A2 CORPORATION

ANNUAL REPORT

FOR THE 15 MONTHS ENDED 30 JUNE 2009





CONTENTS
FOR THE 15 MONTHS ENDED 30 JUNE 2009

COMPANY DIRECTORY
FOR THE 15 MONTHS ENDED 30 JUNE 2009

Company Number	1014105
Issued Capital	361,319,240 Ordinary Shares
Registered Office	Level 5 235 Broadway Newmarket Auckland
Shareholders	Listed on NZAX (from 21 April 2004)
Share Registrar	Link Market Services Limited PO Box 384 Ashburton Telephone (03) 308 8887
Directors	Mr C J Cook (Chairman) Dr A J Allison Dr W L Burt Mr R Le Grice Mr G P Hinton Mr D W Mair Mr R G Paterson
Accountants	Deloitte PO Box 1245 Dunedin
Auditors	Ernst & Young PO Box 2091 Christchurch
Bankers	Westpac PO Box 934 Auckland
Solicitors – Commercial	Simpson Grierson Private Bag 92518 Wellesley Street Auckland
Solicitors – Intellectual Property	Baldwins PO Box 852 Wellington


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CHAIRMAN'S REPORT
FOR THE 15 MONTHS ENDED 30 JUNE 2009

OVERVIEW

A2 Corporation Limited (A2C or the Company) is pleased to report that the last 15 months has seen significant progress made within the Company both from an operating and financial perspective.

The most significant changes include:

- The development of a strategic view for the business that enabled the successful capital raising and subsequent placements providing $19.6 million before costs.
- The implementation and development of that strategy with a deliberate focus on management procedures and accountability that has seen previous losses reduced dramatically.
- The focus on the Australian market that is now profitable.

CAPITAL RAISING

Despite challenging times, A2C was able to successfully complete a capital raising and subsequent placements that provided $19.6 million before costs. Immediately following this, the Company had a net cash position of $8,919,302 as at 30 September 2008. The net cash position was $7,165,108 at 30 June 2009 showing that the business has stabilized and should not require further capital unless an acquisition or purchase of assets is to be considered. We have and will continue to focus on cash preservation and cash generation within the business.

I would particularly like to thank all our shareholders who supported the Company by participating in the capital raising and to welcome new shareholders to the Company. It is very satisfying for the Board and management to see such strong support for A2C in such troubled times.

FOCUS ON MANAGEMENT

Beginning with a strategic market review in December 2008, the focus has been on improving profitability in A2C, with Australia becoming one key driver of the business. As part of that change, there were a number of redundancies and a tightening up on expenditure. Scott Pannell, who began as CEO with the Company on 24 August 2009, will continue this market review and drive toward improving sustainable profitability.

In the first 6 months of the year (first half), the Group operating post-tax loss (excluding abnormals) was $1,992,822, and the loss (excluding abnormals) for the second nine months (second half) was $747,181. Although this is still a loss, it is clear that there have been significant positive changes that are also expected to provide additional improvements in the next financial year.

AUSTRALIA

As mentioned above, the focus has been on ensuring that the Australian market became profitable. This has been an excellent result and on behalf of the Board, I would like to congratulate the joint venture and the management team.

OUTLOOK

While A2C has made a loss this year, there has been a significant improvement in the business. There should be no need for further capital and the business has been stabilized and is poised for growth. The Australian business is cash flow positive and is expected to continue to grow profitably. Our new CEO Scott Pannell has a wealth of experience in developing dairy-based business and we can look forward to the continued improvement and development of the business in 2010 with confidence.

Cliff Cook
Chairman
11 September 2009

MARKET GROWTH AND DEVELOPMENT

There has been a deliberate strategy of focussing on key markets and with the intention of making them profitable while maintaining a watching brief on other areas.

AUSTRALIA

The joint venture, A2 Dairy Products Australia Pty Limited (A2DPA) became profitable in December 2008 and has traded profitably every month since then other than April 2009 (where a small loss was registered after a one-off cost). It finished the full year significantly ahead of budget EBIT of AUD 0.5 million profit and ahead of the previously announced expected AUD 1 million profit. This compares very favourably with the loss of AUD 3.4 million last year.

A2C and its joint venture partner Freedom Nutritional Products limited (FNP) have converted their respective convertible notes totalling AUD 4.5 million into ordinary shares in the joint venture A2DPA. A2DPA is owned 50/50. The conversion reflects the improved profitability in the current financial year and provides the base for continued growth.

Total milk volume reached approximately 10.8 million litres for the year compared with 6.6 million litres for the previous year (a 64% increase). Gross sales for the full year ending 30 June 2009 were AUD 18.4 million (compared with AUD 11.5 million previous year, a 60% increase).

This increase in volume has come from expanding the existing base of fresh milk. This has been done geographically through Woolworths and Coles and also by launching a2 Milk™ into Western Australia. This has also been done by introducing new products: Fresh milk is now available in Full Cream (1 and 2 litres), Light (1 and 2 litres) and No Fat (2 litres). UHT milk is also available in Long Life Full Cream and Long Life Light.

This improving trend has led to a measurable improvement in profitability of the Australian operation.

JAPAN

The Japanese market is part of the Australian joint venture territory and in July 2009, David Mair and Rory MacLeod (Director A2DPA / FNP) visited a number of milk companies near Tokyo. There is a good understanding of the A2 story since one of the original researchers whose work underpins the A2 hypothesis is Japanese. The Japanese consumer is an informed person and it is important to provide detailed technical advice. We see good future prospects in this market.

NEW ZEALAND

The New Zealand market has two licensees who are both great supporters of a2 Milk™. Although the milk is not as widely available as we would all like, there have been discussions around how we can work together to improve the situation we are in. Scott Pannell has met both licensees and is working to develop a business plan for the New Zealand market.

NORTH AMERICA

A2 Milk Company LLC, the A2C joint venture in the USA has regained all rights to the US market through a settlement with their licensee The Original Foods Company (TOFC). The US dairy milk market remains intensely competitive and continues to be a major challenge.

KOREA

Lotte has changed its name to Purmil. We were informed that Purmil had temporarily withdrawn A2 milk from the market in January 2009 due to the severe downturn in the Korean market. A2C had agreed to a temporary suspension of the licence but is now pursuing its rights under that agreement.
Namyang Dairy Products Company launched an infant formula containing A2 skim milk powder without agreement from A2C. It has been withdrawn from the market, after allegations of false advertising since the product also included A1 skim milk powder. We are still very interested in developing the Korean market.

INTELLECTUAL PROPERTY AND RESEARCH

A2C has continued to develop its intellectual property portfolio by seeking further patent applications and trademarks in additional countries, but in line with the agreed market focus. After a long period where capital was a constraint to further investment, A2C has begun a new research program to contribute further to the foundation of science that supports the a2 hypothesis, product development and IP generation.
Money will only be spent on research where there is clear evidence of a financial benefit to A2C shareholders.

FINANCIAL

A2 Corporation Limited (A2C) recorded an audited Group post-tax loss of $3,528,057 including abnormals ($2,740,003 excluding abnormals) for the 15 months ended 30 June 2009. This compared to a loss of $6,298,221 for the 12 months ended 31 March 2008.

The Group abnormals (totaling $788,054) include:

- $1,149,458 loss for a share-based payment made to the Child Health Research Foundation (CHRF). This was in return for the cancellation of a profit share entitlement in which CHRF would receive 5% of A2C's earnings before tax, interest and amortisation.
- $452,044 exchange rate gain on funds held in foreign currencies.
- $334,559 loss for one-off costs associated with the restructuring of the New Zealand head office.
- $272,667 loss as a result of the impairment of our investment in A2 Milk Company LLC.
- $516,586 gain from the utilization of prior period tax losses by A2 Dairy Products Australia Pty Limited.

In the first 6 months of the year (first half), the Group operating post-tax loss (excluding abnormals) was $1,992,822 and the loss (excluding abnormals) for the second nine months (second half) was $747,181.

The focus remains on ensuring that costs are contained and that all parts of the business have been evaluated to ensure that they are or will contribute positively to the bottom line.

OUTLOOK

This will be an exciting year for A2C. We have a highly talented new CEO in Scott Pannell who has considerable experience in developing business in this sector. We have an Australian joint venture that is going from strength to strength and we have developed a better rapport with our New Zealand licensees so that we can move forward in the New Zealand market.

The success in Australia is providing a reference point where people from overseas can come and see that the A2C story is real.

The challenge is to look beyond these markets and build a successful business that provides long-term health benefits to consumers of a2 Milk™, and ultimately benefits to our shareholders.

David W. Mair

David Mair
Executive Director
11 September 2009

DIRECTORS' RESPONSIBILITY STATEMENT
FOR THE 15 MONTHS ENDED 30 JUNE 2009

The Directors of A2 Corporation Limited are pleased to present to shareholders the financial statements for A2 Corporation Limited for the fifteen months to 30 June 2009.

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 2009 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:

David W. Mair

C J Cook
Director

D W Mair
Director

11 September 2009

INCOME STATEMENT
FOR THE 15 MONTHS ENDED 30 JUNE 2009

	Notes	Group 2009 (15 Months) $	Group 2008 (12 Months) $	Company 2009 (15 Months) $	Company 2008 (12 Months) $
CONTINUING OPERATIONS					
Revenue	4.1	428,749	1,498,638	373,031	1,498,638
Other operating income	4.2	674,369	187,827	668,388	298,156
Investment revenue	4.3	471,430	91,785	237,868	223,790
Depreciation expense		(18,670)	(15,644)	(18,670)	(15,644)
Employee benefits expense		(1,037,046)	(1,112,148)	(1,034,678)	(1,112,148)
Finance expenses	4.4	(467,632)	(612,971)	(464,369)	(612,893)
Impairment losses	4.5	(272,667)	-	(5,245,089)	-
Legal expenses		(156,350)	(72,251)	(155,808)	(72,251)
Marketing expenses		(123,113)	(158,154)	(123,113)	(158,154)
Patents & trademarks		(301,907)	(323,379)	(301,907)	(323,379)
Research & development		(17,038)	(292,643)	(15,667)	(292,643)
Settlement of profit share entitlement with the Child Health Research Foundation	16	(1,149,458)	-	(1,149,458)	-
Travel & accommodation		(141,138)	(320,183)	(141,138)	(320,183)
Underwriting expenses	25.3	5,055	(910,218)	5,055	(910,218)
Other expenses	4.6	(1,521,853)	(816,211)	(1,423,523)	(845,737)
Share of profit/(loss) of associates	24.5	99,212	(2,496,224)	-	-
Profit/(loss) before tax		(3,528,057)	(5,351,776)	(8,789,078)	(2,642,666)
Income tax expense	6	-	-	-	-
Profit/(loss) for the year from continuing operations		(3,528,057)	(5,351,776)	(8,789,078)	(2,642,666)
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	5	-	(946,445)	-	-
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		$(3,528,057)	$(6,298,221)	$(8,789,078)	$(2,642,666)

EARNINGS PER SHARE

	Notes	2009 Cents per Share	2008 Cents per Share
From continuing operations:			
Basic	17	(1.22)	(3.54)
Diluted	17	(1.20)	(3.31)
From discontinued operations:			
Basic	17	-	(0.63)
Diluted	17	-	(0.59)

The accompanying notes form part of these financial statements.

STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE 15 MONTHS ENDED 30 JUNE 2009

		Group		Company	
	Notes	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
Foreign exchange currency expense recognised directly in equity	20	89,614	(124,509)	-	-
Net profit/(loss) for the year	19	(3,528,057)	(6,298,221)	(8,789,078)	(2,642,666)
TOTAL RECOGNISED INCOME & EXPENSES ATTRIBUTABLE TO EQUITY HOLDER OF THE PARENT		$(3,438,443)	$(6,422,730)	$(8,789,078)	$(2,642,666)

The accompanying notes form part of these financial statements.

BALANCE SHEET
AS AT 30 SEPTEMBER 2009

		Group		Company	
	Notes	2009 (30 June) $	2008 (31 March) $	2009 (30 June) $	2008 (31 March) $
ASSETS					
CURRENT ASSETS					
Cash & short term deposits	9	7,165,108	113,613	7,162,454	100
Accounts receivable	10	189,845	188,597	488,837	533,397
Prepayments		19,844	4,996	16,508	4,571
Current tax assets	6	4,777	40,286	4,777	37,987
TOTAL CURRENT ASSETS		7,379,574	347,492	7,672,576	576,055
NON-CURRENT ASSETS					
Property, plant & equipment	11	11,561	35,051	11,561	35,051
Intangible assets	12	-	-	-	-
Investments	13	-	24,197	2,982,998	5,597,503
Investment in associates	24	1,833,510	401,282	-	1,405,834
TOTAL NON-CURRENT ASSETS		1,845,071	460,530	2,994,559	7,038,388
TOTAL ASSETS		$9,224,645	$808,022	$10,667,135	$7,614,443
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	14	382,153	413,523	316,999	361,665
Prepaid income		37,291	93,229	37,291	93,229
Borrowings	15	-	7,924,416	-	7,924,416
TOTAL CURRENT LIABILITIES		419,444	8,431,168	354,290	8,379,310
TOTAL LIABILITIES		419,444	8,431,168	354,290	8,379,310

The accompanying notes form part of these financial statements.

BALANCE SHEET
CONTINUED

	Notes	Group 2009 (30 June) $	Group 2008 (31 March) $	Company 2009 (30 June) $	Company 2008 (31 March) $
OWNERS EQUITY					
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Share capital	16	40,954,514	21,193,512	40,954,514	21,193,512
Retained earnings (deficit)	19	(32,430,218)	(28,902,161)	(30,966,995)	(22,177,917)
Foreign currency translation reserve	20	(44,421)	(134,035)	-	-
Employee equity settled payments reserve	18, 21	325,326	219,538	325,326	219,538
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		8,805,201	(7,623,146)	10,312,845	(764,867)
TOTAL LIABILITIES & OWNERS EQUITY		$9,224,645	$808,022	$10,667,135	$7,614,443

For and on behalf of the Board of Directors, which authorise the issue of the financial report on the 11th day of September 2009.

C J Cook
Director

D W Mair
Director

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT
FOR THE 15 MONTHS ENDED 30 JUNE 2009

	Notes	Group 2009 (15 Months) $	Group 2008 (12 Months) $	Company 2009 (15 Months) $	Company 2008 (12 Months) $
CASH FLOWS FROM OPERATING ACTIVITIES					
CASH WAS PROVIDED FROM (APPLIED TO):					
Trading revenue		419,341	3,241,296	377,098	191,740
Interest received		224,797	25,849	224,797	2,719
Other income		225,438	108,426	220,440	108,426
Taxation refund received (net)		38,227	-	38,227	-
Payments to suppliers & employees		(3,275,390)	(6,762,797)	(3,152,310)	(3,845,434)
Research costs		(17,039)	(292,644)	(15,667)	(292,644)
Interest paid		(409,324)	(519,358)	(407,773)	(488,925)
RWT paid		(5,017)	(2,562)	(5,017)	(263)
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	30	(2,798,967)	(4,201,790)	(2,720,205)	(4,324,381)
CASH FLOWS FROM INVESTING ACTIVITIES					
CASH WAS PROVIDED FROM (APPLIED TO):					
Proceeds from sale of property, plant & equipment		1,095	18,946	1,095	101
Proceeds from disposal of shares		20,301	-	20,301	
Proceeds from disposal of assets in A2 Exports Pty Limited		-	1		-
Payment for property, plant & equipment		(6,970)	(7,540)	(6,970)	(7,540)
Purchase of shares in A2 Exports Pty Limited		-	-	(827,237)	(4,146,076)
Funds advanced to A2 Milk Company LLC		(421,705)	(351,530)	(421,705)	(351,530)
Payment for convertible notes in A2 Dairy Products Australia Pty Limited		(864,670)	(575,872)	-	-
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		(1,271,949)	(915,995)	(1,234,516)	(4,505,045)

The accompanying notes form part of these financial statements.

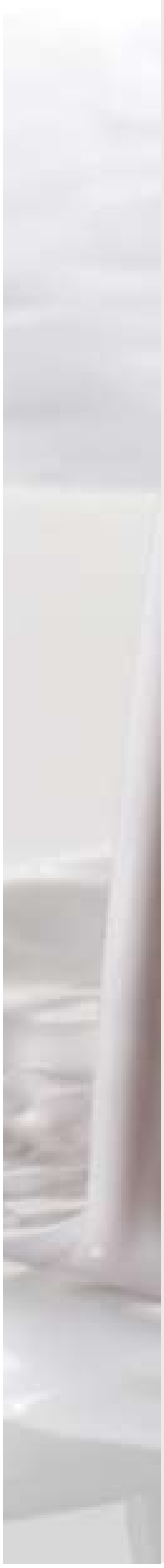
CASH FLOW STATEMENT
CONTINUED

	Notes	Group 2009 (15 Months) $	Group 2008 (12 Months) $	Company 2009 (15 Months) $	Company 2008 (12 Months) $
CASH FLOWS FROM FINANCING ACTIVITIES					
CASH WAS PROVIDED FROM (APPLIED TO):					
Proceeds from issue of equity shares		19,631,575	-	19,631,575	-
Proceeds from Intercompany loans		-	-	-	2,836,892
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		18,611,004	-	18,611,004	2,836,892
Net increase/(decrease) in cash & short term deposits		14,540,088	(5,117,785)	14,656,283	(5,992,534)
Cash & short term deposits at the beginning of the year		(7,810,803)	(2,709,255)	(7,924,316)	(1,931,760)
Effect of exchange rate changes on cash		435,823	16,237	430,487	(22)
Cash and short term deposits at the end of the year		$7,165,108	$(7,810,803)	$(7,162,454)	$(7,924,316)

COMPRISED OF:

	Notes	Group 2009	Group 2008	Company 2009	Company 2008
Cash & short term deposits	9	7,165,108	113,613	7,162,454	100
Bank overdraft	15	-	(7,924,416)	-	(7,924,416)
		$7,165,108	$(7,810,803)	$7,162,454	$(7,924,316)

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 ownership and licensing of intellectual property that enables the identification of cattle for the production and subsequent marketing of a2 Milk™ related products. 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 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.

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

Accordingly, comparative amounts for the income statement, 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 except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar unless otherwise stated.

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.

There have been no changes in accounting policy.

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 11 September 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.3 Standards & Interpretations In Issue Not Yet Adopted

Standards and interpretations that have been issued or amended but are not yet effective and have not been adopted are as follows:

NZ IFRS-8

Title	Operating segments.
Summary	Specifies how an entity should report information about its operating segments in annual financial reports.
Application Date of Standard	1 January 2009
Impact on Financial Report	NZ IFRS-8 is a disclosure standard so will have no direct impact on the amounts included in the financial statements. However, the amendments may result in changes to the operating segments disclosures included in the financial report.
Application Date for Group	1 July 2009

NZ IFRS-3R

Title	Business combinations - (revised standard).
Summary	Specifies how an entity should report information about its business combinations in annual financial reports, that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.
Application Date of Standard	1 July 2009
Impact on Financial Report	NZ IFRS-3R introduces a number of changes in the accounting for business combinations that must be applied prospectively and will affect future acquisitions and transactions with minority interests.
Application Date for Group	1 July 2009

NZ IAS-27R

Title	Consolidated and separate financial statements (amended standard)
Summary	Requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amendment standard changes the accounting for losses incurred by subsidiary as well as the loss of control of subsidiary.
Application Date of Standard	1 July 2009
Impact on Financial Report	NZ IAS-27R must be applied prospectively and will affect future acquisitions and transactions with minority interest.
Application Date for Group	1 July 2009

NZ IFRS-2

Title	Share-based payments: Vesting conditions and cancellations.
Summary	Restricts the definition of 'vesting condition' to a condition that includes explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the option does not vest as the result of a failure to meet a non-vesting condition, that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.
Application Date of Standard	1 January 2009
Impact on Financial Report	NZ IFRS-2 will not impact significantly on the financial statements as the Group has not entered into shared-based schemes with non-vesting conditions attached.
Application Date for Group	1 July 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.3 Standards & Interpretations In Issue Not Yet Adopted Cont.

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.
Application Date of Standard	1 January 2010
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 for Group	1 July 2010

NZ IAS-23R

Title	Borrowing costs (revised standard).
Summary	Requires all borrowing costs associated with a qualifying asset to be capitalised.
Application Date of Standard	1 January 2009
Impact on Financial Report	NZ IAS-23R will have no impact on the financial statements of the Group as there are no borrowing costs associated with qualifying assets.
Application Date for Group	1 July 2009

NZ IAS-1R

Title	Presentation of financial statements - revised standard.
Summary	Specifies presentation requirements for financial reporting.
Application Date of Standard	1 January 2009
Impact on Financial Report	NZ IAS-1R will have no impact on the amounts included in the financial statements but will change the presentation previously used in the financial report.
Application Date for Group	1 July 2009

NZ IFRS-7 Amendments

Title	Financial Instruments: Disclosures (Amendments).
Summary	Requires fair value measurements to be disclosed by the source of inputs.
Application Date of Standard	1 January 2009
Impact on Financial Report	NZ IFRS-7 is a disclosure standard so will have no direct impact on the amounts included in the financial statements. However, the amendments may result in changes to the financial instrument disclosures included in the financial report.
Application Date for Group	1 July 2009

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 6).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

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 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 24).
- Assessment of impairment of investment in A2 Exports Pty Limited (refer to Note 13).
- Estimation of fair value of share based payments (refer to Note 18).

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 in the parent company's financial statements.

3.7 Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS-3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS-5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

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 Discontinued Operations

A discontinued operation is a component of an entity or group that has been disposed of during the period which was material to the entity or group (refer note 5); or is classified as held for sale and represents a separate major line of business or geographical area of operations; is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.10 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

3.11 Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in Associates" above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.12 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 3.13).

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.

3.13 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.13 Impairment of Assets Cont.

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.

3.14 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 plan executives, senior employees and key contracts with the Group may be granted options to purchase ordinary shares. Each employee share option converts to one ordinary share of A2 Corporation Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option (equity settled transactions).

There are currently two plans in place to provide these benefits:

- The Old Scheme (OS), which provides benefits to Directors, employees and other persons via Option Scheme Limited, a wholly owned subsidiary of the Company;
- The New Employee Share Option Plan (NESOP), which provides benefits to key 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 18.5.

