



A2 Corporation Limited
Half Yearly Report
31 December 2012

A2 CORPORATION LIMITED
HALF YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

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A2 CORPORATION LIMITED
CHAIRMAN'S REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

Dear Shareholder

I am pleased to report on the continued outstanding progress of A2 Corporation Limited ("the Company") during the six months to 31 December 2012.

The Company achieved Sales of \$44,281,000 and a Group Profit after Tax of \$554,000. The balance sheet position remained strong with cash on hand at the balance sheet date of \$21,500,000.

During the period, the Company continued to progress its key strategic initiatives. The Australian business performed very strongly with sales and operational profit well ahead of the corresponding period last year with continued investment in support of the brand. The launch of a2™ brand fresh milk in the UK commenced from October 2012 in association with our joint venture partner, Muller Wiseman Dairies. Management continues to progress the initiative to launch a2™ brand infant formula into China during this calendar year in conjunction with our distribution and supply partners.

The Company is delighted to welcome new shareholders following the successful capital raising process and move to the NZX main board in December 2012.

The Managing Director's report contains further detail on the Company's operational performance.

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



C J Cook
Chairman

27 February 2013

FINANCIAL PERFORMANCE

The unaudited group profit for the 6 months ended 31 December 2012 was \$554,000 including EBITDA of \$3,459,000, 54% over the corresponding prior period, in part offset by the Company's share of UK establishment costs and the final component of strategic review costs.

The result included the following key items:

- Sales of \$44,281,000, representing an increase of 57% over the corresponding prior period;
- EBITDA before share of associate earnings and non-recurring items of \$3,459,000 compared to the corresponding prior period of \$2,241,000;
- Share of costs associated with A2 Milk (UK) Limited joint venture of \$1,480,000;
- Non-recurring costs associated with a Group Strategic Review of \$755,000.

The strong momentum of the Australian business is ahead of the growth outlined as part of the recent equity raising and remains on track to achieve its full year 2013 EBITDA forecast of \$11.2 million before intercompany charges.

Cash on hand at 31 December 2012 was \$21,500,000. The movement over the period primarily reflected operating cash flows in Australia, proceeds from capital raisings, and further investment in our UK joint venture.

STRATEGIC REVIEW

A comprehensive strategic review of the Company (commenced in April 2012) was completed and announced to the market in October 2012. The outcome of the review is that the Company will dedicate additional resources to initiatives previously announced and prioritise opportunities identified during the review including:

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

OPERATIONAL REVIEW

AUSTRALASIA

a2™ sales in Australia continued to show strong growth and represented an increase on the corresponding prior period of 57%. Ongoing investment in marketing and communication contributed to the growth of sales and increased brand recognition. In particular the “thank-you a2” media campaign is proving effective in creating awareness in the A2 proposition and together with PR, health care professional activities and social media engagement is driving new consumer trial. Further gains in distribution also aided sales. We estimate the market share of a2™ brand fresh milk by value in the grocery channel in December 2012 to approximate 6.9%.

The Company's new milk processing facility in south west Sydney performed well with volumes ahead of plan and improved efficiencies when compared to the second half of last year. We commenced a project to improve supply chain efficiencies in consequence of volumes continuing ahead of plan. The Company continues to work closely with its contract processors and negotiated extended arrangements with two contractors during the period.

The Company continued to assess options to further develop the a2™ brand fresh milk within New Zealand in conjunction with the existing licensee.

UNITED KINGDOM AND IRELAND

In November 2011, the Company established a sales and marketing joint venture in the UK and Ireland with the leading fresh milk dairy company, Robert Wiseman Dairies (RWD), now a wholly owned subsidiary of Unternehmensgruppe Theo Müller Group.

During the current half year the JV completed its establishment phase and launched a2™ brand fresh milk into the retail trade in Britain. The joint venture now comprises a dedicated sales and marketing management team near London, with procurement, processing, distribution and administration services provided by RWD. The business has recruited an enthusiastic dairy farmer supplier base with capability to build significant A2 milk volumes over time.

