

**A2 CORPORATION LIMITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005**

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**A2 CORPORATION LIMITED  
COMPANY DIRECTORY  
AS AT 31 MARCH 2005**

<b>Company Number</b>	1014105
<b>Issued Capital</b>	50,362,500 Ordinary Shares
<b>Registered Office</b>	Level 5 235 Broadway Newmarket Auckland
<b>Shareholders</b>	Listed on NZAX (from April 21, 2004)
<b>Share Registrar</b>	BK Registries Limited PO Box 384 Ashburton
<b>Directors</b>	Mr C J Cook (Appointed 31st May 2004 Acting Chairman) Dr A J Allison Dr W L Burt Mr J K Guthrie (Resigned 1st May 2005) Mr G P Hinton (Appointed 31st May 2004) Mr R G Paterson
<b>Accountants</b>	Jackson Valentine Limited P O Box 5546 Dunedin
<b>Auditors</b>	Ernst & Young P O Box 2091 Christchurch
<b>Bankers</b>	ASB Bank Auckland
<b>Solicitors</b>	Simpson Grierson Private Bag 92518 Wellesley Street Auckland

## **A2 CORPORATION LIMITED CHAIRMAN AND CHIEF EXECUTIVES' REPORT**

Dear Shareholder

The Directors of A2 Corporation Limited (A2 Corp) present their report and audited financial statements for the year ended 31 March 2005.

The fifth year of operation was one of consolidation and implementation of our revised strategies. With the view to the medium and long term interests of the company and shareholders, the Board commissioned an independent business and strategy analysis in July 2004. The exercise, which was undertaken by noted corporate accountants and business advisors Ferrier Hodgson, clearly identified that A2 Milk is a premium value-added product appealing to the discerning consumer. Furthermore it underscored the need for A2 Corp to participate and closely collaborate with commercial partners in joint initiatives.

In November the Board formally adopted the revised business and strategic plan. Arising from this a new appointment was made to the executive in the form of Mr Richard Le Grice, who assumed the position of CEO International Business. Additionally a revision of all licence agreements was undertaken to provide for greater control of product and brands in terms of marketing and promotion.

These matters were formally disclosed to the NZAX in December 2004.

### **Financial Results**

The Company posted a pre-tax loss for the year ended 31 March 2005 of \$9,018K. Total Revenue increased by a marginal 2.2%; Cash receipts from customers have decreased from last year due to the Company writing off as a bad debt invoices raised for herd testing costs against the Australian company A2 Dairy Marketers which went into receivership. The resulting write off for the bad debts amounted to \$108k and an additional \$161k has also been raised in provision of amounts the Company considers doubtful. Both amounts are included in the reported loss.

During the year a change in accounting policy relating to the valuation of intangible assets meant that the carrying value of the Companies' patents and trade marks were written down to zero value. The newly adopted policy simply allows all expenditure on these types of asset to be expensed as incurred, and also allows for a revaluation of the assets in future years. The policy was adopted primarily due to the difficulty in assessing reliably the timing of future revenue arising from these patents and trade marks. This does not detract from the directors' view that the patents the Company hold represent significant value to the organisation and future of the business. The adjustment charged to the statement of financial performance amounts to \$6,687k and should be viewed as an exceptional entry. Inversely, amortisation charges relating to these patents and trade marks will now not be raised in future years, resulting in gains of approximately \$668k per annum. Under the previous accounting policy these patents would have been amortised for a further 8 years.

One unusual item is included and contributed \$201k to the loss above. This relates to a realised loss arising from the sale of the Company's investment in A2 Australia Pty Ltd to the Singaporean based multi national, Fraser & Neave in December / January 2005. The negotiated licence agreement secures satisfactory future royalty payments, and the Company has assisted substantially in establishing the Australian market. As indicated in the half year summary, A2 Milk is now also available in Sydney and Adelaide, with launches into further markets pending. A2 Corp continues to work closely in supporting its' licensees and product.

The US\$400k sales to the American company Idea Sphere Inc, reflected in the half year results, were also reversed as part of a new revised agreement that includes the full consideration of past obligations. Further details are described under 'Business Activities'.

## **A2 CORPORATION LIMITED CHAIRMAN AND CHIEF EXECUTIVES' REPORT**

### **Board Structure and Events**

In June 2004 Mr Cliff Cook and Mr Greg Hinton were appointed to the Board of A2 Corp, with Mr Cook being appointed Acting Chairman to succeed Mr Jim Guthrie.

In May 2005 the Company announced the regretful resignation, owing to ill health, of Mr Jim Guthrie as a director. Mr Guthrie, who may remain an active participant of the Research and Development subcommittee, served as the Chairman from the Company's incorporation in 2000 until April 2004. The Company would like to take the opportunity to extend its gratitude to Mr Guthrie for his invaluable contribution and leadership throughout the Company's establishment, growth and development. The Company would also like to cite and congratulate Mr Guthrie on his recent awarding of The Companion of the NZ Order of Merit (CNZM) in the 2005 New Years Honours list for services to Environmental Law, Conservation & the Community.

The Company's Board of Directors currently comprises; Mr Cliff Cook (Acting Chairman), Mr Greg Hinton, Dr Jock Allison, Dr Wayne Burt and Mr Grant Paterson.

