Welcome to

The a2 Milk Company Limited

ARBN 158 331 965

Information Memorandum

This information memorandum has been prepared in connection with the application for admission of The a2 Milk Company Limited to the Official List of the Australian Securities Exchange. No offer of securities is being made pursuant to this Information Memorandum and this document is not a prospectus, investment statement, product disclosure statement or offer information statement.

Important Notices

About this Information Memorandum

This Information Memorandum is prepared as at and dated 24 February 2015. This Information Memorandum has been prepared for the purposes of the listing of The a2 Milk Company Limited (**"Company"**) on the ASX and the quotation of its Fully Paid Shares on the financial market operated by the ASX. This document is not a prospectus, investment statement, product disclosure statement or offer information statement and does not constitute an offer of securities or an invitation to apply for the issue of securities, either expressly or by implication, in any jurisdiction. However, this Information Memorandum does contain the information that would be required under section 710 of the Corporations Act if it were a prospectus offering for subscription the same number of Fully Paid Shares for which quotation is sought.

The Company is a New Zealand company

The Company is a New Zealand incorporated company and will retain its New Zealand incorporation following its Listing. There are differences in how securities and financial products are regulated under New Zealand law and Australian law. The rights, remedies and compensation arrangements available to Australian investors in New Zealand securities and financial products may differ from the rights, remedies and compensation arrangements for Australian securities and financial products. The taxation treatment of New Zealand securities and financial products is not the same as that for Australian securities and products.

An investment in the Company involves a currency exchange risk. The currency for the security is in New Zealand dollars for NZX listed Shares and Australian dollars for ASX listed Shares. The value of the security will go up and down according to changes in the exchange rate between New Zealand dollars and Australian dollars. These changes may be significant. Payments received in relation to the security that are not in Australian dollars for ASX listed Shares may incur significant fees in having the funds credited to a bank account in Australia in Australian dollars.

If you are uncertain about whether an investment in the Company is appropriate for you, you should seek the advice of an appropriately qualified financial advisor.

ASX listing

An application will be made to the ASX by the Company for admission of the Company to the official list of the ASX and for quotation of its Fully Paid Shares on the ASX. The Company's ASX ticker will be "A2M". If and when this occurs, the ASX Listing Rules will apply to the Company (subject to any waivers or rulings given from time to time by the ASX). The ASX Listing Rule waivers and confirmations that have been sought from the ASX are described in Section 9.12 of this Information Memorandum.

The fact that the ASX may admit the Company to its official list is not to be taken in any way as an indication of the merits of the Company. The ASX does not take any responsibility for the content of this Information Memorandum or for the merits of an investment in the Company's Shares.

NZX Main Board listed

The Shares are currently quoted on the NZX Main Board under the ticker "ATM". NZX has not examined or approved this Information Memorandum and accepts no responsibility for any statement in this Information Memorandum. The NZX Main Board is a registered equities market operated by NZX, which is a registered exchange, regulated under the Financial Markets Conduct Act.

This Information Memorandum is intended to be read in conjunction with the publicly available information released by the Company to NZX in connection with the Company's continuous disclosure obligations under the NZSX Listing Rules. As a listed company, the Company is subject to continuous disclosure obligations which require it to notify certain material information to NZX for the purpose of that information being made available to participants in the NZX Main Board. A copy of the material information notified to NZX may be viewed and obtained on its website at www.nzx.co.nz.

Distribution restrictions

No person may offer, sell, or deliver Shares or distribute any documents (including this Information Memorandum) to any person outside New Zealand or Australia, except in accordance with all the legal requirements of the relevant jurisdiction.

Investment decisions

No offer of securities is being made under this Information Memorandum. This Information Memorandum does not take into account each investor's investment objectives, financial situation and particular needs. Neither the Company nor any other person guarantees the performance of the Shares or financial performance of the Company. This Information Memorandum is not financial product advice and should not be relied upon as the sole basis for any investment decision in relation to securities of the Company.

Forward looking statements

This Information Memorandum contains certain forward-looking statements concerning the Company's business, operations, financial performance and condition as well as the Company's plans, objectives and expectations for its business, operations, financial performance and condition. Any statements contained in this Information Memorandum that are not of historical facts may be deemed to be forward-looking statements.

These forward-looking statements are based on management's current beliefs, assumptions and expectations about the Company's business and the industry in which the Company operates. These forward-looking statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond the Company's control. As a result, any or all of the Company's forward-looking statements in this Information Memorandum may not be relied on and may turn out to be inaccurate. Factors that may cause such differences or make such statements inaccurate include, but are not limited to, the risk factors described in Section 7.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to rely on the forward-looking statements.

These forward-looking statements speak only as at the date of this Information Memorandum. Unless required by law, the Company does not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. Potential investors should, however, review the factors and risks the Company describes in the reports to be filed from time to time with the ASX and the NZX after the date of this Information Memorandum.

No new capital

The Company has not raised any capital during the three months before the date of issue of this Information Memorandum and will not need to raise any capital for three months after the date of issue of this Information Memorandum.

