	<u>-</u>	<u>(164)</u>	<u>(708)</u>	<u>(952)</u>	<u>(80)</u>	<u>-</u>	<u>(25)</u>	<u>(205)</u>	<u>(310)</u>
Carrying amount										
At beginning of year	247	379	94	2,316	3,036	247	379	-	370	996
At end of year	<u>\$266</u>	<u>\$526</u>	<u>\$599</u>	<u>\$2,803</u>	<u>\$4,194</u>	<u>\$266</u>	<u>\$526</u>	<u>\$421</u>	<u>\$1,249</u>	<u>\$2,462</u>
	Group 2013					Company 2013				
	Patents	Trade marks	Soft ware	Project Development costs	Total	Patents	Trade marks	Soft ware	Project Development costs	Total
Cost										
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>-</u>	<u>370</u>	<u>1,045</u>
Amortisation										
At beginning of year	(21)	-	(38)	-	(59)	(21)	-	-	-	(21)
Current year change	(28)	-	(44)	-	(72)	(28)	-	-	-	(28)
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>-</u>	<u>(49)</u>
Carrying amount										
At beginning of year	194	208	102	533	1,037	194	208	-	533	935
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>\$-</u>	<u>\$370</u>	<u>\$996</u>

The Project Development Costs are amortised for a maximum of five years.

Notes to the financial statements

For the year ended 30 June 2014

	Company	
	2014 \$'000	2013 \$'000
13. SHARE CAPITAL		
a) Share capital		
Balance at beginning of the year	84,253	63,754
Ordinary shares: Partly paid shares fully paid	2,011	1,598
Ordinary shares: Pursuant to Placement Agreement issued 11 December 2012	-	20,000
	<u>86,264</u>	<u>85,352</u>
Less: Capital raising costs	-	(1,099)
Balance at end of the year	<u>\$86,264</u>	<u>\$84,253</u>
b) Number of ordinary shares on issue	2014	2013
i) Fully paid ordinary shares	No.	No.
Balance at beginning of the year	615,165,990	559,008,069
Shares issued	17,900,989	56,157,921
Balance at end of the year	<u>633,066,979</u>	<u>615,165,990</u>
ii) Partly paid ordinary shares		
Balance at beginning of the year	30,000,989	45,658,910
Shares fully paid	(17,500,989)	(15,657,921)
Shares issued	14,500,000	-
Balance at end of the year	<u>27,000,000</u>	<u>30,000,989</u>
Total ordinary shares on issue	<u>660,066,979</u>	<u>645,166,979</u>

In August 2013, the Company and Freedom Foods Group Limited (FFG) agreed to modify the anti-dilution protections arising from the Company's acquisition of the remaining 50% holding in The a2 Milk Company (Australia) Pty Limited (formerly A2 Dairy Products Australia Pty Limited) during 2010. As part of this modification, the Company issued 400,000 new fully paid ordinary voting shares to FFG at an issue price of \$nil.

During the year ended 30 June 2014, 17,500,989 partly paid ordinary shares became fully paid (2013: 15,657,921).

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.

In October 2013, the Company issued 5,000,000 partly paid ordinary shares to one senior employee at an issue price of \$0.64 per share.

In April 2014, the Company issued 5,000,000 partly paid ordinary shares to one senior employee at an issue price of \$0.72 per share.

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.

Notes to the financial statements

For the year ended 30 June 2014

	2014	2013
	Cents per Share	Cents per Share
14. EARNINGS PER SHARE		
14.1 Basic earnings per share		
From continuing operations	-	0.70
Total basic earnings per share	<u>-</u>	<u>0.70</u>
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
	2014	2013
	\$'000	\$'000
Net surplus/(deficit): From continuing operations	10	4,120
	<u>\$10</u>	<u>\$4,120</u>
Weighted average number of ordinary shares ('000) for the purpose of basic earnings per share	No.	No.
	626,324	588,240
	<u>626,324</u>	<u>588,240</u>
14.2 Diluted earnings		
From continuing operation	-	0.66
Total diluted earnings per share	<u>-</u>	<u>0.66</u>
The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:		
	2014	2013
	\$'000	\$'000
Net surplus/(deficit): From continuing operations	10	4,120
	<u>\$10</u>	<u>\$4,120</u>
Weighted average number of ordinary shares ('000) for the purpose of basic earnings per share	No.	No.
	626,324	588,240
Effect of dilution due to partly paid ordinary shares ('000)	27,897	38,839
	<u>654,221</u>	<u>627,079</u>
Weighted average number of ordinary shares ('000) for the purpose of diluted earnings per share		
	654,221	627,079
	<u>654,221</u>	<u>627,079</u>

Notes to the financial statements

For the year ended 30 June 2014

15. 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 NZX Market for the Company'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 NZX 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, 15 cents per share for Tranches V - VII, 55 cents per share for Tranches VIII - IX, 64 cents per share for Tranche X and 72 cents per share for Tranche XI. These were issued as partly paid shares at 1% of the issue price.

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.

15.1 Partly paid shares issued

During the year 14,500,000 partly paid shares were issued to key management personnel (the purchasers) under partly paid share plans (2013: Nil). These were issued in four tranches as partly paid shares comprising 4,500,000 partly paid to \$0.0055 per share; 5,000,000 partly paid to \$0.0064 per share and 5,000,000 partly paid to \$0.0072 per share. As at 30 June 2014, purchasers had paid \$115,448 for tranches IV to XI. This payment has been recognised as a financial liability until such time as vesting conditions are met.

