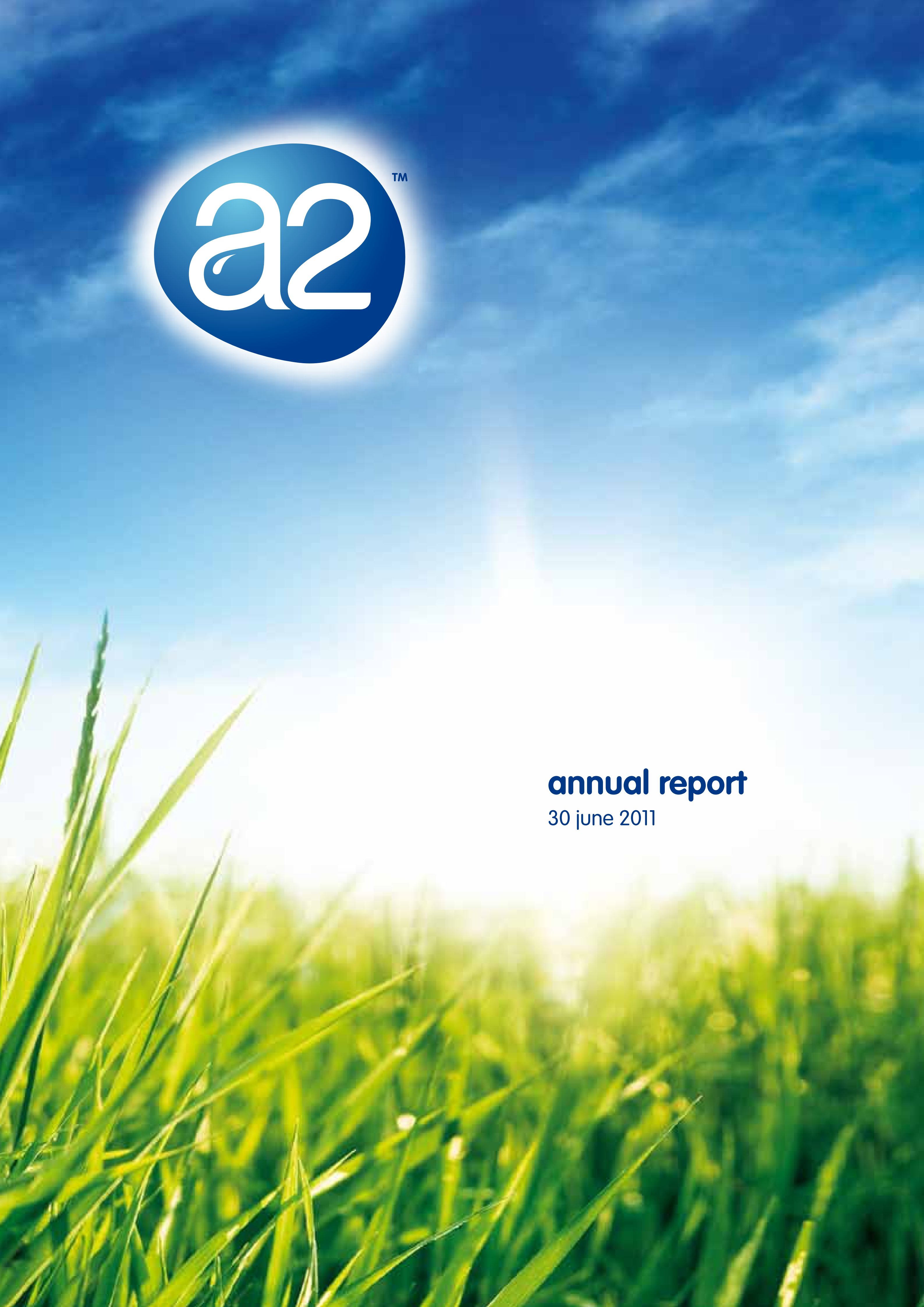

annual report

30 june 2011

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FOR THE YEAR ENDED 30 JUNE 2011

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COMPANY DIRECTORY
AS AT 30 JUNE 2011

Company Number	1014105
Issued Capital	590,066,979 Fully Paid and Partly Paid Ordinary Shares at 31 August 2011
Registered Office	C/-Simpson Grierson Level 27 88 Shortland Street Auckland PO Box 109 349 Newmarket Auckland 1149
Share Registrar	Link Market Services Limited PO Box 384 Ashburton Telephone +64 (3) 308 8887
Directors	Mr C J Cook (Chairman) Mr G H Babidge (Managing Director) Mr R Le Grice Mr P R Gunner (Deputy Chairman) Mr G P Hinton (Executive Director) Mr D W Mair (Executive Director) Mr M Miles
Accountant	Deloitte PO Box 1245 Dunedin
Auditor	Ernst & Young PO Box 2091 Christchurch
Bankers	National Australia Bank Limited NAB House 255 George Street Sydney Westpac PO Box 934 Auckland
Solicitor – Commercial	Simpson Grierson Private Bag 92518 Auckland
Solicitor – Intellectual Property	Baldwins PO Box 852 Wellington

CHAIRMAN'S REPORT
FOR THE YEAR ENDED 30 JUNE 2011

I am very pleased to report that A2 Corporation Limited ("the Company") recorded a maiden Group Profit after Tax of $2,115,567 for the year ended 30 June 2011.

The Company continues to maintain a strong balance sheet position with net cash on hand of $7.5m at year end.

This result represents a significant milestone for the Company and is a consequence of its repositioning to a differentiated, branded, consumer goods and ingredients company.

Following completion of the full acquisition of A2 Dairy Products Australia Pty Ltd in July 2010, the business performed strongly with sales and operational profit well ahead of budget and the prior year. In December the Company announced the plan to construct its own fresh milk processing facility in Sydney, with production planned to commence in early 2012.

In addition to further supporting the growth of the Australian business, Management developed a new agenda for growth in international markets focused on the launch of a2 Milk™ in at least one new global white milk market and A2 infant formula into Asian markets. A number of potential initiatives are gaining momentum.

The Company was well supported by its major shareholders with equity raisings from AMP Capital Investors (New Zealand) Limited and Freedom Foods Group Limited (FFG) totalling $4.1m during the year. An issue of ordinary shares to FFG in July 2011 raised a further $2.6m.

The Managing Director's Report contains further detail on the Company's performance and agenda for growth.

I wish to thank my fellow Directors and our Management team for their substantial contribution during the year. We look forward to further growth in existing markets and potential new developments in the year ahead.

C J Cook
Chairman

6 October 2011

MANAGING DIRECTOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2011

A2 Corporation Limited ("A2C" or "the Company") (NZAX: ATM) recorded a Group Profit after Tax of $2,115,567 for the twelve (12) months ended 30 June 2011. This compared to a Loss of $2,193,973 for the twelve (12) months ended 30 June 2010.

The trading result comprised of the following key items:

- Group EBITDA of $2,816,167.
- An operational profit from the Australian business well ahead of budget and the prior year. This profit was for the period from 22 July 2010 being the date of full acquisition of the Australian joint venture by A2C.
- Non Cash Expenses of $271,037 relating to share based incentive schemes for management & executive directors.
- Income tax expense of $742,681.

A Foreign Currency Translation Gain of $421,228 was recorded for the year.

The balance sheet at 30 June 2011 reflects a strong net cash position of $7.5m further enhanced by a capital raising of $2.6m in July 2011 as detailed below. We anticipate the June 2011 cash position to be broadly maintained next year in the absence of new strategic initiatives.

STRATEGIC AGENDA

The Company announced at the 2010 AGM that a new strategic agenda had been endorsed by the Board and incorporated three key elements:

- Continue to support the growth of the Australian dairy products business;
- Identify opportunities to launch a2 Milk™ in at least one new global white milk market with suitable market characteristics in the short term; and
- Develop a strategy to introduce A2 infant formula sourced from Australia or New Zealand into prospective Asian markets.

The Company's activities were progressed consistent with this strategy during the year.

AUSTRALIA

a2 Milk™ sales volume in Australia continued to grow strongly and totalled 21.6 million litres for the year, an increase on the prior year of 32%. We estimate the market share of a2 Milk™ fresh milk by value in the grocery channel at year end approximated 4.2%. This growth is pleasing and is consistent with increasing awareness of the positive benefits of a2 Milk™ and the increasing loyalty of consumers. The company continued to increase its investment in marketing and communication activities and introduced packaging improvements to increase shelf presence.

The retail price of a2 Milk™ has remained broadly unchanged for a period of more than two years. A decision to lower the retail prices of house brand dairy milk by the major grocery chains from January had a significantly negative impact on most competitive brands of dairy milk, which contrasted with a2 Milk™ which recorded growth in sales over subsequent months.

In December 2010, the Company announced the plan to construct its own fresh milk processing facility for a capital cost of AUD 7.5m to support the continued growth of the business. The project is being financed from an asset finance facility of AUD 4.5m and a prior equity raising as detailed below.

The new plant will comprise a medium-sized processing facility located in a purpose built factory in south western Sydney. The plant will incorporate the most advanced proven dairy processing technologies to achieve the highest quality standard of fresh milk and competitive operating costs. The facility will operate in conjunction with existing contract manufacturers and initially process approximately 10 million litres of milk per annum, with capacity to grow over time. Given a delay in building construction due to prior regulatory issues, production is planned to commence in February 2012.

NEW ZEALAND

Fresha Valley is the sole licensee for a2 Milk™ in New Zealand. A2C and Fresha Valley have been working together to enhance the business model to build awareness and sales of a2 Milk™ fresh milk. To assist this process, management of the A2C Australian and New Zealand businesses have recently been merged.

KOREA

The company has continued to pursue its legal rights for compensation under a former license repudiated by Purmil Co. Ltd of Korea. This included the Company engaging in a mediation process earlier in the year and subsequently in December initiating proceedings against Purmil in the High Court of New Zealand. Legal expenses for this matter totalled $138,331 in the year.

Subsequent to year end a settlement was reached with Purmil resulting in a payment being made to A2C. The net proceeds after legal costs incurred since year end approximate $1.1m.