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 option (the vesting date).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.14 Share-Based Payment Transactions Cont.

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 option;
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 option has vested, any amounts recorded are contingent and will be adjusted if more or fewer options vest than were originally anticipated to do so. Any option 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 option 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 option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the option is recognised immediately. However, if a new option is substituted for the cancelled option and designated as a replacement option on the date that it is granted, the cancelled and new option are treated as if they were a modification of the original option, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share. Refer Note 17.2.

3.15 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.15 Revenue Recognition Cont.

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.

3.16 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of segments operating in other economic environments.

A geographical segment is engaged in providing products or services in a particular economic environment, where the risks and returns are different from those of segments operating in other economic environments.

The Group's primary reporting format is geographic segments.

3.17 Borrowing Costs

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

3.18 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.18 Taxation Cont.

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 directly to equity, in which case the tax is also recognised directly in equity, 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.

3.19 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.

3.20 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.21 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.

3.22 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'.

i) Effective Interest Method

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) Financial Assets at FVTPL

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.22 Financial Assets Cont.

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 31.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.22 Financial Assets Cont.

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 directly in equity.

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.

3.23 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'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.23 Financial Liabilities & Equity Instruments Issued by the Group Cont.

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 31.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.24 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.

3.25 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.

3.26 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.27 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 22.

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 3.17). 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.

3.28 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.28 Foreign Currency Cont.

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.

3.29 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.

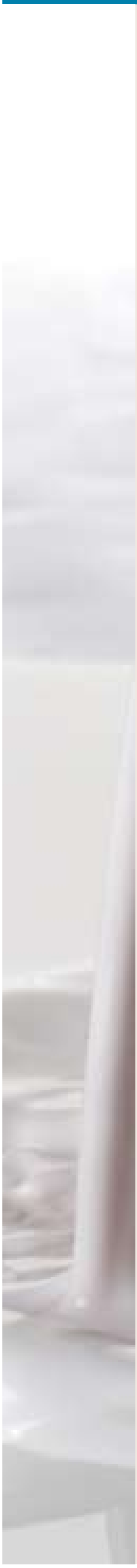
3.30 Earnings Per Share

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 17.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

3.31 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:

<u>Operating Activities</u> - are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

<u>Investing Activities</u> - are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

<u>Financing Activities</u> - are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

3.32 Comparatives

Certain prior year balances have been reclassified to maintain consistency of presentation.

4. SURPLUS FROM OPERATIONS

4.1 Revenue

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	Group		Company	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
CONTINUING OPERATIONS				
Milk royalties	311,968	64,177	311,968	64,177
Milk powder sales	55,718	-	-	-
Licence fees	61,063	1,434,461	61,063	1,434,461
	428,749	1,498,638	373,031	1,498,638
Discontinued operations				
Milk sales	-	1,008,029	-	-
	$428,749	$2,506,667	$373,031	$1,498,638

4.2 Other Income

OTHER INCOME FROM OPERATIONS CONSISTED OF THE FOLLOWING ITEMS:

	Group 2009 (15 Months) $	Group 2008 (12 Months) $	Company 2009 (15 Months) $	Company 2008 (12 Months) $
Continuing operations				
Management fees	116,321	86,239	116,321	153,573
NZTE Market Grant	100,000	100,610	100,000	100,610
Foreign exchange gain	452,044	(6,952)	452,044	36,043
Other	6,004	7,930	23	7,930
	$674,369	$187,827	$668,388	$298,156

4.3 Interest Income

	Group 2009 (15 Months) $	Group 2008 (12 Months) $	Company 2009 (15 Months) $	Company 2008 (12 Months) $
Bank deposits	237,868	6,861	237,868	2,719
Subsidiaries	-	-	-	221,071
Associates	233,562	89,066	-	-
	$471,430	$95,927	$237,868	$223,790
Attributable to:				
Continuing operations	471,430	91,785		
Discontinued operations	-	4,142		
	$471,430	$95,927		

4. SURPLUS FROM OPERATIONS CONT.

	Notes	Group 2009 (15 Months) $	Group 2008 (12 Months) $	Company 2009 (15 Months) $	Company 2008 (12 Months) $
4.4 Finance Expenses					
Interest on borrowings		409,324	514,120	407,773	488,925
Loan fees		50,000	75,000	50,000	75,000
Bank fees & charges		8,308	56,907	6,596	48,968
		$467,632	$646,027	$464,369	$612,893
Attributable to:					
Continuing operations		467,632	612,971		
Discontinued operations		-	33,056		
		$467,632	$646,027		
4.5 Impairment Losses					
Recognised on investments in associates	24	272,667	-	1,827,539	-
Recognised on investments in subsidiaries	13	-	-	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 24.4.

	Group 2009 (15 Months) $	Group 2008 (12 Months) $	Company 2009 (15 Months) $	Company 2008 (12 Months) $
4.6 Other Expenses				
Audit fees	24,000	52,013	24,000	52,013
Bad & doubtful debts (recoveries)	6,030	(6,965)	-	(6,965)
Consultancy, accounting & secretarial fees	388,541	145,868	385,118	109,390
Directors' fees	123,750	88,000	123,750	88,000
Loss on disposal, plant and equipment	11,701	418	11,701	418
Office expenses (postage, printing & phone)	67,550	78,095	66,864	78,095
Operating leases - minimum lease payments	103,226	58,407	112,255	58,407
Restructure costs	334,559	-	334,559	-
Other expenses	458,600	412,271	361,380	478,275
Changes in fair value of financial asset designated as at FVTPL	3,896	(11,896)	3,896	(11,896)
	$1,521,853	$816,211	$1,423,523	$845,737

5. DISCONTINUED OPERATIONS

5.1 Reporting of Discontinued Operations

In April 2005, A2 Corporation Limited created a subsidiary called A2 Exports Pty Limited (formerly named A2 Australia Pty Limited). A2 Corporation Limited is the 100% shareholder of A2 Exports Pty Limited. The assets and liabilities, income and expenses of this subsidiary were consolidated within the Group financial statements for the two month period ended 31 May 2007 and are included in the comparative figures at 31 March 2008.

On 1 June 2007, A2 Dairy Products Australia Pty Limited, a 50% owned associate took over the A2 Milk™ supply activities of A2 Exports Pty Limited. The share of associate losses for the 10 months ended 31 March 2008, relating to this business, are incorporated in the financial statements using the equity method. Refer Note 24 'Investment in Associate'.

As the accounting treatment to recognise the results, assets and liabilities of A2 Exports Pty Limited and A2 Dairy Products Australia Pty Limited are materially different, the results for A2 Exports Pty Limited for the current and prior periods have been shown as 'discontinued operations'.

5.2 Disposal of Assets of A2 Exports Pty Limited

In the prior financial period on 9 May 2007, the Board of Directors entered into a sale agreement to dispose of the A2 Milk™ sales operations of A2 Exports Pty Limited. After the offset of the Company's assets and liabilities there was no effect on net assets, apart from the value of goodwill held by A2 Exports Pty Limited, which was fully impaired during the prior year. The sale of the trading activities of A2 Exports Pty Limited to A2 Dairy Products Australia Pty Limited, a 50:50 joint venture between A2 Corporation and Freedom Nutritional Products Ltd, is consistent with the Group's long-term policy to establish partnerships and licences with entities that can add significant value in the fresh milk retail supply chain. The disposal was completed on 1 June 2007, on which date control of the operations passed to the acquirer. Details of the book value of assets and liabilities disposed of are detailed as follows:

	2009 (15 Months) $	2008 (12 Months) $
Property, plant & equipment	-	7,093
Loss on disposal	-	(7,092)
	-	1
CONSIDERATION		
Consideration paid in cash & cash equivalents	-	1
	-	1
NET CASH INFLOW ON DISPOSAL		
Consideration received in cash & cash equivalents	-	1
Less cash & cash equivalent balances disposed of	-	-
	-	1

5. DISCONTINUED OPERATIONS

5.3 Surplus/(Deficit) for the Year from the Discontinued Operations

	Notes	2009 (15 Months) $	2008 (12 Months) $
Revenue		-	1,012,171
Expenses		-	(1,518,521)
Gross Surplus/(deficit)		-	(506,350)
Finance costs	4.4	-	(33,056)
Impairment of goodwill	12	-	(407,039)
Gain on disposal of milk operation		-	-
Surplus/(deficit) for the year		-	$(946,445)

The cost of inventories recognised as an expense during the period in respect of discontinued operations was $Nil (2008: $799,753). The cost of inventories recognised as an expense was $Nil (2008: $27,319) in respect of write downs of inventory to net realisable value.

5.4 Cash Flows From Discontinued Operations

	2009	2008
Net cash flows from operating activities	-	191,067
Net cash flows from investing activities	-	18,865
Net cash flows from financing activities	-	752,608

6. INCOME TAXES

6.1 Income Tax Recognised in Profit or Loss

	Group		Company	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
Current tax expense/(income)	(739,162)	(1,085,824)	(794,664)	(842,234)
Deferred tax expense/(income) relating to the origination and reversal of timing differences	124,256	182,880	122,251	147,462
Tax losses utilised	-	21,291	71,365	21,291
Effect on deferred tax balances due to the change in income income tax rate from 33% to 30% (effective 1 April 2008)	-	181,805	-	181,805
Effect on tax losses due to the change in income tax rate from 33% to 30% (effective 1 April 2008)	-	218,857	-	218,857
Tax losses not recognised	739,162	845,676	723,299	602,086
Deferred tax asset not recognised	(124,256)	(364,685)	(122,251)	(329,267)
Total tax expense/(income)	-	-	-	-

6. INCOME TAXES CONT.

6.1 Income Tax Recognised in Profit or Loss Cont.

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

	Group		Company	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
Profit/(Loss) from operations	(3,528,057)	(6,298,221)	(8,789,078)	(2,642,666)
Income tax expense/(income) calculated at 30%	(1,058,417)	(2,041,832)	(2,636,723)	(872,080)
Non-deductible expenses	443,511	1,138,888	1,964,310	177,308
Tax losses utilised	-	21,291	71,365	21,291
Effect on deferred tax balances due to the change in income tax rate from 33% to 30% (effective 1 April 2008)	-	181,805	-	181,805
Effect on tax losses due to the change in income tax rate from 33% to 30% (effective 1 April 2008)	-	218,857	-	218,857
Tax losses not recognised	739,162	845,676	723,299	602,086
Deferred tax asset not recognised	(124,256)	(364,685)	(122,251)	(329,267)
Total tax expense/(income)	-	-	-	-

6.2 Income Tax Recognised Directly in Equity

There was no current or deferred tax charged/(credited) directly to equity during the period.

6. INCOME TAXES CONT.

6.3 Current Tax Assets & Liabilities

	Group		Company	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
CURRENT TAX ASSETS:				
Current tax refundable				
Opening balance	40,286	47,028	37,987	37,724
Resident withholding tax receivable	5,017	2,562	5,017	263
Refund received	(38,227)	(9,304)	(38,227)	-
Prior period adjustment to current tax	(2,299)	-	-	-
	$4,777	$40,286	$4,777	$37,987
CURRENT TAX PAYABLES:				
Current tax payable	-	-	-	-
	-	-	-	-
Net Current tax	$4,777	$40,286	$4,777	$37,987

6.4 Tax Losses

Company

The Company has estimated tax losses of $9,720,493 at balance date (2008: $7,230,702). 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 $13,068,392 at balance date (2008: $10,456,387). 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 2009 includes a loss from the Australian subsidiary, A2 Exports Pty Limited of $3,330,377 (2008: $3,295,020) and is 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.