Notes to the financial statements

For the year ended 30 June 2014

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.2 Summary of share-based payments

The following share-based payment arrangements were in existence as at 30 June 2014:

Partly paid shares series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
(1) Partly paid shares - Tranche IV	6,000,000	25 Aug 2010	1 Sep 2011 – 1 Sep 2015	25 Aug 2015	\$0.10	\$233,542
(2) Partly paid shares - Tranche VI	3,000,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	\$0.15	\$151,358
(3) Partly paid shares - Tranche VII	3,500,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	\$0.15	\$176,584
(4) Partly paid shares - Tranche VIII	2,500,000	9 Jul 2013	9 Jul 2018	9 Jul 2018	\$0.55	\$610,250
(5) Partly paid shares - Tranche IX	2,000,000	15 Jul 2013	15 Jul 2018	15 Jul 2018	\$0.55	\$565,600
(6) Partly paid shares - Tranche X	5,000,000	29 Oct 2013	29 Oct 2018	1 Dec 2050	\$0.64	\$1,281,500
(7) Partly paid shares - Tranche XI	5,000,000	9 Apr 2014	9 Apr 2019	9 Apr 2019	\$0.72	\$1,355,000

Partly paid shares exercised/forfeited during period

During the year 11,500,000 partly paid shares were exercised and fully paid to the issue price (2013: 15,500,000). 9,000,000 were fully paid to \$0.10 per share and 2,500,000 were fully paid to \$0.15 per share (2013: 15,000,000 were fully paid to \$0.10 and 500,000 were fully paid to \$0.15).

No partly paid shares lapsed during the year ended 30 June 2014 (2013: Nil).

Partly paid shares expired during period

No partly paid shares expired during the year ended 30 June 2014 (2013: Nil).

Weighted average remaining contractual life

The weighted average remaining contractual life of the partly paid shares at 30 June 2014 is 8.98 years (2013: 2.63 years).

Weighted average exercise price

The weighted average exercise price of the partly paid shares outstanding as at 30 June 2014 is \$0.402 (2013: \$0.122).

Notes to the financial statements

For the year ended 30 June 2014

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.3 Estimation of fair value of partly paid shares at measurement date

Valuation methodology

The partly paid shares 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 IV	25 Aug 10	\$0.087	\$0.10	50%	4.00	0%	4.37%
(2) Partly paid shares - Tranche VI	28 Mar 11	\$0.11	\$0.15	50%	4.00	0%	4.28%
(3) Partly paid shares - Tranche VII	28 Mar 11	\$0.11	\$0.15	50%	4.00	0%	4.28%
(4) Partly paid shares - Tranche VIII	9 Jul 13	\$0.63	\$0.55	30%	5.00	0%	3.56%
(5) Partly paid shares - Tranche IX	15 Jul 13	\$0.68	\$0.55	30%	5.00	0%	3.48%
(6) Partly paid shares - Tranche X	29 Oct 13	\$0.69	\$0.64	30%	37.11	0%	4.04%
(7) Partly paid shares - Tranche XI	17 Dec 13	\$0.75	\$0.72	30%	5.00	0%	4.30%

Early exercise

For Tranche X, an early exercise has been assumed after five years. The timing of early exercise has been estimated after taking into consideration factors including: the employee's age and employment contract term; and that the partly paid shares must be exercised within 12 months of the employee leaving the Company.

No allowance has been made for the possibility of early exercise for other Tranches. For these Tranches 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.

Notes to the financial statements

For the year ended 30 June 2014

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.3 Estimation of fair value of partly paid shares at measurement date cont.

Volatility

Volatility has been assessed by considering the historical volatility of comparable companies, as well as other factors that influence expected future volatility. Prior to the Company moving to the NZX Main Board in December 2012, the Company's historical share price movements were 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 of underlying value. The Company's historical volatility is therefore considered to be too high to be predictive of future volatility. For partly paid shares granted prior to December 2012 a volatility of 50% has been adopted for each of the Company's partly paid share valuations.

For partly paid shares granted after December 2012 a volatility of 30% has been adopted for each of the Company's partly paid share valuations.

Other factors

No other factors have been incorporated into the partly paid share valuations.

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 2014		30 June 2013	
	Amount recognised as employee expense in profit or loss \$'000	Amount recognised in other comprehensive income \$'000	Amount recognised as employee expense in profit or loss \$'000	Amount recognised in other comprehensive income \$'000
(1) Partly paid shares - Tranche II	-	-	8	8
(2) Partly paid shares - Tranche III	-	-	15	15
(3) Partly paid shares - Tranche IV	114	114	77	77
(4) Partly paid shares - Tranche V	-	-	114	114
(5) Partly paid shares - Tranche VI	30	30	30	30
(6) Partly paid shares - Tranche VII	35	35	35	35
(7) Partly paid shares - Tranche VIII	610	610	-	-
(8) Partly paid shares - Tranche IX	109	109	-	-
(9) Partly paid shares - Tranche X	155	155	-	-
(10) Partly paid shares - Tranche XI	137	137	-	-
Total	\$1,190	\$1,190	\$279	\$279

Tranche VIII are partly paid shares held by a former employee. An acceleration of vesting was recognised in the 2014 year for Tranche VIII when the employee left the company.