INTERNATIONAL BUSINESS DEVELOPMENT

In October the Company announced it had agreed to acquire the 50% interest of its partner in the United States based joint venture entity, A2 Milk Company LLC, such that this entity is now wholly owned by A2C. The consideration for the transaction was in the form of an issue of 4 million fully paid shares valued at $350,800 at the time. This transaction was consistent with the Company's strategy for growth.

In February, the Company established an International Business Development structure to support the development of a2 Milk™ white milk and infant formula in global markets consistent with the strategic agenda. Good progress has been made in identifying and developing a number of new growth initiatives.

EQUITY RAISINGS

In addition to the issue of shares relating to A2 Milk Company LLC, the Company undertook an equity raising by way of placement of ordinary shares to two major shareholders in December to raise a total of $3.9m to support the funding of the milk processing project in Australia.

Pursuant to the sale and purchase agreement for A2 Dairy Products Australia Pty Ltd, Freedom Foods Group Limited (FFG) was issued ordinary and partly paid shares in June for total cash consideration of $167,543. Subsequent to year end in July 2011, FFG exercised a further option for the issue of additional ordinary shares in the Company for total cash consideration of $2,599,094.

G H Babidge
Managing Director

6 October 2011

DIRECTORS' RESPONSIBILITY STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

The Directors of A2 Corporation Limited are pleased to present to shareholders the financial statements for A2 Corporation Limited for the year ended 30 June 2011.

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 2011 and the results of its operations and cash flows for the period ended on that date.

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

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

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

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

C J Cook
Chairman

6 October 2011

G H Babidge
Managing Director

6 October 2011

ERNST & YOUNG

Chartered Accountants

Independent Auditor's Report

To the Shareholders of A2 Corporation Limited

Report on the Financial Statements

We have audited the financial statements of A2 Corporation Limited and its subsidiaries on pages 10 to 61, which comprise the statement of financial position of A2 Corporation Limited and the group as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Opinion

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

» comply with generally accepted accounting practice in New Zealand;

» comply with International Financial Reporting Standards; and

» give a true and fair view of the financial position of A2 Corporation Limited and the group as at 30 June 2011 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we have required.

In our opinion proper accounting records have been kept by A2 Corporation Limited as far as appears from our examination of those records.

Ernst & Young

6 October 2011

Christchurch

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
CONTINUING OPERATIONS					
Milk sales		42,206,509	-	-	-
Cost of sales		(27,679,307)	-	-	-
Gross margin		14,527,202	-	-	-
Share of associate earnings		133,987	979,698	-	-
Interest income		214,519	168,477	1,051,727	168,477
Other revenue	3.1	182,542	301,968	2,410,747	301,968
Administrative expenses		(2,959,451)	(933,580)	(1,390,132)	(933,580)
Due diligence and restructure costs		(62,594)	(1,307,613)	(62,594)	(1,307,613)
Finance costs		(126,193)	(10,716)	(3,414)	(7,712)
Marketing expenses		(2,554,894)	(10,525)	-	(10,525)
Occupancy expenses		(54,461)	(41,681)	-	(41,681)
Other expenses	3.2	(6,442,409)	(1,340,001)	(1,565,854)	(1,333,214)
Profit/(loss) before tax		2,858,248	(2,193,973)	440,480	(3,163,880)
Income tax expense	4.1	(742,681)	-	(103,774)	-
PROFIT/(LOSS) FOR THE YEAR		2,115,567	(2,193,973)	336,706	(3,163,880)
Other comprehensive income					
Foreign currency translation gain/(loss)	17	421,228	(46,839)	-	-
TOTAL COMPREHENSIVE INCOME		$2,536,795	$(2,240,812)	$336,706	$(3,163,880)
EARNINGS/(LOSS) PER SHARE					
Basic (cents per share)	13.1	0.40	(0.58)		
Diluted (cents per share)	13.2	0.40	(0.58)		

A2 Corporation Limited (“the Company”) and its subsidiaries (together the “Group”) is a profit orientated entity. The principal activity of the Company is the commercialisation of a2 Milk™ and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of a2 Milk™. The Group comprises the Company, A2 Exports Limited, A2 Milk Company LLC, A2 Australian Investments Pty Limited, A2 Exports Pty Limited and A2 Dairy Products Australia Pty Limited.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
Equity at beginning of year		7,266,806	8,805,201	7,923,908	10,312,845
Total comprehensive income for the year		2,536,795	(2,240,812)	336,706	(3,163,880)
		9,803,601	6,564,389	8,260,614	7,148,965
TRANSACTIONS WITH OWNERS					
Employee equity settled payments reserve	15	271,037	702,417	271,037	702,417
Issue of ordinary shares		15,156,054	-	15,156,054	-
Share issue costs	12	(47,653)	-	(47,653)	-
A2 Finance Ltd retained earnings transferred on amalgamation	16	-	-	-	72,526
EQUITY AT END OF YEAR		$25,183,039	$7,266,806	$23,640,052	$7,923,908

Refer to Notes 12, 15, 16 and 17 for the movement in the applicable reserves.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Notes	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
ASSETS					
Current assets					
Cash & short term deposits	6	7,467,184	5,214,589	3,456,146	5,212,184
Trade and other receivables	7	11,688,642	279,144	419,826	633,859
Prepayments		310,639	28,858	52,614	28,858
Loans to subsidiaries	19.3	-	-	12,002,095	-
Current tax assets		-	4,777	-	4,777
Inventories		424,586	-	-	-
Deferred tax	4.4	143,254	-	-	-
Total current assets		20,034,305	5,527,368	15,930,681	5,879,678
Non-current assets					
Property, plant & equipment	8	2,305,239	2,700	2,304	2,700
Investments in subsidiaries	19.2	-	-	3,333,798	2,982,998
Investment in associates	21.1	-	2,742,282	-	-
Loans to subsidiaries	19.3	-	-	4,668,228	-
Goodwill	10	10,166,911	-	-	-
Other Intangible assets	11	222,895	-	222,895	-
Total non-current assets		12,695,045	2,744,982	8,227,225	2,985,698
TOTAL ASSETS		$32,729,350	$8,272,350	$24,157,906	$8,865,376

 The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011 (CONTINUED)

	Notes	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
LIABILITIES					
Current liabilities					
Short term borrowings		621,586	-	-	-
Accounts payable	9	6,037,292	1,005,544	424,309	941,468
Current tax liabilities		832,151	-	93,545	-
Total current liabilities		7,491,029	1,005,544	517,854	941,468
Non current liabilities					
Lease liability		55,282	-	-	-
Total non-current liabilities		55,282	-	-	-
Total liabilities		$7,546,311	$1,005,544	$517,854	$941,468
OWNERS EQUITY					
Equity attributable to equity holders of the parent					
Share capital	12	56,062,915	40,954,514	56,062,915	40,954,514
Retained earnings (deficit)	16	(32,508,624)	(34,624,191)	(33,721,643)	(34,058,349)
Foreign currency translation reserve	17	329,968	(91,260)	-	-
Employee equity settled payments reserve	15	1,298,780	1,027,743	1,298,780	1,027,743
Total equity		25,183,039	7,266,806	23,640,052	7,923,908
TOTAL LIABILITIES & OWNERS EQUITY		$32,729,350	$8,272,350	$24,157,906	$8,865,376

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from (applied to):					
Receipts from customers		39,970,053	181,663	1,832,598	181,663
Interest received		233,619	138,769	324,731	149,375
Other income		98,777	61,063	-	61,063
Payments to suppliers & employees		(38,570,791)	(2,276,316)	(3,204,536)	(2,272,458)
Interest paid		(120,831)	(6,757)	-	(4,019)
Taxes paid		(171,976)	-	(5,453)	-
Net cash inflow (outflow) from operating activities	27	1,438,851	(1,901,578)	(1,052,660)	(1,884,376)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from (applied to):					
Proceeds from sale of property, plant & equipment		10,843	-	-	-
Acquisition of subsidiaries		32,148	-	-	-
Funds reimbursed by A2 Dairy Products Australia Pty Limited		-	16,995	-	-
Payment for property, plant & equipment		(2,077,335)	-	(344)	-
Funds advanced to A2 Milk Company LLC		(49,651)	-	(49,651)	-
Funds advanced to A2 Dairy Products Australia Pty Limited		-	-	(4,506,676)	-
Investment in intangible assets		(222,896)	-	(222,896)	-
Net cash inflow (outflow) from investing activities		(2,306,891)	16,995	(4,779,567)	-

 The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

	Notes	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from (applied to):					
Proceeds from issue of equity shares		4,105,695	20,000	4,105,695	20,000
Short term borrowings		621,586	-	-	-
Payment for capital raising costs		(47,653)	-	(47,653)	-
Acquisition of subsidiaries		(1,607,804)	-	-	-
Net cash inflow (outflow) from financing activities		3,071,824	20,000	4,058,042	20,000
Net increase/(decrease) in cash & short term deposits		2,203,784	(1,864,583)	(1,774,185)	(1,864,376)
Cash & short term deposits at the beginning of the year		5,214,589	7,165,108	5,212,184	7,162,454
Effect of exchange rate changes on cash		48,811	(85,936)	18,147	(85,894)
Cash and short term deposits at the end of the year		$7,467,184	$5,214,589	$3,456,146	$5,212,184
COMPRISED OF:					
Cash & short term deposits	6	$7,467,184	$5,214,589	$3,456,146	$5,212,184

The accompanying notes form part of these financial statements.

1. CORPORATE INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

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

The financial statements are presented in New Zealand dollars.

The presentation format of the Statement of Comprehensive Income has changed to reflect the trading activities of the Company's 100% owned subsidiary A2 Dairy Products Australia Pty Limited (A2DP). Previously A2DP was a 50% owned associate with trading results and assets and liabilities incorporated using the equity method of accounting. As a fully owned subsidiary, all revenue and expenditure is shown in the income statement under the relevant revenue and expenditure accounts using the function of expense classification. Previously the analysis of expenses were disclosed under the nature of expense classification. Assets and liabilities are also shown in the statement of financial position under the relevant asset and liability. Comparative figures have been restated to reflect the change to the functional presentation format.