6. INCOME TAXES CONT.

6.5 Deferred Tax Balances

	Group		Company	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
SUMMARY OF UNRECOGNISED DEFERRED TAX BALANCES:				
The following deferred tax assets have not been brought to account as assets:				
Temporary differences	1,714,598	1,838,854	1,695,800	1,818,051
	$1,714,598	$1,838,854	$1,695,800	$1,818,051

i) 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

ii) 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

6. INCOME TAXES CONT.

6.5 Deferred Tax Balances Cont.

iii) 2008 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	-	(3,367)	306	(3,061)
	-	$(3,367)	$306	$(3,061)
GROSS DEFERRED TAX ASSETS:				
Intellectual Property	2,119,658	(130,664)	(180,818)	1,808,176
Property, plant and equipment	376	(225)	(14)	137
Provisions	83,507	(48,625)	(1,280)	33,602
	$2,203,541	$(179,514)	$(182,112)	$1,841,915
Net Deferred Tax Balance				$1,838,854

iv) 2008 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	-	(3,367)	306	(3,061)
	-	$(3,367)	$306	$(3,061)
GROSS DEFERRED TAX ASSETS:				
Intellectual Property	2,107,209	(130,664)	(180,818)	1,795,727
Property, plant and equipment	376	(225)	(14)	137
Provisions	39,735	(13,207)	(1,280)	25,248
	$2,147,320	$(144,096)	$(182,112)	$1,821,112
Net Deferred Tax Balance				$1,818,051

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.

	Group		Company	
	2009	2008	2009	2008
	(15 Months)	(12 Months)	(15 Months)	(12 Months)
	$	$	$	$

6. INCOME TAXES CONT.

6.6 Imputation Credit Account Balances

Balance at beginning of the year	38,553	37,724	38,553	37,724
RWT attached to interest received	5,017	829	5,017	829
Taxation refund received (net)	(37,724)	-	(37,724)	-
Balance at end of the year	$5,846	$38,553	$5,846	$38,553

7. REMUNERATION OF AUDITORS

Audit of the financial statements	24,000	42,013	24,000	42,013
Review of losses in A2DP - 2008	-	10,000	-	10,000
	$24,000	$52,013	$24,000	$52,013

The auditor of A2 Corporation Limited is Ernst & Young.

8. 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:

Short-term employee benefits	768,931	754,575	768,931	710,641
Other long-term employee benefits	-	8,730	-	1,578
Termination benefits	202,086	139,062	202,086	139,062
Share-based payment	105,788	154,538	105,788	154,538
	$1,076,805	$1,056,905	$1,076,805	$1,005,819

Termination benefits are included within restructure costs for the period ended 30 June 2009 (see Note 4.5).

9. CASH & CASH EQUIVALENTS

Cash & cash equivalents	7,165,108	113,613	7,162,454	100
	$7,165,108	$113,613	$7,162,454	100

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$4,406,310 (2008: AUD$38,618) and USD$911,494 (2008: USD$Nil) of short term deposits. Short term deposits earn interest at 0.4% - 3.6% (2008: 5.9%).

10. TRADE & OTHER RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	$	$	$	$
Trade receivables	189,845	188,597	488,837	533,397
Allowance for doubtful debts	-	-	-	-
	$189,845	$188,597	$488,837	$533,397

Total trade receivables (net of allowances) held by the Group at 30 June 2009 amounted to $193,182 (2008: $188,597).

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 $11,032 (2008: $17,066) 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 117 days (2008: 84 days).

The Group's exposures to market risk and credit risk are detailed in Notes 31.5 and 31.11.

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

10.1 Ageing of Past Due But Not Impaired

	Group		Company	
	2009	2008	2009	2008
	$	$	$	$
AGEING ANALYSIS:				
31 - 60 days	7,500	-	7,500	-
61 - 90 days	1,496	1,437	1,496	1,437
90 days +	2,036	15,629	4,552	15,629
Total	$11,032	$17,066	$13,548	$17,066

10. TRADE & OTHER RECEIVABLES CONT.

	Group		Company	
	2009	2008	2009	2008
	$	$	$	$
10.2 Movement in Allowance for Impairment Losses				
Balance at beginning of the year	-	188,143	-	6,965
Impairment losses recognised on receivables	-	-	-	-
Amounts written off as uncollectible	-	(181,178)	-	-
Amounts recovered during the year	-	-	-	-
Impairment losses reversed	-	(6,965)	-	(6,965)
Balance at end of the year	-	-	-	-

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.

11. PROPERTY, PLANT & EQUIPMENT

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

Group	Cost 1 April 2007 $	Additions $	Disposals $	Cost 31 March 2008 $	Accumulated depreciation and impairment charges 1 April 2007 $	Depreciation expense $	Accumulated depreciation reversed on disposal $	Accumulated depreciation and impairment charges 31 March 2008 $	Book Value 31 March 2008 $
Office & computer	117,855	7,542	(7,906)	117,491	78,881	14,112	(1,962)	91,031	26,460
Furniture & fittings	44,507	1,488	(28,465)	17,530	13,853	1,532	(6,446)	8,939	8,591
Total Property, Plant & Equipment	$162,362	$9,030	$(36,371)	$135,021	$92,734	$15,644	$(8,408)	$99,970	$35,051

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

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

Company	Cost 1 April 2007 $	Additions $	Disposals $	Cost 31 March 2008 $	Accumulated depreciation and impairment charges 1 April 2007 $	Depreciation expense $	Accumulated depreciation reversed on disposal $	Accumulated depreciation and impairment charges 31 March 2008 $	Book Value 31 March 2008 $
Office & computer	111,949	7,542	(2,000)	117,491	78,401	14,112	(1,482)	91,031	26,460
Furniture & fittings	17,530	-	-	17,530	7,407	1,532	-	8,939	8,591
Total Property, Plant & Equipment	$129,479	$7,542	$(2,000)	$135,021	$85,808	$15,644	$(1,482)	$99,970	$35,051

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

12. GOODWILL

	Group		Company	
	2009	2008	2009	2008
	(15 Months)	(12 Months)	(15 Months)	(12 Months)
	$	$	$	$
COST				
Balance at beginning of year	-	392,654	-	-
Exchange differences	-	14,385	-	-
Balance at end of year	-	407,039	-	-
ACCUMULATED IMPAIRMENT LOSSES				
Balance at beginning of year				
Impairment losses recognised in the period	-	407,039	-	-
Balance at end of year	-	407,039	-	-
CARRYING AMOUNT				
At the beginning of the year	-	$392,654	-	-
At the end of the year	-	-	-	-

Annual Test for Impairment

When the original operating activities of A2 Exports Pty Limited were disposed of during the 2008 financial year, goodwill associated with this entity was accordingly assessed as fully impaired and was written down to $Nil.

13. INVESTMENTS

	Group		Company	
	2009	2008	2009	2008
	$	$	$	$
INVESTMENTS IN SUBSIDIARIES				
Cost at beginning of period				
A2 Exports Pty Limited 5,533,173 shares@ AUD $1.00				
(Last year - 100 shares)	-	-	5,573,306	113
A2 Finance Limited 100 uncalled shares	-	-	-	-
A2 Exports Limited 100 uncalled shares	-	-	-	-
A2 Australian Investments Pty Ltd 100 uncalled shares	-	-	-	-
	-	-	5,573,306	113
Plus additions				
A2 Exports Pty Limited 700,000 shares @ AUD $1.00	-	-	827,242	5,573,193
	-	-	6,400,548	5,573,306
Less				
A2 Exports Pty Limited - impairment losses	-	-	3,417,550	-
Balance at end of period	-	-	$2,982,998	$5,573,306
OTHER INVESTMENTS				
Fair Value				
Living Cell Technologies Pty Limited	-	24,197	-	24,197
	-	24,197	-	24,197
Total Investments	-	$24,197	$2,982,998	$5,597,503

During the period the issued share capital of A2 Exports Pty Limited (A2EPL) increased from 4,833,173 shares to 5,533,173 shares. Funds paid by A2 Corporation Limited for these shares were used by A2EPL to advance to A2 Australian Investments Pty Limited (A2AIPL). 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 impairment loss represents the difference between the cost of the investment and the Directors' assessment of the fair value less costs to sell of A2EPL.

14. ACCOUNTS PAYABLE

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Trade creditors	62,743	177,402	60,248	177,410
Accruals	100,352	104,061	100,352	104,061
Employee entitlements	189,527	122,060	126,868	52,716
Directors' fees	29,531	10,000	29,531	10,000
Owing to subsidiaries	-	-	-	17,478
	$382,153	$413,523	$316,999	$361,665

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.

15. BORROWINGS

	Interest Rate	Maturity	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Secured - At amortised cost						
Bank overdrafts						
Westpac Current account (i)	26.95%	Call	-	25,794	-	25,794
Bank Loans						
Westpac Credit facility (iia)	10.05%	Call	-	4,575,000	-	4,575,000
Westpac Credit facility (iib)	10.71%	03/09/08	-	3,323,622	-	3,323,622
			-	$7,924,416	-	$7,924,416

(i) A temporary overdraft balance from Westpac, relating to A2 Corporation's current account. There is no formal overdraft facility in place for this account. The amount was repaid after balance date by a drawdown from the Westpac wholesale advance facility.

(ii) A total available credit facility from Westpac with a limit of $10,500,000. This facility was guaranteed by PHC Treasury Limited. Mr C Cook and Mr G Hinton, Directors of A2 Corporation Limited, are also Directors of PHC Treasury Limited.

(iia) From 1 April 2008 this loan was an on call credit facility that expired when it was repaid in September 2008.

(iib) This loan was a credit facility that was on a 90-day rollover.

16. SHARE CAPITAL

	2009	2009	2008	2008
	No. of Shares	$	No. of Shares	$
Balance at beginning of the year	151,087,521	21,193,512	151,087,521	21,193,512
Ordinary shares: Rights issue 26 August 2008	113,315,757	11,331,576	-	-
Ordinary shares: Child Health Research Foundation issued 29 August 2008	13,915,962	1,149,458	-	-
Ordinary shares: Institutional share placement 11 September 2008	33,000,000	3,300,000	-	-
Ordinary shares: Institutional share placement 29 September 2008	50,000,000	5,000,000	-	-
Share buy-back	(188,390)	(11,303)	-	-
	361,130,850	41,963,243	151,087,521	21,193,512
Less: Capital raising costs: Rights issue/placement August - September 2008	-	(1,008,729)	-	-
Balance at June 2009	361,130,850	$40,954,514	151,087,521	$21,193,512

On 4 July 2008, A2 Corporation Limited announced a 3 for 4 renounceable rights issue of ordinary shares to all shareholders at an offer price of 10 cents per share. The rights issue was fully underwritten by Mountain Road Investments Limited, the majority shareholder in the Company.

