A2 CORPORATION

# ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2010

# CONTENTS
## FOR THE YEAR ENDED 30 JUNE 2010

| CONTENTS | PAGE |
|---|---|
| Company Directory | 2 |
| Chairman's Report | 4 |
| Managing Director's Report | 5 |
| Directors' Responsibility Statement | 8 |
| Consolidated Income Statement | 9 |
| Consolidated Statement of Comprehensive Income | 10 |
| Consolidated Statement of Changes In Equity | 10 |
| Consolidated Statement of Financial Position | 11 |
| Consolidated Statement of Cash Flow | 12 |
| Notes to the Consolidated Financial Statements | 14 |
| Statement of Corporate Governance | 72 |
| Additional Stock Exchange Information | 75 |
| Statutory Information | 78 |
| Audit Report | 83 |

# COMPANY DIRECTORY
## AS AT 30 JUNE 2010

| | |
|---|---|
| Company Number | 1014105 |
| Issued Capital | 381,130,850 Ordinary Shares |
| Registered Office | C/-Simpson Grierson<br>Level 27<br>88 Shortland Street<br>Auckland |
| Shareholders | Listed on NZAX (from 21 April 2004) |
| Share Registrar | Link Market Services Limited<br>PO Box 384<br>Ashburton<br>Telephone (03) 308 8887 |
| Directors | Mr C J Cook (Chairman)<br>Dr A J Allison<br>Mr R Le Grice<br>Mr G P Hinton<br>Mr D W Mair |
| Accountants | Deloitte<br>PO Box 1245<br>Dunedin |
| Auditors | Ernst & Young<br>PO Box 2091<br>Christchurch |
| Bankers | Westpac<br>PO Box 934<br>Auckland |
| Solicitors – Commercial | Simpson Grierson<br>Private Bag 92518<br>Wellesley Street<br>Auckland |
| Solicitors – Intellectual Property | Baldwins<br>PO Box 852<br>Wellington |


a2
NATURAL INTOLERANCE PROTECTION
FULL CREAM MILK
a2
NATURAL INTOLERANCE PROTECTION
LIGHT MILK
a2
NATURAL INTOLERANCE PROTECTION
NO FAT MILK

# CHAIRMAN'S REPORT
## FOR THE YEAR ENDED 30 JUNE 2010

A2 Corporation Limited (A2C or the Company) has continued to progress the strategic agenda which was developed during 2008.

The company has maintained a sound financial position during the year with cash on hand and no debt. At year end the net cash position was $5,214,589 and we anticipate the company should become profitable during the 2011 year.

A major strategic development during the year was the negotiation (and subsequent completion in July) for the acquisition of the 50% of the A2 Dairy Products Australia (A2DPA) joint venture which the company did not own in exchange for the issue of 120,376,950 fully paid shares in the company. This initiative was consistent with our prior strategy of Australia becoming a key driver of the business and aligning the separate components of the total business.

We welcome our former joint venture partner, Freedom Nutritional Products Limited as a cornerstone investor and look forward to our relationship building value for both companies. As a part of the transaction, Mr. Perry Gunner and Mr. Mel Miles have been appointed as non executive directors of the company and Mr. Geoffrey Babidge as Managing Director, effective from September 2010. These appointees bring skills in building global businesses and managing brands.

Whilst the company has booked a net deficit for the year, there has continued to be positive progress across all segments of the business. The Managing Director's Report contains further information on the key highlights of the 2010 year and I commend this to you.

The former CEO Scott Pannell has done a good job in reducing the cost base of the company to what we regard as minimum expenditure consistent with our plan. The Board thanks Scott for his contribution and dedication during his period of employment. The results for the year include the non-recurring costs associated with the redundancy of the CEO role arising as a consequence of the A2DPA transaction together with the due diligence costs relating there-to.

In consequence of the initiatives of the past year, the board considers the Company to be in a strong position to build a global business. This will involve growth opportunities, both in Australia and in selected international markets, and we look with optimism to the year ahead.

Cliff Cook
**Chairman**

10 September 2010

# MANAGING DIRECTOR'S REPORT
## FOR THE YEAR ENDED 30 JUNE 2010

A2 Corporation Limited ("a2C") (NZAX:ATM) recorded an audited Group post-tax loss of $2,193,973 for the twelve (12) months ended 30 June 2010. This compared to a loss of $3,528,057 for the fifteen (15) months ended 30 June 2009.

The audited Group post-tax loss comprised of the following:

- An operational loss of $640,596 (versus a budgeted loss of $1,291,012) compared to a prior year operational loss of $2,734,215 (Prior Year F2009 for 15 months). The full year operational loss was made up of a first half loss of $544,185 and a second half loss of $96,411.
- Foreign exchange losses (realised and unrealised) of $92,458.
- Non cash expense of $210,386 relating to share based incentive schemes for a2C's CEO & executive directors.
- Costs of $1,307,613 associated with the purchase of 50% of the Australian joint venture, A2 Dairy Products Australia Pty Limited (A2DPA) that a2C did not already own

| | | |
|---|---|---|
| i) | Due diligence | 315,581 |
| ii) | Termination of CEO role | 500,000 |
| iii) | Incentive scheme expensed | 492,032 (*) |

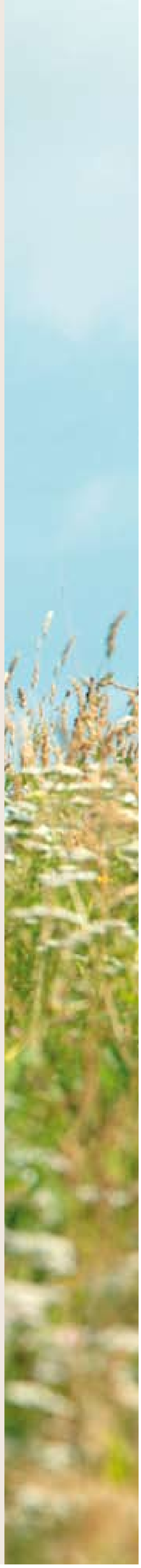
(*) Cost is non-cash and recognises accelerated amortisation of the CEO's partly paid share plan.

- Gain from NZTE grant of $57,080.

A pleasing aspect was the net level of cash of $5,214,589 at year end (pre termination payments and outstanding due diligence costs of approximately $100,000).

Over the past twelve (12) months the Company has continued a major transitional phase with the aim of building a global A2 milk business. This has been progressed with the intention of aligning all parts of the business. The most significant changes include:

- The completed purchase by a2C of 50% of the Australian joint venture, A2DPA, which the company did not previously own. The benefits of this transaction include:
  - A united management team focused on building a profitable business undistracted by territory.
  - The JV included the territory of Japan (a2C had the territory of Korea) and a united market strategy in Japan and Korea was not able to be previously achieved. Following the acquisition, a united strategy is now possible in Japan where functional foods are sought after products.
  - A2DPA had introduced a range of UHT milks and wished to export them however this had the potential to create issues with existing licensees in New Zealand.
  - An expansion of the product range including Yoghurt and further development in infant formula.
- The repositioning of the Company, both internally and externally as a differentiated, premium priced, branded, fast moving consumer goods and ingredients business. This position is in contrast to the previously held view that a2C was an IP company.
- A focus on dealing with legacy issues including licence agreement issues in a number of markets.



## AUSTRALIA

a2C's Australian joint venture, A2DPA remains focussed on growing a2 Milk™ sales in Australia with F2010 delivering a 49% increase in sales volume. This growth is due to a number of factors including increased consumer awareness, increased product ranging, effective marketing programs and loyalty from a2 Milk™ consumers. A2DPA was recently rated as the second fastest growing company in the Australian grocery market amongst the top 300 FMCG businesses with annual retail sales in excess of $30m.

Jalna a2 yoghurt is now available in all Australian states under a license arrangement.

The growth of the business over the past 3 years has been impressive:

| | 2008 *(12 months)* | 2009 *(12 months)* | 2010 *(12 months)* |
|---|---|---|---|
| **Sales Volume (million litres)** | **6.6** | **10.9** | **16.2** |
| **Sales Revenue (AUD million)** | **10.9** | **17.7** | **26.0** |
| **EBIT (AUD million)** | **(3.5)** | **1.0** | **2.6** |
| **NPAT (AUD$ million)** | **(3.7)** | **1.3** | **1.7** |

## NEW ZEALAND

a2C has rationalised to one licensee in the New Zealand market. Previously, there were multiple licensees with clashes of territories and no brand unity.

Fresha Valley a2 Milk™ is obtained from a fully isolated a2 herd ensuring that all New Zealand a2 Milk™ contains only the a2 type of beta casein. a2C's quality assurance testing program ensures that Fresha Valley a2 Milk™ is of the highest quality. Both a2C and Fresha Valley are committed to driving increased sales, availability and awareness of the a2 Milk™ product within New Zealand.

## KOREA

After Purmil withdrew milk from the market and failed to remit minimum royalties consistent with its contractual obligations, a2C attempted to resolve the impasse both through negotiation and mediation. a2C will continue to pursue its' legal rights under the Korean license as it considers this market a significant opportunity for a2 Milk™ dairy products.

## USA

During the year a2C has been responding to increasing interest from dairy farmers in the USA. As a result, the Company negotiated certified genetic a2 cattle testing agreements with the highly respected testing entity in the USA; the University of California Davis. This agreement allows dairy cattle to be tested for the a2 beta casein gene; with testers and farmers advised of a2C's ownership of the IP dealing with test results and their use for determining herd formation and milking.

Geoffrey Babidge
**Managing Director**

10 September 2010

# DIRECTORS' RESPONSIBILITY STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2010

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 2010.

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 2010 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:

| | |
|---|---|
| G P Hinton | R O Le Grice |
| **Director** | **Director** |

10 September 2010

# CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2010

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| Revenue | 4.1 | 244,887 | 428,749 | 244,887 | 373,031 |
| Other operating income | 4.2 | 57,081 | 674,369 | 57,081 | 668,388 |
| Interest income | 4.3 | 168,477 | 471,430 | 168,477 | 237,868 |
| Depreciation expense | | (4,777) | (18,670) | (4,777) | (18,670) |
| Due diligence costs | 4.6 | (315,581) | - | (315,581) | - |
| Employee benefits expense | | (896,701) | (1,037,046) | (896,701) | (1,034,678) |
| Finance expenses | 4.4 | (10,716) | (467,632) | (7,712) | (464,369) |
| Impairment losses | 4.5 | - | (272,667) | - | (5,245,089) |
| Legal expenses | | (179,559) | (156,350) | (179,559) | (155,808) |
| Marketing expenses | | (10,525) | (123,113) | (10,525) | (123,113) |
| Patents & trademarks | | (298,758) | (301,907) | (298,758) | (301,907) |
| Research & development | | (92,179) | (17,038) | (92,179) | (15,667) |
| Restructure costs | 4.6 | (992,032) | (334,559) | (992,032) | (334,559) |
| Settlement of profit share entitlement with the Child Health Research Foundation | 13 | - | (1,149,458) | - | (1,149,458) |
| Travel & accommodation | | (23,841) | (141,138) | (23,841) | (141,138) |
| Underwriting expenses | 22.3 | - | 5,055 | - | 5,055 |
| Other expenses | 4.7 | (819,447) | (1,187,294) | (812,660) | (1,088,964) |
| Share of profit/(loss) of associates and other obligations | 21.5 | 979,698 | 99,212 | - | - |
| Profit/(loss) before tax | | (2,193,973) | (3,528,057) | (3,163,880) | (8,789,078) |
| Income tax expense | 5 | - | - | - | - |
| Profit/(loss) for the period | | $(2,193,973) | $(3,528,057) | $(3,163,880) | $(8,789,078) |

### EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations:

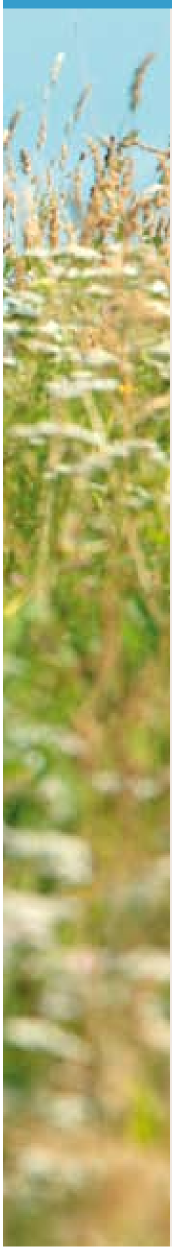
| | Notes | Group 2010 | Group 2009 |
|---|---|---|---|
| Basic (cents per share) | 14 | (0.58) | (1.22) |
| Diluted (cents per share) | 14 | (0.58) | (1.20) |

The accompanying notes form part of these financial statements.