As announced last year three board committees have been formed and convene at least twice annually. Their composition will be reviewed when appropriate; members of the committees for the financial year 2004-2005 were as noted below;

- |              |  |
|--------------|--|
| Audit        | - Mr Greg Hinton (Chair) and Mr Grant Paterson   |
| R & D        | - Mr Jim Guthrie (Chair - resigned 1 May 2005) and Dr Jock Allison. A new appointment to replace Mr Jim Guthrie will follow in due course. |
| Remuneration | - Mr Cliff Cook and Mr Greg Hinton   |

This structure will ensure sound implementation of, and adherence to A2 Corp's adopted strategy and enable it to meet its compliance obligations.

### **Management**

The revised business plan called for structural changes in the Company's management team to allow for greater involvement in overseas business activities. As previously noted, A2 Corp's business is now overseen by joint CEO's following Richard Le Grice's appointment as CEO International Business. Another key appointment was that of Mark Verster appointed as Chief Financial Officer.

The Company's congratulations are extended to CEO Andrew Clarke who has recently been awarded a Doctorate in Biochemistry and Molecular Biology by the University of Auckland.

### **Share structure changes**

On April 19, 2004 A2 Corp adopted a new constitution in which all shares were classified as ordinary shares with one class ranking pari passu in all respects. Those shares were listed on the NZAX on April 21, 2004.

In February 2005 the Company provided to the stock exchange an Appendix 7 notification in relation to a consolidation of ordinary shares with share capital consolidated to 50,362,500 ordinary fully paid shares on a 1 for 5 basis.

Shareholder numbers remain at around 1200, with a number of shareholders based in New Zealand, North America, Europe and Asia.

## **A2 CORPORATION LIMITED**

### **CHAIRMAN AND CHIEF EXECUTIVES' REPORT**

#### **Business Activities**

##### **Australia**

A major initiative was undertaken to rebuild the Company's business in Australia following notification on 30 September 2004 that A2 Dairy Marketers (A2DM) had gone into provisional administration. A2DM, registered in Queensland, had produced and distributed A2 Milk in the Brisbane and Adelaide markets. A2 Milk continued to be produced by Fairbrae Milk, the original licensee, with distribution in areas of New South Wales, South Australia and Queensland.

Recognising a strong and sustainable demand for A2 Milk from the Australian consumer, A2 Corp took steps to ensure the ongoing availability of A2 Milk in these markets and as such established a wholly owned subsidiary A2 Australia Pty Ltd (A2 Australia) in October 2004. This initiative enabled control of the supply and distribution of A2 Milk. Within a month of A2 Australia's incorporation A2 Milk was made widely available in supermarket chains Coles-Meyer, Woolworth and Bi-Lo as well as in health and natural product shops in areas of Queensland and South Australia. This was achieved in conjunction with positive television and news media publicity along with effective promotional advertising.

In January 2005 A2 Corp advised the stock exchange that an agreement with F&N Dairy Investments Pte Ltd relating to the acquisition of A2 Australia had been executed. The consideration received by A2 Corp under the agreement (the majority of which comprised the repayment of shareholder advances), was approximately A\$1,064k. A2 Corporation will continue to benefit from ongoing royalties which are expected to grow substantially from the initial market base of two cities (Brisbane and Adelaide) Since the sale of A2 Australia, A2 Milk has been launched into the Sydney market.

F&NDI is a wholly-owned subsidiary company of Fraser and Neave Limited, a Singapore incorporated company listed on the Singapore Exchange, which has the resources and capital to roll out product to other major cities and market. Fraser & Neave are joint owners of Asia-Pacific Breweries with Heineken and have a dominant standing in Asia in the food and beverage, property, and printing and publishing industries setting strategic directions for its companies across all three industries.

##### **North America**

Pursuant to the announcement made on 28 February 2005 relating to licence arrangements with IdeaSphere Inc (ISI) of Grand Rapids, Michigan for the period of September 2003 to October 2004, the two companies have negotiated a revised business relationship as described below.

In alignment with the adopted strategic plan, the Company's relationship with ISI is being restructured into a joint initiative to harmonise with the newly adopted business model to control the production and marketing of A2 Milk in North America.

A non binding memorandum of understanding has been signed pending finalisation of formal documentation. ISI's previous obligations to A2 Corp have been taken into consideration as part of the proposed revised relationship. Documentation formalising this agreement is pending and is expected to be finalised later this year.

ISI is promoted as a provider of over 200 high-quality, ready-for-sale natural and organic vitamins, nutrients and other earth-friendly products. ISI also controls TwinLab, an internationally recognized leader in the health and wellness industry.

## **A2 CORPORATION LIMITED CHAIRMAN AND CHIEF EXECUTIVES' REPORT**

### **New Zealand**

As part of the ongoing review of New Zealand operations the supply and distribution of A2 Milk has been consolidated down to two licensees, Ridge Group based in Te Rapa, and Fresha Valley located in Puhoi. A2 Milk branded as “Ridge Organic”, “Ridge Natural” and “Fresha Valley A2 Milk” is available in major supermarkets in the upper North Island and to a limited number of retailers in the lower North Island and South Island. Demand from consumers in areas far removed from the point of production continues to be a driving force in this distribution and the Company is currently evaluating production opportunities to service these areas more readily.

Sales continue to grow, albeit off the limited base as described above, and A2 Corporation has been working closely with the two noted licensees to develop initiatives to increase the distribution and market penetration of A2 Milk.

### **Other Markets**

In conjunction with the prosecution of intellectual property applications in Europe and Asia the Company has engaged a number of prospective partners within these two territories and is currently evaluating proposed opportunities. It is expected that initiatives relating to the supply and distribution of A2 Milk in these two territories will be formalised over the next 12 months.