Notes to the financial statements

For the year ended 30 June 2014

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
16. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE				
Balance at beginning of the year	1,829	1,550	1,829	1,550
Movements during the period	1,190	279	1,190	279
Balance at end of the year	<u>\$3,019</u>	<u>\$1,829</u>	<u>\$3,019</u>	<u>\$1,829</u>

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

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
17. RETAINED EARNINGS (DEFICIT)				
Balance at beginning of the year	(23,984)	(28,104)	(26,888)	(32,443)
Net surplus/(deficit) for the period excluding Associate/joint venture net profits/(losses)	1,371	7,839	1,703	5,555
Share of net profits/(loss) of associates and joint ventures accounted for using the equity method	(1,361)	(3,719)	-	-
	10	4,120	1,703	5,555
Balance at end of year	<u>\$(23,974)</u>	<u>\$(23,984)</u>	<u>\$(25,185)</u>	<u>\$(26,888)</u>

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
18. FOREIGN CURRENCY TRANSLATION RESERVE				
Balance at beginning of the year	(2,168)	148	-	-
Arising on translation of foreign operations	(4,497)	(2,316)	631	-
Balance at end of year	<u>\$(6,665)</u>	<u>\$(2,168)</u>	<u>\$631</u>	<u>-</u>

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

Notes to the financial statements

For the year ended 30 June 2014

19. OPERATING & FINANCE LEASE COMMITMENTS

Operating leases relate to The a2 Milk Company Limited and The a2 Milk Company (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.

19.1 Non-cancellable operating lease payments

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Not longer than 1 year	855	922	216	228
Longer than 1 year and not longer than 5 years	2,392	2,816	338	531
Longer than 5 years	1,369	2,066	-	-
	<u>\$4,616</u>	<u>\$5,804</u>	<u>\$554</u>	<u>\$759</u>

19.2 Finance lease commitments

There are no finance lease commitments for the Group or Company.

Notes to the financial statements

For the year ended 30 June 2014

20. INVESTMENT IN SUBSIDIARIES

20.1 Subsidiaries owned

Details of the Company's subsidiaries at 30 June 2014 are as follows:

Name of subsidiary	Place of ownership & operation	Proportion of ownership interest		Principal activity
		2014	2013	
A2 Exports Limited	New Zealand	100%	100%	Non active
A2 Holdings UK Limited	New Zealand	100%	100%	Investment in The a2 Milk Company Limited (UK)
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	Australia	100%	100%	Collecting interest from related companies
The a2 Milk Company (Australia) Pty Limited (formerly A2 Dairy Products Australia Pty Limited),....	Australia	100%	100%	Distribution and marketing of a2™ brand milk and cream in Australia
A2 Exports Australia Pty Limited	Australia	100%	100%	Export of a2™ brand milk to China and marketing in China
A2 Infant Nutrition Australia Pty Limited	Australia	100%	100%	Distribution and marketing of a2™ brand infant formula in Australia
The a2 Milk Company Limited (UK) (formerly A2 Milk (UK) Limited),.....	UK	100%	50%	Distribution and marketing of a2™ brand milk in the UK
The a2 Milk Company LLC (formerly A2 Milk Company LLC)	USA	100%	100%	Non active
The a2 Milk Company (New Zealand) Limited (formerly A2 Dairy Products New Zealand Limited),....	New Zealand	100%	100%	Non active
The a2 Milk Company Limited (Canada)	Canada	100%	0%	Non active

All subsidiaries have a balance date of 30 June except for The a2 Milk Company LLC which has a balance date of 31 December.

The a2 Milk Company Limited (Canada) was incorporated on 8th April 2014. The a2 Milk Company Limited (formerly A2 Corporation Limited) is incorporated in New Zealand and is the parent entity of the Group.

Notes to the financial statements

For the year ended 30 June 2014

20. INVESTMENT IN SUBSIDIARIES CONT.

20.2 Shares held in subsidiaries

Investments in subsidiaries	Company	
	2014 \$'000	2013 \$'000
Balance at beginning of period		
A2 Australian Investments Pty Limited	15,492	-
A2 Botany Pty Limited	2,983	2,983
The a2 Milk Company LLC	351	351
A2 Infant Nutrition Limited (NZ)	1	1
Additions during the period		
A2 Australian Investments Pty Limited	-	15,492
Balance at end of period	<u>\$18,827</u>	<u>\$18,827</u>

The Directors are satisfied that no impairment write down is required to the carrying values of A2 Australian Investments Pty Limited, A2 Botany Pty Limited, The a2 Milk Company LLC and A2 Infant Nutrition Limited (NZ) at 30 June 2014.

Notes to the financial statements

For the year ended 30 June 2014

20. INVESTMENT IN SUBSIDIARIES CONT.

20.3 Loans to subsidiaries

At balance date, The a2 Milk Company Limited had loans to subsidiaries as follows:

	Company	
	2014 \$'000	2013 \$'000
Non-current assets		
A2 Australian Investments Pty Limited	7,430	7,573
The a2 Milk Company (Australia) Pty Limited	12,374	11,708
A2 Holdings UK Limited	9,823	4,948
A2 Infant Nutrition Limited (NZ)	12,291	5,569
A2 Botany Pty Limited	297	-
Total Non-Current Assets	<u>42,215</u>	<u>29,798</u>
Current liabilities		
A2 Infant Nutrition Australia Pty Limited	1,728	-
A2 Exports Australia Pty Limited	2	-
The a2 Milk Company (Australia) Pty Limited	-	3,259
A2 Exports Limited (NZ)	1,124	1,127
Total Current Liabilities	<u>2,854</u>	<u>4,386</u>

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 The a2 Milk Company (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. The current balance of the loan is AUD 6,418,458.

An initial loan for NZD 3,400,000 was advanced to The a2 Milk Company (Australia) Pty Limited during the 2011 year. The loan is for a period of 10 years with interest charged at 7.5% p.a. The accrued interest is capitalised to the principal outstanding.

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 a2 Milk Company Limited (UK). The loan commenced on 15 November, 2011 and is interest free and repayable on demand.