Shares were issued to the Child Health Research Foundation (CHRF) in return for the cancellation of a Profit Entitlement Agreement with the Company dated 20 April 2004. The agreement had provided that CHRF would receive 5% of the Company's earnings before tax, interest and amortisation. The share issue represented 5% of the Company's ordinary shares at the time of issue. Upon issuing these shares, the agreement was cancelled and the Company has no further obligations to CHRF under that agreement. 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. This share based payment totalled $1,149,458 and has been recognised as an expense in the income statement.

As at 30 June 2009 the Company held Treasury Stock of $11,303 (2008: $NIL). These shares were purchased from shareholders that held small parcels. The average purchase price for these shares was $0.06 per share.
All shares are fully paid ordinary shares and carry equal voting rights. All shares participate equally in any dividend distribution or any surplus upon the winding up of the Company.

Share options granted under the employee share option plan
As at 30 June 2009, executives and senior employees held options over 5,250,000 ordinary shares in aggregate with 750,000 of those options expiring on 30 September 2009, 500,000 expiring on 31 December 2009, and 4,000,000 expiring on 1 April 2010.

Share options granted under the new employee share option plan (NESOP) carry no rights to dividends and no voting rights. Further details of the NESOP are contained in note 19 to the financial statements.

17. EARNINGS PER SHARE

17.1 Basic Earnings Per Share

	2009 Cents per Share	2008 Cents per Share
From continuing operations	(1.22)	(3.54)
From discontinued operations	-	(0.63)
Total basic earnings per share	(1.22)	(4.17)

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

	2009	2008
Net surplus/(deficit):		
From continuing operations	(3,528,057)	(5,351,776)
From discontinued operations	-	(946,445)
	$(3,528,057)	$(6,298,221)

	No.	No.
Weighted average number of ordinary shares for the purpose of basic earnings per share	288,071,439	151,087,521

17.2 Diluted Earnings Per Share

	2009 Cents per Share	2008 Cents per Share
From continuing operations	(1.20)	(3.31)
From discontinued operations	-	(0.59)
	(1.20)	(3.90)

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

	2009	2008
Net surplus/(deficit)		
From continuing operations	(3,528,057)	(5,351,776)
From discontinued operations	-	(946,445)
	$(3,528,057)	$(6,298,221)

	No.	No.
Weighted average number of ordinary shares for the purpose of basic earnings per share	288,071,439	151,087,521
Effect of dilution due to share options	5,250,000	10,500,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	293,321,439	161,587,521

18. SHARE-BASED PAYMENTS

i. Equity-Settled Share-Based Payments

During the 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 16).

ii. Employee Share Option & Incentive 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 more recently through the planned issue of unpaid shares.

Each outstanding share option converts into one ordinary share of the Company on exercise. No amounts were paid or payable by the recipient when the options were issued. The options carry neither entitlement to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

No amounts would have been payable by the recipient on the proposed issue of the unpaid shares. The unpaid shares if issued would have had neither entitlement to dividends nor voting rights until fully paid up.

Options and unpaid shares are granted at the discretion of the Board, subject to the provisions of the NZAX listing rules, which limit the number of options and shares that can be issued without shareholder approval.

18.1 Old Scheme

Option Scheme Limited, a wholly owned subsidiary of the Company, held an option to subscribe for the cumulative total of 1,500,000 ordinary shares in the Company at $0.50 per share at any time up to 30 September 2008. This scheme has expired and there are no options outstanding under this structure.

18.2 New Employee Share Ownership 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 options under the NESOP was made on 17 February 2006 and was effective from 1 April 2006. These options vested on 1 April 2008. If the options were not exercised by the third anniversary of their issue they would lapse (although the date is capable of extension by the Board). Alternatively options will lapse on expiry of the period of six months from the date on which an option holder ceases to be engaged on a full time basis in the business of the Company (subject to them having already vested), except in cases of death or permanent disability or where otherwise agreed by the Board. In circumstances of death or permanent disability, the options may be transferred as contemplated by clause 4 of the NESOP.

As at 31 March 2007 the Board had approved a second allocation of a further 6,000,000 options exercisable, between 1 April 2009 and 1 April 2010 at the exercise price of NZ$0.10.

18. SHARE-BASED PAYMENTS CONT.

18.3 Long Term Incentive Plan

On 1 April 2008, the Company provided for a long term incentive plan (LTIP) for the Company's Chief Executive Officer (CEO). This plan was not implemented due to the redundancy of the New Zealand-based CEO position. The LTIP would have involved the issue of two separate tranches of unpaid shares at different prices, payable in the future.

No advances have been made to Option Scheme Ltd or the Company by any party, for the purposes of exercising any options on issue at balance date.

18.4 Options Series

As at 30 June 2009, A2 Corporation had only one option scheme in operation, the new employee share option plan (NESOP). Under the NESOP, two tranches of options have been issued, with option holders able to subscribe for shares within a one year period, beginning two years after grant date.

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) Old Scheme	990,000	30 Sept 2003	30 Sept 2003	30 Sept 2008	$0.50	$Nil*
(2) New Scheme – Tranche I	5,250,000	1 April 2006	1 April 2008	1 April 2009	$0.09	$113,750
(3) New Scheme – Tranche II	5,250,000	31 March 2007	1 April 2009	1 April 2010***	$0.10	$211,576
(4) LTIP Unpaid Shares – I	3,000,000**	1 April 2008	February 2010	February 2011	$0.12	$163,800
(5) LTIP Unpaid Shares – II	2,000,000**	1 April 2008	February 2011	February 2012	$0.15	$106,800

* Valuation at transition date to IFRS on 31 March 2006.

** A total of 5,000,000 unpaid shares were provided for during the period however with the CEO ceasing to be engaged as an employee of the Company these shares were not issued.

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

Options Exercised During Period

No options were exercised during the year ended 30 June 2009 (2008: Nil).

Options Expired During Period

6,240,000 options expired during the period (2008: Nil).

Weighted Average Remaining Contractual Life

The weighted average remaining contractual life of the options as at 30 June 2009 is 0.66 years (2008: 1.42 years).

Weighted Average Exercise Price

The weighted average exercise price of the options outstanding as at 30 June 2009 is $0.10 (2008: $0.13). The weighted average exercise price of the options exercisable as at 30 June 2009 is $0.10 (2008: $0.50).

Options Forfeited During Period

5,000,000 options lapsed in the period ended 30 June 2009, due to an option holder ceasing to be engaged in the business of the Company (2008: 1,500,000).

18. SHARE-BASED PAYMENTS CONT.

18.5 Estimation of Fair Value of Options and LTIP 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 LTIP 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 LTIP are relatively simple in form and A2 Corporation is not expected to pay a dividend over the life of the options and LTIP. In addition, any decrease in the number of options as a result of forfeiture can be accounted for over the vesting (and amortisation) period.

Input Assumptions

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

	Valuation Date	Share Price	Exercise Price	Volatility	Time to Expiry (years)	Expected Dividends	Risk- Free Rate
(1) Old Scheme	31 Mar 06	$0.07	$0.50	50%	2.5	$0.00	5.81%
(2) New Scheme -Tranche I	31 Mar 06	$0.07	$0.09	50%	3.0	$0.00	5.81%
(3) New Scheme - Tranche II	1 Apr 07	$0.10	$0.10	50%	3.0	$0.00	6.71%
(4) LTIP - Tranche I	1 Apr 08	$0.13	$0.12	50%	2.88	$0.00	6.40%
(4) LTIP - Tranche II	1 Apr 08	$0.13	$0.15	50%	3.88	$0.00	6.40%

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 unpaid shares under the LTIP.

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 valuations.

Other Factors

No other factors have been incorporated into the option and LTIP 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 2009		31 March 2008	
	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) Old Scheme	-	-	-	-
(2) New Scheme - Tranche I	-	-	$48,750	$48,750
(3) New Scheme - Tranche II	$105,788	$105,788	$105,788	$105,788
(4) LTIP – Tranche I	-	-	-	-
(5) LTIP – Tranche II	-	-	-	-

	Group		Company	
	2009	2008	2009	2008
	(15 Months)	(12 Months)	(15 Months)	(12 Months)
	$	$	$	$
19. RETAINED EARNINGS (DEFICIT)				
Balance at beginning of the year	(28,902,161)	(22,603,940)	(22,177,917)	(19,535,251)
Net surplus/(deficit) for the period excluding associate losses	(3,627,269)	(3,801,997)	(8,789,078)	(2,642,666)
Share of associate surplus/(losses)	99,212	(2,496,224)	-	-
	(3,528,057)	(6,298,221)	(8,789,078)	(2,642,666)
Balance at end of year	$(32,430,218)	$(28,902,161)	$(30,966,995)	$(22,177,917)
20. FOREIGN CURRENCY TRANSLATION RESERVE				
Balance at the beginning of the year	(134,035)	(9,526)	-	-
Arising on translation of foreign operations	89,614	(124,509)	-	-
Balance at end of the year	$(44,421)	$(134,035)	-	-

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

21. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE

	Group 2009	Group 2008	Company 2009	Company 2008
Balance at beginning of the year	219,538	65,000	219,538	65,000
Movements during the period	105,788	154,538	105,788	154,538
Balance at end of the year	$325,326	$219,538	$325,326	$219,538

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 8).

During the 2009 year, previous provisions for share based payments provided to certain employees were revered as these were never vested due to staff restructuring.

22. 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	
	2009	2008	2009	2008
	$	$	$	$
22.1 Non-cancellable operating lease payments				
Not longer than 1 year	26,703	61,026	26,703	61,026
Longer than 1 year and not longer than 2 years	9,920	27,436	9,920	27,436
Longer than 2 years and not longer than 5 years	-	23,582	-	23,582
Longer than 5 years	-	-	-	-
	$36,623	$112,044	$36,623	$112,044

23. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 30 June 2009 are as follows:

Name of Subsidiary	Place of Incorporation & Operation	Proportion of Ownership Interest		Principal Activity
		2009	2008	
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 Finance Limited (incorporated 19 April 2006)	New Zealand	100%	100%	Group financing
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 (previously 31 March).				

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

24. INVESTMENT IN ASSOCIATES

24.1 Interest in Associates

		Ownership & Voting Interest		Group Carrying Amount	
Name of Company	Principal Activities	2009	2008	2009 $	2008 $
A2 Milk Corporation LLC	Licensing rights for the supply, distribution & marketing of a2 Milk ™ in USA.	50%	50%	-	222,844
A2 Dairy Products Pty Limited Distribution & marketing of	Distribution & marketing of a2 Milk ™ in Australia & Japan	50%	50%	1,833,510	178,438
				$1,833,510	$401,282

24.2 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 2009, further capital of NZ$421,705 had been advanced to the associate by the Company during the 2009 income year.

During the period the carrying value of investment in the associate was written down to nil for the Company and Group (see Note 24.4).

Under the arrangement revenue and costs are shared equally. The balance date for A2 Milk Company LLC is 31 December. Trading results for the 15 months to 30 June 2009 for the associate are unaudited and a 50% participating interest has been equity accounted by the Company.

24.3 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, an Australian based entity, 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.