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2010

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| Net profit/(loss) for the period | 16 | (2,193,973) | (3,528,057) | (3,163,880) | (8,789,078) |
| **OTHER COMPREHENSIVE INCOME** | | | | | |
| Foreign currency translation gain/(loss) | 17 | (46,839) | 89,614 | - | - |
| **TOTAL COMPREHENSIVE INCOME** | | $(2,240,812) | $(3,438,443) | $(3,163,880) | $(8,789,078) |



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2010

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| Equity at beginning of year | | 8,805,201 | (7,633,146) | 10,312,845 | (764,867) |
| Total comprehensive income for the year | | (2,240,812) | (3,438,443) | (3,163,880) | (8,789,078) |
| | | 6,564,389 | (11,061,589) | 7,148,965 | (9,553,945) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Employee equity settled payments reserve | | 702,417 | 105,788 | 702,417 | 105,788 |
| Issue of ordinary shares | | - | 20,781,034 | - | 20,781,034 |
| Share buy-back | | - | (11,303) | - | (11,303) |
| Share issue costs | | - | (1,008,729) | - | (1,008,729) |
| A2 Finance Ltd retained earnings transferred on amalgamation | 20 | - | - | 72,526 | - |
| **EQUITY AT END OF YEAR** | | $7,266,806 | $8,805,201 | $7,923,908 | $10,312,845 |



The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2010

| | Notes | Group 2010 $ | Group 2009 $ | Company 2010 $ | Company 2009 $ |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash & short term deposits | 8 | 5,214,589 | 7,165,108 | 5,212,184 | 7,162,454 |
| Accounts receivable | 9 | 279,144 | 189,845 | 633,859 | 488,837 |
| Prepayments | | 28,858 | 19,844 | 28,858 | 16,508 |
| Current tax assets | 5 | 4,777 | 4,777 | 4,777 | 4,777 |
| **Total current assets** | | 5,527,368 | 7,379,574 | 5,879,678 | 7,672,576 |
| **Non-current assets** | | | | | |
| Property, plant & equipment | 10 | 2,700 | 11,561 | 2,700 | 11,561 |
| Investments in subsidiaries | 11 | - | - | 2,982,998 | 2,982,998 |
| Investment in associates | 21 | 2,742,282 | 1,833,510 | - | - |
| **Total non-current assets** | | 2,744,982 | 1,845,071 | 2,985,698 | 2,994,559 |
| **TOTAL ASSETS** | | $8,272,350 | $9,224,645 | $8,865,376 | $10,667,135 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable | 12 | 1,005,544 | 382,153 | 941,468 | 316,999 |
| Prepaid income | | - | 37,291 | - | 37,291 |
| **Total current liabilities** | | 1,005,544 | 419,444 | 941,468 | 354,290 |
| **Total liabilities** | | 1,005,544 | 419,444 | 941,468 | 354,290 |
| **OWNERS EQUITY** | | | | | |
| **Equity attributable to equity holders of the parent** | | | | | |
| Share capital | 13 | 40,954,514 | 40,954,514 | 40,954,514 | 40,954,514 |
| Retained earnings (deficit) | 16 | (34,624,191) | (32,430,218) | (34,058,349) | (30,966,995) |
| Foreign currency translation reserve | 17 | (91,260) | (44,421) | - | - |
| Employee equity settled payments reserve | 18 | 1,027,743 | 325,326 | 1,027,743 | 325,326 |
| **Total equity attributable to equity holders of the parent** | | 7,266,806 | 8,805,201 | 7,923,908 | 10,312,845 |
| **TOTAL LIABILITIES & OWNERS EQUITY** | | $8,272,350 | $9,224,645 | $8,865,376 | $10,667,135 |

For and on behalf of the Board of Directors, which authorise the issue of the financial report on the 10th day of September 2010.

G P Hinton
**Director**

R O Le Grice
**Director**

# CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2010

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| **Cash was provided from (applied to):** | | | | | |
| Trading revenue | | 181,663 | 419,341 | 181,663 | 377,098 |
| Interest received | | 138,769 | 224,797 | 149,375 | 224,797 |
| Other income | | 61,063 | 225,438 | 61,063 | 220,440 |
| Taxation refund received (net) | | - | 38,227 | - | 38,227 |
| Payments to suppliers & employees | | (2,184,137) | (3,275,390) | (2,180,279) | (3,152,310) |
| Research costs | | (92,179) | (17,039) | (92,179) | (15,667) |
| Interest paid | | (6,757) | (409,324) | (4,019) | (407,773) |
| RWT paid | | - | (5,017) | - | (5,017) |
| **Net cash inflow (outflow) from operating activities** | 27 | (1,901,578) | (2,798,967) | (1,884,376) | (2,720,205) |

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| **Cash was provided from (applied to):** | | | | | |
| Proceeds from sale of property, plant & equipment | | - | 1,095 | - | 1,095 |
| Proceeds from disposal of shares | | | 20,301 | | 20,301 |
| Funds reimbursed by A2 Dairy Products Australia Pty Limited | | 16,995 | - | - | - |
| Payment for property, plant & equipment | | - | (6,970) | - | (6,970) |
| Purchase of shares in A2 Exports Pty Limited | | - | - | - | (827,237) |
| Funds advanced to A2 Milk Company LLC | | - | (421,705) | - | (421,705) |
| Payment for convertible notes in A2 Dairy Products Australia Pty Limited | | - | (864,670) | - | - |
| **Net cash inflow (outflow) from investing activities** | | $16,995 | (1,271,949) | - | (1,234,516) |



The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2010 (CONTINUED)

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| **Cash was provided from (applied to):** | | | | | |
| Proceeds from issue of equity shares | 13 | 20,000 | 19,631,575 | 20,000 | 19,631,575 |
| Payment for capital raising costs | | - | (1,008,729) | - | (1,008,729) |
| Payment for share buy-back to minority interest | | - | (11,842) | - | (11,842) |
| **Net cash inflow (outflow) from financing activities** | | 20,000 | 18,611,004 | 20,000 | 18,611,004 |
| Net increase/(decrease) in cash & short term deposits | | (1,864,583) | 14,540,088 | (1,864,376) | 14,656,283 |
| Cash & short term deposits at the beginning of the year | | 7,165,108 | (7,810,803) | 7,162,454 | (7,924,316) |
| Effect of exchange rate changes on cash | | (85,936) | 435,823 | (85,894) | 430,487 |
| **Cash and short term deposits at the end of the year** | | $5,214,589 | $7,165,108 | $5,212,184 | $7,162,454 |
| **COMPRISED OF:** | | | | | |
| Cash & short term deposits | 8 | 5,214,589 | 7,165,108 | 5,212,184 | 7,162,454 |
| | | $5,214,589 | $7,165,108 | $5,212,184 | $7,162,454 |

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™ 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 50% interest in 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. REPORTING PERIOD

During the 2009 income year the balance date for the Company changed from 31 March to 30 June.

As the Company has investments in a significant Australian associate with a 30 June balance date it was considered appropriate to align reporting dates with the Australian entity in order to streamline the reporting process.

Current year figures in these financial statements are for a 12 month period, comparative figures represent a 15 month period.

Accordingly, comparative amounts for the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related notes are not directly comparable.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of Preparation

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

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

The financial statements are presented in New Zealand dollars.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Group’s financial statements for the 15 months ended 30 June 2009, except for the impact of the adoption of the Standards and Interpretations described below:

NZ IAS 1 *Presentation of Financial Statements*
(effective for annual periods beginning on or after 1 January 2009)

The revised Standard has introduced a number of terminology changes (including revised titles for the interim financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has no impact on the reported results or financial position of the Group.

NZ IFRS 8 *Operating Segments*
(effective for annual periods beginning on or after 1 January 2009)

NZ IFRS 8 is a disclosure Standard that has resulted in a reassessment of the Group's reportable segments (refer note 26), but has no impact on the reported results or financial position of the Group.

### 3.2 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').

The financial statements were authorised for issue by the Directors on 10 September 2010.

### 3.3 Standards & Interpretations In Issue Not Yet Adopted

**NZ IFRS-2 Amendments**

| | |
|---|---|
| Title | Cash-settled share based payments. |
| Summary | An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. |
| Impact on Financial Report | NZ IFRS-2 will not impact significantly on the financial statements as the Group does not enter share based payment arrangements in the normal course of its trading activities. |
| Application Date of Standard | 1 January 2010 |
| Application Date for Group | 1 July 2010 |

**NZ IFRS-9**

| | |
|---|---|
| Title | Financial Instruments |
| Summary | NZ IFRS 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39 Financial Instruments: Recognition and Measurement.<br><br>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. |
| Impact on Financial Report | The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:<br><br>– Two categories for financial assets being amortised cost or fair value.<br>– Removal of the requirement to separate embedded derivatives in financial assets.<br>– Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cashflows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cashflows.<br>– An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling |

through profit or loss on de-recognition,

– Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes.

– Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.

| | |
|---|---|
| Application Date of Standard | 1 January 2013 |
| Application Date for Group | 1 July 2013 |

**NZ IAS 24**

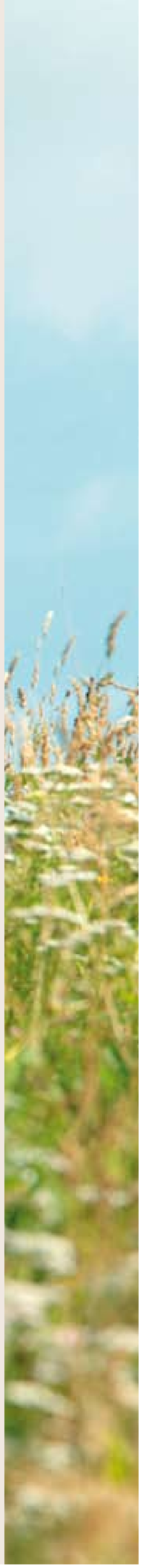
| | |
|---|---|
| Title | Related Party Disclosures (Revised 2009) |
| Summary | The revised NZ IAS 24 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:<br><br>a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other;<br><br>b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and<br><br>c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.<br><br>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures. |
| Impact on Financial Report | NZ IAS 24 is a disclosure standard and so will have no direct impact on the amounts included in the financial statements. However the revised standard may result in changes to the related parties disclosures included in the financial report. |
| Application Date of Standard | 1 January 2011 |
| Application Date for Group | 1 July 2011 |

**3.4 Critical Accounting Judgements**

In the application of the Group's accounting policies, which are described in Note 3, 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.

Critical accounting judgements include recognition of deferred tax (refer to Note 5).

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.



### 3.5 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 Consolidated Financial Statements.

Key Sources of Estimation Uncertainty include:

- Estimating impairment of investment in associates. Investments in associates are carried in the consolidated balance sheet at cost less any impairment in the value of individual investments (refer to Note 21).
- Assessment of impairment of investment in A2 Exports Pty Limited (refer to Note 11).
- Estimation of fair value of share based payments (refer to Note 15).

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.

### 3.6 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.

The Group has no minority interests.

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

### 3.7 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. This includes the separation of embedded derivatives in host contracts by the acquiree. 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.

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at the amount recognised at acquisition date less any accumulated impairment losses.

### 3.8 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, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS-5 *Non-current Assets Held for Sale and Discontinued Operations*. 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. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

### 3.9 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. In the event that settlement of all or part of a purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation is provided on plant and equipment. The Group does not own land or buildings.

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 |

### 3.10 Intangible Assets

#### Patents & Trademarks

Costs relating to the establishment and maintenance of the Company's patents and trademarks are recognised as an expense in the period in which they are incurred. No internally generated intangible asset can be recognised, therefore all expenditure in relation to patents and trademarks needs to be recognised as an expense in the period in which it is incurred.

#### Intellectual Property

The cost of intellectual property 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.

Intellectual property, including patents, trademarks and licenses 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 (refer Note 3.11).

#### Research & Development Costs

If no internally generated intangible asset can be recognised all expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during the development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

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

**3.11 Impairment of Tangible and Intangible Assets excluding 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 and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

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

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

**3.12 Share-Based Payment Transactions**

*Equity Settled 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 granted options to purchase ordinary shares or issued partly paid shares (award).

There were two plans in place to provide these benefits during the current reporting period:

- The New Employee Share Option Plan (NESOP), which provides benefits to senior employees.
- Partly Paid Share Incentive Plan (PPSIP), 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 15.5.

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.

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.

The dilutive effect, if any, of outstanding awards is reflected as additional share dilution in the computation of diluted earnings per share. Refer Note 14.2.