### **Research and Development**

Previous research and development (R&D) initiatives undertaken by the Company between 2000 and 2004 have led to the application of three further patents relating to the production and application of A2 Milk and the submission of prepared manuscripts to research journals. Further to this, it should be noted that quality assurance and control processes have been further refined for application to business initiatives.

It is the intent of your board and management to appropriate significant resource to the re-commenced of R&D initiatives over the next three years. The proposed R&D will have three key focuses:

1. Build upon past research of A2 Corp and others to further test hypotheses relating to A2 Milk.
2. To support current and develop further intellectual property.
3. The development and refinement of technologies applying to quality assurance, quality control and operational procedures.

### **Budgets and business plans**

In conjunction with the review of the Company’s business strategy, budgets and allocation of resource have been committed to guiding the Company’s development for the next 3-5 years.

Over this period it is expected that in year one the restructuring and consolidation of current operations, as well as the establishing of new ventures, will continue. It is envisaged that year 2 will be primarily dedicated to growth and support of established businesses, with profits anticipated to be realised in year 3.

**A2 CORPORATION LIMITED**  
**CHAIRMAN AND CHIEF EXECUTIVES' REPORT**

**Capital Raising**

Over the next few months a capital raising of \$5 million is planned on the basis of a 2-for-1 pro rata renounceable rights issue of new shares at a discounted price of NZ\$0.05. The cash raised from this rights issue will be utilised to fund the business and to implement the revised strategy with regard to dedication of resource to overseas initiatives in the upcoming years.

This issue is fully underwritten by Mountain Road Investments Limited, a company associated with Messrs Cook and Hinton. An offering document will be provided to shareholders and the market following shareholder approval of resolutions as outlined in the Notice of Meeting.

**Risk Identification and Management**

The Company has in place policies and procedures to identify areas of significant business risk and implement procedures to effectively manage those risks. Where appropriate the Board obtains advice directly from external advisors. Once the significant business risk is identified the Board is advised and corrective action is taken promptly to mitigate or monitor the risk.

**Treasury Policy**

Exposure to foreign exchange and interest rate risks is managed in accordance with the Company's treasury policy that sets limits on management's authority. The present policy requires all receipts to be converted into New Zealand currency as soon as cleared funds are available, whilst debts due in foreign currencies are paid first from funds available in the company's accounts overseas (if any) and then in the normal course of business from New Zealand funds.

**Conclusion**

The Board of directors remain confident about the long term prospects for the Company and are encouraged by the widespread interest being expressed by potential overseas investors and joint venture partners along with positive consumer reports. The potential in both the Asian and North American markets specifically are significant, and, with the proper resolve and partnerships, they believe the Company can achieve new heights in market presence and profitability. The structure now adopted is working well, with several positive indications of early success already evident.

The board of directors and management would like to note that they have received numerous communications from consumers conveying perceived benefits associated with the consumption of A2 Milk. Additionally parallel reports relating to reported improvements in quality of life have independently been carried by the TV and news media in Australia. The Company is delighted that some consumers are realising the potential benefits of A2 Milk and recognise that there is sound scientific hypothesis, albeit to be tested, associated with the reported observations.

Your Board remains committed to the delivery of shareholder value and building of a desirable and stable company



Mr Clifford James Cook  
(Acting Chairman)



Dr Andrew John Clarke  
(Chief Executive Officer)



Mr Richard Oram Le Grice  
(CEO International Business)

**A2 CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 31 MARCH 2005**

	Notes	<b>2005</b>	<b>2004</b>
		\$	\$
Revenue		449,104	439,483
Expenses	6	<u>9,466,737</u>	<u>2,597,465</u>
Operating Surplus (Deficit) before Income Tax		(9,017,633)	(2,157,982)
Taxation Expense	4	-	-
Net Surplus (Deficit) for the year		<u><u>(9,017,633)</u></u>	<u><u>(2,157,982)</u></u>

This statement should be read in conjunction with the Notes on Pages 12 to 19



**A2 CORPORATION LIMITED**  
**STATEMENT OF MOVEMENTS IN EQUITY**  
**FOR THE YEAR ENDED 31 MARCH 2005**

	<b>2005</b>	<b>2004</b>
	\$	\$
<b>Net Surplus (Deficit) for the year</b>	(9,017,633)	(2,157,982)
Contributions by Owners	3,363,913	-
Distributions to Owners	-	-
Other Movements	-	-
<b>Movement for the Year</b>	(5,653,720)	(2,157,982)
Equity at the Beginning of the Year	5,429,964	7,587,946
<b>Equity at the End of the Year</b>	(223,756)	5,429,964

This statement should be read in conjunction with the Notes on Pages 12 to 19

**A2 CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2005**

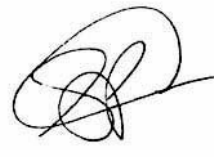
	Notes	2005 \$	2004 \$
<b>EQUITY</b>			
Share Capital	2	16,356,413	12,992,500
Retained Earnings (Deficit)	3	<u>(16,580,169)</u>	<u>(7,562,536)</u>
<b>Total Equity</b>		<u>(223,756)</u>	<u>5,429,964</u>
 <b>CURRENT ASSETS</b>			
Cash and Short Term Deposits	12	1,578	10,619
Accounts Receivable and Accruals		158,138	106,318
RWT Refund Due		<u>18,630</u>	<u>12,221</u>
<b>Total Current Assets</b>		178,346	129,158
 <b>CURRENT LIABILITIES</b>			
Bank Overdraft (Secured)	12	109,704	601,917
Accounts Payable and Accruals		335,655	181,006
Employee Entitlements		13,712	18,368
BNZ Term Loan		<u>-</u>	<u>625,000</u>
<b>Total Current Liabilities</b>		459,071	1,426,291
<b>WORKING CAPITAL</b>		(280,725)	(1,297,133)
 <b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	7	30,818	25,683
Investments	5	26,151	13,995
Intangible Assets	8	<u>-</u>	<u>6,687,419</u>
<b>Total Non Current Assets</b>		56,969	6,727,097
 <b>NET ASSETS</b>		 <u>(223,756)</u>	 <u>5,429,964</u>

