

A2 CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Six Months Ended 31 December 2013

| | Notes | 6 Months 31 Dec 13 (Unaudited) \$'000 | 6 Months 31 Dec 12 (Unaudited) \$'000 |
|---|-------|--|--|
| CONTINUING OPERATIONS | | | |
| Sales | | 54,008 | 44,281 |
| Cost of sales | | (34,078) | (29,548) |
| Gross Margin | | <u>19,930</u> | <u>14,733</u> |
| Interest income | | 240 | 63 |
| Other revenue | | 147 | 104 |
| Administrative expenses | | (4,746) | (3,505) |
| Finance costs | | (18) | (130) |
| Marketing expenses | 3 | (5,395) | (2,228) |
| Occupancy expenses | | (226) | (83) |
| Other expenses | 4 | (7,965) | (6,859) |
| Profit before tax and share of associate / joint venture earnings | | <u>1,967</u> | <u>2,095</u> |
| Share of associate / joint venture earnings | | (1,361) | (1,480) |
| Profit before tax | | <u>606</u> | <u>615</u> |
| Income tax benefit/ (expense) | | 37 | (61) |
| PROFIT FOR THE PERIOD | | <u>643</u> | <u>554</u> |
| Items of Other Comprehensive Income to be recycled to profit or loss in subsequent periods | | | |
| Foreign currency translation loss | 5 | (3,179) | (311) |
| TOTAL COMPREHENSIVE (LOSS)/PROFIT | | <u><u>(2,536)</u></u> | <u><u>243</u></u> |
| EARNINGS PER SHARE | | | |
| Basic (cents per share) | | 0.11 | 0.10 |
| Diluted (cents per share) | | 0.11 | 0.09 |

The accompanying notes form part of these financial statements.

A2 CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Six Months Ended 31 December 2013

| | 6 Months | 6 Months |
|--|--------------------|--------------------|
| | 31 Dec 13 | 31 Dec 12 |
| | (Unaudited) | (Unaudited) |
| Notes | \$'000 | \$'000 |
| Equity at beginning of period | 59,930 | 37,348 |
| Total comprehensive (loss)/profit | (2,536) | 243 |
| | <u>57,394</u> | <u>37,591</u> |
| Transactions with owners | | |
| Employee equity settled payments reserve | 240 | 138 |
| Issue of ordinary shares | 1,323 | 20,700 |
| Share issue costs | - | (1,065) |
| | <u>58,957</u> | <u>57,364</u> |
| EQUITY AT END OF THE PERIOD | 58,957 | 57,364 |

The accompanying notes form part of these financial statements.

A2 CORPORATION LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

| | Notes | As at 31 Dec 13 (Unaudited) \$'000 | As At 30 June 13 (Audited) \$'000 |
|--|-------|---|--|
| ASSETS | | | |
| Current assets | | | |
| Cash & short term deposits | | 13,156 | 20,187 |
| Trade and other receivables | | 24,987 | 24,375 |
| Current tax receivable | | 1,114 | - |
| Prepayments | | 4,409 | 2,399 |
| Inventories | | 1,517 | 742 |
| | | <hr/> | <hr/> |
| Total current assets | | 45,183 | 47,703 |
| | | <hr/> | <hr/> |
| Non-current assets | | | |
| Property, plant & equipment | | 9,516 | 10,290 |
| Non-current receivables in associates and joint ventures | | 3,590 | 377 |
| Goodwill | | 8,618 | 9,370 |
| Other intangible assets | | 3,141 | 3,036 |
| Deferred tax asset | | 1,478 | 1,916 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 26,343 | 24,989 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS | | 71,526 | 72,692 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | | 12,124 | 12,093 |
| Current tax liability | | - | 301 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 12,124 | 12,394 |
| | | <hr/> | <hr/> |
| Non-current liabilities | | | |
| Deferred tax liability | | 355 | 288 |
| Accounts Payable | | 90 | 80 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 445 | 368 |
| | | <hr/> | <hr/> |
| TOTAL LIABILITIES | | 12,569 | 12,762 |
| | | <hr/> | <hr/> |
| OWNERS EQUITY | | | |
| Share capital | 7 | 85,576 | 84,253 |
| Retained earnings (deficit) | | (23,341) | (23,984) |
| Foreign currency translation reserve | | (5,347) | (2,168) |
| Employee equity settled payments reserve | | 2,069 | 1,829 |
| | | <hr/> | <hr/> |
| Total Equity | | 58,957 | 59,930 |
| | | <hr/> | <hr/> |
| TOTAL LIABILITIES & OWNERS EQUITY | | 71,526 | 72,692 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The accompanying notes form part of these financial statements.