The product launch commenced with 3 retailer groups with distribution building across approximately 700 retail outlets from October 2012. The launch was initially supported by a public relations and print media campaign and is being followed by a television advertising campaign which commenced from end January 2013. The communication strategies have been tailored to meet the requirements of the various UK regulatory authorities. As part of the launch the business has engaged two profile celebrities with particular appeal to the target market: Dannii Minogue, herself a convert to the digestive benefits of a2™ brand milk and Dr Hilary Jones, a well-known and respected health care professional.

As advised during the strategic review, the launch in the UK is expected to follow the approach in Australia – a slow build based on progressively raising consumer's awareness of the unique product attributes driven by PR, consumer marketing and engagement with health care professionals and through broadening distribution. Our sales are growing from a small base and the focus is on building rate of sale within existing distribution and achieving retailer support to further broaden distribution.

INFANT FORMULA INTO CHINA

The Company continued to progress its strategy to introduce a2™ brand infant formula into China. In October 2012, the company announced the appointment of China State Farm (CSF) as the exclusive distributor of a2™ brand infant formula for Greater China. As part of the agreement, A2C and CSF established a joint marketing structure to support the development and implementation of marketing activities within the territory. Following the appointment of CSF and given the strategic supply agreement with Synlait Milk Limited, A2C now has a complete end-to-end New Zealand sourced supply chain for China.

To support this major growth initiative, a new business unit, A2 Infant Nutrition has been established with a dedicated management team focused on business development, supply chain and marketing functions together with an in-market manager based in Shanghai. This infrastructure will also support development of additional opportunities such as UHT milk into China and the launch of infant formula in other markets. Sales to CSF are planned to commence this financial year.

EQUITY RAISING AND MOVE TO NZX MAIN BOARD

Following A2C's strategic review, in December 2012, the Company initiated an equity raising to increase liquidity and provide additional funding, applied to move from the NZX alternative market to the NZX main board and the Company's three largest shareholders partially sold down their shareholdings.

The company was very pleased with the outcome of this process with fresh equity of \$20 million being raised at a price of \$0.50 per share and approval obtained to move to the NZX main board. The number of shareholders increased to 2,151 at 31 December 2012. Receipts associated with the exercise of partly paid shares also contributed a further \$693,000 to cash flow during the half year.



G H Babidge
Managing Director

27 February 2013

A2 CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	Notes	6 mths 31 Dec 12 (Unaudited) \$'000	6 mths 31 Dec 11 (Unaudited) \$'000
CONTINUING OPERATIONS			
Milk sales		44,281	28,284
Cost of sales		(29,548)	(18,481)
Gross margin		14,733	9,803
Interest income		63	111
Other revenue		104	1,702
Administrative expenses		(3,758)	(2,356)
Finance costs		(130)	(77)
Marketing expenses		(2,228)	(1,737)
Occupancy expenses		(83)	(87)
Other expenses	3	(6,606)	(4,003)
Profit before tax and share of associate / joint venture earnings/(loss)		2,095	3,356
Share of associate / joint venture earnings/(loss)		(1,480)	(80)
Profit before tax		615	3,276
Income tax expense		(61)	(174)
PROFIT FOR THE PERIOD		554	3,102
Other Comprehensive Income			
Foreign currency translation (loss)/gain		(311)	293
TOTAL COMPREHENSIVE INCOME		\$243	\$3,395
EARNINGS PER SHARE			
Basic (cents per share)		0.09	0.57
Diluted (cents per share)		0.09	0.53