For and on behalf of the Board of Directors, which authorised the issue of the financial report on the 9th day of June 2005.

Directors



C. J. Cook



G. P. Hinton

This statement should be read in conjunction with the Notes on Pages 12 to 19

**A2 CORPORATION LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2005**

	Notes	2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Receipts from customers		96,928	374,390
Interest received		32,047	1,255
<b>Cash was disbursed to:</b>			
Payments to suppliers and employees		2,122,914	1,676,415
Research costs		6,866	112,178
Interest expense		28,664	53,697
RWT paid		6,410	1,041
Net cash flows from (used in) operating activities	16	<u>(2,035,879)</u>	<u>(1,467,686)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was received from:</b>			
Sale of Investment in A2 Australia		1,152,465	
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment		18,616	2,420
Purchase of Investment in A2 Australia		1,353,796	
Net cash flows from (used in) investing activities		<u>(219,947)</u>	<u>(2,420)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
BNZ Term Loan			625,000
Increase in Share Capital		3,363,913	
<b>Cash was applied to:</b>			
BNZ Term Loan (repayment)		625,000	
Net cash flows from (used in) financing activities		<u>2,738,913</u>	<u>625,000</u>
<b>NET INCREASE (DECREASE) IN CASH BALANCES</b>		<u>483,088</u>	<u>(845,106)</u>
Opening Cash Carried Forward		(591,298)	261,770
Effect of exchange rate changes on cash		84	(7,962)
<b>ENDING CASH CARRIED FORWARD</b>		<u>(108,126)</u>	<u>(591,298)</u>
<b>COMPOSITION OF CASH</b>			
Cash and Short Term Deposits		1,578	10,619
Less Bank Overdraft		<u>(109,704)</u>	<u>(601,917)</u>
		<u>(108,126)</u>	<u>(591,298)</u>

This statement should be read in conjunction with the Notes on Pages 12 to 19

**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**1 Statement of Accounting Policies**

**Reporting Entity**

The financial statements presented here are for the reporting entity: A2 Corporation Limited.

These financial statements are presented and prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

**A. Measurement Base**

The general accounting policies recognised as appropriate for the measurement and reporting of financial performance, and the financial position on the historical cost basis are followed by the company.

**B. Specific Accounting Policies**

The following specific accounting policies which significantly affect the reporting of financial performance and financial position have been applied:

**(i) Revenue Recognition**

Turnover shown in the financial statements comprises the amounts received and receivable by the company for goods/services supplied to customers in the ordinary course of business, excluding goods and services tax.

**(ii) Depreciation**

Depreciation is provided on a diminishing value basis on all property, plant and equipment at rates calculated to allocate the assets' cost or valuation, less estimated residual value, over their estimated useful lives.

Depreciation rates are:

Office and computer equipment	14.4% - 60%
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**(iii) Property, Plant and Equipment**

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

**(iv) Intangible Assets**

In line with a change in accounting policy, patent rights and trade mark costs are expensed as incurred to the statement of financial performance. They will be recognised if it is probable that the future benefits that are attributable to them will flow to the business and that their resultant value can be measured reliably.

**(v) Impairment**

If the recoverable amount of an asset is less than its carrying amount, the item is written down to its recoverable amount. The write down of an asset recorded at historical cost is recognised as an expense in the statement of financial performance. When a revalued asset is written down to the recoverable amount the write down is recognised as a downward revaluation to the extent that the revaluation reserve of the class of asset concerned is in credit.

The carrying amount of an asset that has previously been written down to recoverable amount is increased to its current recoverable amount if there has been a reversal of the impairment loss. The increased carrying amount of the item will not exceed the carrying amount that would have been determined if the write down to recoverable amount had not occurred. Reversals of impairment write downs are accounted for as follows:

- On assets that are not revalued the reversal is recognised in the statement of financial performance.
- On revalued assets the reversal is recognised as revenue to the extent that the impairment was recognised as an expense, and the balance is treated as an upward revaluation.

**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**(vi) Receivables**

Receivables are stated at their net realisable value.

**(vii) Investments**

Investments are recorded at estimated market value.

**(viii) Consumable Supplies**

Consumable supplies are recorded at cost.

**(ix) Research and Development Costs**

Research expenditure is expensed in the period incurred. Development costs are expensed as incurred, except to the extent that such costs meet the criteria for recognition of an asset under FRS 13 - Accounting for Research and Development Activities. Any costs considered recoverable will then be amortised on a systematic basis over the period in which the corresponding benefits are expected to arise. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable. Any amount so identified is written off.

**(x) Taxation**

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

**(xi) Goods and Services Tax (GST)**

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST.