A2 CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Six Months Ended 31 December 2013

| | 6 Months 31 Dec 13 (Unaudited) \$'000 | 6 Months 31 Dec 12 (Unaudited) \$'000 |
|--|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash was provided from (applied to): | | |
| Receipts from customers | 50,933 | 40,515 |
| Interest received | 240 | 63 |
| Other income | 13 | 105 |
| Payments to suppliers & employees | (52,814) | (41,398) |
| Interest paid | - | (128) |
| Taxes (paid)/ refunded | (629) | 172 |
| | <hr/> | <hr/> |
| Net cash outflow from operating activities | (2,257) | (671) |
| | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash was provided from (applied to): | | |
| Payment for property, plant & equipment | (685) | (461) |
| Purchase of intangible assets | (369) | (615) |
| Payments to associate | (4,574) | (1,045) |
| | <hr/> | <hr/> |
| Net cash outflow from investing activities | (5,628) | (2,121) |
| | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash was provided from (applied to): | | |
| Proceeds from issue of equity shares | 1,323 | 20,693 |
| Decrease in short term borrowings | - | (1,892) |
| Payment for capital raising costs | - | (1,065) |
| | <hr/> | <hr/> |
| Net cash inflow from financing activities | 1,323 | 17,736 |
| | <hr/> | <hr/> |
| Net (decrease)/ increase in cash & short term deposits | (6,562) | 14,944 |
| Cash & short term deposits at the beginning of the period | 20,187 | 6,568 |
| Effect of exchange rate changes on cash | (469) | (12) |
| | <hr/> | <hr/> |
| Cash and short term deposits at the end of the period | 13,156 | 21,500 |
| | <hr/> <hr/> | <hr/> <hr/> |
| COMPRISED OF: | | |
| | <hr/> | <hr/> |
| Cash & short term deposits | 13,156 | 21,500 |
| | <hr/> <hr/> | <hr/> <hr/> |

The accompanying notes form part of these financial statements.

A2 CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended 31 December 2013

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 commercialisation of a2™ brand milk and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of a2™ brand milk. The Company sources and supplies a2™ brand milk in Australia through its 100% owned subsidiary A2 Dairy Products Australia Pty Limited and in the UK through its 50% owned joint venture A2 Milk (UK) Limited. The company supplies a2™ brand infant nutrition through its 100% owned subsidiary A2 Infant Nutrition Limited. As disclosed in note 10 (Subsequent Events) the company has acquired the remaining 50% of A2 Milk (UK) Limited on 1st January 2014.

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 2013.

The following Standards and Interpretations were effective in the current period:

| Pronouncement | Effective for periods beginning |
|--|---------------------------------|
| IFRS 10 Consolidated Financial Statements | 1 January 2013 |
| IFRS 11 Joint Arrangements | 1 January 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 13 Fair Value Measurement | 1 January 2013 |
| IAS 19 Employee Benefits | 1 January 2013 |
| IAS 27 Separate Financial Statements (2011) | 1 January 2013 |
| IAS 28 Investments in Associates and Joint Ventures (2011) | 1 January 2013 |
| Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) | 1 January 2013 |
| Government Loans (Amendments to IFRS 1) | 1 January 2013 |
| Annual Improvements 2009-2011 Cycle | 1 January 2013 |
| Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance | 1 January 2013 |

The above Standards and Interpretations have not led to any changes in the Company’s accounting policies with no measurement or recognition impact on the period presented in these interim financial statements.

At period end date, a number of Standards and Interpretations were in issue but not yet effective. None is expected to have a significant effect on the Company.

A2 CORPORATION LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
For the Six Months Ended 31 December 2013

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, 2013.

3. MARKETING EXPENSES

The increase in Marketing Expenses of \$3,167,000 reflects the ongoing support for a2TM fresh milk in Australia and the launch advertising and marketing costs for a2TM PlatinumTM infant formula in China, Australia and New Zealand.

4. OTHER EXPENSES

| | 6 Months 31 Dec 13 (Unaudited) \$'000 | 6 Months 31 Dec 12 (Unaudited) \$'000 |
|--------------------------|--|--|
| Freight | 4,107 | 3,757 |
| Other operating expenses | 3,858 | 2,347 |
| Non-recurring items | - | 755 |
| | 7,965 | 6,859 |

Other Operating expenses have increased as spend on legal and consulting is higher in the six months to 31st December 2013. In addition, amortization of certain intangible assets commenced in the period and the company has incurred higher foreign exchange costs.

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

5. FOREIGN CURRENCY TRANSLATION LOSS

The foreign currency translation loss in the six months to 31st December 2013 has primarily arisen on the translation of AUD advances to subsidiary companies which have been negatively impacted by the strengthening of the NZD/AUD rate in the period.

6. NON-CURRENT RECEIVABLE 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 a2TM brand milk products in the United Kingdom and Ireland. In the six months ended 31 December 2013, A2H advanced £2,250,000 (NZD 4,574,000) to A2 Milk (UK) Limited, the joint venture company.

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.