Notes to the financial statements

For the year ended 30 June 2014

21. ACQUISITION OF SUBSIDIARIES

21.1 Subsidiary acquired

During 2012 The a2 Milk Company Limited (UK) ("A2M UK") was formed as a joint venture between A2 Holdings UK Limited ("A2H"), a subsidiary of the Group, and Muller Wiseman Dairies (MWD), formerly Robert Wiseman & Sons Limited, each holding a 50% interest.

On 1 January 2014 MWD sold their 50% interest to A2H in the form of 2,000,000 ordinary shares in A2M UK for consideration of £1. This resulted in A2H owning a 100% interest in A2M UK.

The acquisition of A2M UK was made to provide for an expected increase in market activity, with the marketing and sales of a2™ fresh milk products being assumed by the Group and MWD to continue to procure, process and distribute a2™ milk.

21.2 Assets acquired and liabilities assumed at the date of acquisition

Financial information in respect of the fair value of net assets acquired on acquisition of 50% of A2M UK is as follows:

	(50% interest) \$'000
Cash and cash equivalents	719
Trade and other receivables	895
Other financial assets	210
Inventories	2
Property, plant and equipment	16
Trade and other payables	(1,371)
Loan from A2H	(2,532)
Total identifiable net assets /(liabilities).....	<u>\$(2,061)</u>

At the acquisition date no intangible asset qualified for separate recognition. There were no contingent liabilities identified.

The fair value of the financial assets acquired includes trade and other receivables with a fair value of \$0.895 million. At the acquisition date all these receivables were expected to be collectible.

Goodwill of \$2.061 million arose in the business combination because the amount paid for the remaining 50% shareholding exceeded the remaining 50% share of the net asset book value of A2M UK. This reflects the expected synergies and economies of scale expected from combining the operations of the Group and A2M UK and is a portion of the costs incurred to establish the business in the United Kingdom. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the Group's equity interest in A2M UK held before the business combination was nil.

The revenue included in the consolidated statement of comprehensive income since 1 January 2014, contributed by A2M UK was \$1.108 million. A2M UK also contributed a loss of \$2.178 million over the same period. Had A2M UK been consolidated from 1 July 2013, the consolidated statement of comprehensive income would have included revenue of \$2.157 million and a loss of \$4.9 million.

Notes to the financial statements

For the year ended 30 June 2014

22. INVESTMENT IN ASSOCIATES/JOINT VENTURES

22.1 Interest in associates/joint ventures

During the year the Group purchased the remaining 50% interest in the joint venture, A2M UK. The entity is now a 100% owned subsidiary.

22.2 Movements in the amount of the groups investment in associates/joint ventures

	Group	
	2014	2013
	\$'000	\$'000
Carrying value at beginning of year	377	1,582
Funds advanced/(repaid)	4,574	2,514
Share of net surplus/(deficit)	(1,361)	(3,719)
	<u>3,590</u>	<u>377</u>
Carrying value derecognised when Associates/Joint ventures became a Subsidiary	(3,590)	-
Carrying value at end of year	<u>\$-</u>	<u>\$377</u>
Represented by:		
Investment in Associates/Joint Ventures	-	-
Non-current receivables in Associates/Joint Ventures	-	377
	<u>\$-</u>	<u>\$377</u>

22.3 Summarised financial information

The following summarises financial information relating to the Group's associates/joint ventures:

	2014	2013
	\$'000	\$'000
Extract from the associate/joint venture's balance sheets:		
Total assets	-	3,578
Current liabilities	-	(4,906)
Net assets/(liabilities)	-	(1,328)
Share of associate/joint venture's net assets/(liabilities)	<u>\$-</u>	<u>\$(664)</u>
	2014	2013
	\$'000	\$'000
Extract from the associates/joint venture's income statements:		
The 2014 figures are to the date the joint venture became a subsidiary.		
Revenue	1,049	979
Net surplus/(deficit)	(2,722)	(7,438)
Share of associates/joint ventures surplus/(deficit)	(1,361)	(3,719)

Notes to the financial statements

For the year ended 30 June 2014

23. RELATED PARTY TRANSACTIONS

23.1 Ultimate parent

The a2 Milk Company Limited is the parent of the Group. The Group consists of The a2 Milk Company 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.

Related party	Sales to related parties		Other transactions with related parties		Outstanding transactions with related parties	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Subsidiaries						
The a2 Milk Company (Australia) Pty Limited – intercompany interest received by The a2 Milk Company Limited	-	-	1,421	802	-	-
The a2 Milk Company (Australia) Pty Limited – intercompany interest paid by The a2 Milk Company Limited	-	-	579	-	-	-
A2 Australian Investments Pty Limited – intercompany interest received by The a2 Milk Company Limited	-	-	758	825	-	-
A2 Infant Nutrition Limited – intercompany interest received by The a2 Milk Company Limited	-	-	588	-	-	-
The a2 Milk Company (Australia) Pty Limited – license fees received by The a2 Milk Company Limited	20,504	22,572	-	-	-	-
A2 Infant Nutrition Australia Pty Limited – license fees received by The a2 Milk Company Limited	67	-	-	-	-	-
The a2 Milk Company (Australia) Pty Limited – royalties received by The a2 Milk Company Limited	-	571	-	-	-	-
Associate/Joint Venture:						
The a2 Milk Company Limited (UK) – expenses recharged for overseas travel and accommodation incurred by The a2 Milk Company Limited in relation to the business activities of The a2 Milk Company Limited (UK)	-	-	125	116	-	82
The a2 Milk Company Limited (UK) – interest received by A2 Holdings UK Limited	-	-	52	-	-	-

Notes to the financial statements

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23. RELATED PARTY TRANSACTIONS CONT.