**(xii) Financial Instruments**

Financial instruments recognised in the statement of financial position includes cash balances, receivables, and payables. The company is not party to any off balance sheet financial instruments.

**(xiii) Foreign Currencies**

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the statement of financial performance.

**(xiv) Leases**

The company leases certain premises.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

**C. Changes in Accounting Policies**

The accounting policy in respect of Intangible Assets has been amended to reflect the uncertainty as to the timeframe over which the cost of the patents and trademarks may ultimately be recovered. Patents and Trade Marks are no longer recorded at cost and amortised over periods of thirteen and five years respectively. Instead they are now expensed as incurred in the statement of financial performance. Should there exist sufficient grounds to revalue them, this will be done annually, and carrying values so determined will be subject to impairment testing in each successive year. The effect of this change is to increase the expenses in the year ended 31 March 2005 by \$6,687,419 and to adjust the value of the intangible assets to zero. All other accounting policies remain unchanged.

**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**2 Share Capital**

*On April 19th, 2004 the Company adopted a new Constitution which restructured the share capital into one class of shares, all ranking pari passu. Prior to this the Company's share capital was split into A shares and B shares with different rights as noted below.*

			Issue date	No.	2005 \$	2004 \$
A Class shares	fully paid	b/fwd		20,422,059	30,000	30,000
B Class shares	fully paid	b/fwd		115,725,000	12,962,500	12,962,500
				<u>136,147,059</u>	<u>12,992,500</u>	<u>12,992,500</u>
B Class shares	Swop	Conversion A to B		50,302,941	-	
B Class shares	fully paid	14 April 2004		5,000,000	490,000	
<b>Reclassification to ordinary shares</b>		19 April 2004		<u>191,450,000</u>	<u>13,482,500</u>	<u>12,992,500</u>
Ordinary Shares	fully paid	26 May 2004		60,362,500	2,873,913	
				<u>251,812,500</u>	<u>16,356,413</u>	<u>12,992,500</u>
Consolidation of shares at 5:1 (251,812,500 divided by 5)		2 March 2005		50,362,500		
				<u>50,362,500</u>	<u>16,356,413</u>	<u>12,992,500</u>

Except as provided to the contrary in the constitution and summarised below, all A and B shares had the same rights and privileges and were subject to the same restrictions. Each share had an equal right to share in any surplus on winding up of the company.

The holders of A Class Shares were entitled to:

- a. 15% of the total voting rights on a poll and 15% of all distributions to shareholders
- b. always hold 15% of the shares in the company.
- c. To appoint one of the directors of the company, and from time to time and at any time, to remove from office any director so appointed and to appoint another person in his or her place.

The holders of B Class Shares were entitled to:

- a. 85% of the total voting rights.
- b. To appoint three of the directors of the company, and from time to time and at any time, to remove from office any director so appointed and to appoint another person in his or her place.

**Capital Restructure**

As at 31 March 2004, the Company's share structure was divided into A and B share, as detailed above. Post 31 March 2004, the sole A shareholder agreed to give up its entrenched rights associated with the A shares and certain other rights in return for the issue of 50,302,941 B class shares. The company adopted a new constitution on April 19, 2004, and on that date, all shares were classified as ordinary shares of one class ranking pari passu in all respects. Those shares were listed on NZAX on April 21, 2004.

**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**Share Consolidation**

On the 16 February 2005 the company announced to the NZAX its intention to reduce the ordinary share capital of the company from 251,812,500 to 50,362,500 shares in a 1 for 5 consolidation. The record date for the consolidation was 2 March 2005.

**Share Options**

Expire September 30, 2008

Option Scheme Limited holds an option to subscribe for a cumulative total of 1,500,000 ordinary shares (amended at 5:1 following the share consolidation) in the company at \$.50 per share at any time up to 30 September 2008, as agent for persons determined by the directors of A2 Corporation Limited as having made or making a significant contribution to the development and commercialization of the Companies business including but not limited to, directors and employees of the Company. Option Scheme Limited then has the power to decide which of the persons so determined by the directors of the Company are to be entitled to subscribe for shares and the maximum number of shares that Option Scheme Limited may subscribe for on behalf of each such person. A total of 145,000 shares from 1,488,400 allocated have been subscribed for, with the balance of 11,600 remaining to be allocated pursuant to the exercise of the option.

	<b>2005</b>	<b>2004</b>
<b>3 Retained Earnings (Deficit)</b>	\$	\$
Opening Balance	(7,562,536)	(5,404,554)
Net Surplus (Deficit) for the Year	<u>(9,017,633)</u>	<u>(2,157,982)</u>
Closing Balance	<u>(16,580,169)</u>	<u>(7,562,536)</u>

**4 Taxation**

**(i) Income Tax Expense**

This has been estimated as follows:

Profit (Loss) Before Taxation	(9,017,633)	(2,157,982)
Taxation at 33%	-	-

Cumulative tax losses available to carry forward at 31 March 2005 are estimated as \$7,500,000 after adjusting for a deferral of the tax amortisation of intellectual property. (Prior year \$7,715,787).

The availability of the losses is subject to meeting shareholder continuity requirements in accordance with New Zealand Income Tax Legislation.