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 2010.

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) The Group has early adopted the 'Improvements to NZ Equivalents to IFRS: Amendment to NZ IAS1' which clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The Group has opted to disclose this information in the notes to the financial statements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

ii) Standards and Interpretations in Issue Not Yet Adopted.

Unless otherwise shown, the application date for these standards for the Group is 1 July 2011.

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

- NZ IAS 12 – Income Taxes – Deferred Tax: Recovery of underlying Assets (1 July 2012)
- NZ IFRS 9 – Financial Instruments (1 July 2013)
- NZ IAS 10 – Consolidated Financial Statements (1 July 2013)
- NZ IFRS 13 – Fair Value Measurement (1 July 2013)
- Improvements to NZ Equivalents to IFRS (2010): Amendments to NZ IFRS 1

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

- NZ IAS 24 – Related Party Disclosures (Revised 2009)
- Improvements to NZ Equivalents to IFRS (2010): Amendments to NZ IFRS 7, NZ IAS 34
- NZ IFRS 8 – Operating Segments
- NZ IFRS 12 – Disclosure of Interests in Other Entities (1 July 2013)
- FRS 44 – New Zealand Additional Disclosures
- NZ IFRS 7 – Amendments to NZ IFRS 7 Financial Instruments: Disclosures
- Harmonisation Amendments

2.4 Critical Accounting Judgements

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

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

2.5 Key Sources of Estimation Uncertainty

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

Key Sources of Estimation Uncertainty include:

- Estimating impairment of investment in subsidiaries. Investments in subsidiaries are carried in the consolidated balance sheet at cost less any impairment in the value of individual investments (refer to Note 19)
- Assessment of impairment of goodwill (refer Note 10)
- Estimation of fair value of share based payments (refer to Note 14)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.6 Basis of Consolidation

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

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

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

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

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

2.7 Business Combinations

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

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

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

2.8 Investments in Associates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.9 Property, Plant and Equipment

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

Depreciation is calculated on a diminishing value 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 estimates useful lives are used in the calculation of depreciation:

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

2.10 Goodwill

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

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

2.11 Intangible Assets

Intellectual Property

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

Where there is a probability of generating sufficient future economic benefits, intellectual property is considered a finite life intangible asset and is recorded at cost less accumulated amortisation. Amortisation is charged on a straight line basis over the estimated useful life of the intangible asset and tested for impairment whenever there is an indication that the intangible asset may be impaired.

2.12 Impairment of Tangible and Intangible Assets including Goodwill

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

Intangible assets with indefinite useful lives, goodwill and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.12 Impairment of Tangible and Intangible Assets including Goodwill Cont.

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

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

2.13 Share-Based Payment Transactions

The Group has an ownership-based compensation scheme for executives, senior employees and key contractors of the Group.
In accordance with the provisions of the scheme, executives, senior employees and key contractors with the Group may be issued partly paid shares.

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

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes-Merton option pricing, further details of which are given in Note 14.3.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

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

2.14 Revenue Recognition

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

Sale of Goods

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

Interest Revenue

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

Royalties

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

Other Income

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

2.15 Operating Segments

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

Information regarding the Group's reportable segments are presented in note 26.

2.16 Borrowing Costs

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

2.17 Taxation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.17 Taxation Cont.

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

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

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

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

2.18 Goods & Services Tax (GST)

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

i) 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

ii) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.20 Financial Assets

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

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

- Loans & Receivables

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

- Impairment of Financial Assets

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

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

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

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

2.21 Financial Liabilities

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

2.22 Employee Benefits

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

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

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

2.23 Provisions

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

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

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

2.24 Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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 46 days of recognition.

2.28 Earnings Per Share

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

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

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

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for options that can be exercised at less than the current market price. Refer to Note 13.

3. REVENUE & EXPENSES

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
3.1 Other Revenue				
Other income from operations consisted of the following items:				
Milk royalties	90,238	146,533	290,489	146,533
Licence fees	-	98,354	-	98,354
Management fees	-	-	1,522,493	-
NZTE Market Grant	-	57,081	-	57,081
Foreign exchange gain	59,738	-	588,256	-
Other	32,566	-	9,509	-
	$182,542	$301,968	$2,410,747	$301,968
3.2 Other Expenses				
Audit fees	61,070	23,555	23,605	23,555
Bad and doubtful debts	29,695	-	-	-
Consultancy, accounting & secretarial fees	692,111	243,437	403,983	243,437
Directors' fees and expenses	156,986	154,500	156,986	154,500
Foreign exchange loss	-	92,458	-	85,893
Freight	2,340,102	360	28	360
Legal expenses	507,039	179,559	309,144	179,559
Loss disposal, plant & equipment	-	4,085	-	4,085
Operating lease payments	106,989	41,681	-	41,681
Patents, trademarks and international development	177,748	298,758	177,748	298,758
Other operating expenses	2,370,669	301,608	494,360	301,386
	$6,442,409	$1,340,001	$1,565,854	$1,333,214

4. INCOME TAXES

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
4.1 Income Tax Recognised in Profit or Loss				
Current tax expense/(income)	822,161	(557,569)	85,044	(554,320)
Deferred tax expense/(income) relating to the origination and reversal of timing differences	271,129	(46,961)	234,820	(47,272)
Prior period adjustment to tax expense	287,415	-	448,213	-
Tax losses utilised	(183,254)	-	(85,044)	-
Effect on deferred tax balances due to the change in income tax rate from 30% to 28% (effective 1 July 2011)	(37,236)	117,438	(45,536)	116,204
Tax losses not recognised	-	557,569	-	554,320
Unutilised foreign tax credits	103,774	-	103,774	-
Deferred tax asset not recognised	(521,308)	(70,477)	(637,497)	(68,932)
Total tax expense/(income)	$742,681	-	$103,774	-

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

	Group 2011	Group 2010	Company 2011	Company 2010
Profit/(Loss) from operations	2,858,248	(2,193,973)	440,481	(3,163,880)
Income tax expense/(income) calculated at 30%	857,474	(658,192)	132,144	(949,164)
Non-deductible expenses	235,816	53,662	187,720	347,572
Tax losses utilised	(183,254)	-	(85,044)	-
Effect on deferred tax balances due to the change in income tax rate from 30% to 28% (effective 1 July 2011)	(37,236)	117,438	(45,536)	116,204
Tax losses not recognised	-	557,569	-	554,320
Prior period adjustment to tax expense	287,415	-	448,213	-
Unutilised foreign tax credits	103,774	-	103,774	-
Deferred tax asset not recognised	(521,308)	(70,477)	(637,497)	(68,932)
Total tax expense/(income)	$742,681	-	$103,774	-

4. INCOME TAXES Cont.

4.2 Income Tax Recognised in Other Comprehensive Income

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

4.3 Tax Losses

Company

The Company has estimated tax losses of $5,542,285 at balance date (2010: $11,823,634). These are subject to confirmation by the Inland Revenue Department and subject to meeting the requirements of the Income Tax Act 2007.

Group

The Group has estimated tax losses of $8,580,109 at balance date (2010: $14,926,958) which comprises $5,542,285 relating to New Zealand and $3,037,824 relating to Australia. These are subject to confirmation by the Inland Revenue Department and the Australian Tax Office and subject to meeting the requirements of the income tax legislation in each jurisdiction.

4.4 Deferred Tax Balances

Deferred tax assets are only recognised in the financial statements to the extent that it is probable that sufficient taxable profits will be available. The Group has a deferred tax asset in relation to temporary differences of $1,122,813 (2010: $1,644,121). This amount includes a deferred tax asset balance of $143,254 which has been recognised in the financial statements. Deferred tax was not recognised in the financial statements for the 2010 year hence there are no comparative figures.

The Company has a deferred tax asset in relation to temporary differences of $989,371 (2010: $1,626,868) which has not been recognised in the financial statements.

2011 Group	Opening Balance	Charged to income	Effect of tax rate change	Closing Balance	Recognised in the financial statements
Gross deferred tax liabilities:					
Property, plant and equipment	-	-	-	-	-
Provisions	-	-	-	-	-
	-	-	-	-	-
Gross deferred tax assets:					
Intellectual property	1,470,316	(545,273)	36,352	961,395	-
Property, plant and equipment	-	-	-	-	-
Provisions	173,805	(13,272)	885	161,418	143,254
	$1,644,121	$(558,545)	$37,237	$1,122,813	$143,254
Net Deferred Tax Balance				$1,122,813	$143,254

4. INCOME TAXES Cont.

	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
4.5 Imputation Credit Account Balances				
Balance at beginning of the year	5,846	5,846	5,846	5,846
Balance at end of the year	$5,846	$5,846	$5,846	$5,846

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 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
Wages and salaries and other short-term employee benefits	1,450,014	840,815	593,084	840,815
Termination benefits	-	500,000	-	500,000
Share-based payments	271,037	702,417	271,037	702,417
	$1,721,051	$2,043,232	$864,121	$2,043,232

6. CASH & CASH EQUIVALENTS

	Group 2011 $	Group 2010 $	Company 2011 $	Company 2010 $
Cash & cash equivalents	$7,467,184	$5,214,589	$3,456,146	$5,212,184

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 5,273,790 (2010: AUD 2,221,547) and USD 396,510 (2010: USD 689,816) of short term deposits. Short term deposits earn interest at 0.10%-5.84% (2010: 0.15%-4.88%).

7. TRADE & OTHER RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Trade receivables	11,003,078	279,144	419,826	633,859
Allowance for doubtful debts	(36,078)	-	-	-
Other receivables	721,642	-	-	-
	$11,688,642	$279,144	$419,826	$633,859

The average credit period on sales is 60 days (2010: 30 days). No interest is charged on trade receivables outstanding.

Included in the Group's accounts receivable balance are debtors with a carrying amount of $152,723 (2010: $6,719) 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	
	2011	2010	2011	2010
	$	$	$	$
7.1 Movement in Allowance for Doubtful Debts				
Balance at beginning of year	-	-	-	-
Amount charged to the statement of comprehensive income	36,078	-	-	-
Balance at end of year	$36,078	-	-	-

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.