### 3.13 Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Refer Note 4.

#### Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 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.

### 3.14 Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the organisational structure of the group into business units which are based on their geographical location and the reportable operating segments.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are based on the products that are provided.

Operating segments that meet the quantitative criteria as prescribed by NZ IFRS 8 are reported separately.
However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.
Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for 'all other segments'.

### 3.15 Borrowing Costs

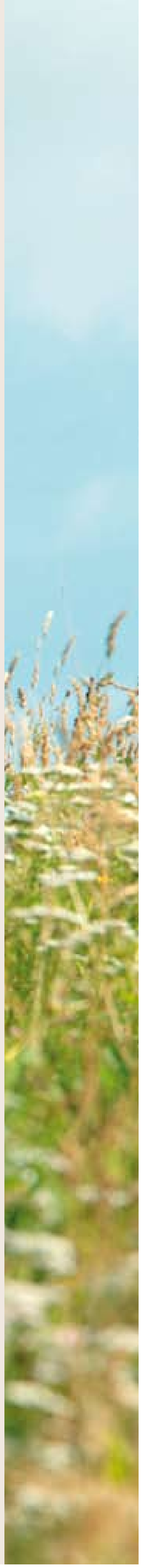
All borrowing costs are recognised in the income statement in the period in which they are incurred.

### 3.16 Taxation

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

### Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profits as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.



**Deferred Tax**

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 liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

**Current and Deferred Tax for the Period**

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.

### 3.17 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.

### 3.18 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### 3.19 Trade & Other Receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

### 3.20 Financial Assets

Investments are initially measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

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’ (AFS).

i) <u>Effective Interest Method</u>

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on point paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

ii) <u>Financial Assets at FVTPL</u>

Financial assets are classified as at FVTPL where the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and for which performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS-39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 28.

iii) **Held-to-maturity Investments**

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective interest basis.

iv) **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.

v) **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 unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, 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.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

vi) **Derecognition of Financial Assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### 3.21 Financial Liabilities & Equity Instruments Issued by the Group

i) **Classification as Debt or Equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

ii) **Equity Instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

iii) **Financial Liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

iv) **Financial Liabilities at FVTPL**

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS-39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 28.

v) **Other Financial Liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other 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.

vi) **Derecognition of Financial Liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### 3.22 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.

**Employee Leave Benefits**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

### 3.23 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.

### 3.24 Trade & Other Payables

Trade and other payables are carried at amortised cost due to their short term nature 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 30 days of recognition.

### 3.25 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset - Refer to Note 19.

Group as a Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see 3.15). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 3.26 Foreign Currency

i) Functional & Presentation Currency

Both the functional and presentation currency of A2 Corporation Limited and its New Zealand subsidiaries is New Zealand dollars ($).

The United States associate's functional currency is United States dollars which is translated to presentation currency.

The Australian subsidiaries and associates functional currency is Australian dollars which is translated to presentation currency (see below).

ii) Foreign Currency Transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional 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.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

iii) Foreign Operations

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.

**3.27 Cash & Cash Equivalents**

Cash and cash equivalents comprise cash on hand and on demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**3.28 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) and preference share 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) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for options that can be exercised at less than the current market price. Refer to Note 14.

**3.29 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.

## 4. SURPLUS FROM OPERATIONS

### 4.1 Revenue

An analysis of the Group's revenue for the year is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 (12 Months) $ | 2009 (15 Months) $ | 2010 (12 Months) $ | 2009 (15 Months) $ |
| Milk royalties | 146,533 | 311,968 | 146,533 | 311,968 |
| Milk powder sales | - | 55,718 | - | - |
| Licence fees | 98,354 | 61,063 | 98,354 | 61,063 |
| | $244,887 | $428,749 | $244,887 | $373,031 |

### 4.2 Other Income

Other income from operations consisted of the following items:

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Management fees | - | 116,321 | - | 116,321 |
| NZTE Market Grant | 57,081 | 100,000 | 57,081 | 100,000 |
| Foreign exchange gain | - | 452,044 | - | 452,044 |
| Other | - | 6,004 | - | 23 |
| | $57,081 | $674,369 | $57,081 | $668,388 |

### 4.3 Interest Income

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Bank deposits | 168,477 | 237,868 | 168,477 | 237,868 |
| Associates | - | 233,562 | - | - |
| | $168,477 | $471,430 | $168,447 | $237,868 |

### 4.4 Finance Expenses

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Interest on borrowings | 6,757 | 409,324 | 4,019 | 407,773 |
| Loan fees | - | 50,000 | - | 50,000 |
| Bank fees & charges | 3,959 | 8,308 | 3,693 | 6,596 |
| | $10,716 | $467,632 | $7,712 | $464,369 |

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| **4.5 Impairment Losses** | | | | | |
| Recognised on investments in associates | 21 | - | 272,667 | - | 1,827,539 |
| Recognised on investments in subsidiaries | 11 | - | - | - | 3,417,550 |
| | | - | $272,667 | - | $5,245,089 |

Impairment losses on investments in associates are recognised by the Group as part of the share of net surplus/(deficit) from the associate. Refer Note 21.4.

### 4.6 Due Diligence & Restructure Costs

Subsequent to 30 June 2010 the Company finalised the purchase from Nutrition Ventures Pty Limited (NVP) of the 50% interest in A2 Dairy Products Australia Pty Limited (A2DP) it did not already own at 30 June 2010 (the Transaction). Refer note 25.

In connection with the Transaction, it was agreed prior to balance date that the position of Managing Director would be created by the Company and as a result the position of CEO would be disestablished. Costs to 30 June 2010 as a direct result of this restructuring were $992,032, comprising $500,000 for termination benefits and $492,032 for accelerated amortisation of the partly paid share incentive scheme (tranche 1). Refer note 7 and 15.5.

Within the financial year ended 30 June 2010 the Company had also incurred costs of $315,581 as a result of due diligence on the Transaction.

### 4.7 Other Expenses

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Audit fees | 23,555 | 24,000 | 23,555 | 24,000 |
| Bad & doubtful debts (recoveries) | - | 6,030 | - | - |
| Consultancy, accounting & secretarial fees | 243,437 | 388,541 | 243,437 | 385,118 |
| Directors' fees | 82,500 | 123,750 | 82,500 | 123,750 |
| Foreign exchange loss | 92,458 | - | 85,893 | - |
| Loss on disposal, plant and equipment | 4,085 | 11,701 | 4,085 | 11,701 |
| Office expenses (postage, printing & phone) | 34,221 | 67,550 | 33,999 | 66,864 |
| Operating leases - minimum lease payments | 41,681 | 103,226 | 41,681 | 112,255 |
| Other expenses | 297,510 | 458,600 | 297,510 | 361,380 |
| Changes in fair value of financial asset designated as at FVTPL | - | 3,896 | - | 3,896 |
| | $819,447 | $1,187,294 | $812,660 | $1,088,964 |

## 5. INCOME TAXES

### 5.1 Income Tax Recognised in Profit or Loss

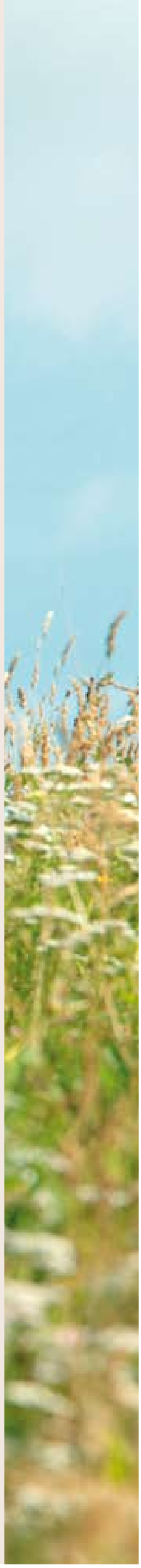
| | Group | | Company | |
|---|---|---|---|---|
| | 2010 (12 Months) $ | 2009 (15 Months) $ | 2010 (12 Months) $ | 2009 (15 Months) $ |
| Current tax expense/(income) | (557,569) | (739,162) | (554,320) | (794,664) |
| Deferred tax expense/(income) relating to the origination and reversal of timing differences | (46,961) | 124,256 | (47,272) | 122,251 |
| Tax losses utilised | - | - | - | 71,365 |
| Effect on deferred tax balances due to the change in income tax rate from 30% to 28% (effective 1 April 2011) | 117,438 | - | 116,204 | - |
| Tax losses not recognised | 557,569 | 739,162 | 554,320 | 723,299 |
| Deferred tax asset not recognised | (70,477) | (124,256) | (68,932) | (122,251) |
| Total tax expense/(income) | - | - | - | - |

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

| | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|
| Profit/(Loss) from operations | (2,193,973) | (3,528,057) | (3,163,880) | (8,789,078) |
| Income tax expense/(income) calculated at 30% | (658,192) | (1,058,417) | (949,164) | (2,636,723) |
| Non-deductible expenses | 53,662 | 443,511 | 347,572 | 1,964,310 |
| Tax losses utilised | - | - | - | 71,365 |
| Effect on deferred tax balances due to the change in income tax rate from 30% to 28% (effective 1 April 2011) | 117,438 | - | 116,204 | - |
| Tax losses not recognised | 557,569 | 739,162 | 554,320 | 723,299 |
| Deferred tax asset not recognised | (70,477) | (124,256) | (68,932) | (122,251) |
| Total tax expense/(income) | - | - | - | - |

### 5.2 Income Tax Recognised in Other Comprehensive Income

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



| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| **5.3 Current Tax Assets & Liabilities** | | | | | |
| **Current tax assets:** | | | | | |
| Current tax refundable | | | | | |
| Opening balance | | 4,777 | 40,286 | 4,777 | 37,987 |
| Resident withholding tax receivable | | - | 5,017 | - | 5,017 |
| Refund received | | - | (38,227) | - | (38,227) |
| Prior period adjustment to current tax | | - | (2,299) | - | - |
| | | $4,777 | $4,777 | $4,777 | $4,777 |
| **Current tax payables:** | | | | | |
| Current tax payable | | - | - | - | - |
| | | - | - | - | - |
| Net Current tax | | $4,777 | $4,777 | $4,777 | $4,777 |

### 5.4 Tax Losses

**Company**

The Company has estimated tax losses of $11,823,634 at balance date (2009: $9,720,493). 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 $14,926,958 at balance date (2009: $13,068,392). These are subject to confirmation by the Inland Revenue Department and subject to meeting the requirements of the Income Tax Act 2007. The Group loss at 30 June 2010 includes losses from the Australian subsidiaries A2 Exports Pty Limited of $2,859,884 (2009: $3,330,377) and A2 Australian Investments Pty Limited of $243,440 (2009: $nil) which are subject to Australian tax rules. The tax benefit of the New Zealand losses will be calculated when utilised at the specified company tax rate at the time and will be available to the Group on the basis the requirements of the tax legislation are met.