Related party	Sales to related parties		Other transactions with related parties		Outstanding transactions with related parties	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Other:						
A2 Holdings (UK) Limited – consultancy fees paid to M Miles, a Director of the Company. The fees were charged at commercial rates ...	-	-	7	15	-	-
The a2 Milk Company Limited (UK) – consultancy fees paid to Lovat Partners Limited, an entity controlled by D Hearn, a Director of the Company. The fees were charged at commercial rates	-	-	41	-	41	-
The a2 Milk Company Limited (Australia) Pty Limited – purchase of packaged UHT milk from Pactum Australia Pty Limited, a wholly owned subsidiary of Freedom Foods Group Limited. The amounts were charged at commercial rates	-	-	1,574	469	-	37

24. COMMITMENTS FOR EXPENDITURE

24.1 Capital expenditure commitments

As at 30 June 2014, there were no capital expenditure commitments (2013: \$Nil).

25. CONTINGENT LIABILITY

As at 30 June 2014, there were no material contingent liabilities (2013: \$Nil).

26. SUBSEQUENT EVENTS

There has been no subsequent events requiring disclosure.

27. OPERATING SEGMENT INFORMATION

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

- The New Zealand segment receives income from milk and infant formula sales, and royalty, licence fee and management fee income.
- The Australian segment receives income from milk, cream and infant formula sales.
- From 1 January 2014 the United Kingdom segment receives income from milk sales. Prior to 1 January 2014 the United Kingdom segment received a share of joint venture profits and losses.
- The China segment receives income from milk and infant formula sales.

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.

Notes to the financial statements

For the year ended 30 June 2014

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	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Continuing operations				
Australia	106,866	92,450	4,517	3,627
China	2,745	1,977	(1,777)	(131)
New Zealand	126	247	3,004	6,756
United Kingdom	1,108	-	(2,178)	(207)
Adjustments and eliminations	-	-	-	(229)
	<u>\$110,845</u>	<u>\$94,674</u>	<u>\$3,566</u>	<u>\$9,816</u>
Interest income			455	288
Interest expense			(40)	(114)
Share of losses from associates/joint ventures			(1,361)	(3,719)
Depreciation and amortisation			(1,900)	(1,107)
Income tax income/(expense)			(710)	(1,044)
			<u>\$10</u>	<u>\$4,120</u>
Consolidated segment profit/(loss)			<u>\$10</u>	<u>\$4,120</u>

Over 86% of milk and infant formula sales come from three customers. (2013: over 90% from three customers)

	Depreciation & Amortisation		Additions to Non-Current Assets	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Australia	1,234	1,070	1,057	1,232
China	-	-	-	-
New Zealand	658	37	1,856	13
United Kingdom	8	-	-	-
	<u>\$1,900</u>	<u>\$1,107</u>	<u>\$2,913</u>	<u>\$1,245</u>
	Assets		Liabilities	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Australia	63,455	72,134	36,979	43,940
China	4,854	5,274	997	1,148
New Zealand	75,852	58,845	16,612	2,440
United Kingdom	3,305	499	9,416	5,090
Adjustments and eliminations	(70,823)	(64,348)	(46,005)	(40,144)
	<u>\$76,643</u>	<u>\$72,404</u>	<u>\$17,999</u>	<u>\$12,474</u>

Notes to the financial statements

For the year ended 30 June 2014

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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Net surplus /(deficit) for the year	10	4,120	1,703	5,555
Adjustments for non-cash items:				
Depreciation & amortisation expense	1,900	1,107	285	36
Expense recognised in profit & loss in respect of equity-settled share-based payments	1,190	279	1,190	279
Net foreign exchange (gain)/loss	(1,448)	(545)	635	1,407
Share of (profit)/loss of associates/joint ventures and other obligations	1,361	3,719	-	-
Deferred tax	66	(542)	131	(688)
Income & expenses credited to inter-company loan	-	-	-	(7,609)
	<u>3,079</u>	<u>8,138</u>	<u>3,944</u>	<u>(1,020)</u>

Movements in working capital

(Increase)/decrease in trade and other receivables	(1,193)	(7,186)	54	(184)
(Increase)/decrease in prepayments	827	(1,918)	(109)	(115)
(Increase)/decrease in inventories	(4,838)	(65)	-	-
Increase/(decrease) in accounts payable	2,742	4,948	708	712
Increase/(decrease) in current tax liabilities	(226)	(337)	(618)	(155)
	<u>391</u>	<u>3,580</u>	<u>3,979</u>	<u>(762)</u>
Plus/(Less) items classified as investing and financing activities:				
Reclassification of lease liability to financing activities	-	47	-	-
Amounts in receivables relating to investing activities	-	20	-	-
Movement in non-current accounts payable	44	-	13	-
Net cash inflow (outflow) from operating activities	<u>\$435</u>	<u>\$3,647</u>	<u>\$3,992</u>	<u>\$(762)</u>

Notes to the financial statements

For the year ended 30 June 2014

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, 13, 16, 17 and 18 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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial assets				
Trade and other receivables	27,358	24,375	153	368
Loans to subsidiaries	-	-	42,215	29,798
Cash and Short Term Deposits	15,979	20,187	4,251	13,943
Financial liabilities at amortised cost				
Trade creditors	8,391	7,150	683	231
Loans from subsidiaries	-	-	2,854	4,386