8. PROPERTY, PLANT & EQUIPMENT

Group	Cost 1 July 2010 $	Acquisition Through Business Combinations $	Additions $	Disposals $	Cost 30 June 2011 $	Accumulated depreciation and impairment charges 1 July 2010 $	Acquisition Through Business Combinations $	Depreciation expense $	Accumulated depreciation reversed on disposal $	Accumulated depreciation and impairment charges 30 June 2011 $	Net foreign currency exchange differences $	Book Value 30 June 2011 $
Office & Computer	24,841	123,234	27,260	(24,841)	150,494	22,141	81,986	30,055	(21,283)	112,899	3,962	41,557
Furniture & Fittings	-	9,988	38,953	-	48,941	-	1,409	5,144	-	6,553	(118)	42,270
Lease Improvements	-	-	21,371	-	21,371	-	-	1,975	-	1,975	(326)	19,070
Motor Vehicles	-	58,861	-	-	58,861	-	1,227	14,704	-	15,931	1,621	44,551
Capital WIP	-	180,465	1,989,751	-	2,170,216	-	-	-	-	-	(12,425)	2,157,791
	$24,841	$372,548	$2,077,335	$(24,841)	$2,449,883	$22,141	$84,622	$51,878	$(21,283)	$137,358	$(7,286)	$2,305,239

Group	Cost 1 July 2009 $	Acquisition Through Business Combinations $	Additions $	Disposals $	Cost 30 June 2010 $	Accumulated depreciation and impairment charges 1 July 2009 $	Acquisition Through Business Combinations $	Depreciation expense $	Accumulated depreciation reversed on disposal $	Accumulated depreciation and impairment charges 30 June 2010 $	Net foreign currency exchange differences $	Book Value 30 June 2010 $
Office & Computer	34,052	-	-	(9,211)	24,841	26,880		4,039	(8,778)	22,141	-	2,700
Furniture & Fittings	11,138	-	-	(11,138)	-	6,749		738	(7,487)	-	-	-
Total Property, Plant & Equipment	$45,190	-	-	$(20,349)	$24,841	$33,629	-	$4,777	$(16,265)	$22,141	-	$2,700

Company	Cost 1 July 2010 $	Acquisition Through Business Combinations $	Additions $	Disposals $	Cost 30 June 2011 $	Accumulated depreciation and impairment charges 1 July 2010 $	Acquisition Through Business Combinations $	Depreciation expense $	Accumulated depreciation reversed on disposal $	Accumulated depreciation and impairment charges 30 June 2011 $	Net foreign currency exchange differences $	Book Value 30 June 2011 $
Office & Computer	24,841	-	3,900	(24,841)	3,900	22,141	-	738	(21,283)	1,596	-	2,304
Total Property, Plant & Equipment	$24,841	-	$3,900	$(24,841)	$3,900	$22,141	-	$738	$(21,283)	$1,596	-	$2,304

Company	Cost 1 July 2009 $	Acquisition Through Business Combinations $	Additions $	Disposals $	Cost 30 June 2010 $	Accumulated depreciation and impairment charges 1 July 2009 $	Acquisition Through Business Combinations $	Depreciation expense $	Accumulated depreciation reversed on disposal $	Accumulated depreciation and impairment charges 30 June 2010 $	Net foreign currency exchange differences $	Book Value 30 June 2010 $
Office & Computer	34,052	-	-	(9,211)	24,841	26,880	-	4,039	(8,778)	22,141	-	2,700
Furniture & Fittings	11,138	-	-	(11,138)	-	6,749	-	738	(7,487)	-	-	-
Total Property, Plant & Equipment	$45,190	-	-	$(20,349)	$24,841	$33,629	-	$4,777	$(16,265)	$22,141	-	$2,700

9. ACCOUNTS PAYABLE

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Trade creditors	3,594,633	229,771	110,168	227,315
Accruals	1,762,020	128,543	179,017	128,543
Employee entitlements	680,639	647,230	135,124	585,610
	$6,037,292	$1,005,544	$424,309	$941,468

The average credit period on purchases is 46 days (2010: 30 days). No interest was charged on trade creditors outstanding.

10. GOODWILL

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Cost				
Balance at beginning of the year	-	-	-	-
Acquisitions through business combinations	1,538,084	-	-	-
Additional amounts recognised from business combinations occurring during the year (Note 20.2)	8,115,818	-	-	-
Effects of foreign currency exchange differences	487,765	-	-	-
Profit on restatement to subsidiary	25,244	-	-	-
Balance at end of the year	10,166,911	-	-	-
Accumulated impairment losses				
Balance at beginning and end of the year	-	-	-	-
Carrying amount				
At beginning of the year	-	-	-	-
At end of the year	$10,166,911	-	-	-

10. GOODWILL Cont.

Annual Test for Impairment

Goodwill acquired through business combinations has been allocated to and tested at the level of its respective cash generating unit, which is also an operating segment (refer to Note 26), for impairment testing.

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

Key assumptions:

- Discount rate (pre tax): 11.4%
- Average annual growth rate range: 9.8% to 20.4%
- Average range of annual market share growth: 0% to 0.5%

Sensitivity to Changes in Assumptions:

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

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

11. OTHER INTANGIBLE ASSETS

	Group 2011 $			Company 2011 $		
	Patents	Trademarks	Total	Patents	Trademarks	Total
Cost						
Balance at beginning of year	-	-	-			
Additions	147,183	75,712	222,895	147,183	75,712	222,895
Balance at end of year	147,183	75,212	222,895	147,183	75,712	222,895
Accumulated amortisation impairment						
Balance at beginning and end of year	-	-	-	-	-	-
Carrying amount						
At beginning of year	-	-	-	-	-	-
At end of year	$147,183	$75,712	$222,895	$147,183	$75,712	$222,895

12. SHARE CAPITAL

a) Share Capital	2011 $	2010 $
Balance at beginning of the year	40,954,514	40,954,514
Ordinary shares: Freedom Foods Group Limited issued 22 July 2010	10,352,418	-
Options: Freedom Foods Group Limited issued 22 July 2010	379,000	-
Ordinary shares: Idea Sphere Inc. issued 5 October 2010	350,800	-
Ordinary shares: Institutional: AMP Capital Investments (New Zealand) Limited issued 20 December 2010	3,000,000	-
Ordinary shares: Freedom Foods Group Limited issued 20 December 2010	913,927	-
Ordinary shares: Freedom Foods Group Limited issued 9 June 2011	159,909	-
	56,110,568	40,954,514
Less: Capital raising costs: Rights issue/placement	(47,653)	-
Balance at end of the year	$56,062,915	$40,954,514

b) Number of Ordinary Shares on Issue	2011 No.	2010 No.
i) Fully paid ordinary shares		
Balance at beginning of the year	361,130,850	361,130,850
Shares issued	165,115,562	-
Balance at end of the year	526,246,412	361,130,850
ii) Partly paid ordinary shares		
Balance at beginning of the year	20,000,000	-
Shares issued	25,658,910	20,000,000
Balance at end of the year	45,658,910	20,000,000
Total Ordinary Shares on Issue	571,905,322	381,130,850

12. SHARE CAPITAL Cont.

During the period 19,500,000 partly paid ordinary shares were issued to certain key management personnel under share subscription agreements (Refer Note 14 for further details). A further 6,158,910 partly paid shares were issued to Freedom Foods Group Limited during the period. This amount comprised 3,158,415 partly paid shares issued at $0.001 per share and 3,000,495 partly paid shares issued at $0.0015 per share.

Partly paid ordinary shares carry the same rights and entitlements, on a fractional basis, as fully paid ordinary shares, with such fractions being equivalent to the proportion which the amount paid is of the total amount paid and amounts still payable on the shares.

During the year, the company purchased the 50% interest in A2 Dairy Products Australia Limited that it did not already own. The consideration to acquire this holding from Freedom Foods Group Limited included the issuing of 120,376,950 fully paid shares for $10,352,418 and an option for $379,000 to acquire further shares in A2 Corporation Limited (refer Note 20.3.1).

13. EARNINGS PER SHARE

	2011 Cents per Share	2010 Cents per Share
13.1 Basic Earnings Per Share		
From continuing operations	0.40	(0.58)
Total basic earnings per share	0.40	(0.58)

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

	2011 $	2010 $
Net surplus/(deficit):		
From continuing operations	2,115,567	(2,193,973)
	$2,115,567	$(2,193,973)
	No.	**No.**
Weighted average number of ordinary shares for the purpose of basic earnings per share	528,895,841	376,652,828

13. EARNINGS PER SHARE Cont.

	2011 Cents per Share	2010 Cents per Share
13.2 Diluted Earnings Per Share		
From continuing operations	0.40	(0.58)
	0.40	(0.58)

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

	2011 $	2010 $
Net surplus/(deficit)		
From continuing operations	2,115,567	(2,193,973)
	$2,115,567	$(2,193,973)
	No.	No.
Weighted average number of ordinary shares for the purpose of basic earnings per share	528,895,841	376,652,828
Effect of dilution due to share options	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	528,895,841	376,652,828

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

14. EQUITY SETTLED SHARE-BASED PAYMENTS

i. New Employee Share Option Plans

During the 2010 year, all options issued under the New Employee Share Option Plans expired.

ii. Partly Paid Shares

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

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

The partly paid shares are issued on the following terms:

a) *Restrictions on Transfer*

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

b) *Issue Price*

The issue price of each partly paid share is set at the lesser of:

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

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

Under the share subscription agreements the issue prices were calculated at the subscription 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.

14. EQUITY SETTLED SHARE-BASED PAYMENTS Cont.

14.1 Partly Paid Share Plans

During the year 19,500,000 partly paid ordinary shares were issued to certain key management personnel (the purchasers) under a partly paid share plan (PPSP) (2010: 20,000,000). These were issued in four tranches as partly paid shares comprising 10,000,000 issued at $0.001 share and 9,500,000 issued at $0.0015 per share. As at 30 June 2011, the purchasers had paid $31,859 for these shares. This payment has been recognised as a financial liability until such time as vesting conditions are met.