### 5.5 Deferred Tax Balances

**Summary of unrecognised deferred tax balances:**

| | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|
| The following deferred tax assets have not been brought to account as assets: | | | | |
| Temporary differences | 1,644,121 | 1,714,598 | 1,626,868 | 1,695,800 |
| | $1,644,121 | $1,714,598 | $1,626,868 | $1,695,800 |

i) **2010 Year Group Unrecognised Deferred Tax Balances**

| | Opening Balance | Charged to income | Effect of tax rate change | Closing Balance |
|---|---|---|---|---|
| **Gross deferred tax liabilities:** | | | | |
| Property, plant and equipment | - | - | - | - |
| Provisions | - | - | - | - |
| | - | - | - | - |
| **Gross deferred tax assets:** | | | | |
| Intellectual property | 1,685,599 | (110,260) | (105,023) | 1,470,316 |
| Property, plant and equipment | - | - | - | - |
| Provisions | 28,999 | 157,221 | (12,415) | 173,805 |
| | $1,714,598 | $46,961 | ($117,438) | $1,644,121 |
| Net Deferred Tax Balance | | | | $1,644,121 |

ii) **2010 Year Company Unrecognised Deferred Tax Balances**

| | Opening Balance | Charged to income | Effect of tax rate change | Closing Balance |
|---|---|---|---|---|
| **Gross deferred tax liabilities:** | | | | |
| Property, plant and equipment | - | - | - | - |
| Provisions | - | - | - | - |
| | - | - | - | - |
| **Gross deferred tax assets:** | | | | |
| Intellectual property | 1,685,599 | (110,260) | (105,023) | 1,470,316 |
| Property, plant and equipment | - | - | - | - |
| Provisions | 10,201 | 157,532 | (11,181) | 156,552 |
| | $1,695,800 | $47,272 | ($116,204) | $1,626,868 |
| Net Deferred Tax Balance | | | | $1,626,868 |

Deferred tax assets are only recognised in the accounts to the extent that it is probable that sufficient taxable profits will be available. Currently the tax losses are not recognised as a future income tax benefit.

iii) **2009 Year Group Unrecognised Deferred Tax Balances**

| | Opening Balance | Charged to income | Effect of tax rate change | Closing Balance |
|---|---|---|---|---|
| **Gross deferred tax liabilities:** | | | | |
| Property, plant and equipment | - | - | - | - |
| Provisions | (3,061) | 3,061 | - | - |
| | $(3,061) | $3,061 | - | - |
| **Gross deferred tax assets:** | | | | |
| Intellectual property | 1,808,176 | (122,577) | - | 1,685,599 |
| Property, plant and equipment | 137 | (137) | - | - |
| Provisions | 33,602 | (4,603) | - | 28,999 |
| | $1,841,915 | $(127,317) | - | $1,714,598 |
| Net Deferred Tax Balance | | | | $1,714,598 |

iv) **2009 Company Unrecognised Deferred Tax Balances**

| | Opening Balance | Charged to income | Effect of tax rate change | Closing Balance |
|---|---|---|---|---|
| **Gross deferred tax liabilities:** | | | | |
| Property, plant and equipment | - | - | - | - |
| Provisions | (3,061) | 3,061 | - | - |
| | $(3,061) | $3,061 | - | - |
| Gross deferred tax assets: | | | | |
| Intellectual property | 1,795,727 | (110,128) | - | 1,685,599 |
| Property, plant and equipment | 137 | (137) | - | - |
| Provisions | 25,248 | (15,047) | - | 10,201 |
| | $1,821,112 | $(125,312) | - | $1,695,800 |
| Net Deferred Tax Balance | | | | $1,695,800 |

| | Notes | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|---|
| **5.6 Imputation Credit Account Balances** | | | | | |
| Balance at beginning of the year | | 5,846 | 38,553 | 5,846 | 38,553 |
| RWT attached to interest received | | - | 5,017 | - | 5,017 |
| Taxation refund received (net) | | - | (37,724) | - | (37,724) |
| Balance at end of the year | | $5,846 | $5,846 | $5,846 | $5,846 |

## 6. REMUNERATION OF AUDITORS

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Audit of the financial statements | 23,555 | 24,000 | 23,555 | 24,000 |
| | $23,555 | $24,000 | $23,555 | $24,000 |

The auditor of A2 Corporation Limited is Ernst & Young.

## 7. KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation of the Chief Executive, Directors and other senior management, being the key management personnel of the entity, is set out below:

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Short-term employee benefits | 840,815 | 768,931 | 840,815 | 768,931 |
| Other long-term employee benefits | - | - | - | - |
| Termination benefits | 500,000 | 202,086 | 500,000 | 202,086 |
| Share-based payment | 702,417 | 105,788 | 702,417 | 105,788 |
| | $2,043,232 | $1,076,805 | $2,043,232 | $1,076,805 |

Termination benefits are included within restructure costs for the period ended 30 June 2010 (see Note 4.6).

## 8. CASH & CASH EQUIVALENTS

| | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Cash & cash equivalents | 5,214,589 | 7,165,108 | 5,212,184 | 7,162,454 |
| | $5,214,589 | $7,165,108 | $5,212,184 | $7,162,454 |

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$2,221,547 (2009: AUD$4,406,310) and USD$689,816 (2009: USD$911,494) of short term deposits. Short term deposits earn interest at 0.15% - 4.88% (2009: 0.4% - 3.6%).

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $ | $ | $ | $ |
| **9. TRADE & OTHER RECEIVABLES** | | | | |
| Trade receivables | 279,144 | 189,845 | 633,859 | 488,837 |
| Allowance for doubtful debts | - | - | - | - |
| | $279,144 | $189,845 | $633,859 | $488,837 |

Total trade receivables (net of allowances) held by the Group at 30 June 2010 amounted to $279,144 (2009: $193,182).

The average credit period on sales is 30 days. No interest is charged on trade receivables outstanding. The Group has not provided for any receivables as these are all deemed collectable.

Included in the Group's accounts receivable balance are debtors with a carrying amount of $6,719 (2009: $11,032) which are past due at the reporting date. 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 Company does not hold any collateral over these balances. The average age of these receivables is 180 days (2009: 117 days).

The Group's exposures to market risk and credit risk are detailed in Notes 28.5 and 28.11.

Receivables which are neither past due nor impaired are expected to be collected in the ordinary cause of business.

### 9.1 Ageing of Past Due But Not Impaired

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $ | $ | $ | $ |
| Ageing analysis: | | | | |
| 31 - 60 days | - | 7,500 | - | 7,500 |
| 61 - 90 days | 1,351 | 1,496 | 1,351 | 1,496 |
| 90 days + | 5,368 | 2,036 | 5,368 | 4,552 |
| Total | $6,719 | $11,032 | $6,719 | $13,548 |

### 9.2 Movement in Allowance for Impairment Losses

| | | | | |
|---|---|---|---|---|
| Balance at beginning of the year | - | - | - | - |
| Impairment losses recognised on receivables | - | - | - | - |
| Amounts written off as uncollectible | - | - | - | - |
| Amounts recovered during the year | - | - | - | - |
| Impairment losses reversed - | - | - | - | |
| Balance at end of the year | $Nil | $Nil | $Nil | $Nil |

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. The concentration of credit risk is limited due to the customer base being joint venture partners and licensees. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for impairment losses.

## 10. PROPERTY, PLANT & EQUIPMENT

| Group | Cost 1 July 2009 | Additions | Disposals | Cost 30 June 2010 | Accumulated depreciation and impairment charges 1 July 2009 | Depreciation expense | Accumulated depreciation reversed on disposal | Accumulated depreciation and impairment charges 30 June 2010 | 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 | $Nil | $20,349 | $24,841 | $33,629 | $4,777 | $16,265 | $22,141 | $2,700 |

| Group | Cost 1 April 2008 | Additions | Disposals | Cost 30 June 2009 | Accumulated depreciation and impairment charges 1 April 2008 | Depreciation expense | Accumulated depreciation reversed on disposal | Accumulated depreciation and impairment charges 30 June 2009 | Book Value 30 June 2009 |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Office & computer | 117,491 | 7,213 | (90,652) | 34,052 | 91,031 | 16,769 | (80,920) | 26,880 | 7,172 |
| Furniture & fittings | 17,530 | 761 | (7,153) | 11,138 | 8,939 | 1,901 | (4,091) | 6,749 | 4,389 |
| Total Property, Plant & Equipment | $135,021 | $7,974 | $(97,805) | $45,190 | $99,970 | $18,670 | $(85,011) | $33,629 | $11,561 |

Loss on disposal expenses are included in the line item "Other Expenses" in the Income Statement.

| Company | Cost 1 July 2009 | Additions | Disposals | Cost 30 June 2010 | Accumulated depreciation and impairment charges 1 July 2009 | Depreciation expense | Accumulated depreciation reversed on disposal | Accumulated depreciation and impairment charges 30 June 2010 | 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 | $Nil | $20,349 | $24,841 | $33,629 | $4,777 | $16,265 | $22,141 | $2,700 |

| Company | Cost 1 April 2008 | Additions | Disposals | Cost 30 June 2009 | Accumulated depreciation and impairment charges 1 April 2008 | Depreciation expense | Accumulated depreciation reversed on disposal | Accumulated depreciation and impairment charges 30 June 2009 | Book Value 30 June 2009 |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Office & computer | 117,491 | 7,213 | (90,652) | 34,052 | 91,031 | 16,769 | (80,920) | 26,880 | 7,172 |
| Furniture & fittings | 17,530 | 761 | (7,153) | 11,138 | 8,939 | 1,901 | (4,091) | 6,749 | 4,389 |
| Total Property, Plant & Equipment | $135,021 | $7,974 | $(97,805) | $45,190 | $99,970 | $18,670 | $(85,011) | $33,629 | $11,561 |

Loss on disposal expenses are included in the line item "Other Expenses" in the Income Statement.

## 11. INVESTMENTS

| | Group 2010 $ | Company 2009 $ |
|---|---|---|
| **Investments in Subsidiaries** | | |
| Cost at beginning of period | | |
| A2 Exports Pty Limited 5,533,173 shares @ AUD $1.00 | | |
| (Last year – 5,533,173 shares) | 2,982,998 | 5,573,306 |
| A2 Exports Limited 100 uncalled shares | - | - |
| A2 Australian Investments Pty Ltd 100 uncalled shares | - | - |
| | 2,982,998 | 5,573,306 |
| Plus additions | | |
| A2 Exports Pty Limited 700,000 shares @ AUD $1.00 | - | 827,242 |
| | 2,982,998 | 6,400,548 |
| Less | | |
| A2 Exports Pty Limited - impairment losses | - | 3,417,550 |
| Balance at end of period | $2,982,998 | $2,982,998 |

The Directors have considered the carrying value of the investment in A2EPL which is now the Group's vehicle for milk powder exports out of Australia as well as a provider of loan capital to A2AIPL. The Directors are satisfied no impairment write down is required to the carrying value at 30 June 2010 of $2,982,998.

The impairment loss in the 2009 year represents the difference between the cost of the investment and the net assets of A2EPL.

## 12. ACCOUNTS PAYABLE

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 $ | 2009 $ | 2010 $ | 2009 $ |
| Trade creditors | 229,771 | 62,743 | 227,315 | 60,248 |
| Accruals | 128,543 | 100,352 | 128,543 | 100,352 |
| Employee entitlements | 647,230 | 189,527 | 585,610 | 126,868 |
| Directors' fees | - | 29,531 | - | 29,531 |
| | $1,005,544 | $382,153 | $941,468 | $316,999 |

The average credit period on purchases is 30 days.

No interest was charged on trade creditors. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 13. SHARE CAPITAL

| | 2010 $ | 2009 $ |
|---|---|---|
| **a) Share Capital** | | |
| Balance at beginning of the year | 40,954,514 | 21,193,512 |
| Ordinary shares: Rights issue 26 August 2008 | - | 11,331,576 |
| Ordinary shares: Child Health Research Foundation issued 29 August 2008 | - | 1,149,458 |
| Ordinary shares: Institutional share placement 11 September 2008 | - | 3,300,000 |
| Ordinary shares: Institutional share placement 29 September 2008 | - | 5,000,000 |
| Share buy-back | - | (11,303) |
| | 40,954,514 | 41,963,243 |
| Less: Capital raising costs: Rights issue/placement August - September 2008 | - | (1,008,729) |
| Balance at end of the year | $40,954,514 | $40,954,514 |

| | 2010 No. | 2009 No. |
|---|---|---|
| **b) Number of Shares on Issue** | | |
| i) Fully paid ordinary shares | | |
| **Balance at beginning of period** | 361,130,850 | 151,087,521 |
| Shares issued | - | 210,231,719 |
| Share buy-back | - | (188,390) |
| Balance at end of period | 361,130,850 | 361,130,850 |

As at 1 July 2009 the Company held Treasury Stock of $11,303 (188,390 shares). These shares were purchased from shareholders that held small parcels. The average purchase price for these shares was $0.06 per share.
On 19 May 2010, by way of Directors Resolution, the Board cancelled the Treasury Stock shares.

| Partly paid ordinary shares | 2010 No. | 2009 No. |
|---|---|---|
| **Balance at beginning of period** | - | - |
| Shares issued | 20,000,000 | - |
| **Balance at end of period** | 20,000,000 | Nil |

During the period 20,000,000 partly paid ordinary shares were issued to certain key management personnel under share subscription agreements (Refer Note 15 for further details).