The Group had advanced further funds of NZ$1,058,130 during the 2009 income year to the fully owned subsidiary A2AIPL. A2AIPL used this advance to fund its investment in A2DP by taking up a further issue of A2DP convertible notes. During the year A2AIPL exercised its right to convert $AUD2,249,901 of these notes to 2,249,901 ordinary shares in A2DP.

24. INVESTMENT IN ASSOCIATES

24.3 A2 Dairy Products Australia Pty Limited Cont.

ii) Details of Associate Investment Agreement

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

Under the investment agreement between A2DP and its shareholders A2AIPL and Freedom Nutritional Products Limited (FNP), shared control of the associate is specified. A2AIPL agreed to underwrite any losses in excess of AUD$50,000 (excluding certain items) for the five months ended 31 October 2007, while A2DP became established. After 31 October 2007, all revenue and costs were shared equally. At 30 June 2009, A2AIPL had paid underwriting expenses to A2DP of $Nil (2008: $910,218).

Following conversion of all convertible notes held by A2AIPL and FNP each entity now holds 2,250,000 shares each in A2DP.

The balance date for A2DP is 30 June. Trading results for the 15 months to 30 June 2009 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 3 months to 30 June 2008 are unaudited but the results for the year ended 30 June 2009 have been audited.

24.4 Movements in the Amount of the Group's Investment in Associates

	Group		Company	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
Carrying value at beginning of year	401,282	344,741	1,405,834	900,301
Funds advanced	1,479,835	2,611,893	421,705	505,533
Share of net surplus/(deficit) - 2009 income year	(417,374)	(2,496,224)	-	-
Share of net surplus/(deficit) - future income tax benefits relating to 2008 year	516,586	-	-	-
Foreign exchange translation movement	125,848	(59,128)	-	-
Impairment losses	(272,667)	-	(1,827,539)	-
Carrying value at end of year	$1,833,510	$401,282	-	$1,405,834

A2 Milk Company LLC

During the period the Directors considered the carrying value of the investment in the A2 Milk Company LLC associate. Impairment losses were recognised as follows:

- The Group's investment in associate was written down to nil which is the Directors' assessment of the fair value less costs to sell the investment. The impairment loss recognised was $272,667.
- The Company advances to the associate were written down to nil which is the Directors assessment of the fair value less costs to sell the investment. The impairment loss recognised was $1,827,539.

A2 Dairy Products Australia Pty Limited

The share of the 2009 year net surplus from A2DP includes a provision for future income tax benefits of $516,586 arising from the utilisation of prior tax losses incurred by the associate.

24. INVESTMENT IN ASSOCIATES CONT.

24.5 Summarised Financial Information

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

	30 June 2009	31 March 2008
EXTRACT FROM THE ASSOCIATES' BALANCE SHEETS:		
Current assets	6,245,806	3,667,277
Non-current assets	3,214,206	1,993,925
Total assets	9,460,012	5,661,202
Current liabilities	5,248,460	4,858,638
Net assets	4,211,552	802,564
Share of associates' net assets	2,105,776	401,282
Less impairment losses	272,266	-
Carrying value at end of year	$1,833,510	$401,282

	Group 2009 (15 Months) $	Group 2008 (12 Months) $
EXTRACT FROM THE ASSOCIATES' INCOME STATEMENTS:		
Revenue	27,569,760	8,935,970
Net surplus/(deficit)	198,424	(4,992,448)
Share of associates surplus/(deficit)	99,212	(2,496,224)
SHARE OF ASSOCIATES' NET SURPLUS/(DEFICIT)		
Represented by:		
A2 Milk Company LLC	(457,629)	(575,476)
A2 Dairy Products Australia Pty Limited - 2009 income year	40,255	(1,920,748)
A2 Dairy Products Australia Pty Limited - 2008 income tax benefits	516,586	-
	$99,212	$(2,496,224)
COMPANY'S AGGREGATE SHARE OF ASSOCIATES		
Contingent liabilities	-	-
Capital commitments contracted for	-	-
Other commitments contracted for, other than for supply of inventories	-	-

25. 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.

25.1 Ultimate parent

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

25.2 Key management personnel

Details relating to key management personnel, including remuneration paid, are included in Note 8.

25.3 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	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Group								
Subsidiaries:								
A2 Australian Investments Pty Limited – loss underwriting fees paid to A2 Dairy Products Pty Limited	5,055			910,218				
A2 Australian Investments Pty Limited – inter entity interest received from A2 Dairy Products Pty Limited	233,562	89,067					3,337	
Company								
Subsidiaries:								
A2 Exports Pty Limited – management fees received		67,333						
A2 Exports Pty Limited – general business expenses							83,096	121,216
A2 Exports Pty Limited - Equity Investment					6,400,548	5,573,306		
A2 Finance Limited – intercompany interest				164,414			164,414	164,419
A2 Finance Limited – Foreign Exchange recharge receivable from A2 Corporation Limited			17,478					17,478
A2 Australian Investments Pty Limited – intercompany interest		56,652					56,652	56,652
A2 Australian Investments Pty Limited – general business expenses		2,512					2,512	2,512

25. RELATED PARTY TRANSACTIONS CONT.

Related Party	Sales to Related Parties		Purchases from Related Parties		Other Transactions with Related Parties		Outstanding transactions with Related Parties	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Group								
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.	24,980	113,582						
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	107,739	84,650						
A2 Dairy Products Australia Pty Limited – management fees received by A2 Corporation Limited.	116,321	86,240						
A2 Dairy Products Australia Pty Limited – royalties received by A2 Corporation Limited.	181,009							
A2 Australian Investments Pty Limited – loss underwriting fees paid by A2 Corporation Limited.	5,055			910,218				
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	100,000		
Consultancy fees paid to DJD Management Limited, in which Mr D W Mair, a Director of the Company, is a shareholder.					15,000			
Consultancy fees paid to Mr G P Hinton, a Director of the Company.					45,000			

25. RELATED PARTY TRANSACTIONS CONT.

Related Party	Sales to Related Parties		Purchases from Related Parties		Other Transactions with Related Parties		Outstanding transactions with Related Parties	
Company	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
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.					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.					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.

26. COMMITMENTS FOR EXPENDITURE

26.1 Capital Expenditure Commitments

As at 30 June 2009, there were no capital expenditure commitments (2008: AUD$500,000).

26.2 Lease Commitments

Non-cancellable operating lease commitments are disclosed in Note 22.

27. CONTINGENT LIABILITY

At 30 June 2009 there were no contingent liabilities (2008: Security deposit guarantee held in favour of Capital Finance Australia Limited by A2 Exports Pty Limited. $AUD38,619).

On 29 August 2008 ordinary shares were issued to the Child Health Research Foundation in return for the cancellation of a Profit Entitlement Agreement with A2 Corporation Limited. Upon issuing these shares, the Agreement was cancelled and A2 Corporation Limited has no further obligations to the Child Health Research Foundation (see Note 16).

28. SUBSEQUENT EVENTS

There were no events after the balance sheet date to report.

29. SEGMENTAL REPORTING

As at 30 June 2009, the Group operates in one industry; the market for the production and sale of beta-casein A2 milk products, and in three geographical areas; New Zealand, USA and Australia. All inter-segment transactions are conducted on an arms length basis. The parent operates in only one geographic segment, New Zealand.

	Group	
	2009 (15 Months) $	2008 (12 Months) $
REVENUE		
Continuing operations		
New Zealand	1,279,287	2,221,471
Australia	295,261	999,283
Inter-segment	-	(1,435,552)
	1,574,548	1,785,202
Discontinued operations		
Australia	-	1,012,171
	1,574,548	2,797,373
PROFIT (LOSS) BEFORE FINANCE COSTS AND TAX		
Continuing operations		
New Zealand	(3,099,400)	(1,447,030)
Australia	769,271	(2,791,296)
USA	(730,296)	(575,476)
	(3,060,425)	(4,813,802)
Discontinued operations		
Australia	-	(506,350)
Impairment of Goodwill	-	(407,039)
	$(3,060,425)	$(5,727,191)
PROFIT (LOSS) FOR THE PERIOD AFTER FINANCE COSTS & TAX		
Continuing operations		
New Zealand	(3,563,812)	(1,985,004)
Australia	766,051	(2,791,296)
USA	(730,296)	(575,476)
	(3,528,057)	(5,351,776)
Discontinued operations		
Australia	-	(539,406)
Impairment of Goodwill	-	(407,039)
	$(3,528,057)	$(6,298,221)
SEGMENT ASSETS		
Continuing operations		
New Zealand	7,377,464	292,851
Australia	1,847,181	292,329
USA	-	222,842
	$9,224,645	$808,022

29. SEGMENTAL REPORTING CONT.

	Group	
	2009 (15 Months) $	2008 (12 Months) $
SEGMENT LIABILITIES		
Continuing operations		
New Zealand	354,290	8,359,67
Australia	65,154	71,496
	$419,444	$8,431,168
SEGMENT PROPERTY, PLANT & EQUIPMENT		
Purchases		
New Zealand	7,974	7,542
Australia	-	1,488
	7,974	9,030
DEPRECIATION		
New Zealand	18,670	15,644
Australia	-	-
	18,670	15,644
OTHER SEGMENT INFORMATION		
i) Profit/(loss) from Associates		
New Zealand	(457,629)	(575,476)
Australia	556,841	(1,920,748)
	$(99,212)	$(2,496,224)
ii) Impairment Losses		
Australia - Goodwill	-	407,039
New Zealand - Impairment of Associate	272,667	-
	$272,667	$407,039

30. NOTES TO THE CASH FLOW STATEMENT

	Group		Company	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
RECONCILIATION OF NET SURPLUS AFTER TAXATION WITH NET CASH FLOWS FROM OPERATING ACTIVITIES				
Net Surplus /(Deficit) for the year	(3,528,057)	(6,298,221)	(8,789,078)	(2,642,666)
ADJUSTMENTS FOR NON-CASH ITEMS:				
Capitalised interest income	(233,561)	(89,067)	-	-
Changes in fair value of financial asset designated at FVTPL	3,896	(11,896)	3,896	(11,896)
Depreciation	18,670	15,644	18,670	15,644
Expense recognised in profit & loss in respect of equity-settled share-based payments	1,255,246	154,538	1,255,246	154,538
Expense recoveries offset against investment	-	(153,980)	-	(153,980)
Impairment of intangible assets	-	392,654	-	-
Impairment loss on investment in associates	272,667	-	1,827,539	-
Impairment loss on investment in subsidiary	-	-	3,417,550	-
Licence fee	-	(1,408,138)	-	(1,408,138)
Loss on disposal of property, plant and equipment	11,701	7,510	11,701	418
Net foreign exchange (gain)/loss	(435,823)	(114,908)	(430,487)	(18,984)
Share of associates retained (surplus)/deficit for the year	(99,212)	2,496,224	-	-
Write (up)/down of investments to market value of non-current assets	-	-	-	-
	793,584	1,288,581	6,104,115	(1,422,398)
Net movement in working capital	(64,030)	807,850	(34,778)	(259,317)
	$(2,798,503)	$(4,201,790)	$(2,719,741)	$(4,324,381)
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	-
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	$(2,798,967)	$(4,201,790)	$(2,720,205)	$(4,324,381)

31. FINANCIAL INSTRUMENTS

31.1 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.

31.2 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 2008.

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 9, 16, 19, 20 and 21 respectively.