**(ii) Imputation Credit Account**

Opening Balance	12,181	11,180
Plus Credits:		
RWT attached to interest received	6,409	1,001
Imputation Credit on dividend received	84	-
Less Debits:		
Income Tax Refunds	<u>          </u>	<u>          </u>
Closing Balance	<u>18,674</u>	<u>12,181</u>

**5 Investments**

Market Value

Living Cell Technologies Pty Limited - 67,895 @ AUD \$0.355	26,151	13,995
(Last year - 67,895 @ AUD \$0.18)	<u>26,151</u>	<u>13,995</u>

**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

<b>6 Operating Surplus (Deficit) Before Taxation</b>	<b>2005</b>	<b>2004</b>
<i>after charging:</i>	\$	\$
Amortisation of trade mark costs	-	8,557
Amortisation of Patent costs	-	667,897
Audit Fees related to Annual Financial Statements	18,091	13,593
Bad debts written off	107,684	3,675
Provision for Doubtful Debts	160,626	-
Depreciation on office equipment and computers	9,637	11,289
Directors Fees	89,851	-
Foreign exchange loss	(84)	7,962
Loss on Disposal of Fixed Assets	3,844	-
Marketing costs	6,704	19,456
Operating Leases	6,072	-
Rent	41,525	47,361
Research Costs	6,866	56,494
Write down (up) of Investments to Estimated Market Value	(12,156)	36,005
Write off of Patent Costs	note 1 6,678,991	-
Write off of Trade Marks	note 1 8,428	-
Realised loss on investment	201,330	-
Interest Expense	28,664	53,697
<i>after receiving:</i>		
Interest Received	32,047	2,270
Rental Income	4,000	23,111

<b>7 Property, Plant and Equipment</b>	Cost	Accumulated Depreciation	Book Value
	\$	\$	\$
<b>March 31, 2005</b>			
Office & Computer Equipment	74,233	50,477	23,756
Development Expenditure	7,062	-	7,062
Total	<u>81,295</u>	<u>50,477</u>	<u>30,818</u>
<b>March 31, 2004</b>			
Office & Computer Equipment	76,985	58,364	18,621
Development Expenditure	7,062	-	7,062
Total	<u>84,047</u>	<u>58,364</u>	<u>25,683</u>

<b>8 Intangible Assets</b>	<b>2005</b>	<b>2004</b>
	\$	\$
<b>Patent Costs</b>		
Original Cost April 2001	8,682,684	8,682,684
Less amortisation of Patent Costs	2,003,693	2,003,693
Less write off of Patent Costs	note 1 6,678,991	-
	<u>-</u>	<u>6,678,991</u>
<b>Trade Marks</b>		
Opening Balance	42,789	42,789
Less amortisation of Trade Marks	34,361	34,361
Less write off of Trade Marks	note 1 8,428	-
	<u>-</u>	<u>8,428</u>
<b>Total Intangible Assets</b>	<u>-</u>	<u>6,687,419</u>



**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**9 Capital Commitments**

There are no capital commitments as at 31 March 2005, 31 March 2004 Year: Nil.

**10 Contingent Liabilities**

Child Health Research Foundation (CHRF)

On or about 20th April, 2004, A2 Corporation and the Child Health Research Foundation ("CHRF") agreed upon an amendment to their October 2000 agreement. CHRF will now receive 5% of A2 Corporation's earnings before interest, tax and amortisation ("EBITA") provided that no royalty shall be payable by A2 Corporation on any earnings before 26 May 2007, which date falls three years after the issue of shares arising from the rights issue of April 2004. A2 Corporation paid CHRF \$50,000 on completion of the above rights issue, with another \$50,000 payable by the end of June 2005.

**11 Going Concern**

As at 31 March 2005 the company had a deficit in shareholders funds. The Directors have adopted a going concern basis in the preparation of these financial statements. The Directors consider this is appropriate and that cash flows are adequate for the next 12 months given that post balance date and with shareholder permission a fully underwritten placement of shares is to take place raising approximately \$5,000,000.

**12 Financial Instruments**

*Credit Risk*

Financial instruments which potentially subject the company to credit risk, principally consist of bank balances and accounts receivable.

The company has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counter parties have been set and approved by the Board of Directors and are monitored on a regular basis.

Maximum exposures to credit risk at balance date are:	<b>2005</b>	<b>2004</b>
	\$	\$
Cash and Short Term Deposits	1,578	10,619
Accounts Receivable and Accruals	158,138	106,318
Resident Withholding Tax	18,630	12,221
	<u>178,346</u>	<u>129,157</u>

*Concentrations of Credit Risk*

A2 Corporation Limited's bank accounts are now all with the ASB Banking Corporation. The company previously banked with the Bank of New Zealand and all of these accounts are now closed.

The company does not have any other significant concentrations of credit risk.

*Currency Risk*

The company has a bank account in Australian Dollars. The balance of this bank account at balance date was AUD \$1,270; NZD \$1,378.(Last Year AUD \$0)

*Interest Rate Risk*

The company has no interest rate risk as all interest rates are floating. The interest rates at balance date range between 0% and 8.75%.

**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

*Credit Facilities*

At 31 March 2005 the company had a commercial credit facility from ASB Bank Limited for the sum of \$1,000,000 repayable on demand. The maturity date is 26 November 2005. The interest rate is floating and is set at the Corporate Indicator Rate of 7.75% plus a margin of 1 % per annum and charged monthly on the daily balance. The security for the facility is by way of a personal guarantee by Clifford James Cook, a director of the company.