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.

| | 2010<br>No. | 2009<br>No. |
|---|---|---|
| **Total shares on issue** | | |
| Fully paid ordinary shares | 361,130,850 | 361,130,850 |
| Partly paid ordinary shares | 20,000,000 | - |
| **Balance at end of period** | 381,130,850 | 361,130,850 |

## 14. EARNINGS PER SHARE

| | 2010<br>Cents per<br>Share | 2009<br>Cents per<br>Share |
|---|---|---|
| **14.1 Basic Earnings Per Share** | | |
| From continuing operations | (0.58) | (1.22) |
| Total basic earnings per share | (0.58) | (1.22) |

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

| | 2010 | 2009 |
|---|---|---|
| Net surplus/(deficit): | | |
| From continuing operations | (2,193,973) | (3,528,057) |
| | $(2,193,973) | $(3,528,057) |
| | No. | No. |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 376,652,828 | 288,071,439 |

| | 2010 Cents per Share | 2009 Cents per Share |
|---|---|---|
| **14.2 Diluted Earnings Per Share** | | |
| From continuing operations | (0.58) | (1.20) |
| | (0.58) | (1.20) |

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

| | 2010 | 2009 |
|---|---|---|
| Net surplus/(deficit) | | |
| From continuing operations | (2,193,973) | (3,528,057) |
| From discontinued operations | - | - |
| | $(2,193,973) | $(3,528,057) |

| | No. | No. |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 376,652,828 | 288,071,439 |
| Effect of dilution due to share options | - | 5,250,000 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 376,652,828 | 293,321,439 |

## 15. SHARE-BASED PAYMENTS

### i. Equity-Settled Share-Based Payments

During the 2009 year 13,915,962 shares were issued to the Child Health Research Foundation in return for the cancellation of a Profit Entitlement Agreement with the Company dated 20 April 2004. The value of the shares issued was based on the observed market price at the date of issue less a discount for certain trading restrictions placed on the shares issued. The value per share was determined as 8.26 cents (refer Note 13).

### ii. New Employee Share Option Plans

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 options and through the planned issue of unpaid shares.

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

### iii. Partly Paid Share Incentive Plans

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

The partly paid shares are issued on the following terms:

a) *Restrictions on Transfer*

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

b) *Issue Price*

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

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

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

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

Under the share subscription agreements the issue prices were calculated as 10 cents per share. These were issued as partly paid shares at 0.1 cents per share.

The purchasers have an unconditional right to put the partly paid shares to the Company prior to settlement date and receive a full refund of any monies paid.

c) *Rights*

Each partly paid ordinary share issued carries a fractional right to a distribution and a fractional voting right, such fractions being the equivalent to the proportion which the amount paid is of the total amount paid and amounts still payable on the shares.

### 15.1 New Employee Share Option Plan

In terms of the NESOP, the Company has issued options to subscribe for shares in the capital of the Company to certain key employees (and contractors) to create an incentive for those persons and ensure that their interests and those of the Company are aligned. The holder of an option is entitled to subscribe for one fully paid ordinary share for each option. The exercise price for the options is determined by the Board at the time of issue but will generally be set by reference to the weighted average market price of ordinary shares in the Company over a number of business days before either (a) the date on which allocations are decided by the Board; or (b) the date on which allocations are issued.

The First issue of 6,000,000 expired during the 2009 income year
The Second issue of 6,000,000 expired during the 2010 income year

No further issues were made as at 30 June 2010.

### 15.2 Partly Paid Share Incentive Plans

During the year 20,000,000 partly paid ordinary shares were issued to certain key management personnel (the purchasers) under a partly paid share incentive plan (PPSIP). These were issued as partly paid shares at 0.1 cents per share and as at 30 June 2010, the purchasers had paid $20,000 for these shares. This payment has been recognised as a financial liability until such time as vesting conditions are met.

### 15.3 Summary of Share-Based Payments

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

| Option Series | Number | Grant Date | Vesting Date | Expiry Date | Exercise Price | Fair Value at Grant Date |
|---|---|---|---|---|---|---|
| (1) New Scheme – Tranche I | 5,250,000 | 1 Apr 2006 | 1 April 2008 | 1 Apr 2009 | $0.09 | $113,750 |
| (2) New Scheme – Tranche II | 5,250,000 | 31 Mar 2007 | 1 April 2010 | 1 Apr 2010* | $0.10 | $211,576 |
| (3) Partly Paid Shares - Tranche I | 10,000,000 | 22 May 2009 | 22 May 2014 | 24 Aug 2014 | $0.10 | $656,000 |
| (4) Partly Paid Shares - Tranche II | 5,000,000 | 10 Sep 2009 | 10 Sept 2011 | 10 Sep 2011 | $0.10 | $107,500 |
| (5) Partly Paid Shares - Tranche III | 5,000,000 | 24 Nov 2009 | 10 Sept 2011 | 10 Sep 2011 | $0.10 | $149,500 |

* 750,000 options expired on 30 September 2009 and 500,000 expired on 31 December 2009.

### Options Exercised During Period

No options were exercised during the year ended 30 June 2010 (2009: Nil).

### Options Expired During Period

5,250,000 expired during the period (2009: 6,240,000).

### Options Forfeited During Period

No options lapsed in the period ended 30 June 2010. During the prior year 5,000,000 options were forfeited due to an option holder ceasing to be engaged in the business of the Company.

### Weighted Average Remaining Contractual Life

The weighted average remaining contractual life of the options as at 30 June 2010 is 2.68 years (2009: 0.66 years).

### Weighted Average Exercise Price

The weighted average exercise price of the options outstanding as at 30 June 2010 is $0.10 (2009: $0.10). The weighted average exercise price of the options exercisable as at 30 June 2010 is $0.10 (2009: $0.50).

## 15.4 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 PPSIP 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 PPSIP are relatively simple in form. A2 Corporation is not expected to pay a dividend over the life of the options, and PPSIP. 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.

## 15.5 Estimation of Fair Value of Options, and PPSIP at Measurement Date Cont.

### 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) New Scheme -Tranche I | 31 Mar 06 | $0.07 | $0.09 | 50% | 3.0 | $0.00 | 5.81% |
| (2) New Scheme - Tranche II | 1 Apr 07 | $0.10 | $0.10 | 50% | 3.0 | $0.00 | 6.71% |
| (3) Partly paid shares - Tranche I | 22 May 09 | $0.12 | $0.10 | 50% | 5.0 | $0.00 | 4.91% |
| (4) Partly paid shares - Tranche II | 10 Sep 09 | $0.085 | $0.10 | 50% | 2.0 | $0.00 | 4.84% |
| (5) Partly paid shares - Tranche III | 24 Nov 09 | $0.10 | $0.10 | 50% | 1.79 | $0.00 | 5.43% |

### Early Exercise

No allowance has been made for the possibility of early exercise. The New Scheme options are held by a small number of executives and the Company has no reason to believe that the options will be exercised early, particularly as the Company is not expected to pay a dividend over the option life. The same logic applies to payment on the partly paid shares under the PPSIP.

### 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 option and PPSIP valuations.

### Amounts Recognised in Financial Statements

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

| Period Ended | 30 June 2010 | | 30 June 2009 | |
|---|---|---|---|---|
| | Amount recognised an employee expense in Income Statement | Amount recognised as in equity | Amount recognised an employee expense in Income Statement | Amount recognised as in equity |
| (1) New Scheme - Tranche I | - | - | - | - |
| (2) New Scheme - Tranche II | | | 105,788 | 105,788 |
| (3) Partly paid shares - Tranche I | 609,513 | 609,513 | - | - |
| (4) Partly paid shares - Tranche II | 43,147 | 43,147 | - | - |
| (5) Partly paid shares - Tranche III | 49,757 | 49,757 | - | - |
| Total | $702,417 | $702,417 | $105,788 | $105,788 |

There were restructuring plans in place at 30 June 2010 which will be fully implemented by 31 October 2010. The CEO, who will cease to be engaged in the business on 31 October 2010 holds partly paid shares under a Partly Paid Incentive Plan (Tranche I). An acceleration of vesting has been recognised in the current 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. There is $46,486 remaining to be recognised in the 2011 year.

### 16. RETAINED EARNINGS (DEFICIT)

| | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|
| Balance at beginning of the year | (32,430,218) | (28,902,161) | (30,966,995) | (22,177,917) |
| Net surplus/(deficit) for the period excluding associate losses | (3,173,671) | (3,627,269) | (3,163,880) | (8,789,078) |
| Share of associate surplus/(losses) | 979,698 | 99,212 | - | - |
| Retained earnings taken over on amalgamation with A2 Finance Limited | - | - | 72,526 | - |
| | (2,193,973) | (3,528,057) | (3,091,354) | (8,789,078) |
| Balance at end of year | $(34,624,191) | $(32,430,218) | $(34,058,349) | $(30,966,995) |

### 17. FOREIGN CURRENCY TRANSLATION RESERVE

| | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|
| Balance at the beginning of the year | (44,421) | (134,035) | - | - |
| Arising on translation of foreign operations | (46,839) | 89,614 | - | - |
| Balance at end of the year | $(91,260) | $(44,421) | $Nil | $Nil |

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

### 18. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE

| | Group 2010 (12 Months) $ | Group 2009 (15 Months) $ | Company 2010 (12 Months) $ | Company 2009 (15 Months) $ |
|---|---|---|---|---|
| Balance at beginning of the year | 325,326 | 219,538 | 325,326 | 219,538 |
| Movements during the period | 702,417 | 105,788 | 702,417 | 105,788 |
| Balance at end of the year | $1,027,743 | $325,326 | $1,027,743 | $325,326 |

The employee equity reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration (refer to Note 7).

During the 2010 year, accelerated amortisation was recognised on partly paid shares (tranche 1) due to staff restructuring (refer note 15.5)

## 19. OPERATING LEASE COMMITMENTS

Operating leases relate to A2 Corporation Limited. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company does not have an option to purchase the leased asset at the expiry of the lease period.

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $ | $ | $ | $ |
| **19.1 Non-cancellable operating lease payments** | | | | |
| Not longer than 1 year | 9,920 | 26,703 | 9,920 | 26,703 |
| Longer than 1 year and not longer than 2 years | - | 9,920 | - | 9,920 |
| Longer than 2 years and not longer than 5 years | - | - | - | - |
| Longer than 5 years | - | - | - | - |
| | $9,920 | $36,623 | $9,920 | $36,623 |

## 20. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 30 June 2010 are as follows:

| Name of Subsidiary | Place of Incorporation & Operation | Proportion of Ownership Interest | | Principal Activity |
|---|---|---|---|---|
| | | 2010 | 2009 | |
| A2 Exports Pty Limited | Australia | 100% | 100% | Export of a2 Milk™ powder |
| A2 Exports Limited (incorporated 29 June 2006) | New Zealand | 100% | 100% | Non-active |
| A2 Australian Investments Pty Limited (incorporated 8 May 2007) | Australia | 100% | 100% | Investment in A2 Dairy Products Australia Pty Limited |
| All subsidiaries have a balance date of 30 June | | | | |

During the year, A2 Corporation Limited amalgamated with three non-trading 100% owned subsidiaries: A2 Finance Limited, A2 Australian Investments Limited and Option Scheme Limited. A2 Corporation Limited is the amalgamated company.

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

## 21. INVESTMENT IN ASSOCIATES

### 21.1 Interest in Associates

| | | Ownership & Voting Interest | | Group Carrying Amount | |
|---|---|---|---|---|---|
| Name of Company | Principal Activities | 2010 | 2009 | 2010 $ | 2009 $ |
| A2 Milk Company LLC | Licensing rights for the supply, distribution & marketing of a2 Milk ™ in USA. | 50% | 50% | (66,286) | - |
| A2 Dairy Products Australia Pty Limited Distribution & marketing of a2 Milk ™ in Australia. | Distribution & marketing of a2 Milk ™ in Australia & Japan | 50% | 50% | 2,808,568 | 1,833,510 |
| | | | | $2,742,282 | $1,833,510 |

**21.2 A2 Milk Company LLC**

The Group has a 50% participating interest in A2 Milk Company LLC, an associate set up on 30 June 2005 to commercialise the sales and licensing rights for the supply, distribution and marketing of a2 Milk™ in the USA. The Company contributed $400,000 for its initial equity share, and IdeaSphere Inc assigned its licence to sell a2 Milk™ in the USA (acquired from A2 Corporation Limited initially). As at 30 June 2010, no further capital had been advanced to the associate by the Company during the 2010 income year. However NZ$33,575 has been recognised as further capital that may be required to meet the A2 Corporation Ltd share of other obligations (note 21.4).

Under the arrangement revenue and costs are shared equally. The balance date for A2 Milk Company LLC is 31 December. Trading results for the 12 months to 30 June 2010 for the associate are unaudited and a 50% participating interest has been equity accounted by the Company.

**21.3 A2 Dairy Products Australia Pty Limited**

i) Advance to Associate

In June 2007, A2 Australian Investments Pty Limited (A2AIPL) entered into an investment agreement with Nutrition Ventures Pty Limited (NVP), a 100% Australian subsidiary of Freedom Nutritional Products Limited (FNP), and formed a new Australian based company A2 Dairy Products Australia Pty Limited (A2DP).

A2AIPL has a 50% participating interest in A2DP, a company set up to take over the trading activities of a 100% owned subsidiary A2 Exports Pty Limited, relating to the supply of a2 Milk™ in Australia.

The arrangement required each party to introduce capital of AUD$1,250,000. The Company granted A2DP an exclusive and perpetual licence to use the A2 intellectual property in Australia and Japan. A2DP paid AUD$1,250,000 for the licence agreement which was funded by the issue of convertible notes and shares to A2AIPL.