During the 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.

31.3 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.

31. FINANCIAL INSTRUMENTS CONT.

31.4 Categories of Financial Instruments

	Group		Company	
	2009	2008	2009	2008
	$	$	$	$
FINANCIAL ASSETS				
Loans and receivables	189,845	188,597	488,837	537,967
Fair value through profit or loss (FVTPL)	7,165,108	137,810	7,162,454	24,297
FINANCIAL LIABILITIES				
Other financial liabilities				
Trade & Other payables	382,153	413,523	316,999	361,665
Borrowings	-	7,898,623	-	7,898,623
Fair value through profit or loss (FVTPL)	-	25,793	-	25,793

31.5 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 31.6, 31.7 and 31.8 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.

31. FINANCIAL INSTRUMENTS CONT.

31.6 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 monetary assets and monetary liabilities at the balance date are as follows:

	US Dollars	AUS Dollars
	$	$
Group 2009		
Assets:		
Cash and short term deposits	1,411,637	5,499,741
Accounts receivable	-	571,898
	$1,411,637	$6,071,539
Group 2008		
Assets:		
Cash and short term deposits	$Nil	$Nil
Liabilities:		
Accounts payable	$Nil	$69,343
Company 2009		
Assets:		
Cash and short term deposits	1,411,637	5,499,741
Accounts receivable	-	280,868
	$1,411,637	$5,780,609
Company 2008		
Assets:		
Cash and short term deposits	$Nil	$Nil

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2009 and 31 March 2008.

31. FINANCIAL INSTRUMENTS CONT.

31.7 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% changed 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	
	2009	2008	2009	2008
Currency Impact AUD				
Profit or loss	635,146	339,121	547,049	-
Equity	790,820	339,121	547,049	-
Currency Impact USD				
Profit or loss	86,728	52,316	128,331	-
Equity	86,728	52,316	128,331	-

The Group's sensitivity to Australian currency has increased during the current period due to income received from, and investment in, the Australian associate A2DP and the funds held in $AUD bank accounts by A2 Corporation Limited. The Group's sensitivity to US currency has increased during the current period mainly due to an increase in US investments and bank account held in US currency.

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

31. FINANCIAL INSTRUMENTS CONT.

31.8 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. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk. The Company does not hedge this risk.

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

31.9 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 15 months ended 30 June 2009 would decrease/increase by $20,390 (2008: $78,109). This is mainly attributable to the Group's exposure to interest rates on its borrowings during the first six months of the period, and on its monetary assets during the last nine months of the period.

- Other equity reserves would decrease/increase by $Nil (2008: $Nil).

The Group's sensitivity to interest rates has decreased during the current period mainly due to the repayment of external bank debt during the period.

Company

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

- Profit for the 15 months ended 30 June 2009 would increase/decrease by $20,390 (2008: decrease/increase by $78,109). This is mainly attributable to the Company's exposure to interest rates on its borrowings during the first six months of the period, and on its monetary assets during the last nine months of the period.

- Other equity reserves would increase/decrease by $Nil (2008: increase/decrease by $Nil).

The Company's sensitivity to interest rates has decreased during the current period due to the repayment of external bank debt during the period.

31. FINANCIAL INSTRUMENTS CONT.

31.10 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.

31.11 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	
	2009 (15 Months) $	2008 (12 Months) $	2009 (15 Months) $	2008 (12 Months) $
The maximum exposures to credit risk at balance date are:				
Cash and short term deposits	7,165,108	113,513	7,162,454	100
Accounts receivable	189,845	188,597	488,837	533,397
	$7,354,953	$302,110	$7,651,291	$533,497

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.

31.12 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, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 15 is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed later in this note.

31. FINANCIAL INSTRUMENTS CONT.

31.13 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
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
Borrowings		-	-	-	-	-	-
		382,153	-	-	-	-	382,153

	Weighted Average	Fixed Maturity Dates					Total
2008	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	5.9%	68,981	44,532	-	-	-	113,513
Accounts receivable	0.0%	171,531	1,437	15,629	-	-	188,597
		240,512	45,969	15,629	-	-	302,110
Financial liabilities:							
Accounts payable	0.0%	413,523	-	-	-	-	413,523
Borrowings	10.38%	-	7,924,416	-	-	-	7,924,416
		413,523	7,924,416	-	-	-	8,337,939

31. FINANCIAL INSTRUMENTS CONT.

31.13 Liquidity & Interest Risk Tables Cont.

Company

2009	Weighted Average Effective Interest Rate %	Fixed Maturity Dates Less than 1 month $	1-3 months $	3 months - 1 Year $	1-5 years $	5+ Years $	Total $
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
Borrowings		-	-	-	-	-	-
		316,999	-	-	-	-	316,999

2008	Weighted Average Effective Interest Rate %	Fixed Maturity Dates Less than 1 month $	1-3 months $	3 months - 1 Year $	1-5 years $	5+ Years $	Total $
Cash and short term deposits	5.9%	100	-	-	-	-	100
Accounts receivable	0.0%	516,331	1,437	15,629	-	-	533,397
		516,431	1,437	15,629	-	-	533,497
Financial liabilities:							
Accounts payable	0.0%	361,665	-	-	-	-	361,665
Borrowings	10.38%	-	7,924,416	-	-	-	7,924,416
		361,665	7,924,416	-	-	-	8,256,081

31.14 Fair Value of Financial Instruments

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.

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.

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 five independent members, Dr Wayne Burt, Grant Paterson, 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 15 MONTHS ENDED 30 JUNE 2009

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 1 September 2009:

Name	Date of Notice	No's	%
Mountain Road Investments Limited	1 Sep 2009	148,558,701	40.008
EGI Fund (08-10) Investors, LLC	29 Sep 2008	50,000,000	13.466
AMP Capital Investors (New Zealand) Limited	7 May 2009	49,777,674	13.406

2. Directors' Shareholdings

Directors held the following equity securities in the Company at 30 June 2009:

Name of Director	Associated Entity	Beneficial No's	%	Non Beneficial No's	%
C J Cook	Mountain Road Investments Limited	133,702,831	37.004	14,855,870	4.112
G P Hinton	Mountain Road Investments Limited	14,855,870	4.112	133,702,831	37.004
D W Mair	DDD Investments Limited	2,000,000	0.554	4,000,000	1.107
W Burt	Lotus Capital Biotechnology	4,713,066	1.304	Nil	-
A J Allison	Private	809,000	0.224	Nil	-
R G Paterson	Private	340,198	0.094	1,289,944	0.357
G P Hinton	Nikau Investments (2001) Limited	101,872	0.028	Nil	-

3. Twenty Largest Equity Security Holders

The names of the 20 largest holders of equity securities as at 1 September 2009 are listed below:

Top 20 Shareholders	**No's**	**%**
Mountain Road Investments Limited	148,558,701	40.01
New Zealand Central Securities Depository Limited	108,775,949	29.29
Child Health Research Foundation	13,915,962	3.75
Scott Anthony Pannell	10,000,000*	2.69
Ulrike Mclachlan	7,178,563	1.93
DDD Investments Limited	6,000,000	1.62
TP Trustee Brendemeer Limited	5,000,000	1.35
Lotus Capital Holdings Limited	4,713,066	1.27
Peter Bruce Hinton	3,293,064	0.89
Custodial Services Limited	3,158,225	0.85
Forsyth Barr Custodians Limited	3,000,000	0.81
Michael Charles Hare	2,400,000	0.65
Resolution Investments Ltd	1,760,000	0.47
Marint Limited	1,500,000	0.40
Pluteus (No 164) Pty Limited	1,500,000	0.40
Circada Limited	1,400,000	0.38
Lee Paterson Trust Company Limited	947,712	0.26
Lanyon Limited	835,000	0.22
Arthur John Allison & Hilary Margaret Allison	809,000	0.22
Christopher Gerard Aiken & Warwick Anthony Aiken	750,000	0.20
	325,495,242	87.66%

*Issued on 24 August 2009 in accordance with an employee incentive arrangement

4. Spread of Security Holders at 1 September 2009:

	No. of Holders	%	No's
1-1000	1	0.00	1,000
1,001-5,000	287	0.25	923,738
5,001-10,000	255	0.53	1,969,391
10,001-50,000	377	2.45	9,093,348
50,001-100,000	78	1.57	5,816,954
100,001 shares or more	133	95.20	353,514,809
Total	1,131	100.00	371,319,240

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. Appointed Directors

D W Mair was appointed Director on 10 October 2008.

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	25 Broadway Limited	Director
	45 South Exports Limited	Director/Shareholder
	46 Parnell Road Properties Limited	Director
	Arran Bay Estates 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
	Cook Industrial Holdings Limited	Director
	Cook Property Holdings Limited	Director
	Cook Retirement Village Group Limited	Director
	Cook Retirement Village Holdings Limited	Director
	DHT Limited	Director/Shareholder
	Gingold Holdings Limited	Director/Shareholder
	Great Northern Land Company Limited	Director
	HSI Holdings Limited	Director
	HSI Investments Limited	Director
	Martinborough Cottage Grove Limited	Director
	Mountain Road Investments Limited	Director
	MRIHHL Limited	Director
	Newmarket Limited	Director
	NSI Management Limited	Director
	Parnell Investment Holdings Limited	Director Shareholder
	Private Health Care (NZ) Limited	Director
	PHC Equities Limited	Director
	PHC Treasury (UK) Limited	Director/Shareholder
	PHC Treasury Limited	Director
	PHC UK Investments Limited	Director
	PHC Yacht Charters Limited	Director
	Rail Land Lease Limited	Shareholder
	Renaissance Lifecare Limited	Director

Name of Director	Entity	Position Cont.
C J Cook	Renaissance Lifecare Plc	Director
	Sanctuary Residences Limited	Director
	Shubourne Holdings Limited	Director
	Tasman Retirement Village Limited	Director
	Waiheke Retirement Village Limited	Director
	WRV Holdings Limited	Director/Shareholder
G P Hinton	11 Bridge Street (NZ) Limited	Director
	25 Broadway Limited	Director
	45 South Cherries Limited	Director/ Shareholder
	45 South Exports Limited	Director/Shareholder
	45 South Management Limited	Director
	46 Parnell Road Properties Limited	Director
	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
	Colorite Group Limited	Director
	Community Housing Limited	Director
	Cook Advisory Services Limited	Director
	Cook Industrial Holdings Limited	Director
	Cook Property Holdings Limited	Director
	Cook Retirement Village Group Limited	Director
	Cook Retirement Village Holdings Limited	Director
	DHT Limited	Director
	Energi New Zealand Limited	Director
	Gingold Holdings Limited	Director
	Great Northern Land Company Limited	Director/ Shareholder
	Healthphone Holdings Limited	Director
	Hobsonville Land Company Limited	Director
	Housing New Zealand Limited	Director
	Jefton Investments Limited	Director
	Marne Street Hospital Limited	Director
	Martinborough Cottage Grove Limited	Director
	Mountain Road Investments Limited	Director/ Shareholder
	MRIHHL Limited	Director
	Newmarket Limited	Director
	Nikau Investments (2001) Limited	Director/ Shareholder
	North Harbour Property 369 Limited	Shareholder
	NSI Management Limited	Director
	PHC Equities Limited	Director