Notes to the financial statements

For the year ended 30 June 2014

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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
US dollars				
Assets				
Cash and short term deposits	4,092	4	824	4
Accounts receivable	811	2,149	13	-
	<u>\$4,903</u>	<u>\$2,153</u>	<u>\$837</u>	<u>\$4</u>
Liabilities				
Trade creditors	1,794	-	45	-
	<u>\$1,794</u>	<u>\$-</u>	<u>\$45</u>	<u>\$-</u>
AUS dollars				
Assets				
Cash and short term deposits	11,772	5,037	3,356	28
Accounts receivable	25,287	21,912	65	161
Loans to subsidiaries	-	-	20,102	7,573
	<u>\$37,059</u>	<u>\$26,949</u>	<u>\$23,523</u>	<u>\$7,762</u>
Liabilities				
Trade creditors	8,348	6,945	761	-
Loans from subsidiaries	-	-	1,730	-
	<u>\$8,348</u>	<u>\$6,945</u>	<u>\$2,491</u>	<u>\$-</u>

Notes to the financial statements

For the year ended 30 June 2014

29. FINANCIAL INSTRUMENTS CONT.

29.5 Foreign currency risk management cont.

	Group		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
GB pounds				
Assets				
Cash and short term deposits	38	476	9	476
Accounts receivable	380	-	6	-
Loans to subsidiaries	-	-	9,823	4,948
	<u>\$418</u>	<u>\$476</u>	<u>\$9,838</u>	<u>\$5,424</u>
Liabilities				
Trade creditors	1,677	-	4	-
	<u>\$1,677</u>	<u>\$-</u>	<u>\$4</u>	<u>\$-</u>
Euro				
Assets				
Cash and short term deposits	4	2	4	2
	<u>\$4</u>	<u>\$2</u>	<u>\$4</u>	<u>\$2</u>

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2014 and 30 June 2013.

Notes to the financial statements

For the year ended 30 June 2014

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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Currency impact on profit or Loss				
Strengthening in NZD/AUD	4	245	4	706
Weakening in NZD/AUD	(4)	110	(4)	(863)
Strengthening in NZD/GBP	1	256	1	493
Weakening in NZD/GBP	(1)	(619)	(1)	(603)
Strengthening in NZD/USD	311	265	79	-
Weakening in NZD/USD	(311)	(324)	(79)	-
Currency impact on equity				
Strengthening in NZD/AUD	4,948	2,580	19	706
Weakening in NZD/AUD	(4,948)	(3,153)	(19)	(863)
Strengthening in NZD/USD	311	265	79	-
Weakening in NZD/USD	(311)	(324)	(79)	-
Strengthening in NZD/GBP	(85)	256	1	493
Weakening in NZD/GBP	85	(619)	(1)	(603)

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 has been exposed to interest rate risk during the period 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.

Notes to the financial statements

For the year ended 30 June 2014

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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
The maximum exposures to credit risk at balance date are:				
Cash, short term deposits and short term borrowings	15,979	20,187	4,251	12,816
Trade and other receivables	27,358	24,358	153	351
Prepayments	1,992	2,399	227	118
Loans to subsidiaries	-	-	42,215	26,539
	<u>\$45,329</u>	<u>\$46,944</u>	<u>\$46,846</u>	<u>\$39,824</u>

At balance date, the Group's bank accounts were held with National Australia Bank Limited, Bank of New Zealand Limited and Clydesdale Bank. 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.

Notes to the financial statements

For the year ended 30 June 2014

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	
2014		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities:							
Trade creditors		8,391	-	-	-	-	8,391
		<u>\$8,391</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$8,391</u>

2013	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	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities:							
Trade creditors		7,150	-	-	-	-	7,150
		<u>\$7,150</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$7,150</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	
2014		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities:							
Trade creditors		683	-	-	-	-	683
		<u>\$683</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$683</u>

2013	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	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities:							
Trade creditors		231	-	-	-	-	231
		<u>\$231</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$231</u>

“While these are preliminary results from a pilot study, the results show a clear difference in gastro-intestinal function in adults consuming the A1 versus A2 beta-casein types. These differences have not only been found in people who consider themselves milk intolerant, but also in normal milk drinking people.

The logical next step is to source further funding for more scaled human studies to further understand the digestion differences of A1 beta-casein in milk amongst different groups of people and that will be my focus going forward.”

—
Sebely Pal,
Associate Professor,
Curtin University, Australia

Corporate governance

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 seven 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 as at 30 June 2014 Mr D Mair, Mr R Le Grice, Ms J Hoare and Mr D Hearn were independent Directors and Mr C Cook, Mr P Gunner, Mr M Miles and Mr G Babidge were not 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.

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 Audit and Risk Management Committee is Ms J Hoare (Chair), Mr M Miles and Mr R Le Grice.

2. Remuneration Committee

This committee comprises three 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 D Mair (Chair), Mr P Gunner and Mr M Miles.

3. Board Nomination Committee

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

The current composition of the Board Nomination Committee is Mr C Cook (Chair), Mr D Mair, Mr P Gunner and Ms J Hoare.

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.

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 NZX Main Board 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.thea2milkcompany.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: the Company does not remunerate Directors under a performance based equity compensation plan; the Code does not impose specific training requirements on its Directors, and the Board Nominations Committee is not required to comprise a majority of independent Directors.

The Company's ordinary shares are listed on the main board of the New Zealand stock exchange. Details in regard to such securities are as follows:

Additional stock exchange information

1. Substantial security holders

Pursuant to sub-part 3 of the Securities Markets Act 1988, the following persons have given notice as at 4 September, 2014 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	8.72%
Milford Asset Management Limited	17 July, 2014	97,877,776	14.83%
AMP Capital Investors (New Zealand) Limited	6 May, 2014	51,385,948	7.78%
Freedom Foods Group Limited	4 September, 2014	117,878,629	17.86%
EGI - Fund (08-10) Investors, LLC	12 December, 2012	30,000,000	4.54%
New Zealand Superannuation Fund Nominees Limited	4 July, 2014	39,798,527	6.03%

The total number of voting securities on issue at 4 September 2014 was 660,066,979 consisting of 633,066,979 fully paid shares and 27,000,000 partly paid shares.