No further advances were made to the company during the 2010 income year. During the year A2AIPL exercised its right to convert AUD$450,000 of convertible notes to 450,000 ordinary shares in A2DP. All convertible notes have now been converted to share capital.

ii) Details of Associate Investment Agreement

A2AIPL has a 50% participating interest in A2DP to distribute and market a2 Milk TM in Australia, after acquiring the relevant business assets of A2 Exports Pty Limited.

Under the investment agreement between A2DP and its shareholders A2AIPL and Nutrition Ventures Pty Limited, shared control of the associate is specified. All revenue and costs are shared equally.

A2AIPL and NVP each hold 2,700,000 shares each in A2DP.

The balance date for A2DP is 30 June. Trading results for the 12 months to 30 June 2010 for the associate are included in these financial statements and a 50% participating interest has been equity accounted by A2AIPL. The results for A2DP for the year ended 30 June 2010 have been audited.

### 21.4 Movements in the Amount of the Group's Investment in Associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (12 Months) | (15 Months) | (12 Months) | (15 Months) |
| | $ | $ | $ | $ |
| Carrying value at beginning of year | 1,833,510 | 401,282 | - | 1,405,834 |
| Funds advanced/(repaid) | (16,995) | 1,479,835 | | 421,705 |
| Share of net surplus/(deficit) - 2010 income year | 1,013,273 | (417,374) | - | - |
| Share of net surplus/(deficit) - future income tax benefits relating to 2008 year | | 516,586 | - | - |
| Share of other obligations - 2010 income year | (33,575) | - | - | - |
| Foreign exchange translation movement | (53,931) | 125,848 | - | - |
| Impairment losses | - | (272,667) | - | (1,827,539) |
| Carrying value at end of year | $2,742,282 | $1,833,510 | - | - |

**A2 Milk Company LLC**

As at 30 June 2009, the Company's investment in A2 Milk Company LLC was fully impaired.

During the 2010 year there have been subsequent further losses with the Associate incurring a trading loss. The Company's share of this loss was $32,076. It was also determined, that in order for A2 Milk Company LLC to meet its trading obligations, further funding from the Company would be required. The total liability owing by the Company to A2 Milk Company LLC is $66,286 and is shown as a negative balance in "Investment in Associates" on the Condensed Consolidated Balance Sheet.

### 21.5 Summarised Financial Information

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

| | 30 June 2010 | 31 March 2009 |
|---|---|---|
| **Extract from the associates' balance sheets:** | | |
| Current assets | 8,809,635 | 6,245,806 |
| Non-current assets | 1,725,312 | 3,214,206 |
| Total assets | 10,534,947 | 9,460,012 |
| Current liabilities | 5,050,383 | 5,248,460 |
| Net assets | 5,484,564 | 4,211,552 |
| Share of associates' net assets | 2,742,282 | 2,105,776 |
| Less impairment losses | - | 272,266 |
| Carrying value at end of year | 2,742,282 | $1,833,510 |

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | (12 Months) | (15 Months) |
| | $ | $ |
| **Extract from the associates' income statements:** | | |
| Revenue | 34,219,291 | 27,569,760 |
| Net surplus/(deficit) | 1,959,396 | 198,424 |
| Share of associates surplus/(deficit) | 979,698 | 99,212 |
| **Share of profit/(loss) & other obligations of associates** | | |
| Represented by: | | |
| A2 Milk Company LLC - share of loss | (32,076) | (457,629) |
| A2 Milk Company LLC - share of other obligations | (33,575) | - |
| A2 Dairy Products Australia Pty Limited - share of profit | 1,045,349 | 40,255 |
| A2 Dairy Products Australia Pty Limited - 2008 income tax benefits | - | 516,586 |
| | $979,698 | $99,212 |
| **Company's aggregate share of associates** | | |
| Contingent liabilities | - | - |
| Capital commitments contracted for | - | - |
| Other commitments contracted for, other than for supply of inventories | - | - |

## 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 remuneration paid, are included in Note 7.

### 22.3 Transactions with Related Parties

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

| Related Party | Sales to Related Parties | | Purchases from Related Parties | | Other Transactions with Related Parties | | Outstanding Transactions with Related Parties | |
|---|---|---|---|---|---|---|---|---|
| Group | 2010 $ | 2009 $ | 2010 $ | 2009 $ | 2010 $ | 2009 $ | 2010 $ | 2009 $ |
| *Subsidiaries:* | | | | | | | | |
| A2 Australian Investments Pty Limited – loss underwriting fees paid to A2 Dairy Products Australia Pty Limited | | 5,055 | | | | | | |
| A2 Australian Investments Pty Limited – inter entity interest received from A2 Dairy Products Australia Pty Limited | | 233,562 | | | | | | 3,337 |
| Company | | | | | | | | |
| *Subsidiaries*: | | | | | | | | |
| A2 Exports Pty Limited – general business expenses | | | | | | | 296,532 | 83,096 |
| A2 Exports Pty Limited – Equity Investment | | | | | | 827,242 | | |
| A2 Finance Limited – intercompany interest | | | | | | | | 164,414 |
| A2 Finance Limited – Foreign Exchange recharge receivable from A2 Corporation Limited | | | | 17,478 | | | | |
| A2 Australian Investments Pty Limited – intercompany interest | | | | | | | 56,652 | 56,652 |
| A2 Australian Investments Pty Limited – general business expenses | | | | | | | 2,512 | 2,512 |

| Related Party | Sales to Related Parties | | Purchases from Related Parties | | Other Transactions with Related Parties | | Outstanding transactions with Related Parties | |
|---|---|---|---|---|---|---|---|---|
| Group | 2010 $ | 2009 $ | 2010 $ | 2009 $ | 2010 $ | 2009 $ | 2010 $ | 2009 $ |
| *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 | 24,980 | | | | | 8,446 | 2,197 |
| A2 Milk Company LLC – royalties received by A2 Corporation Limited | | 760 | | | | | | |
| A2 Dairy Products Australia Pty Limited – expenses recharged for overseas business expenses incurred by A2 Corporation Limited | 18,069 | 107,739 | | | | | 1,814 | |
| A2 Dairy Products Australia Pty Limited – management fees received by A2 Corporation Limited. | | 116,321 | | | | | | 14,946 |
| A2 Dairy Products Australia Pty Limited – royalties received by A2 Corporation Limited. | 190,764 | 162,881 | | | | | 196,834 | 123,110 |
| A2 Australian Investments Pty Limited – loss underwriting fees paid by A2 Corporation Limited. | | 5,055 | | | | | | |
| A2 Australian Investments Pty Limited – inter entity interest received from A2 Dairy Products Australia Pty Limited | | 233,562 | | | | | | 3,337 |
| Company | | | | | | | | |
| *Other*: | | | | | | | | |
| Consultancy fees paid to Golconda Investments Limited, in which Mr R Le Grice, a Director of the Company, is a shareholder. | | | | | | 39,000 | | |
| Consultancy fees paid to DJD Management Limited, in which Mr D W Mair, a Director of the Company, is a shareholder. | | | | | 36,000 | 15,000 | | |
| Consultancy fees paid to Mr G P Hinton, a Director of the Company. | | | | | 36,000 | 45,000 | | |

| Related Party | Sales to Related Parties | | Purchases from Related Parties | | Other Transactions with Related Parties | | Outstanding transactions with Related Parties | |
|---|---|---|---|---|---|---|---|---|
| Company | 2010 $ | 2009 $ | 2010 $ | 2009 $ | 2010 $ | 2009 $ | 2010 $ | 2009 $ |
| *Other:* | | | | | | | | |
| Accounting 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. | | | | | 131,205 | 22,500 | | |
| 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, holds a non-beneficial interest. The services were charged at commercial rates. | | | | | 1,500 | 40,417 | | |

Sales of goods or services to related parties are at cost.

The amounts outstanding are unsecured and will be settled in cash.

No guarantees have been given.

No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

## 23. COMMITMENTS FOR EXPENDITURE

### 23.1 Capital Expenditure Commitments

As at 30 June 2010, there were no capital expenditure commitments (2009: $Nil).

### 23.2 Lease Commitments

Non-cancellable operating lease commitments are disclosed in Note 19.

## 24. CONTINGENT LIABILITY

At 30 June 2010, the Company had a guarantee in place with ASB for $15,000 in lieu of the Company paying this sum directly to NZX as a Bond as required under the NZAX listing rules. There were no other contingent liabilities (2009: $15,000).

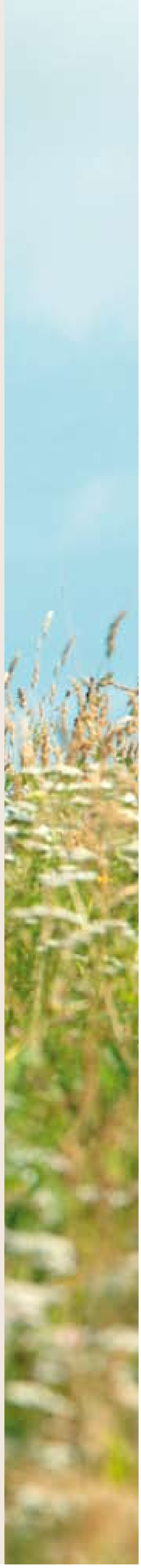
### 25. SUBSEQUENT EVENTS

In July 2010, the Company purchased from Nutrition Ventures Pty Limited (NVP) the 50% interest in A2 Dairy Products Australia Pty Limited (A2DP) it did not already own, such that the Company now owns 100% of the shares in A2DP.

NVP is a fully owned subsidiary of Freedom Nutritional Products Limited (FNP). As consideration for the acquisition of the A2DP shares, the Company issued FNP:

- 120,376,950 fully-paid ordinary shares comprising 25% of the enlarged share capital of the Company;
- an option, for a period of 12 months, to increase its shareholding in the Company 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;
- an option to receive fully paid ordinary shares, for nil consideration, equal to 25% of any of the 20 million partly-paid shares that become fully paid; and
- 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.

In connection with the acquisition, three new directors were appointed to the Company's board; Geoffrey Babidge and Melvyn Miles as non executive directors and Perry Gunner as the deputy chairman of the board.



## 26. OPERATING SEGMENT INFORMATION

The Company 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. In contrast, the predecessor Standard (NZ IAS-14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as a starting point for the identification of such segments.

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,
- The Australian segment receives income from milk sales and interest income from investment in Australian associates.

Some changes to reportable segments have been made compared to previous segments reported under NZ IAS-14 *Segment Reporting*. 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.

| **Year Ended 30 June 2010** | **NZ** | **Aust** | **Other** | **Adjustments & Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Revenue** | | | | | |
| External customers | 301,968 | - | - | - | 301,968 |
| Interest revenue | 168,477 | - | - | - | 168,477 |
| Inter-segment | - | - | - | - | - |
| **Total revenue** | 470,445 | $Nil | $Nil | $Nil | 470,445 |

| | | | | | |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Depreciation expense | 4,777 | - | - | - | 4,777 |
| Impairment losses | - | - | - | - | - |
| Interest expense | - | - | - | - | - |
| Share of profit/(loss) & other obligations of associates | - | 1,045,349 | (65,651) | - | 979,698 |
| **Segment profit/(loss)** | 3,163,880 | 1,035,558 | (65,651) | $Nil | (2,193,973) |
| **Segment assets**[1] | 8,865,376 | 6,331,163 | (66,286) | (6,857,903) | 8,272,350 |
| **Segment liabilities** | 941,467 | 3,938,984 | $Nil | (3,874,908) | 1,005,543 |
| **Other disclosures** | | | | | |
| Investment in an associate[2] | - | 2,808,568 | (66,286) | - | 2,742,282 |
| Capital expenditure[3] | - | - | - | - | - |

1 Segment assets include investments in associates $2,742,282.

2 Investment in associate reflects the funds advanced to the associate and share of associates profit/(loss) and other obligations.