A2 CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	Notes	6 mths 31 Dec 12 (Unaudited) \$'000	6 mths 31 Dec 11 (Unaudited) \$'000
Equity at beginning of period		37,348	25,183
Total comprehensive income for the period		243	3,395
		37,591	28,578
Transactions with owners			
Employee equity settled payments reserve		138	107
Issue of ordinary shares	7	20,700	2,559
Share issue costs	7	(1,065)	-
EQUITY AT END OF THE PERIOD		\$57,364	\$31,244

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

	Notes	As at 31 Dec 12 (Unaudited) \$'000	As at 30 June 12 (Audited) \$'000
ASSETS			
Current assets			
Cash & short term deposits		21,500	6,568
Trade and other receivables		21,047	17,189
Prepayments	4	1,690	481
Inventories		544	677
Total current assets		44,781	24,915
Non-current assets			
Property, plant & equipment		10,943	10,991
Prepayments		3	6
Investment in associates and joint ventures	5	1,147	1,582
Goodwill		9,907	10,055
Other intangible assets	6	1,618	1,037
Deferred tax asset		1,896	1,086
Total non-current assets		25,514	24,757
TOTAL ASSETS		\$70,295	\$49,672

A2 CORPORATION LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET (CONT.)

AS AT 31 DECEMBER 2012

	Notes	As at 31 Dec 12 (Unaudited) \$'000	As at 30 June 12 (Audited) \$'000
LIABILITIES			
Current liabilities			
Short term borrowings		2,522	4,414
Accounts payable		9,032	7,225
Current tax liability		296	638
Lease liabilities		12	11
Total current liabilities		11,862	12,288
Non-current liabilities			
Deferred tax liability		1,040	-
Lease liabilities		29	36
Total non-current liabilities		1,069	36
TOTAL LIABILITIES		12,931	12,324
OWNERS EQUITY			
Share capital	7	83,389	63,754
Retained earnings (deficit)		(27,550)	(28,104)
Foreign currency translation reserve		(163)	148
Employee equity settled payments reserve		1,688	1,550
Total Equity		57,364	37,348
TOTAL LIABILITIES & OWNERS EQUITY		\$70,295	\$49,672

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	6 mths 31 Dec 12 (Unaudited) \$'000	6 mths 31 Dec 11 (Unaudited) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from (applied to):		
Receipts from customers	40,515	26,067
Interest received	63	111
Other income	105	1,486
Payments to suppliers & employees	(41,398)	(26,852)
Interest paid	(128)	(74)
Taxes refunded/(paid)	172	(587)
Net cash inflow (outflow) from operating activities	(671)	151
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from (applied to):		
Proceeds from sale of property, plant and equipment	-	7
Payment for property, plant & equipment	(461)	(6,399)
Investment in intangible assets	(615)	(90)
Investment in associate	(1,045)	(2,301)
Net cash inflow (outflow) from investing activities	(2,121)	(8,783)

Other income in the period to December 2011 includes revenue received from the settlement of a legal dispute of NZ\$1,429,000.

A2 CORPORATION LIMITED

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONT.)
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	6 mths 31 Dec 12 (Unaudited) \$'000	6 mths 31 Dec 11 (Unaudited) \$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from (applied to):		
Proceeds from issue of equity shares	20,693	2,559
(Decrease)/Increase in short term borrowings	(1,892)	3,949
Payment for capital raising costs	(1,065)	-
Net cash inflow (outflow) from financing activities	17,736	6,508
Net increase/(decrease) in cash & short term deposits	14,944	(2,124)
Cash & short term deposits at the beginning of the period	6,568	7,467
Effect of exchange rate changes on cash	(12)	141
Cash and short term deposits at the end of the period	21,500	\$5,484
COMPRISED OF:		
Cash & short term deposits	\$21,500	\$5,484

1. STATEMENT OF COMPLIANCE

A2 Corporation Limited (“A2C” 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 ownership and licensing of intellectual property that enables the identification of cattle for the production and subsequent marketing of a2™ brand milk related products. The Company sources, produces and supplies a2™ brand milk in Australia through its 100% owned subsidiary A2 Dairy Products Australia Pty Limited. The Company also sources and supplies a2™ brand milk in the United Kingdom through its 50% associate A2 Milk (UK) 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 financial statements comply with that Act. The shares of A2 Corporation Limited are publicly traded on the NZSX.