2. Directors' relevant interests

Directors had a Relevant Interest in the following equity securities in the Company at 30 June 2014:

Name of Director	Registered Holder	Beneficial No's	%	Non Beneficial No's	%
Cliff Cook	Mountain Road Investments Limited	57,558,701	8.72%	-	0.00%
David Mair	David Mair	5,000,000	0.76%	-	0.00%
Richard Le Grice	Richard Le Grice	100,000	0.02%	-	0.00%
Geoff Babidge	GCAA Investments Pty Ltd	11,000,000	1.67%	-	-

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 31 August 2014 are listed below:

	No's	%
Freedom Foods Group Limited	116,936,129	17.71
Tea Custodians Limited	83,244,550	12.61
Mountain Road Investments Limited	57,558,701	8.72
New Zealand Superannuation Fund Nominees Limited	42,068,794	6.37
Cogent Nominees Limited	41,390,490	6.27
HSBC Nominees (New Zealand) Limited	36,748,003	5.56
J P Morgan Chase Bank	25,467,261	3.86
Accident Compensation Corporation	24,939,812	3.78
Premier Nominees Limited	11,593,940	1.76
Citibank Nominees (NZ) Limited	10,533,915	1.60
BNP Paribas Nominees NZ Limited	9,848,921	1.49
Custodial Services Limited	8,042,099	1.22
Ulrike Mclachlan	7,135,163	1.08
JBWERE (NZ) Nominees Limited	5,865,962	0.89
Gregory Paul Hinton & Rosslyn Heather Audrey Hinton	5,000,000	0.76
David Mair	5,000,000	0.76
Superlife Trustee Nominees Limited	4,571,641	0.69
Forsyth Barr Custodians Limited	4,117,440	0.62
TP Trustee Bendemeer Limited	4,000,000	0.61
Premier Nominees Limited	3,737,545	0.57
	<u>507,800,366</u>	<u>76.93</u>

Additional stock exchange information cont.

4. Spread of security holders as at 31 August 2014:

a) Fully paid ordinary shareholders

Size of Shareholding	Number of Holders	%	Numbers
1-1,000	184	0.02	142,261
1,001-5,000	1,128	0.56	3,522,770
5,001-10,000	842	1.09	6,884,212
10,001-50,000	1,067	3.94	24,926,394
50,001-100,000	166	1.97	12,461,505
100,001-500,000	136	4.20	26,584,704
500,001-1,000,000	18	1.94	12,250,693
1,000,001 shares or more	25	86.28	546,294,440
Total	<u>3,566</u>	<u>100.00</u>	<u>633,066,979</u>

b) Partly paid ordinary shareholders

Size of Shareholding	Number of Holders	%	Numbers
1,000,001 shares or more.....	6	100.00	27,000,000
Total	<u>6</u>	<u>100.00</u>	<u>27,000,000</u>

5. Credit rating status

Not applicable.

6. Waivers granted by NZX or Market Surveillance Panel

On 18 October 2013 NZX granted the Company a waiver from NZX Main Board Listing Rule 7.6.1 (f)(i) to allow the Company to acquire partly paid shares issued to Mr G Babidge in accordance with the terms of the Company's ownership based compensation scheme (if Mr Babidge should so require the Company's acquisition under the terms of the scheme).

7. Changes in Directors

During the accounting period:

- Mr G Hinton resigned as a Director of the Company with effect from 19 November 2013.
- Mr M Perich resigned as an alternate Director to Mr P Gunner, of the Company with effect from 19 March 2014.
- Ms J Hoare was appointed as a Director of the Company with effect from 19 November 2013.
- Mr D Hearn was appointed as a Director of the Company with effect from 5 February 2014.

Statutory information

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

Directors have declared interests during the accounting 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.
- Mr D Mair declared his interest as a non-executive director and shareholder of Forte Funds Management Limited, which is the manager and promoter of the Forte Equity Fund (the Forte Fund).

Between 29 July 2014 and 11 September 2014 Public Trust Forte Nominees Limited, the registered holder of the Forte Fund, acquired 622,531 fully paid ordinary shares of the Company on-market.

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 Cook	45 South Cherries Limited	Shareholder
	45 South Investments Limited	Shareholder
	Chain Hill Farm Limited	Director/Shareholder
	Chesapeake Limited	Director
	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	Director/Shareholder
	Private Health Care (NZ) Limited and various subsidiaries and related companies	Director/Shareholder
D Mair	DDD Investments Limited	Director/Shareholder
	DJD Management Limited	Director/Shareholder
	Skellerup Holdings Limited and various subsidiaries and related companies	Director/Shareholder
	Forte Funds Management Limited	Director/Shareholder

Statutory information cont.

Other positions held cont.

Name of Director	Entity	Position
M Miles	Freedom Foods Group Ltd Brewtique Pty Ltd	Director/Shareholder Director/Shareholder
R Le Grice	Mesjas Limited Colorite Engraving Limited Energi New Zealand Limited Foxton Properties Limited Lonsdale 2005 Limited Multi Vision Technologies Limited NZ Saw Limited Pacifica Trading Company Limited Riverside Lodge (2005) Limited Tamura Paki Properties Limited Thode Knife & Saw Limited RGM Trustee Limited The Gravitass Group Limited	Director/Shareholder Director Director Shareholder Shareholder Director Director/Shareholder Shareholder Shareholder Shareholder Director/Shareholder Director Director
J Hoare	New Zealand Post Limited Watercare Services Limited AWF Group Limited	Director Director Director
P Gunner	Australian Vintage Ltd Freedom Foods Group Ltd Gemlake Pty Ltd	Director Director/Shareholder Director/Shareholder
D Hearn	Lovat Partners Limited Robin Partington & Partners Limited	Director/Shareholder Director

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)
D Mair	(2,000,000)	4 September, 2013	(1,410,000)
	5,000,000	12 November, 2013	495,000*
G Babidge	4,000,000	4 September 2013	396,000*
	(4,000,000)	4 September 2013	(2,820,000)
	5,000,000	11 November, 2013	32,000*

* Relevant interest in shares acquired includes amounts paid on partly paid shares as follows:
 - Mr D Mair: \$495,000 representing the balance payable of 9.9c per share;
 - Mr G Babidge: \$396,000 representing the balance payable of 9.9c per share;
 - Mr G Babidge: \$32,000 initial payment of 0.64c per share.