A2 CORPORATION LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
For the Six Months Ended 31 December 2013

| 7. SHARE CAPITAL | As at 31 Dec 13 (Unaudited) \$'000 | As at 30 June 13 (Audited) \$'000 |
|---|---|--|
| a) Share Capital | | |
| Balance at beginning of period | 84,253 | 63,754 |
| Shares issued | 1,323 | 21,598 |
| Share issue costs | - | (1,099) |
| Balance at end of period | <u>85,576</u> | <u>84,253</u> |
| | | |
| b) Number of Shares on Issue | 31 Dec 13 (Unaudited) No. | 30 June 13 (Audited) No. |
| (i) Fully paid ordinary shares | | |
| Balance at beginning of period | 615,165,990 | 559,008,069 |
| Shares issued | 12,215,842 | 56,157,921 |
| Balance at end of period | <u>627,381,832</u> | <u>615,165,990</u> |
| | | |
| (ii) Partly paid ordinary shares | | |
| Balance at beginning of period | 30,000,989 | 45,658,910 |
| Shares fully paid | (2,315,842) | (15,657,921) |
| Balance at end of period | <u>27,685,147</u> | <u>30,000,989</u> |
| | | |
| (iii) Total shares on issue | | |
| Fully paid ordinary shares | 627,381,832 | 615,165,990 |
| Partly paid ordinary shares | 27,685,147 | 30,000,989 |
| Balance at end of period | <u>655,066,979</u> | <u>645,166,979</u> |

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.

Issue of Shares

During the six months ended 31 December 2013, 11,815,842 partly paid ordinary shares became fully paid.

In August 2013, the company and Freedom Foods Group limited (FFG) agreed to modify the anti-dilution protections arising when the company acquired the remaining 50% holding in A2 Dairy Products Australia Pty Ltd. As part of this modification, the company issued 400,000 new fully paid ordinary voting shares to FFG.

In July and August 2013, the company issued 4,500,000 partly paid ordinary shares in aggregate to two senior employees at an issue price of \$0.55 per share.

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

A2 CORPORATION LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
For the Six Months Ended 31 December 2013

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 New Zealand segment receives income from infant nutrition sales, interest, royalty, licence fee and management fee income;
- The Australian segment receives income from milk and infant nutrition sales;
- The United Kingdom segment receives costs borne by the company in relation to the joint venture.

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

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

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

| | Segment Revenue | | Segment Profit | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | 31 Dec 13 Unaudited \$'000 | 31 Dec 12 Unaudited \$'000 | 31 Dec 13 Unaudited \$'000 | 31 Dec 12 Unaudited \$'000 |
| Continuing Operations | | | | |
| Australia | 52,260 | 44,380 | 2,292 | 3,775 |
| New Zealand | 1,748 | 5 | 978 | (317) |
| United Kingdom | - | - | (127) | - |
| Unallocated | - | - | (567) | (755) |
| | <u>54,008</u> | <u>44,385</u> | <u>2,576</u> | <u>2,703</u> |
| Interest income | | | 240 | 63 |
| Interest expense | | | - | (128) |
| Share in associate/ joint venture earnings | | | (1,361) | (1,480) |
| Depreciation and amortisation | | | (849) | (543) |
| Income tax (expense)/ income | | | 37 | (61) |
| Consolidated segment profit | | | <u>643</u> | <u>554</u> |

Over 84% of sales come from three customers in Australia (2013: 92%)

A2 CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
For the Six Months Ended 31 December 2013

8. OPERATING SEGMENT INFORMATION Cont.

| | Depreciation & Amortisation | | Additions to Non-Current Assets | |
|-------------|--|------------------|--|------------------|
| | 31 Dec 13 | 31 Dec 12 | 31 Dec 13 | 31 Dec 12 |
| | Unaudited | Unaudited | Unaudited | Unaudited |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Australia | 535 | 525 | 465 | 458 |
| New Zealand | 314 | 18 | 220 | 3 |
| | <u>849</u> | <u>543</u> | <u>685</u> | <u>461</u> |

| | Assets | | Liabilities | |
|------------------------------|------------------|-------------------|--------------------|-------------------|
| | 31 Dec 13 | 30 June 13 | 31 Dec 13 | 30 June 13 |
| | Unaudited | Audited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Australia | 69,130 | 72,422 | 44,165 | 44,228 |
| New Zealand | 75,702 | 64,119 | 14,679 | 3,588 |
| United Kingdom | 9,813 | 499 | 9,715 | 5,090 |
| Adjustments and eliminations | (83,119) | (64,348) | (55,990) | (40,144) |
| | <u>71,526</u> | <u>72,692</u> | <u>12,569</u> | <u>12,762</u> |

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

9. CHANGES TO COMPARATIVES

Where necessary, comparatives have been adjusted for better comparison with current year figures.

10. SUBSEQUENT EVENTS

On 1st January 2014 the company, through its subsidiary A2 Holdings UK Limited acquired the remaining 50% of the shares of A2 Milk (UK) Limited from the other shareholder, Muller Wiseman Dairies Limited, for consideration of GBP1.

On 11th February 2014, Freedom Foods Group paid up the remainder of its partly paid shares as part of the agreed modification of its anti-dilution protections.

There has been no other subsequent event at year end that would have an impact on the financial statements at 31 December 2013.