The unaudited interim financial statements have been prepared in accordance with New Zealand equivalents to International Accounting Standard 34 (NZ IAS-34) *Interim Financial Reporting*. The financial statements should be used in conjunction with the Company’s annual report for the 12 months ended 30 June 2012.

2. BASIS OF PREPARATION

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

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

The financial statements are presented in New Zealand dollars.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Group’s financial statements for the 12 months ended 30 June 2012.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

3. OTHER EXPENSES

	6 mths 31 Dec 12 (Unaudited) \$'000	6 mths 31 Dec 11 (Unaudited) \$'000
Freight	3,757	2,253
Other operating expenses	2,095	1,423
Non-recurring items	755	327
	6,606	4,003
	6,606	4,003

Non-recurring items in the period to December 2012 relate to costs associated with a Group Strategic review.

Non-recurring items in the period to December 2011 relate to costs incurred in connection with the settlement of a legal dispute.

4. PREPAYMENTS

The largest component of prepayments relates to supplier payments in advance of Infant Nutrition sales to China, made by the Group's subsidiary, A2 Infant Nutrition Limited.

5. INVESTMENT IN ASSOCIATE

The Group, through its subsidiary A2 Holdings UK Limited ("A2H"), has an investment agreement with Robert Wiseman & Sons Ltd ("RWS") to establish a business of sourcing, marketing and selling a2™ brand milk products in the United Kingdom and Ireland. A2H and RWS invested a further £500,000 (NZ\$1,045,000) each in the A2 Milk (UK) Limited joint venture company, with a further £500,000 (NZ\$979,000) being invested in January 2013.

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

6. OTHER INTANGIBLE ASSETS

The Group has continued to capitalise project development costs in preparation for the commencement of the Infant Nutrition business

7. SHARE CAPITAL

	6 mths 31 Dec 12 (Unaudited) \$'000	6 mths 31 Dec 11 (Unaudited) \$'000
a) Share Capital		
Balance at beginning of period	63,754	56,063
Shares issued	20,700	2,559
Share issue costs	(1,065)	-
Balance at end of period	\$83,389	\$58,622
b) Number of Shares on Issue		
	6 mths 31 Dec 12 (Unaudited) No.	6 mths 31 Dec 11 (Unaudited) No.
(i) Fully paid ordinary shares		
Balance at beginning of period	559,008,069	526,246,412
Shares issued	47,500,000	18,761,657
Balance at end of period	606,508,069	545,008,069
(ii) Partly paid ordinary shares		
Balance at beginning of period	45,658,910	45,658,910
Shares fully paid	(7,000,000)	-
Balance at end of period	38,658,910	45,658,910

On 2 October 2012, 2,000,000 partly paid ordinary shares became fully paid. On 5 December 2012, a further 5,000,000 partly paid ordinary shares became fully paid.

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

7. SHARE CAPITAL (CONT.)

	6 mths 31 Dec 12 (Unaudited) \$'000	6 mths 31 Dec 11 (Unaudited) \$'000
(iii) Total shares on issue		
Fully paid ordinary shares	606,508,069	545,008,069
Partly paid ordinary shares	38,658,910	45,658,910
Balance at end of period	645,166,979	590,666,979

Issue of Shares

On 6 December 2012, the Company issued 40,000,000 fully paid shares, subject to the Private Placement Memorandum dated 5 December 2012, at an issue price of NZ\$0.50 per share.

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 option to require the company to issue 4,500,000 fully paid shares (at no further cost to FFG) on the event that any of the 18,000,000 partly paid shares on issue at the time that FFG acquired its initial shareholding in A2C became fully paid. 500,000 shares were issued to FFG on 5 December 2012 in connection with 2,000,000 of these shares becoming fully paid.