3 Capital expenditure consists of additions of property, plant and equipment.

| 15 month period ended 30 June 2009 | NZ | Aust | Other | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Revenue** | | | | | |
| External customers | 1,041,417 | 61,700 | - | - | 1,103,118 |
| Interest revenue | 237,869 | 233,562 | - | - | 471,430 |
| Inter-segment | - | - | - | - | - |
| Total revenue | $1,279,286 | $295,262 | $Nil | $Nil | $1,574,548 |

| | | | | | |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Depreciation expense | (18,670) | - | - | - | (18,670) |
| Impairment losses | (5,245,089) | - | - | 4,972,422 | (272,667) |
| Interest expense | (407,773) | (1,551) | - | - | (409,324) |
| Settlement of profit share entitlement with Child Health Research Foundation | (1,149,458) | - | - | - | (1,149,458) |
| Share of profit/(loss) of associates | - | 556,841 | (457,629) | - | 99,212 |
| **Segment profit/(loss)** | $(8,351,267) | $766,052 | $(457,629) | $4,514,787 | $(3,528,057) |
| **Segment assets**[1] | $10,904,073 | $5,205,026 | $Nil | $(6,884,454) | $9,224,645 |
| **Segment liabilities** | $518,704 | $3,802,198 | $Nil | $(3,901,458) | $419,444 |
| **Other disclosures** | | | | | |
| Investment in an associate[2] | - | 1,833,510 | - | - | 1,833,510 |
| Capital expenditure[3] | 7,974 | - | - | - | 7,974 |

1 Segment assets include investments in associates $1,833,510.

2 Investment in associate reflects the funds advanced to the associate and share of associates profit/(loss).

3 Capital expenditure consists of additions of property, plant and equipment.

### 27. NOTES TO THE CASH FLOW STATEMENT

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 (12 Months) $ | 2009 (15 Months) $ | 2010 (12 Months) $ | 2009 (15 Months) $ |
| **Reconciliation of Net Surplus/(Deficit) after Taxation with Net Cash Flows from Operating Activities** | | | | |
| Net surplus /(deficit) for the year | (2,193,973) | (3,528,057) | (3,163,880) | (8,789,078) |
| **Adjustments for non-cash items:** | | | | |
| Capitalised interest income | - | (233,561) | - | - |
| Changes in fair value of financial asset designated at FVTPL | - | 3,896 | - | 3,896 |
| Depreciation | 4,777 | 18,670 | 4,777 | 18,670 |
| Expense recognised in profit & loss in respect of equity-settled share-based payments | 702,417 | 1,255,246 | 702,417 | 1,255,246 |
| Impairment loss on investment in associates | - | 272,667 | - | 1,827,539 |
| Impairment loss on investment in subsidiary | - | - | - | 3,417,550 |
| Loss on disposal of property, plant and equipment | 4,085 | 11,701 | 4,085 | 11,701 |
| Net foreign exchange (gain)/loss | 93,027 | (435,823) | 85,894 | (430,487) |
| Share of profit/(loss) of associates and other obligations | (979,698) | (99,212) | - | - |
| | (175,392) | 793,584 | 797,173 | 6,104,115 |
| Net movement in working capital | 447,787 | (64,030) | 462,331 | (34,778) |
| | $(1,921,578) | $(2,798,503) | $(1,904,376) | $(2,719,741) |
| Less items classified as investing and financing activities | | | | |
| Fixed asset purchases included in accounts payable | - | (1,004) | - | (1,004) |
| Shares sold back to shareholders included in accounts receivable | - | 540 | - | 540 |
| Payment for partly paid shares | 20,000 | - | 20,000 | - |
| **Net cash inflow (outflow) from operating activities** | $(1,901,578) | $(2,798,967) | $(1,884,376) | $(2,720,205) |

## 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. Compliance with policies and exposure limits is reviewed on a continual 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 Group's overall strategy remains unchanged from 2009.

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 8, 13, 16, 17 and 18 respectively.

During the 2009 year the Company undertook a rights issue. The equity capital raised from this issue was partly used to repay existing bank debt.

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.

The Group is not subject to externally imposed capital requirements.

### 28.3 Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 of the financial statements.

### 28.4 Categories of Financial Instruments

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $ | $ | $ | $ |
| **Financial Assets** | | | | |
| Loans and receivables | | | | |
| Accounts receivable | 279,144 | 189,845 | 633,859 | 488,837 |
| | | | | |
| Fair value through profit or loss (FVTPL) | | | | |
| Cash and ST Deposits | 5,214,589 | 7,165,108 | 5,212,184 | 7,162,454 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $ | $ | $ | $ |
| **Financial Liabilities** | | | | |
| Other financial liabilities | | | | |
| Trade & Other payables | 1,005,544 | 382,153 | 941,468 | 316,999 |

### 28.5 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.

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.

### 28.6 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:

| | US Dollars | AUS Dollars |
|---|---|---|
| | $ | $ |
| Group 2010 | | |
| Assets: | | |
| Cash and short term deposits | 995,550 | 2,725,763 |
| Accounts receivable | - | 552,538 |
| | $995,550 | $3,278,301 |
| Liabilities: | $Nil | $Nil |
| Group 2009 | | |
| Assets: | | |
| Cash and short term deposits | 1,411,637 | 5,499,741 |
| Accounts receivable | - | 517,798 |
| | $1,411,637 | $6,017,539 |
| Liabilities: | $Nil | $Nil |

| | US Dollars $ | AUS Dollars $ |
|---|---|---|
| Company 2010 | | |
| Assets: | | |
| Cash and short term deposits | 995,550 | 2,725,763 |
| Accounts receivable | - | 552,538 |
| | $995,550 | $3,278,301 |
| Liabilities: | $Nil | $Nil |
| Company 2009 | | |
| Assets: | | |
| Cash and short term deposits | 1,411,637 | 5,499,741 |
| Accounts receivable | - | 280,868 |
| | $1,411,637 | $5,780,609 |
| Liabilities: | $Nil | $Nil |

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2010 and 30 June 2009.

### 28.7 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 loans 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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Currency Impact AUD** | | | | |
| Profit or loss - Strengthening in NZ$ | 116,154 | 87,856 | - | - |
| Profit or loss - Weakening in NZ$ | (90,854) | (75,596) | - | - |
| Equity - Strengthening in NZ$ | 414,182 | 635,146 | 298,027 | 547,049 |
| Equity - Weakening in NZ$ | (455,110) | (744,506) | (364,255) | (668,615) |
| **Currency Impact USD** | | | | |
| Profit or loss - Strengthening in NZ$ | (3,563) | (41,603) | - | - |
| Profit or loss - Weakening in NZ$ | 2,772 | 50,847 | - | - |
| Equity - Strengthening in NZ$ | 86,941 | 86,727 | 90,504 | 128,331 |
| Equity - Weakening in NZ$ | (107,845) | (106,001) | (110,616) | (156,848) |

The Group's sensitivity to Australian currency has decreased during the current period due to a decrease in funds held in AUD bank accounts by A2 Corporation Limited. The Group's sensitivity to US currency has decreased during the current period due to a decrease in the share of losses in the US associate.

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, management continue to monitor offshore monetary investments on a regular basis.

### 28.8 Interest Rate Risk

The Company 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.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Investments at fixed interest rates expose the Company to fair value interest rate risk.

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note.

### 28.9 Interest Rate Sensitivity Analysis

The Group is exposed to interest rate risk as funds are invested at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate investments. In the prior year the Group was exposed to interest rate risk as entities in the Group borrowed funds at both fixed and floating rates.

The sensitivity analyses below have been determined based on the exposure to interest rates on borrowings and term deposits at balance date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

**Group**

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's:

- Deficit for the year ended 30 June 2010 would decrease/increase by $17,990 (2009: $20,390). This is mainly attributable to the Group's exposure to interest rates on its monetary assets during the year. The Group had no borrowings during the 2010 income year.
- Other equity reserves would decrease/increase by $Nil (2009: $Nil).

The Group's sensitivity to interest rates has decreased during the current year as interest rates on cash and short term deposits remained stable during this time.

**Company**

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's:

- Profit for the Year ended 30 June 2010 would increase/decrease by $17,990 (2009: decrease/increase by $20,390). This is mainly attributable to the company's exposure to interest rates on its monetary assets during the year. The Company had no borrowing during the 2010 income year.
- Other equity reserves would increase/decrease by $Nil (2009: increase/decrease by $Nil).

The Company's sensitivity to interest rates has decreased during the year as interest rates on cash and short term deposits remained stable during this time.

### 28.10 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.

### 28.11 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 | |
|---|---|---|---|---|
| | 2010 (12 Months) $ | 2009 (15 Months) $ | 2010 (12 Months) $ | 2009 (15 Months) $ |
| The maximum exposures to credit risk at balance date are: | | | | |
| Cash and short term deposits | 5,214,589 | 7,165,108 | 5,212,184 | 7,162,454 |
| Accounts receivable | 279,144 | 189,845 | 633,859 | 488,837 |
| | $5,493,733 | $7,354,953 | $5,846,043 | $7,651,291 |

At balance date, the majority of the Company's bank accounts are held with Westpac Banking Corporation Limited. The Company does not have any other concentrations of credit risk. The Company does not require any collateral or security to support financial instruments.

### 28.12 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 Company's short, medium and long-term funding and liquidity management requirements. The Company 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 Company's interest bearing investments are disclosed later in this note.

### 28.13 Liquidity & Interest Risk Tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and 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 instruments subject to interest rate risk.

Group

| | 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 assets:** | | | | | | | |
| Cash and short term deposits | 3.45% | 4,223,491 | 1,024,066 | - | - | - | 5,247,557 |
| Accounts receivable | 0.0% | 272,423 | - | 6,720 | - | - | 279,143 |
| | | 4,495,914 | 1,024,066 | 6,720 | - | - | 5,526,700 |
| **Financial liabilities:** | | | | | | | |
| Accounts payable | 0.0% | 814,925 | - | - | 61,620 | - | 876,546 |
| | | 814,925 | - | - | 61,620 | - | 876,546 |

| | Weighted Average | Fixed Maturity Dates | | | | | Total |
|---|---|---|---|---|---|---|---|
| 2009 | Effective Interest Rate % | Less than 1 month $ | 1-3 months $ | 3 months - 1 Year $ | 1-5 years $ | 5+ Years $ | $ |
| **Financial assets:** | | | | | | | |
| Cash and short term deposits | 2.2% | 5,920,447 | 1,255,112 | - | - | - | 7,175,559 |
| Accounts receivable | 0.0% | 178,813 | 8,996 | 2,036 | - | - | 189,845 |
| | | 6,099,260 | 1,264,108 | 2,036 | - | - | 7,365,404 |
| **Financial liabilities:** | | | | | | | |
| Accounts payable | 0.0% | 382,153 | - | - | - | - | 382,153 |
| | | 382,153 | - | - | - | - | 382,153 |

Company

| | 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 assets: | | | | | | | |
| Cash and short term deposits | 3.45% | 4,221,086 | 1,024,066 | - | - | - | 5,245,152 |
| Accounts receivable | 0.0% | 271,434 | - | 243,650 | 118,775 | - | 633,859 |
| | | 4,492,520 | 1,024,066 | 243,650 | 118,775 | - | 5,879,011 |
| Financial liabilities: | | | | | | | |
| Accounts payable | 0.0% | 812,925 | - | - | - | - | 812,925 |
| | | 812,925 | - | - | - | - | 812,925 |

| | Weighted Average | Fixed Maturity Dates | | | | | Total |
|---|---|---|---|---|---|---|---|
| 2009 | Effective Interest Rate % | Less than 1 month $ | 1-3 months $ | 3 months - 1 Year $ | 1-5 years $ | 5+ Years $ | $ |
| Financial assets: | | | | | | | |
| Cash and short term deposits | 2.2% | 5,917,793 | 1,255,112 | - | - | - | 7,172,905 |
| Accounts receivable | 0.0% | 475,289 | 8,996 | 4,552 | - | - | 488,837 |
| | | 6,393,082 | 1,264,108 | 4,552 | - | - | 7,661,742 |
| Financial liabilities: | | | | | | | |
| Accounts payable | 0.0% | 316,999 | - | - | - | - | 316,999 |
| | | 316,999 | - | - | - | - | 316,999 |

### 28.14 Fair Value of Financial Instruments

**Valuation Techniques**

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

**Fair Value Measurements recognised in the Statement of Financial Position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset of liability that are not based on observable market data (unobservable inputs).

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ |
| **Group** | | | | |
| Financial assets at FVTPL | | | | |
| Cash and Short Term Deposits | 5,214,589 | - | - | 5,214,589 |

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ |
| **Company** | | | | |
| Financial assets at FVTPL | | | | |
| Cash and Short Term Deposits | 5,215,184 | - | - | 5,215,184 |

# STATEMENT OF CORPORATE GOVERNANCE
## FOR THE YEAR ENDED 30 JUNE 2010

### 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

### 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 Chief Executive Officer 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 Chief Executive Officer and the Board;
- risk management in order to protect its employees, assets, earnings and reputation;
- reviewing and adopting the three-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 Chief Executive Officer and other executive managements and determining their remunerations;
- 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. The Chief Executive Officer is not a director, and where necessary, the Board will meet without the Chief Executive Officer being present.