14.2 Summary of Share-Based Payments

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

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

Partly Paid Shares Exercised/Forfeited During Period

No partly paid shares were exercised or lapsed during the year ended 30 June 2011 (2010: Nil).

Partly Paid Shares Expired During Period

No partly paid shares expired during the year ended 30 June 2011 (2010: 5,250,000).

Weighted Average Remaining Contractual Life

The weighted average remaining contractual life of the partly paid shares at 30 June 2011 is 3.04 years (2010: 2.68 years).

Weighted Average Exercise Price

The weighted average exercise price of the partly paid shares outstanding as at 30 June 2011 is $0.112 (2010: $0.10). The weighted average exercise price of the options exercisable as at 30 June 2011 is $0.112 (2010: $0.10).

Tranche II & Tranche III

The expiry dates of these two tranches is an estimate as the date is triggered by the tranche holders ceasing to be executive directors.

14. EQUITY SETTLED SHARE-BASED PAYMENTS Cont.

14.3 Estimation of Fair Value of Options and PPSIP at Measurement Date

Valuation Methodology

The fair values summarised in the table above were derived using the Black-Scholes-Merton option pricing model, for valuing European call options. The methodology was also used to value the PPSP due to the risk-reward profile being essentially the same as for the employee share options. Adoption of this method is considered reasonable as the Company's options, and PPSP are relatively simple in form. A2 Corporation is not expected to pay a dividend over the life of the options, and PPSP. In addition, any decrease in the number of options as a result of forfeiture and any decrease in the number of partly paid shares as a result of the purchaser requiring the company to refund monies paid, can be accounted for over the vesting (and amortisation) period.

Input Assumptions

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

	Valuation Date	Share Price	Exercise Price	Volatility	Time to Expiry (years)	Expected Dividends	Risk-Free Rate
(1) Partly paid shares – Tranche I	22 May 09	$0.12	$0.10	50%	5.00	$0.00	4.91%
(2) Partly paid shares – Tranche II	10 Sep 09	$0.085	$0.10	50%	2.00	$0.00	4.84%
(3) Partly paid shares – Tranche III	24 Nov 09	$0.10	$0.10	50%	1.79	$0.00	5.43%
(4) Partly paid shares – Tranche IV	25 Aug 10	$0.087	$0.10	50%	5.00	$0.00	4.51%
(5) Partly paid shares – Tranche V	28 Mar 11	$0.11	$0.15	50%	5.00	$0.00	4.47%
(6) Partly paid shares – Tranche VI	28 Mar 11	$0.11	$0.15	50%	5.00	$0.00	4.47%
(7) Partly paid shares – Tranche VII	28 Mar 11	$0.11	$0.15	50%	5.00	$0.00	4.47%

Early Exercise

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

Volatility

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

Other Factors

No other factors have been incorporated into the PPSP valuations.

14. EQUITY SETTLED SHARE-BASED PAYMENTS Cont.

14.3 Estimation of Fair Value of Options and PPSIP at Measurement Date Cont.

Amounts Recognised in Financial Statements

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

Period Ended	30 June 2011		30 June 2010	
	Amount recognised as employee expense in profit or loss $	Amount recognised in other comprehensive income $	Amount recognised as employee expense in profit or loss $	Amount recognised in other comprehensive income $
(1) Partly paid shares – Tranche I	46,488	46,488	609,513	609,513
(2) Partly paid shares – Tranche II	53,750	53,750	43,147	43,147
(3) Partly paid shares – Tranche III	83,309	83,309	49,757	49.757
(4) Partly paid shares – Tranche IV	66,032	66,032	-	-
(5) Partly paid shares – Tranche V	7,905	7,905	-	-
(6) Partly paid shares – Tranche VI	6,776	6,776	-	-
(7) Partly paid shares – Tranche VII	6,777	6,777	-	-
Total	$271,037	$271,037	$702,417	$702,417

There were restructuring plans in place at 30 June 2010 which were fully implemented by 31 October 2010. The former CEO, who has ceased to be engaged in the business on 31 October 2010 held partly paid shares under a Partly Paid Plan (Tranche I). An acceleration of vesting has been recognised in the prior year for the share based payments that would have otherwise been recognised in reporting periods after 31 October 2010. Accordingly Tranche I consists of $117,482 relating to the current year and $492,032 relating to the accelerated vesting for the period 1 November 2010 until vesting date 22 May 2014. The amount of $46,488 was recognised in the 2011 year.

15. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Balance at beginning of the year	1,027,743	325,326	1,027,743	325,326
Movements during the period	271,037	702,417	271,037	702,417
Balance at end of the year	$1,298,780	$1,027,743	$1,298,780	$1,027,743

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

During the 2010 year, accelerated expense was recognised on partly paid shares (tranche 1) due to staff restructuring (refer note 14.3)

16. RETAINED EARNINGS (DEFICIT)

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Balance at beginning of the year	(34,624,191)	(32,430,218)	(34,058,349)	(30,966,995)
Net surplus/(deficit) for the period excluding associate losses	1,981,580	(3,173,671)	336,706	(3,163,880)
Share of associate surplus/(losses)	133,987	979,698	-	-
Retained earnings taken over on amalgamation with A2 Finance Limited	-	-	-	72,526
	2,115,567	(2,193,973)	336,706	(3,091,354)
Balance at end of year	$(32,508,624)	$(34,624,191)	$(33,721,643)	$(34,058,349)

17. FOREIGN CURRENCY TRANSLATION RESERVE

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Balance at the beginning of the year	(91,260)	(44,421)	-	-
Arising on translation of foreign operations	421,228	(46,839)	-	-
Balance at end of the year	$329,968	$(91,260)	-	-

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

18. OPERATING LEASE COMMITMENTS

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

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
18.1 Non-cancellable operating lease payments				
Not longer than 1 year	418,166	9,920	-	9,920
Longer than 1 year and not longer than 5 years	2,514,250	-	-	-
Longer than 5 years	2,180,092	-	-	-
	$5,112,508	$9,920	-	$9,920

19. INVESTMENT IN SUBSIDIARIES

19.1 Subsidiaries Owned

Details of the Company's subsidiaries at 30 June 2011 are as follows:

Name of Subsidiary	Place of Incorporation & Operation	Proportion of Ownership Interest		Principal Activity
		2011	2010	
A2 Exports Pty Limited	Australia	100%	100%	Export of a2 Milk™ powder
A2 Exports Limited	New Zealand	100%	100%	Non-active
A2 Australian Investments Pty Limited	Australia	100%	100%	Investment in A2 Dairy Products Australia Pty Limited
A2 Dairy Products Australia Pty Limited	Australia	100%	50%	Distribution and marketing of a2 Milk™ in Australia and Japan
A2 Milk Company LLC	USA	100%	50%	Licensing rights for the supply, distribution and marketing of a2 Milk™ in USA
All subsidiaries have a balance date of 30 June except for A2 Milk Company LLC which has a balance date of 31 December.				

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

	Company 2011 $	Company 2010 $
19.2 Shares Held in Subsidiaries		
Investments in Subsidiaries		
Balance at beginning of period		
A2 Exports Pty Limited	2,982,998	2,982,998
Additions during the period		
A2 Milk Company LLC	350,800	-
Balance at end of period	$3,333,798	$2,982,998

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

The Directors are satisfied that no impairment write down is required to the carrying value of A2 Exports Pty Limited and A2 Milk Company LLC at 30 June 2011.

19. INVESTMENT IN SUBSIDIARIES Cont.

19.3 Loans to Subsidiaries

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

Loans		
A2 Australian Investments Pty Limited	12,002,095	-
A2 Dairy Products Australia Pty Limited	4,668,228	-
	$16,670,323	-

A loan for AUD 8,721,423 was advanced to A2 Australian Investments Pty Limited on 22 July 2010 to fund the purchase of the shares in A2 Dairy Products Australia Pty Limited. The loan is repayable on demand with interest charged at the bank bill rate plus a margin of 2.00% p.a.

A loan for NZD 3,400,000 was advanced to A2 Dairy Products Australia Pty Limited on 1 December 2010. The loan is for a period of 10 years with interest charged at 8.00% p.a. Repayments of NZD 139,296 are required to be made every three months commencing 31 December 2011.

The above balances include interest accrued on the principal amounts outstanding. As at balance date, the accrued interest has not been capitalised to the principal outstanding.

20. ACQUISITION OF SUBSIDIARIES

20.1 Subsidiaries Acquired

During the year, the Company purchased the 50% interest in two associates it did not already own, resulting in the company now owning 100% of the shares in both entities.

Name	Principal Activity	Date of Acquisition	Proportion of Shares Acquired %	Cost of Acquisition $
A2 Milk Company LLC	Licensing rights for the supply, distribution and marketing of a2 Milk™ in USA	5/10/10	50	350,800
A2 Dairy Products Australia Pty Limited	Distribution and marketing of a2 Milk™ in Australia and Japan	22/7/10	50	10,731,418
				$11,082,218

20. ACQUISITION OF SUBSIDIARIES Cont.

20.2 Analysis of Assets & Liabilities Acquired

Financial information in respect of the net assets acquired on acquisition of 50% of A2 Dairy Products Australia Pty Limited and A2 Milk Company LLC is set out below:

	A2 Dairy Products Australia Pty Limited			A2 Milk Company LLC			
	Book Value (50% interest) $	Fair Value Adjustment $	Fair Value on Acquisition $	Book Value (50% interest) $	Fair Value Adjustment $	Fair Value on Acquisition $	Total Fair Value on Acquisition $
Current Assets							
Cash & bank balances	12,916	-	12,916	3,158	-	3,158	16,074
Trade & other receivables	4,662,297	-	4,662,297	-	-	-	4,662,297
Inventories	23,593	-	23,593	-	-	-	23,593
Non-Current Assets							
Plant & equipment	116,076	-	116,076	-	-	-	116,076
Leased assets	27,887	-	27,887	-	-	-	27,887
Intangible assets	769,042	-	769,042	-	-	-	769,042
Current Liabilities							
Trade & other payables	(1,814,716)	-	(1,814,716)	-	-	-	(1,814,716)
Non-current Liabilities							
Deferred tax liabilities	(3,628)	-	(3,628)	-	-	-	(3,628)
Short term borrowings	(803,902)	-	(803,902)	-	-	-	(803,902)
Lease liability	(26,323)	-	(26,323)	-	-	-	(26,323)
	2,963,242	-	2,963,242	3,158	-	3,158	2,966,400
Goodwill on acquisition	-	7,768,176	7,768,176	-	347,642	347,642	8,115,818
	$2,963,242	$7,768,176	$10,731,418	$3,158	$347,642	$350,800	$11,082,218