Name of Director	Entity	Position Cont.
G P Hinton	PHC Treasury (UK) Limited	Director
	PHC Treasury Limited	Director
	PHC UK Investments Limited	Director
	PHC Yacht Charters Limited	Director
	Private Health Care (NZ) Limited	Director
	Rail Land Lease Limited	Director/ Shareholder
	Renaissance Lifecare Limited	Director
	Sanctuary Albany Limited	Director
	Sanctuary Residences (Australia) Limited	Director
	Sanctuary Residences Limited	Director
	Shubourne Holdings Limited	Director
	Southern Nursing Bureau Limited	Director
	Tasman Retirement Village Limited	Director
	Thode Knife & Saw Limited	Director
	Waiheke Retirement Village Limited	Director
	Waiwera Valley Properties Limited	Director
R G Paterson	Arthurton Dairy Farm Limited	Director
	Beecroft Holdings Limited	Director
	Blue Mountain Dairy Farms Limited	Director
	Centre Road Dairy Farm Limited	Director
	Clydevale Dairy Farms Limited	Director
	Con-Agra Limited	Director
	Downs Road Dairy Farm Limited	Director
	E-Media Limited	Director
	Greenfield Farming Limited	Director
	Hillend Developments Limited	Director
	Hope Holdings Limited	Director
	Kaihiku Dairy Farm Limited	Director
	Mandell Limited	Director
	Organic Milk Company of New Zealand Limited	Director
	Otago Consultants Limited	Director
	Otamita Dairy Farm Limited	Director
	Paratai Dairy Farm Limited	Director
	Popotunoa Dairy Farms Limited	Director
	RG Paterson Holding Limited	Director
	South Otago Dairy Holdings Limited	Director
	Southern Dairy Farms Limited	Director
	Southern New Zealand Dairy Limited	Director
	Southland Dairy Consultants Limited	Director
	Waipahi Dairy Farms Limited	Director
	Whitecoomb Farming Co. Limited	Director
	Winton Dairy Holdings Limited	Director
A J Allison	AJA Consulting Limited	Director

Name of Director	Entity	Position Cont.
W L Burt	Bear III Investments Limited	Director
D W Mair	DDD Investments Limited	Shareholder/Director
	DJD Management Limited	Shareholder/Director
	High Modulus International Limited	Director
	Rothford International Limited	Shareholder/Director
	Skellerup Holdings Limited	Shareholder/Director
	Stainless Design Limited	Director
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
	Preprint Solutions Limited	Director/Shareholder
	Thode Knife & Saw Limited	Director/Shareholder
	Riverside Lodge (2005) Limited	Shareholder

DIRECTORSHIPS OF SUBSIDIARY COMPANIES

Directors also hold the position of director with the following companies in which A2 Corporation Limited has ownership interests. No Director of any subsidiary company received any director fees or any other benefits during the year.

Name of Director	Name of Entity	Ownership Interest
C J Cook	Option Scheme Limited	100%
G P Hinton	Option Scheme Limited	100%
	A2 Exports Limited	100%
	A2 Dairy Products Australia Pty Limited	50%
R Le Grice	A2 Finance Limited	100%
	A2 Exports Limited	100%
	A2 Australian Investments Limited	100%
	A2 Australian Investments Pty Limited	100%
	A2 Exports Pty Limited	100%
	A2 Dairy Products Australia Pty Limited	50%
R G Paterson	A2 Exports Pty Limited	100%
D W Mair	A2 Dairy Products Australia Pty Limited	50%

DIRECTORS' REMUNERATION

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

A J Allison	18,750
W L Burt	18,750
C J Cook	18,750
G P Hinton	18,750
R G Paterson	18,750
R Le Grice	18,750
D W Mair	11,250

SHARE OPTIONS

The share options held by Directors at 30 June 2009, in accordance with Note 18 of the Financial Statements were:

Name of Director	Options Held	Dates Allocated	Expiry Date
R Le Grice	2,000,000	March 2007	01 April 2010

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.

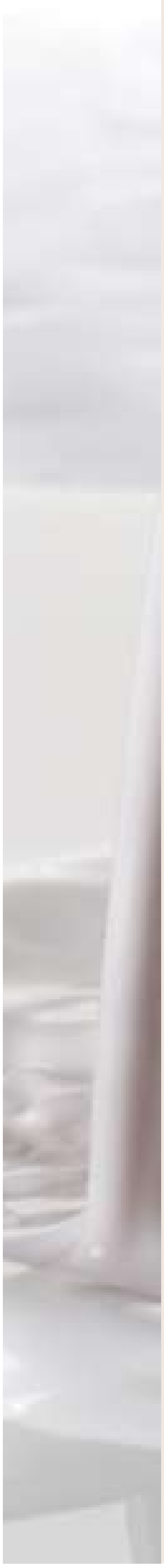
EMPLOYEE REMUNERATION

During the fifteen months to 30 June 2009 the following numbers of employees received remuneration of at least $100,000.

	Number of employees
$100,000 to $109,999	-
$110,000 to $119,999	-
$120,000 to $129,999	-
$130,000 to $139,999	-
$140,000 to $149,999	-
$150,000 to $159,999	-
$160,000 to $169,999	-
$170,000 to $179,999	1
$180,000 to $189,999	-
$190,000 to $199,999	-
$210,000 to $219,999	1
$320,000 to $329,999	1

DONATIONS

The Company made no donations during the period ended 30 June 2009.



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	
R G Paterson	R G Paterson	

ERNST & YOUNG

Chartered Accountants

Auditor's Report

To the Shareholders of A2 Corporation Limited

We have audited the financial statements on pages 9 to 72. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 15 to 33.

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' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 30 June 2009 and of their financial performance and cash flows for the 15 months ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company and group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 9 to 72:
  - comply with generally accepted accounting practice in New Zealand; and
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the financial position of the company and group as at 30 June 2009 and their financial performance and cash flows for the 15 months ended on that date.

Our audit was completed on 11 September 2009 and our unqualified opinion is expressed as at that date.

Ernst + Young

Christchurch

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that an Annual General Meeting of shareholders of A2 Corporation Limited (the "Company") for the year ended 30 June 2009 will be held at the offices of Simpson Grierson, Level 27, Lumley Centre, 88 Shortland Street, Auckland City on Thursday 15th October 2009, commencing at 10.00am.

BUSINESS

The business of the meeting is comprised of ordinary business being:

- Receiving and considering the Company's financial statements for the year ended 30 June 2009.
- The re-election of directors.
- The re-appointment of auditors.
- Considering any general business.

The resolutions to be put before shareholders are set out below.

RESOLUTIONS

The shareholders of the Company resolve that:

Financial Statements

1. The financial statements for the year ended 30 June 2009 together with the Directors' and Auditors' reports be received.

Election of Directors

2. Clifford James Cook be re-elected as a director of the Company.
3. Dr Arthur John (Jock) Allison be re-elected as a director of the Company.
4. David William Mair be re-elected as a director of the Company.

Auditors

5. Ernst & Young be re-appointed as auditors of the Company and that the Board of Directors be authorised to fix their remuneration for the ensuing year.

GENERAL BUSINESS

To consider any other matters which may properly be brought before the meeting.

PROXIES

A shareholder entitled to attend and vote may appoint a proxy to attend and vote on that shareholder's behalf. The proxy need not be a shareholder of the Company. Proxy forms must be received at the office of the Share Registrar, Link Market Services Limited, not less than 48 hours prior to the date and time of the meeting. A proxy form is enclosed with this notice. Your attention is also drawn to the Voting Exclusion Statement contained in the Explanatory Notes and summarised on the proxy form.

CORPORATE REPRESENTATIVES

A corporation which is a shareholder may appoint a representative to attend the meeting on its behalf in the same manner as it could appoint a proxy.

POSTAL VOTING

A shareholder is entitled to exercise his/her vote at the meeting by casting a postal vote. A postal voting form is incorporated in the proxy form.

REQUISITE MAJORITIES

All resolutions proposed for the meeting are ordinary resolutions requiring the approval of a simple majority of the votes of those shareholders entitled to vote and voting (in person or by proxy) in order for them to be passed.

By order of the Board of Directors.

Cliff Cook
Chairman
10 September 2009

EXPLANATORY NOTES

Resolutions 2 and 3

1. In accordance with the Company's constitution, at least one third of the Board of Directors must retire from office at the annual meeting of the Company. The directors who are to retire are those who have been in office longest since they were last elected or re-elected. Accordingly, Cliff Cook and Jock Allison will be required to retire, but being eligible to do so in accordance with the constitution, offer themselves for re-election.

Resolution 4

2. David Mair was appointed as an additional director by the Board during the year. Accordingly, he must retire from office at this annual meeting of the Company, but being eligible to do so, offers himself for re-election.

PROXIES AND REPRESENTATIVES

3. Proxies must reach the Company's registered office 48 hours before the time of the special meeting. If a shareholder wishes to post the proxy form, it should be posted to A2 Corporation Limited, C/- Link Market Services Limited, 138 Tancred Street, P O Box 384, Ashburton, to arrive not later than 48 hours prior to the date and time of the meeting.
4. Any shareholder entitled to attend and vote may appoint another person as proxy to attend and vote on their behalf. A proxy need not necessarily be a shareholder of the Company.
5. A corporation which is a shareholder of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the special meeting.

INSTRUMENT APPOINTING PROXY

A2 CORPORATION LIMITED – INSTRUMENT APPOINTING PROXY

I/We ____

of ____

Shareholder Number ____

being a shareholder of A2 Corporation Limited (the "Company"), hereby appoint:

____

of ____

or failing him/her ____

of ____

as my/our proxy to vote for me/us and on my/our behalf at the Annual Meeting of the Company to be held on 15 October 2009 and at any adjournment thereof.

In respect of the matters listed below, I/we direct my/our proxy to vote in the following manner:

	Agenda Item	**Tick appropriate box**	
	Ordinary Business		
		In Favour	**Against**
1.	Receive the annual report, including the financial statements		
2.	Re-elect Clifford James Cook as a Director		
3.	Re-elect Dr Arthur John Allison as a Director		
4.	Re-elect David William Mair as a Director		
5.	Record re-appointment of Auditors and to authorise Directors to fix their remuneration for the ensuing year		

Unless directed otherwise, the proxy will vote as he or she thinks fit, or abstain from voting.

Signed this day of 2009

Signature/s: ____

____

NOTES

1. To be valid, this proxy form and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney must be received by Link Market Services Limited, 138 Tancred Street, PO Box 384, Ashburton, not less than 48 hours before the time fixed for the meeting.
2. Any shareholder is entitled to appoint a proxy to attend the Annual Shareholders' Meeting of the Company in place of such shareholder. A proxy need not be a shareholder of the Company.
3. This proxy form must be signed by the shareholder or his/her/its attorney duly authorised in writing. In the case of a joint shareholding, this proxy form must be signed by each of the joint shareholders (or their duly authorised attorney). In the case of a corporate shareholder, this proxy form must be signed by a director or a duly authorised officer acting under the express or implied authority of the shareholder, or an attorney duly authorised by the shareholder.
4. If this form is returned without a direction as to how the proxy shall vote on any particular resolution, the proxy will exercise the proxy's discretion as to whether to vote and, if so, how.

NOTES

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