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

# STATEMENT OF CORPORATE GOVERNANCE
## FOR THE YEAR ENDED 30 JUNE 2010 (CONTINUED)

### 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 three independent members, Dr Jock Allison, 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 will consider all relevant circumstances when determining independence, but is of the view that a Director cannot be independent where the Director, or an associated person of the Director:

- is a substantial security holder in the Company; or
- has a relationship with the Company (other than being a Director of the Company) under which the Director or associated person is likely to derive a substantial portion (generally 10% or more) of their annual revenue or income from the Company.

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

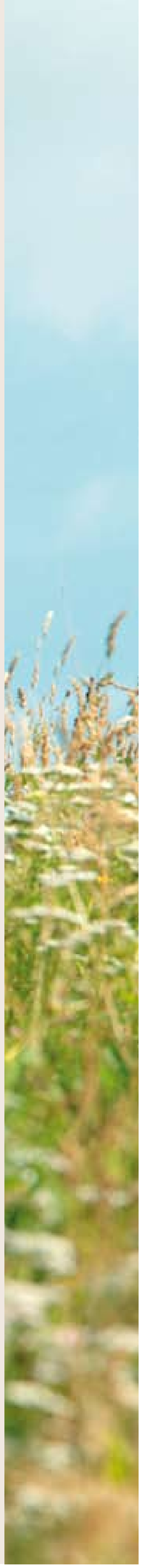
The Board as a whole is involved with recommending candidates to act as Directors to shareholders. When considering candidates for nomination, the Board will consider, amongst other things, the individual's experience, qualifications and skills in comparison to the experience, qualifications and skills 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 2010

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

The Company's register of substantial security holders, prepared in accordance with section 26 of the Securities Amendment Act 1988 recorded the following information as at 28 July 2010:

| Name | Date of Notice | No's | % |
|---|---|---|---|
| Mountain Road Investments Limited | 22 July 2010 | 148,558,701 | 29.622 |
| Freedom Nutritional Products Limited | 22 July 2010 | 120,376,950 | 24.003 |
| AMP Capital Investors (New Zealand) Limited | 23 July 2010 | 57,763,643 | 11.518 |
| EGI-Fund (08-10) Investors, LLC | 22 July 2010 | 50,000,000 | 9.970 |

### 2. Directors' Shareholdings

Directors held the following equity securities in the Company at 30 June 2010:

| Name of Director | Associated Entity | Beneficial No's | % | Non Beneficial No's | % |
|---|---|---|---|---|---|
| C J Cook | Mountain Road Investments Limited | 133,702,831 | 35.081 | 14,855,870 | 3.898 |
| G P Hinton | Mountain Road Investments Limited | 14,855,870 | 3.898 | 133,702,831 | 35.081 |
| G P Hinton | Kawerau Trust | 5,000,000 | 1.312 | Nil | - |
| G P Hinton | Nikau Investments (2001) Limited | 101,872 | 0.027 | Nil | - |
| D W Mair | Private | 5,000,000 | 1.312 | Nil | - |
| D W Mair | DDD Investments Limited | 2,000,000 | 0.525 | 4,000,000 | 1.050 |
| A J Allison | Private | 809,000 | 0.212 | Nil | - |

### 3. Twenty Largest Equity Security Holders

The names of the 20 largest holders of equity securities as at 28 July 2010 are listed below:

| Top 20 Shareholders | No's | % |
|---|---|---|
| Mountain Road Investments Limited | 148,558,701 | 29.62 |
| Freedom Nutritional Products Limited | 120,376,950 | 24.00 |
| New Zealand Central Securities Depository Limited | 116,117,607 | 23.15 |
| Child Health Research Foundation | 13,915,962 | 2.77 |
| Holem Pty Limited | 10,000,000 | 1.99 |
| Ulrike Mclachlan | 7,178,563 | 1.43 |
| DDD Investments Limited | 6,000,000 | 1.20 |
| TP Trustee Brendemeer Limited | 5,000,000 | 1.00 |
| David William Mair | 5,000,000 | 1.00 |
| Gregory Paul Hinton, Rosslyn Heather Audrey Hinton & Stephen Richard Thompson | 5,000,000 | 1.00 |
| Peter Bruce Hinton | 3,293,064 | 0.66 |
| Forsyth Barr Custodians Limited | 3,000,000 | 0.60 |
| Michael Charles Hare | 2,400,000 | 0.48 |
| Custodial Services Limited | 1,760,180 | 0.35 |
| Resolution Investments Limited | 1,760,000 | 0.35 |
| Marint Limited | 1,500,000 | 0.30 |
| Pluteus (No 164) Pty Limited | 1,500,000 | 0.30 |
| Circada Limited | 1,400,000 | 0.28 |
| Lanyon Limited | 835,000 | 0.17 |
| Arthur John Allison & Hilary Margaret Allison | 809,000 | 0.16 |
| | 455,405,027 | 90.81% |

### 4. Spread of Security Holders at 28 July 2010:

| | No. of Holders | % | No's |
|---|---|---|---|
| 1-1,000 | 2 | 0.00 | 1,100 |
| 1,001-5,000 | 285 | 0.18 | 914,043 |
| 5,001-10,000 | 244 | 0.38 | 1,883,473 |
| 10,001-50,000 | 376 | 1.79 | 8,998,376 |
| 50,001-100,000 | 76 | 1.15 | 5,750,639 |
| 100,001-500,000 | 98 | 4.18 | 20,970,041 |
| 500,001-1,000,000 | 14 | 1.84 | 9,229,101 |
| 1,000,001 shares or more | 18 | 90.48 | 453,761,027 |
| Total | 1,113 | 100.00 | 501,507,800 |

### 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.

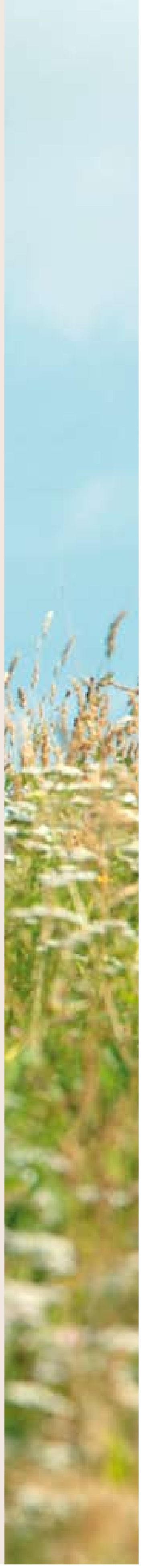
### 7. Corporate Governance Policies

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.

### 8. Changes in Directors

W L Burt and R G Paterson resigned as Directors on 15 October 2009

G H Babidge, P R Gunner and M Miles were appointed Directors on 22 July 2010.



## PARTICULARS OF NOTICES OR STATEMENTS GIVEN TO OR APPROVED BY THE BOARD

**Interests Register**

Directors have declared interests during the period as follows:

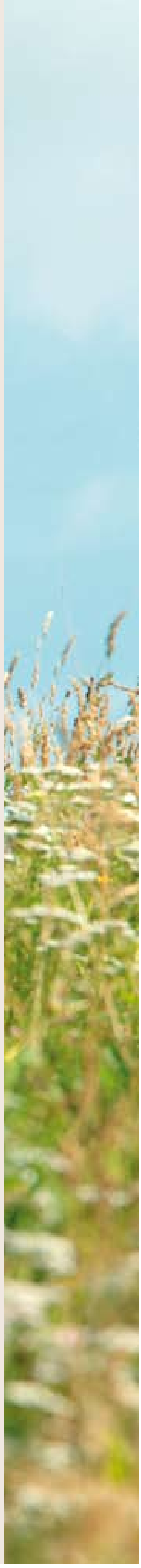
- The Company has arranged and paid for policies for Directors' liability insurance which ensure that the Directors are protected against liabilities and costs for acts or omissions by them in their capacity as Directors of the Company.

## 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/Shareholder |
| | Castle Drive Securities Limited | Director/Shareholder |
| | Chain Hill Farm Limited | Director/Shareholder |
| | Chesapeake Limited | Director |
| | Chesapeake Cook Limited | Director |
| | Chesapeake Lake View Limited | Director |
| | Chesapeake Tasman Limited | Director |
| | Cook Advisory Services Limited | Director/Shareholder |
| | DHT Limited | Director/Shareholder |
| | Gingold Holdings Limited | Director/Shareholder |
| | HSI Holdings Limited | Director/Shareholder |
| | HSI Investments Limited | Director |
| | Martinborough Cottage Grove Limited | Director |
| | Newmarket Limited | Director |
| | NSI Management Limited | Director |
| | Parnell Investment Holdings Limited | Director/Shareholder |
| | 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 |

| 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 |
| | Castle Drive Securities 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 |
| | Layard Estates 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 |
| | PHC Treasury (UK) Limited | Director |
| | 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 |
| | Waiata Investments (2010) Limited | Director/Shareholder |



| Name of Director | Entity | Position |
|---|---|---|
| A J Allison | AJA Consulting Limited | Director |
| D W Mair | DDD Investments Limited | Shareholder/Director |
| | DJD Management Limited | Shareholder/Director |
| | Rothford International Limited | Shareholder/Director |
| | Skellerup Holdings Limited | Shareholder/Director |
| | Stainless Design Limited | Chairman |
| 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 |

### DIRECTORS' SHARE DEALINGS

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

| Name of Director | Associated Entity | Shares Acquired (Disposed) | Date | Consideration Paid (Received) |
|---|---|---|---|---|
| W L Burt | Lotus Capital Biotechnology | (4,713,066) | 11 Sept 2009 | ($471,307) |

### DIRECTORSHIPS OF SUBSIDIARY COMPANIES

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

| Subsidiary | Directors |
|---|---|
| A2 Australian Investments Limited* | R Le Grice |
| A2 Exports Limited | G P Hinton |
| | R Le Grice (Resigned 19 November 2009) |
| | D W Mair (Appointed 19 November 2009) |
| A2 Finance Limited* | R Le Grice |
| | A J Clarke |
| Option Scheme Limited* | C J Cook |
| | G P Hinton |
| A2 Australian Investments Pty Limited | R Le Grice (Resigned 31 March 2010) |
| | V S Cook (Resigned 31 March 2010) |
| | D W Mair (Appointed 31 March 2010) |
| | S A Pannell (Appointed 31 March 2010) |
| A2 Exports Pty Limited | G P Hinton |
| | R Le Grice (Resigned 31 March 2010) |
| | R G Paterson (Resigned 31 March 2010) |
| | A J Clarke (Resigned 31 March 2010) |
| | R Tan (Resigned 31 March 2010) |
| | D W Mair (Appointed 31 March 2010) |
| | S A Pannell (Appointed 31 March 2010) |

* A2 Corporation Limited, A2 Finance Limited, A2 Australian Investment Limited and Option Scheme Limited amalgamated on 31 March 2010, with A2 Corporation Limited becoming the amalgamated (remaining) company.

### 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 |
| A J Allison | 15,000 |
| R Le Grice | 15,000 |
| D W Mair | 15,000 |
| W L Burt | 3,750 |
| R G Paterson | 3,750 |

### PARTLY PAID SHARE INCENTIVE PLANS

Partly paid shares held by Directors and officers at 30 June 2010, in accordance with Note 15 of the Financial Statements were:

| Name of Director | Partly Paid Shares Held | Dates Allocated | Expiry Date |
|---|---|---|---|
| G P Hinton | 5,000,000 | 24 November 2009 | 10 September 2011 |
| D W Mair | 5,000,000 | 10 September 2009 | 10 September 2011 |
| S A Pannell | 10,000,000 | 22 May 2009 | 24 August 2014 |

### DIRECTORS LOANS

There were no loans from the Company to Directors.

### 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 2010 the following numbers of employees received remuneration of at least $100,000.

| | Number of employees |
|---|---|
| $180,000 to $189,999 | 1 |
| $1,610,000 to $1,620,000 | 1* |

* The remuneration amount includes termination benefits and accelerated amortisation of partly paid share incentive scheme (tranche 1). Refer note 4.6.

### DONATIONS

The Company made no donations during the period ended 30 June 2010.

### SUB-COMMITTEES

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

| Audit: | Remuneration: | Research & Development: |
|---|---|---|
| Dr A J Allison | C J Cook | Dr A J Allison |
| G P Hinton | G P Hinton | |

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 9 to 71, which comprise the statement of financial position of A2 Corporation Limited and the group as at 30 June 2010, and the statement of comprehensive income, income statement, 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 9 to 71:

» 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 2010 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

Christchurch

# NOTES

A2 Corporation Limited
PO Box 109 349
Newmarket
Auckland 1149
New Zealand