20. ACQUISITION OF SUBSIDIARIES Cont.

20.3 Cost of Acquisition

20.3.1 *A2 Dairy Products Australia Pty Limited (A2DP)*
As consideration to acquire the 50% holding owned by Freedom Foods Group Limited (formerly Freedom Nutritional Products Limited) (FFG) in A2DP, the Company issued FFG:

- 120,376,950 fully-paid ordinary shares in A2 Corporation Limited (A2C) comprising 25% of the enlarged share capital of the company: $10,352,418.
- An option, for a period of 12 months, to increase its shareholding in A2C up to 27.5%, through the issue of further ordinary shares at an issue price of the NZD-equivalent of AUD 0.11 per share at the time of exercise: $66,500 (fair value of the option granted).
- An option to receive fully paid A2C ordinary shares, for nil consideration, equal to 25% of any of the 20,000,000 partly-paid shares that become fully paid: $312,500 (fair value of the option granted).
- The right, for a period of 12 months, to participate in any capital raising and thereby acquire such number of further A2C shares as is required to maintain its shareholding percentage.

The total purchase price was $10,731,418.

20.3.2 *A2 Milk Company LLC*
As consideration to acquire the 50% holding owned by Idea Sphere Inc (ISI), the Company issued 4,000,000 fully paid shares in A2 Corporation Limited to ISI: $350,800.

	Group	
	2011 $	2010 $
20.4 Net Cash Outflow on Acquisition		
Total purchase consideration	11,082,218	-
Less non-cash consideration for A2 Dairy Products Australia Pty Limited	10,731,418	-
Less non-cash consideration for A2 Milk Company LLC	350,800	-
	11,082,218	-
Total cash consideration	-	-
Consideration paid in cash	-	-
Less cash and bank balances acquired	16,074	-
Less short term loan facility acquired	(803,902)	-
	$(787,828)	-

The cash and loan balances acquired above represent the 50% interest taken over on acquisition.

20. ACQUISITION OF SUBSIDIARIES Cont.

20.5 Goodwill arising on Acquisition

Goodwill arose on the acquisition of A2DP because the amount paid for the remaining 50% shareholding exceeded the remaining 50% share of the net asset book value of A2DP.

This reflects the expected synergies, revenue growth, future market development and other benefits to the Group of holding full control of the Groups access to the Australian and Japanese market place for a2 Milk™.

Goodwill arose on the acquisition of A2 Milk Company LLC and reflects the Group obtaining full control of the licensing rights for the supply, distribution and marketing of a2 Milk™ in North America.

21. INVESTMENT IN ASSOCIATES

During the year the company purchased the 50% interest in the associates it did not already own. The entities below are now 100% owned subsidiaries (refer note 20).

21.1 Interest in Associates

		Ownership & Voting Interest		Group Carrying Amount	
Name of Company	Principal Activities	2011	2010	2011 $	2010 $
A2 Milk Company LLC	Licensing rights for the supply, distribution & marketing of a2 Milk™ in USA.	100%	50%	-	(66,286)
A2 Dairy Products Australia Pty Limited	Distribution & marketing of a2 Milk™ in Australia & Japan	100%	50%	-	2,808,568
				-	$2,742,282

21. INVESTMENT IN ASSOCIATES Cont.

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
21.2 Movements in the Amount of the Group's Investment in Associates				
Carrying value at beginning of year	2,742,282	1,833,510	-	-
Funds advanced/(repaid)	49,651	(16,995)	-	-
Share of net surplus/(deficit) – 2011 income year	133,987	-	-	-
Share of net surplus/(deficit) – 2010 income year	-	1,013,273	-	-
Share of other obligations – 2010 income year	-	(33,575)	-	-
Foreign exchange translation movement	40,480	(53,931)	-	-
	2,966,400	2,742,282	-	-
Carrying value derecognised when associates become subsidiaries	(2,966,400)	-	-	-
Carrying value at end of year	-	$2,742,282	-	-

21.3 Summarised Financial Information

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

	Group	
	2011	2010
	$	$
Extract from the associates' balance sheets:		
Current assets	-	8,809,635
Non-current assets	-	1,725,312
Total assets	-	10,534,947
Current liabilities	-	5,050,383
Net assets	-	5,484,564
Share of associates' net assets	-	2,742,282
Less impairment losses	-	-
Carrying value at end of year	-	$2,742,282

21. INVESTMENT IN ASSOCIATES Cont.

	Group 2011 $	Group 2010 $
21.3 Summarised Financial Information Cont. Extract from the associates' income statements:		
The 2011 figures are to the date the associates became subsidiaries.		
Revenue	2,235,531	34,219,291
Net surplus/(deficit)	217,487	1,959,396
Share of associates surplus/(deficit)	133,987	979,698
Share of profit/(loss) & other obligations of associates		
Represented by:		
A2 Milk Company LLC – profit adjustment/(share of loss)	16,000	(32,076)
A2 Milk Company LLC – share of other obligations	-	(33,575)
A2 Dairy Products Australia Pty Limited – share of profit	92,743	1,045,349
A2 Dairy Products Australia Pty Limited – profit on restatement of subsidiary	25,244	-
	$133,987	$979,698

A2 Milk Company LLC became a wholly owned subsidiary on 5 October 2010 and A2 Dairy Products Australia Pty Limited became a wholly owned subsidiary on 22 July 2010.

22. RELATED PARTY TRANSACTIONS

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

22.1 Ultimate Parent

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

22.2 Key Management Personnel

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

22.3 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.

22. RELATED PARTY TRANSACTIONS Cont.

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

Related Party	Sales to Related Parties		Purchases from Related Parties		Other Transactions with Related Parties		Outstanding Transactions with Related Parties	
Company	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Subsidiaries:								
A2 Dairy Products Australia Pty Limited – intercompany interest received by A2 Corporation Limited					161,551			
A2 Australian Investments Pty Limited – intercompany interest received by A2 Corporation Limited					736,310			56,652
A2 Australian Investments Pty Limited – general business expenses								2,512
A2 Dairy Products Australia Pty Limited – management fees received by A2 Corporation Limited	3,162,476							
A2 Dairy Products Australia Pty Limited – royalties received by A2 Corporation Limited	281,031						196,834	
Associate:								
A2 Milk Company LLC – expenses recharged for overseas travel and accommodation incurred by A2 Corporation Limited in relation to the business activities of A2 Milk Company LLC.		6,249						8,446
A2 Dairy Products Australia Pty Limited – expenses recharged for overseas business expenses incurred by A2 Corporation Limited		18,069						1,814
A2 Dairy Products Australia Pty Limited – royalties received by A2 Corporation Limited.		190,764						196,834
Company								
Other:								
Consultancy fees paid to DJD Management Limited, in which Mr D W Mair, a Director of the Company, is a shareholder.					36,000	36,000		
Consultancy fees paid to Mr G P Hinton, a Director of the Company.					12,800	36,000		
Support service fees paid to NSI Management Limited, in which Mr C J Cook and Mr G P Hinton, both Directors of the Company, are Directors, and of which Mr C J Cook has a non-beneficial interest. The fees were charged at commercial rates.					60,776	131,205		
General business expenses paid to Energi New Zealand Limited, in which Mr G P Hinton, a Director of the Company, is a Director, and in which Mr C J Cook, a Director of the Company is a Director and holds a non-beneficial interest. The services were charged at commercial rates.						1,500		

22. RELATED PARTY TRANSACTIONS Cont.

During the 2011 year, A2 Milk Company LLC and A2 Dairy Products Australia Pty Limited became fully owned subsidiaries of the Group. In the 2010 year, these entities were treated as associates as they were only 50% owned by the Group (refer note 21.1).

23. COMMITMENTS FOR EXPENDITURE

23.1 Capital Expenditure Commitments

As at 30 June 2011, there was a commitment of AUD 5,310,811 relating to the Milk Processing Facility being undertaken by A2 Dairy Products Australia Pty Limited (2010: $Nil).

24. CONTINGENT LIABILITY

At 30 June 2011, there were no material contingent liabilities (2010: $15,000).

25. SUBSEQUENT EVENTS

25.1 Issue of Shares

As part of the consideration to acquire the remaining 50% holding in A2 Dairy Products Australia Pty Limited from Freedom Foods Group Limited (FFG), FFG had the right to acquire further shares in A2 Corporation Limited (Note 20.3.1).

On 20 July 2011, the Company received notice from FFG that it wished to exercise its option to subscribe for a further 18,761,657 fully paid ordinary shares in the Company at an issue price of the NZD equivalent of AUD 0.11 per share.

The additional 18,761,657 fully paid ordinary shares were issued to FFG on 28 July 2011 at an issue price of NZD 0.1364 per share.

Following the issue of shares, FFG's total shareholding in the Company, including partly paid ordinary shares on issue, is 26.4%.

25.2 Settlement by Former Licensee

A wholly owned subsidiary of A2 Corporation Limited has reached settlement of a long running legal dispute with a former licensee in the Republic of Korea.

A2 Exports Limited (A2 Exports) entered into a Licence agreement with Purmil Co. Ltd (Purmil) for the production and sale of A2 Milk in Korea in October 2007. Purmil ceased production of A2 Milk in December 2008 and A2 Exports has been pursuing its legal rights for compensation under the terms of the Licence.

A2 Exports and Purmil agreed to settle the dispute on amicable terms which included a payment by Purmil received on 27 September 2011. The net proceeds to A2 Exports after legal costs incurred since year end approximate NZD 1.1m.