*Fair Values*

The estimated fair values of the financial instruments are as follows:

	Carrying Amount <b>2005</b>	Fair Value <b>2005</b>	Carrying Amount <b>2004</b>	Fair Value <b>2004</b>
	\$	\$	\$	\$
Cash and Short Term Deposits	1,578	1,578	10,619	10,619
Accounts Receivable and Accruals	158,138	158,138	106,318	106,318
Accounts Payable and Accruals	349,367	349,367	199,374	199,374
Short Term Debt	-	-	625,000	625,000

**13 Segment Reporting**

The company currently operates in only one country being New Zealand and in one industry being the market for sale and production of beta-casein A2 milk products.

**14 Operating Lease Commitments**

	<b>2005</b>	<b>2004</b>
	\$	\$
Commitments in respect of non-cancellable operating leases:		
Not later than one year	70,144	17,917
Later than one year and not later than two years	65,284	-
Later than two years and not later than five years	95,444	-
	<u>230,872</u>	<u>17,917</u>

**15 Transactions With Related Parties**

A2 Corporation Limited paid legal fees to Anderson Lloyd Caudwell barristers and solicitors of which Mr J K Guthrie is a consultant. The legal fees were charged at commercial rates. This year \$113,132; Last Year \$134,698. At balance date \$Nil was outstanding; Last year \$7,278.

A2 Corporation Limited paid consultancy fees in the 2004 financial year to Tenon Developments Limited of which Dr CNS McLachlan, a former director and shareholder had an interest. The consultancy services were charged at commercial rates. This year \$Nil; Last year \$63,074. At balance date no amount was outstanding.

A2 Corporation Limited paid rent in the 2005 financial year to Otago Trust Limited of which Mr H J Paterson, a former director and shareholder, had an interest. The rental was charged at commercial rates. This year \$65; Last year \$19,719. At balance date \$Nil was outstanding; Last year \$47,182. (includes prior year amounts due)

A2 Corporation Limited paid consulting fees to Abacus Biotech Limited, of which Dr A J Allison is a director and shareholder. These fees were charged at commercial rates. This year \$214; Last year \$29,586. At balance date no amount was outstanding.

A2 Corporation Limited paid guarantee fees to Mr C L Cook who is a director and shareholder of the company. The fees were charged at commercial rates. This year \$20,000; Last Year Nil.

**A2 CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**16 Reconciliation of Net Surplus after Taxation with Cash Inflow (Outflow) from Operating Activities**

	<b>2005</b>	<b>2004</b>
	\$	\$
<b>Net Surplus (Deficit) After Taxation</b>	(9,017,633)	(2,157,982)
<b>Plus (less) Non-cash items:</b>		
Amortisation of Trade Mark Costs	-	8,557
Amortisation of Patent Costs	-	667,897
Depreciation	9,637	11,289
Loss on sale of property, plant and equipment	3,844	-
Loss on realisation of investment	201,330	-
Provision for Doubtful Debts	-	-
Write down of Investments to Estimated Market Value	(12,156)	36,005
Write off of Intangible Assets	6,687,419	-
Foreign exchange movement on foreign cash balances	(84)	7,962
	<u>6,889,990</u>	<u>731,709</u>
<b>Plus (less) Movements in working capital:</b>		
Accounts Payable and Accruals	149,993	19,689
RWT Refund Due	(6,409)	(1,041)
Accounts Receivable and Accruals	(51,820)	(60,061)
	<u>91,764</u>	<u>(41,413)</u>
<b>Net Cash Flows From (Used In) Operating Activities</b>	<u>(2,035,879)</u>	<u>(1,467,686)</u>

**17 Events Subsequent to Balance Date**

Mr Anthony Rosen

The proceedings pending against A2 Corporation by Mr. Rosen for agri-business services at balance date have been withdrawn through settlement in the amount of GBP16,374.68 (including interest).

Ideasphere Milk Royalty Contract

A2 Corporation has entered into a non-binding agreement with Ideasphere whereby a revised licence agreement will be entered into between the two companies. It is the reasonably held belief of A2 Corporation that this agreement will be finalised. The result will be that licence fees payable under the old agreement will not now be payable. As such, the US\$ 400,000 for royalties reflected in the results for the half year to September 2004 had been reversed at balance date, and upon conclusion will now be accounted for as an investment into a joint initiative with Ideasphere in the USA, thereby ensuring a committed royalty income to A2 Corporation as well as a share in the profits of the joint initiative company.

**18 Events Subsequent to Balance Date**

In December 2000 A2 Corporation issued a prospectus for the subscription of 6,000,000 ordinary shares. A further prospectus was issued on April 2004 which contained no forecast financial information. This prospectus provided information on the current status of the company and its intentions.

Because of the significant change in direction the Directors have not provided a comparison against the fifth year of prospective financial information contained in the December 2000 prospectus as they believe it to be of no relevance given the disclosures made in the April 2004 prospectus.

**A2 CORPORATION LIMITED**  
**ADDITIONAL STOCK EXCHANGE INFORMATION**  
**FOR THE YEAR ENDED 31 MARCH 2005**

The Company's ordinary shares are listed 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 30 April 2005

<b>Name</b>	<b>Date of Notice</b>	<b>No. 000's</b>	<b>%</b>
Machin Investments Limited	30 April 2005	20,145,000	40.000
Lotus Capital Biotechnology Limited	30 April 2005	4,713,066	9.3580

**2 Directors' Shareholdings**

Directors held the following equity securities in the Company at 31 March 2005.