Directors of subsidiary companies

Subsidiary	Directors
A2 Exports Limited	G Babidge C Louttit
A2 Australian Investments Pty Limited	G Babidge C Louttit
A2 Botany Pty Limited	G Babidge C Louttit
The a2 Milk Company (Australia) Pty Limited	G Babidge P Nathan
A2 Infant Nutrition Limited	G Babidge S Hennessy
A2 Holdings UK Limited	C Louttit
A2 Infant Nutrition Australia Pty Limited	G Babidge S Hennessy P Nathan
A2 Exports Australia Pty Limited	G Babidge C Louttit
The a2 Milk Company (New Zealand) Limited	G Babidge P Nathan
The a2 Milk Company Limited (Canada)	G Babidge C Louttit
The a2 Milk Company Limited (UK)	D Hearn W Keane G Babidge

No Director of any subsidiary company received any Director fees or any other benefits as a Director during the accounting period.

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 Cook	83,908
G Hinton	10,728
R Le Grice	47,739
D Mair	47,739
P Gunner	47,074
M Miles	47,018
J Hoare	43,179
D Hearn	24,500
	<u>\$351,885</u>

Managing Director, Mr G Babidge, does not receive directors fees. Mr Babidge's remuneration received during the year ended 30 June 2014 as Managing Director and Chief Executive Officer was \$692,648.

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 2014 the following numbers of employees received remuneration of at least \$100,000.

	Number of employers
\$100,000 - \$109,999	1
\$110,000 - \$119,999	1
\$130,000 - \$139,999	3
\$140,000 - \$149,999	3
\$160,000 - \$169,999	2
\$170,000 - \$179,999	1
\$190,000 - \$199,999	1
\$200,000 - \$209,999	2
\$210,000 - \$219,999	2
\$220,000 - \$229,999	1
\$250,000 - \$259,999	1
\$270,000 - \$279,999	1
\$290,000 - \$299,999	1
\$330,000 - \$399,999	1
\$440,000 - \$449,999	1

Statutory information cont.

Gender diversity

The Group gender composition of its staff at 30 June 2014.

	At 30 June 2014		At 30 June 2013	
	Male	Female	Male	Female
Directors	87%	13%	100%	-
Officers	87%	13%	75%	25%
Business Unit Management	57%	43%	86%	14%
Other Staff	49%	51%	50%	50%

Donations

The Company made donations of cash and inventories totalling \$150,991 during the year ended 30 June 2014 (2013: \$34,000), primarily related to donations of inventory to charitable organisations.

Reconciliation of EBITDA to profit after tax

	Group	
	2014	2013
	\$'000	\$'000
EBITDA	3,566	10,640
Share of Associate Earnings	(1,361)	(3,719)
Non-recurring items	0	(824)
Interest income	455	288
Interest expense	(40)	(114)
Depreciation/Amortisation	(1,900)	(1,107)
Income tax/(expense)	(710)	(1,044)
Net Profit After Tax	<u>\$10</u>	<u>\$4,120</u>

EBITDA is a non GAAP measure, however, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business. Non recurring items in 2013 related to Costs associated with the Strategic Review.

Sub-committees

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

Audit & Risk Management:	Remuneration:	Board Nomination:
J Hoare (Chair)	D Mair (Chair)	C Cook (Chair)
M Miles	P Gunner	D Mair
R Le Grice	M Miles	P Gunner
		J Hoare

Friends of
a2 milk™

Adrianna

AUSTRALIAN CONSUMER



“Well we have had a2 Milk for nearly 2 weeks and I have to say I have been pleasantly surprised. My kids are not complaining of tummy aches any more. They are actually asking for glasses of milk, whereas before they would only ask for water or juice. My son loves the taste. I love the taste.”

“Replacing regular milk (containing A1 beta-casein) with A2 milk can offer digestive benefits for some people, especially in those with sensitivities to milk (where the issue is not lactose intolerance or milk allergy).”

Dr Sue Shepherd,
La Trobe University,
Australia

Corporate directory

Company number	1014105	Auditor	Ernst & Young, Sydney
Issued capital	660,066,979 Fully Paid and Partly Paid Ordinary Shares as at 31 August 2014	Bankers	National Australia Bank, Sydney Bank of New Zealand, Auckland
Registered office	C/-Simpson Grierson Level 27 88 Shortland Street Auckland	Solicitor (Commercial)	Simpson Grierson, Auckland
Share registrar	Link Market Services Limited PO Box 384 Ashburton Telephone (03) 308 8887	Solicitor (Commercial)	DLA Piper, Sydney
Directors	Mr C Cook (Chairman) Mr G Babidge (Managing Director) Mr R Le Grice Mr P Gunner (Deputy Chairman) Mr D Mair Ms J Hoare Mr M Miles Mr D Hearn	Solicitor (Intellectual property)	Catalyst Intellectual Property, Wellington

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