26. OPERATING SEGMENT INFORMATION

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

- The New Zealand segment receives royalty, licence fee and management fee income; and
- The Australian segment receives income from milk sales and interest income from investment in Australian associates.

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.

26. 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.

Year ended 30 June 2011	NZ $	Aust $	Unallocated $	Adjustments $	Consolidated & Eliminations $
Revenue					
External customers	182,538	42,206,509	-	-	42,389,047
Interest revenue	143,803	70,715	-	-	214,518
Total revenue	$326,341	$42,277,224	-	-	$42,603,565
Segment profit/(loss)	$(211,955)	$2,261,871	$65,651	-	$2,115,567
Interest expense	-	120,559	-	-	120,559
Depreciation expense	738	51,140	-	-	51,878
Share of (profits)/losses from associates	-	(117,987)	(16,000)	-	(133,987)
Income tax expense	103,774	638,907	-	-	742,681
Segment assets	$24,108,256	$38,685,928	-	$(30,064,834)	$32,729,350
Segment liabilities	$517,856	$28,020,369	-	$(20,991,914)	$7,546,311

26. OPERATING SEGMENT INFORMATION Cont.

Year ended 30 June 2010	NZ $	Aust $	Unallocated $	Adjustments $	Consolidated & Eliminations $
Revenue					
External customers	301,968	-		-	-
301,968					
Interest revenue	168,477	-	-	-	168,477
Total revenue	$470,445	-	-	-	$470,445
Segment profit/(loss)	$(3,163,880)	$1,035,558	$(65,651)	-	$(2,193,973)
Interest expense	4,019	2,738	-	-	6,757
Depreciation expense	4,777	-	-	-	4,777
Share of profit/(loss) & other obligations of associates	-	1,045,349	(65,651)	-	979,698
Income tax expense	-	-	-	-	-
Segment assets	$8,865,376	$6,331,163	$(66,286)	$(6,857,903)	$8,272,350
Segment liabilities	$941,467	$3,938,985	-	$(3,874,908)	$1,005,544

27. NOTES TO THE CASH FLOW STATEMENT

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Reconciliation of Net Surplus/(Deficit) after Taxation with Net Cash Flows from Operating Activities				
Net surplus /(deficit) for the year	2,115,567	(2,193,973)	336,706	(3,163,880)
Adjustments for non-cash items:				
Depreciation	51,878	4,777	738	4,777
Expense recognised in profit & loss in respect of equity-settled share-based payments	271,037	702,417	271,037	702,417
Loss on disposal of property, plant and equipment	-	4,085	-	4,085
Net foreign exchange (gain)/loss	(90,915)	93,027	(550,829)	85,894
Share of profit/(loss) of associates and other obligations	(133,987)	(979,698)	-	-
Capitalised interest on subsidiary loans	-	-	(896,384)	-
	2,213,580	(2,369,365)	(838,732)	(2,366,707)
Movements in working capital				
(Increase)/decrease in trade and other receivables	(11,409,498)	89,299	214,033	72,496
(Increase)/decrease in prepayments	(281,781)	(9,014)	(23,756)	(12,351)
(Increase)/decrease in inventories	(424,586)	-	-	-
(Increase)/decrease in deferred tax	(143,253)	-	-	-
Increase/(decrease) in accounts payable	5,031,748	586,100	(517,159)	502,331
Increase/(decrease) in current tax liabilities	836,927	-	98,321	-
	(4,176,863)	(1,881,578)	(1,067,293)	(1,864,376)
Plus/(Less) items classified as investing and financing activities				
Payment for partly paid shares	(31,859)	(20,000)	(31,859)	(20,000)
A2 Milk Company LLC expenses	-	-	49,651	-
Acquisition of working capital	5,647,573	-	(3,159)	-
Net cash inflow (outflow) from operating activities	$1,438,851	$(1,901,578)	$(1,052,660)	$(1,884,376)

27. NOTES TO THE CASH FLOW STATEMENT Cont.

27.1 Non-Cash Financing & Investing Activities

During the year, the Company acquired the 50% interest held by Freedom Foods Group Limited (FFG) (formerly Freedom Nutritional Products Limited) in A2 Dairy Products Australia Pty Limited that A2 Corporation Limited (A2C) did not already own. As consideration for this acquisition, A2C issued 120,376,950 fully paid ordinary shares to FFG as well as options for FFG to receive further shares. The value of this transaction was $10,731,418.

In addition, A2C issued 4,000,000 ordinary shares to Idea Sphere Inc so that A2C could acquire the 50% interest held by Idea Sphere Inc in A2 Milk Company LLC that A2C did not already own. The value of this transaction was $350,800.

28. FINANCIAL INSTRUMENTS

28.1 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.

28.2 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, 12, 15, 16 and 17 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.

28. FINANCIAL INSTRUMENTS Cont.

28.3 Categories of Financial Instruments

	Group		Company	
	2011	2010	2011	2010
	$	$	$	$
Financial Assets				
Loans and receivables				
Trade and other receivables	11,688,642	279,144	419,826	633,859
Loans to subsidiaries	-	-	16,670,323	-
Cash and Short Term Deposits	7,467,184	5,214,589	3,456,146	5,212,184
Financial Liabilities				
Financial liabilities at amortised cost				
Trade creditors	3,594,633	228,771	110,165	227,315
Lease liability	55,282	-	-	-
Short term borrowings	621,586	-	-	-

28.4 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 28.6, 28.7, 28.8 and 28.9 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.

28. FINANCIAL INSTRUMENTS Cont.

28.5 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	
	2011 $	2010 $	2011 $	2010 $
US Dollars				
Assets:				
Cash and short term deposits	479,051	995,550	479,051	995,550
	$479,051	$995,550	$479,051	$995,550
Liabilities:	-	-	-	-
AUS Dollars				
Assets:				
Cash and short term deposits	2,802,204	2,725,763	2,802,204	2,725,763
Accounts receivable	1,092,015	552,538	1,092,015	552,538
Loans to subsidiaries	-	-	11,267,261	-
	$3,894,219	$3,278,301	$15,161,480	$3,278,301
Liabilities:	-	-	-	-

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2011 and 30 June 2010.

28. FINANCIAL INSTRUMENTS Cont.

28.6 Foreign Currency Sensitivity Analysis

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

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

	Group		Company	
	2011 $	2010 $	2011 $	2010 $
Currency Impact on Profit or Loss				
Strengthening in NZD/AUD	224,578	116,154	1,024,296	-
Weakening in NZD/AUD	(192,948)	(90,854)	(1,251,918)	-
Strengthening in NZD/USD	-	(3,563)	-	-
Weakening in NZD/USD	-	2,772	-	-
Currency Impact on Equity				
Strengthening in NZD/AUD	168,900	414,182	1,378,316	298,027
Weakening in NZD/AUD	(124,897)	(455,110)	(1,684,609)	(364,255)
Strengthening in NZD/USD	43,550	86,941	43,550	90,504
Weakening in NZD/USD	(53,228)	(107,845)	(53,228)	(110,616)

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

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

28. FINANCIAL INSTRUMENTS Cont.

28.7 Interest Rate Risk

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

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

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

28.8 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.

28.9 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 does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. There are no concentrations of credit risk.

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	
	2011	2010	2011	2010
	$	$	$	$
The maximum exposures to credit risk at balance date are:				
Cash, short term deposits and short term borrowings	6,845,598	5,214,589	3,456,146	5,212,184
Trade and other receivables	11,688,642	279,144	419,826	633,859
Loans to subsidiaries	-	-	16,670,323	-
	$18,534,240	$5,493,733	$20,546,295	$5,846,043

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

28.10 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.

28. FINANCIAL INSTRUMENTS Cont.

28.11 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	Fixed Maturity Dates					Total
2011	Effective Interest Rate %	Less than 1 month $	1-3 months $	3 months-1 Year $	1-5 years $	5+ Years $	$
Financial liabilities:							
Short term borrowings	7.3%	621,586	-	-	-	-	621,586
Trade creditors	0.0%	2,797,365	779,850	17,418	-	-	3,594,633
Lease liability		574	1,833	5,686	47,189	-	55,282
		$3,419,525	$781,683	$23,104	$47,189	-	$4,271,501

	Weighted Average	Fixed Maturity Dates					Total
2010	Effective Interest Rate %	Less than 1 month $	1-3 months $	3 months-1 Year $	1-5 years $	5+ Years $	$
Financial liabilities:							
Trade creditors	0.0%	229,771	-	-	-	-	229,771
		$229,771	-	-	-	-	$229,771

28. FINANCIAL INSTRUMENTS Cont.

Company

	Weighted Average	Fixed Maturity Dates					Total
2011	Effective Interest Rate %	Less than 1 month $	1-3 months $	3 months-1 Year $	1-5 years $	5+ Years $	$
Financial liabilities:							
Bank overdraft	-	-	-	-	-	-	-
Trade creditors	0.0%	84,853	25,315	-	-	-	110,168
		$84,853	$25,315	-	-	-	$110,168

	Weighted Average	Fixed Maturity Dates					Total
2010	Effective Interest Rate %	Less than 1 month $	1-3 months $	3 months-1 Year $	1-5 years $	5+ Years $	$
Financial liabilities:							
Trade creditors	0.0%	227,315	-	-	-	-	227,315
		$227,315	-	-	-	-	$227,315

CORPORATE GOVERNANCE

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

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

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

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

Financial Statements

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

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

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

CORPORATE GOVERNANCE Cont.

Role of the Board of Directors

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

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

The primary responsibilities of the Board include:

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

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

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

Board Membership and Independence

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

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

CORPORATE GOVERNANCE Cont.

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

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

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

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

Conflicts of Interest

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

Audit, Risk Management and Internal Financial Control

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

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

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

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

NZX Corporate Best Practice Code

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

ADDITIONAL STOCK EXCHANGE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2011

ADDITIONAL STOCK EXCHANGE INFORMATION

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

1. Substantial Security Holders

Pursuant to sub-part 3 of the Securities Markets Act 1988, the following persons have given notice as at 31 August 2011 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	%
Freedom Foods Group Limited (formerly Freedom Nutritional Products Limited)	28 July 2011	156,036,129	26.417
Mountain Road Investments Limited	25 July 2011	148,558,701	25.151
AMP Capital Investors (New Zealand) Limited	22 December 2010	87,983,643	15.863
EGI-Fund (08-10) Investors, LLC	22 July 2010	50,000,000	9.970

The total number of voting security on issue at 31 August 2011 was 590,066,979 consisting of 545,008,069 fully paid shares and 45,658,910 partly paid shares.