<b>Name of Director</b>	<b>Associated entity</b>	<b>Beneficial</b>		<b>Non Beneficial</b>	
		<b>No. 000's</b>	<b>%</b>	<b>No. 000's</b>	<b>%</b>
C J Cook	Machin Investments Limited	8,058,000	14.400%	12,087,000	25.600%
G P Hinton	Machin Investments Limited	805,800	1.600%	19,339,200	38.400%
W. Burt	Lotus Capital Biotechnology	3,142,044	6.239%	1,571,022	3.119%
W. Burt	Marint Limited	1,000,000	1.986%	500,000	0.993%
J K Guthrie	Kempster Trust	150,000	0.298%	Nil	
A J Allison		202,000	0.401%	90,500	0.180%
R G Paterson		45,752	0.091%	Nil	

**3 Twenty Largest Equity Security Holders**

The names of the 20 largest holders of equity securities as at 30 April 2005 are listed below.

<b>Top 20 Shareholders</b>	<b>No. 000's</b>	<b>%</b>
1 Machin Investments	20,145,000	40.000%
2 Lotus Capital Biotechnology Limited	4,713,066	9.358%
3 Silverpeaks Investments Limited	2,206,027	4.380%
4 Forbar Custodians Limited	1,990,405	3.952%
5 New Zealand Central Securities Depository	1,864,500	3.702%
6 Marint Limited	1,500,000	2.978%
7 Melissa Cherie Batten	552,203	1.096%
8 Raewyn Hall	525,943	1.044%
9 Mr Adam Lindsay Gordon Ryall & Judith Mabel Ryall	450,000	0.894%
10 Gregory John Paterson & Nicola Ann Marie Williams	387,075	0.769%
11 Janet Margaret Dunn & John Laurence Armstrong	369,562	0.734%
12 Tarlogie Investments Limited	318,500	0.632%
13 Kenneth John Cummings	308,550	0.613%
14 Lakefield Limited	300,000	0.596%
15 Jock Allison & Hilary Allison	292,500	0.581%
16 Leveraged Equities Custodians Limited	282,000	0.560%
17 Christopher James	253,854	0.504%
18 Rio Feith Bond	206,510	0.410%
19 Michael Bruce Guthrie & Susan Jane Leckie	200,340	0.398%
20 George Richard Collier	200,000	0.397%
21 Gary Robertson	200,000	0.397%
	37,266,035	73.996%

**A2 CORPORATION LIMITED**  
**ADDITIONAL STOCK EXCHANGE INFORMATION**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**4 Spread of Security Holders at 30 April 2005**

	<b>No of Holders</b>	<b>%</b>	<b>No.000</b>
1-1000	212	0.269%	135,556
1,001-5,000	498	2.567%	1,292,754
5,001-10,000	187	2.718%	1,369,010
10,001-100,000	261	15.488%	7,800,180
100,000+	39	78.958%	39,765,021
Total number of holders	<u>1,197</u>	<u>100.00%</u>	<u>50,362,521</u>

**A2 CORPORATION LIMITED  
STATUTORY INFORMATION  
FOR THE YEAR ENDED 31 MARCH 2005**

**Particulars of Notices or Statements Given to or Approved By the Board**

**Interests Register**

Directors have declared interests during the period as follows:

- Mr J K Guthrie, in his capacity as a partner of Anderson Lloyd Caudwell barristers & solicitors, recorded an interest in legal fees and rent paid by the company in relation to general legal services and office accommodation provided. The legal fees and rent were charged at commercial rates.
- Dr A J Allison in his capacity as a shareholder and director of Abacus Biotech Limited, recorded an interest in consulting fees paid by the company. These fees were charged at commercial rates.
- Mr CJ Cook, in his capacity as shareholder and director of A2 Corporation Ltd, recorded an interest in guarantee fees paid by the company on bank overdraft facilities. These fees were charged at commercial rates.
- 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 Directorships**

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

<b>Name of Director</b>	<b>Position</b>	<b>Company</b>
C J Cook	Director	Metlifecare Ltd
W L Burt	Director	Botry-Zen Ltd

**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	15,000
W L Burt	15,000
C L Cook	15,000
J K Guthrie	15,000
G P Hinton	15,000
R G Paterson	15,000

**Share Options**

The share options held by directors at 31 March 2005 in accordance with Note 2 of the Financial Statements were

<b>Name of Director</b>	<b>Options Held</b>	<b>Dates Allocated</b>
W L Burt	360,000	October 2003
J K Guthrie	360,000	December 2002 and October 2003
A J Allison	100,000	October 2003
R G Paterson	60,000	October 2003

**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**

Two employees received remuneration and other benefits in excess of \$100,000 per annum in their capacity as employees during the year.

**Donations**

The company made no donations during the period ended March 31, 2005.

**Audit Sub-committee**

The Board has formally constituted the following sub-committees, which convene twice annually.

Audit: -      Remuneration: -      Research & Development: -

## Auditor's Report

To the Shareholders of A2 Corporation Limited

We have audited the financial statements on pages 8 to 19. The financial statements provide information about the past financial performance of the company and its financial position as at 31 March 2005. This information is stated in accordance with the accounting policies set out on pages 12 to 13.

## 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 as at 31 March 2005 and of its financial performance and cash flows for the year 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 company's circumstances, 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.

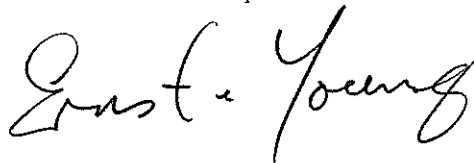
## Unqualified Opinion

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 8 to 19:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the company as at 31 March 2005 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 9 June 2005 and our unqualified opinion is expressed as at that date.



Christchurch