8. OPERATING SEGMENT INFORMATION

The Company has adopted NZ IFRS-8 *Operating Segments*. 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.

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

- The Australian segment receives income from milk sales;
- The New Zealand segment receives interest, royalty, licence fee and is establishing an Infant Nutrition business;
- The United Kingdom business is shown as share of associates/joint ventures;

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012
8. OPERATING SEGMENT INFORMATION (CONT.)

	Segment Revenue		Segment Profit	
	31 Dec 12 (Unaudited) \$'000	31 Dec 11 (Unaudited) \$'000	31 Dec 12 (Unaudited) \$'000	31 Dec 11 (Unaudited) \$'000
Continuing Operations				
Australia	44,380	28,362	3,775	1,836
New Zealand	5	1,624	(317)	405
Unallocated	-	-	(755)	1,101
	<u>44,385</u>	<u>29,986</u>	<u>2,703</u>	<u>3,342</u>
Interest income			63	111
Interest expense			(128)	(74)
Share in losses from associates/ joint ventures			(1,480)	(80)
Depreciation and amortisation			(543)	(23)
Income tax expense			(61)	(174)
Consolidated segment profit			<u>554</u>	<u>3,102</u>

Over 92% of milk sales come from three customers in Australia (2012: 97%).

8. OPERATING SEGMENT INFORMATION (CONT.)

	Depreciation & Amortisation		Additions to Non-Current Assets	
	31 Dec 12 (Unaudited) \$'000	31 Dec 11 (Unaudited) \$'000	31 Dec 12 (Unaudited) \$'000	31 Dec 11 (Unaudited) \$'000
Australia	525	21	458	6,394
New Zealand	18	2	3	5
	543	23	461	6,399

	Assets		Liabilities	
	31 Dec 12 (Unaudited) \$'000	30 June 12 (Audited) \$'000	31 Dec 12 (Unaudited) \$'000	30 June 12 (Audited) \$'000
Australia	43,506	41,433	11,673	11,656
New Zealand	25,508	6,513	1,259	658
Unallocated	1,281	1,726	-	10
	70,295	49,672	12,932	12,324

Additions to Non-Current Assets includes additions to property, plant and equipment and excludes additions to investments in associates, goodwill and other intangibles.

9. SUBSEQUENT EVENTS

On 11 January 2013, the company invested a further £500,000 (NZ\$979,000), through its subsidiary A2 Holdings UK Limited, in the A2 Milk (UK) Limited joint venture.

10. INVESTMENT IN SUBSIDIARIES

A new investment has been made in A2 Dairy Products New Zealand Limited represented by uncalled equity.

A2 CORPORATION LIMITED
COMPANY DIRECTORY
AS AT 31 DECEMBER 2012

Company Number	1014105
Issued Capital	645,166,979 Fully Paid and Partly Paid Ordinary Shares
Registered Office	C/- Simpson Grierson Level 27 88 Shortland Street Auckland
Share Registrar	Link Market Services Limited PO Box 384 Ashburton Telephone (03) 308 8887
Directors	Mr C J Cook (Chairman) Mr G H Babidge (Managing Director) Mr P R Gunner (Deputy Chairman) Mr G P Hinton Mr D W Mair Mr R Le Grice Mr M Miles Mr M R Perich as Alternate Director for Mr P R Gunner
Accountants	Deloitte PO Box 1245 Dunedin
Auditor	Ernst & Young PO Box 2091 Christchurch
Bankers	National Australia Bank Limited NAB House 255 George Street Sydney Bank of New Zealand Deloitte Centre, Level 6 80 Queen Street Auckland
Solicitor – Commercial	Simpson Grierson Private Bag 92518 Auckland
Solicitor – Intellectual Property	Baldwins PO Box 5999 Auckland