2. Directors' Shareholdings

Directors held the following equity securities in the Company at 30 June 2011:

Name of Director	Associated Entity	Beneficial No's	%	Non Beneficial No's	%
C J Cook	Mountain Road Investments Limited	133,702,831	22.64	14,855,870	2.52
G P Hinton	Mountain Road Investments Limited	14,855,870	2.52	133,702,831	22.64
G P Hinton	Kawerau Trust	5,000,000	0.85	Nil	-
G P Hinton	Nikau Investments (2001) Limited	101,872	0.02	Nil	-
D W Mair	Private	5,000,000	0.85	Nil	-
D W Mair	DDD Investments Limited	2,000,000	0.34	4,000,000	0.68
G H Babidge	GHB Investment Trust	10,000,000	1.69	Nil	-
G H Babidge	Freedom Foods Group Limited	207,219	0.04	156,036,129	36.38
M Miles	Freedom Foods Group Limited	442,282	0.07	156,036,129	26.34
P R Gunner	Freedom Foods Group Limited	1,079,302	0.18	156,036,129	26.23

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 2011 are listed below:

	No's	%
Freedom Foods Group Limited (formerly Freedom Nutritional Products Limited)	149,877,219	27.5
Mountain Road Investments Limited	148,558,701	27.3
Citibank Nominees (NZ) Limited	50,375,000	9.2
AMP Investment Strategic Equity Growth Trust Fund	40,670,808	7.5
NZGT Nominees Limited	22,441,675	4.1
New Zealand Superannuation Fund Nominees Limited	21,659,361	4.0
Child Health Research Foundation	13,915,962	2.6
Yulrike McLachlan	7,178,563	1.3
Accident Compensation Corporation	6,099,964	1.1
DDD Investments Limited	6,000,000	1.1
TP Trustee Brendemeer Limited	5,000,000	0.9
Idea Sphere Inc.	4,000,000	0.7
Peter Bruce Hinton	3,293,064	0.6
Forsyth Barr Custodians Limited	3,000,000	0.6
AMP Capital NZ Equity Opportunity fund	2,621,745	0.5
Michael Charles Hare	2,400,000	0.4
Resolution Investments Limited	1,760,000	0.3
Custodial Services Limited	1,540,000	0.3
Marint Limited	1,500,000	0.3
Pluteus (No. 164) Pty Limited	1,500,000	0.3
	493,392,062	90.60

ADDITIONAL STOCK EXCHANGE INFORMATION Cont.

4. Spread of Security Holders as at 31 August 2011:

a) Fully Paid Ordinary Shareholders

Size of Shareholding	Number of Holders	%	Numbers
1-1,000	3	0.00	2,100
1,001-5,000	279	0.16	884,901
5,001-10,000	250	0.36	1,969,807
10,001-50,000	372	1.64	8,924,210
50,001-100,000	75	1.02	5,568,371
100,001-500,000	92	3.59	19,542,713
500,001-1,000,000	15	1.81	9,861,332
1,000,001 shares or more	17	91.42	498,254,635
Total	1,103	100.00	545,008,069

b) Partly Paid Ordinary Shareholders

Size of Holding	Number of Holders	%	Numbers
1-1,000	-	-	-
1,001-5,000	-	-	-
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-100,000	-	-	-
100,001-500,000	-	-	-
500,001-1,000,000	-	-	-
1,000,001 shares or more	8	100.00	45,658,910
Total	8	100.00	45,658,910

5. Credit Rating Status

Not applicable.

6. Waivers Granted by NZX or Market Surveillance Panel

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

7. Corporate Governance Policies

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

Changes in Directors

G H Babidge, P R Gunner and M Miles were appointed as Directors of A2 Corporation Limited on 22 July 2010.

Dr A J Allison resigned as a Director of A2 Corporation Limited on 20 October 2010.

STATUTORY INFORMATION

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

Interests Register

Directors have declared interests during the period as follows:

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

Other Positions Held

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

Name of Director	Entity	Position
C J Cook	45 South Exports Limited	Director
	Chain Hill Farm Limited	Director/Shareholder
	Chesapeake Limited	Director
	Chesapeake Cook Limited	Director
	Chesapeake Lake View Limited	Director
	Chesapeake Tasman Limited	Director
	Colorite Group Limited	Director
	Cook Advisory Services Limited	Director/Shareholder
	DHT Limited	Director/Shareholder
	Energi New Zealand Limited	Director
	Gingold Holdings Limited	Director/Shareholder
	GNLC Limited	Director
	HSI Holdings Limited	Director/Shareholder
	HSI Investments Limited	Director
	Les Moulieres (NZ) Limited	Director
	Martinborough Cottage Grove Limited	Director
	Newmarket Limited	Director
	NSI Management Limited	Director
	Private Health Care (NZ) Limited and various subsidiaries and associated companies	Director
	PHC Treasury (UK) Limited	Director/Shareholder
	Rail Land Lease Limited	Shareholder
	Shubourne Holdings Limited	Director

STATUTORY INFORMATION Cont.

Name of Director	Entity	Position
G P Hinton	45 South Cherries Limited	Director/Shareholder
	45 South Exports Limited and subsidiary	Director/Shareholder
	ALE Equities Limited	Director/Shareholder
	Arney Developments Limited	Director/Shareholder
	Belmont Trading Coy Limited	Director
	Chain Hill Farm Limited	Shareholder
	Chesapeake Lake View Limited	Director
	Chesapeake Cook Limited	Director
	Chesapeake Limited	Director
	Chesapeake Tasman Limited	Director
	Cook Advisory Services Limited	Director
	DHT Limited	Director
	Gingold Holdings Limited	Director
	Great Northern Land Company Limited	Director/Shareholder
	Healthphone Holdings Limited	Director
	Housing New Zealand Limited and various associated companies	Director
	HSA Global Limited	Director
	Layard Estates Limited	Director
	Les Moulieres (NZ) Limited	Director
	Marne Street Hospital Limited	Director
	Martinborough Cottage Grove Limited	Director
	Newmarket Limited	Director
	Nikau Investments (2001) Limited	Director/Shareholder
	North Harbour Property 369 Limited	Shareholder
	NSI Management Limited	Director
	Paradise Trust Company Limited	Director
	PHC Treasury (UK) Limited	Director
	Pisa Holdings Limited	Director/Shareholder
	Port Marsden Industrial Park Management Limited	Director/Shareholder
	Private Health Care (NZ) Limited and various subsidiaries and associated companies	Director
	Rail Land Lease Limited	Director/Shareholder
	Shubourne Holdings Limited	Director
	Southern Nursing Bureau Limited	Director
	Thode Knife & Saw Limited	Director
	Waiata Investments (2010) Limited	Director/Shareholder

STATUTORY INFORMATION Cont.

Name of Director	Entity	Position
D W Mair	DDD Investments Limited	Director/ Shareholder
	DJD Management Limited	Director/ Shareholder
	Skellerup Holdings Limited	Director/ Shareholder/ Acting CEO
	Stainless Design Limited	Chairman
	Methven Limited	Director/ Shareholder
R Le Grice	Braveheart Moke Lake Limited	Shareholder
	Colorite Group Limited	Director/Shareholder
	Colorite Engraving Limited	Director
	Eady Le Grice Limited	Director/Shareholder
	Energi New Zealand Limited	Director/Shareholder
	Foxton Properties Limited	Shareholder
	Golconda Investments Limited	Director/Shareholder
	Lonsdale 2005 Limited	Shareholder
	Multivision Technologies Limited	Director/Shareholder
	NZ Saw Limited	Director/Shareholder
	Thode Knife & Saw Limited	Director/Shareholder
	Riverside Lodge (2005) Limited	Shareholder
P R Gunner	Australian Vintage Limited	Director
	Freedom Foods Group Limited	Chairman/ Shareholder
	Gemlake Pty Limited	Director/ Shareholder
	Viterra Inc	Deputy Chairman
M Miles	Freedom Foods Group Limited	Director/ Shareholder
	Brewtique Pty Limited	Director/ Shareholder
G H Babidge	Freedom Foods Group Limited	Director/ Shareholder

STATUTORY INFORMATION Cont.

Directors' Share Dealings

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

Name of Director	Shares Acquired (Disposed)	Date	Consideration Paid (Received)
G H Babidge	Issue of 10,000,000 partly paid shares	25 August 2010	$10,000*

* The 10,000,000 partly paid shares were issued at issue price of NZ $0.10 per share, paid up to $0.001 per share on issue.

Directorships of Subsidiary Companies

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

Subsidiary	Directors
A2 Exports Limited	G P Hinton D W Mair
A2 Australian Investments Pty Limited	G H Babidge D W Mair
A2 Exports Pty Limited	G H Babidge C J Cook G P Hinton D W Mair
A2 Dairy Products Australia Pty Limited	G H Babidge P R Gunner (Alternate Director) G P Hinton D W Mair

Directors' Remuneration

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

C J Cook	15,000
G P Hinton	15,000
R Le Grice	15,000
D W Mair	15,000
P R Gunner	14,168
M Miles	14,168
A J Allison	4,572

STATUTORY INFORMATION Cont.

Use of Company Information

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

Employee Remuneration

During the twelve months to 30 June 2011 the following numbers of employees received remuneration of at least $100,000.

	Number of employees
$100,000-$109,999	2
$110,000-$119,999	1
$150,000-$159,999	1
$160,000-$169,999	1
$180,000-$189,999	2
$310,000-$319,999	1
$320,000-$329,999	1
$350,000-$359,999	1

Donations

The Company made no donations during the period ended 30 June 2011 (2010: Nil).

Sub-Committees

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

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

The functions of the previous science sub-committee have been assumed by management.

* Denotes Sub-Committee Chairman