Supplementary disclosure

The Company will issue a supplementary information memorandum if it becomes aware of any of the following between the date of this Information Memorandum and the date on which the Company's securities are officially quoted on the ASX:

- a material statement in this Information Memorandum is misleading or deceptive;
- there is a material omission from this Information Memorandum;
- there has been a significant change affecting a matter included in this Information Memorandum; or
- a significant new circumstance has arisen and it would have been required to be included in this Information Memorandum.

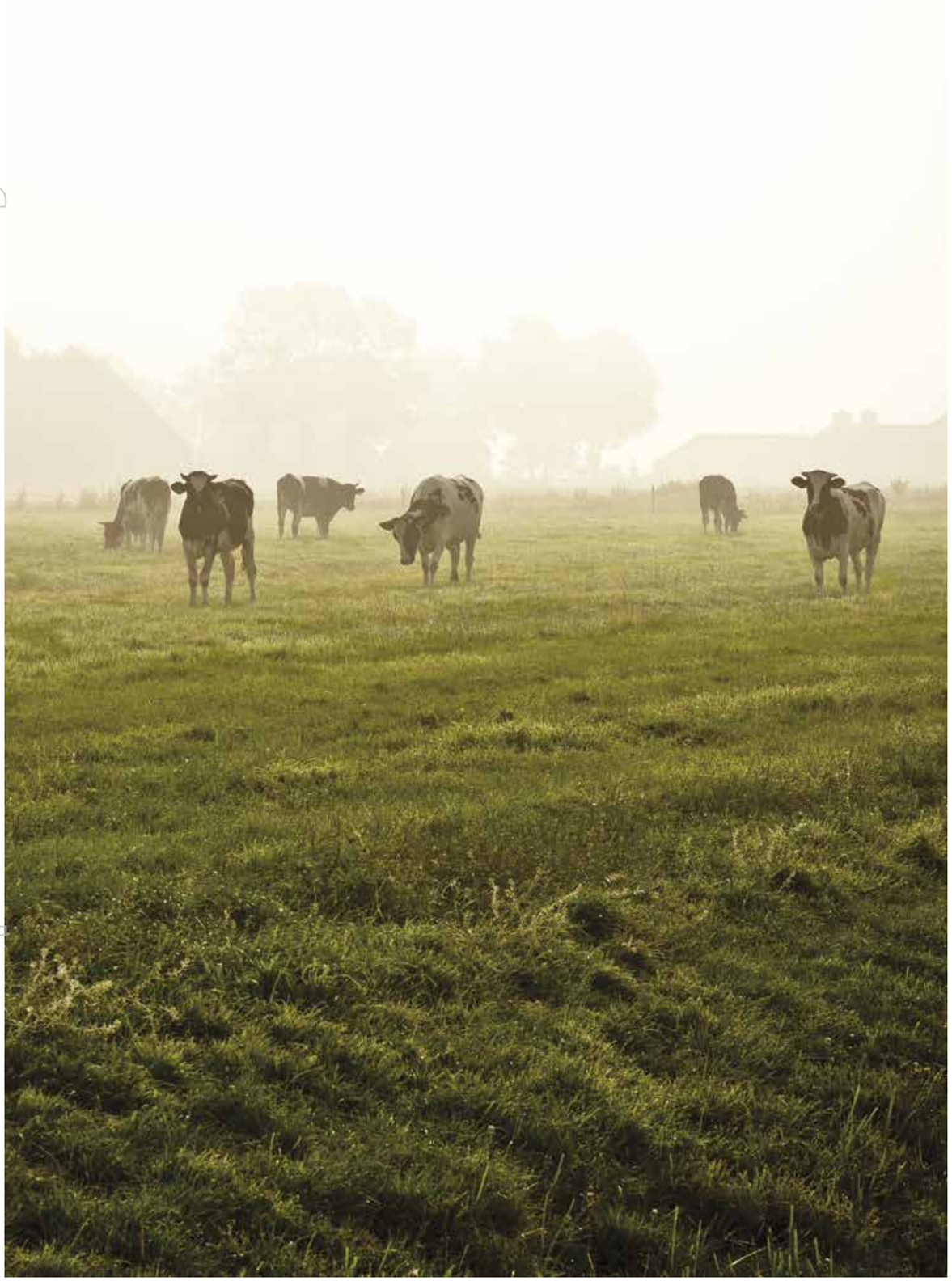
Financial Information

All financial information and amounts contained in this Information Memorandum are expressed in New Zealand Dollars unless stated otherwise.

Definitions

Capitalised terms used in this Information Memorandum have the specific meaning given to them in the Glossary in Section 10.

Unless otherwise indicated, all references to dates and time are to dates and time in New Zealand.



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1. Letters from the Chairman and Deputy Chairman

Chairman's Letter

Dear Investor

On behalf of The a2 Milk Company Limited ("a2MC" or "Company"), I am very pleased to introduce investors to the next phase of our development with a listing on the Australian Securities Exchange ("ASX"), so that the Company's securities are quoted on both the ASX and the New Zealand Exchange ("NZX"). This follows a period of significant growth for the Company since our initial listing on the NZX Alternative Market in 2004 and the transfer of our listing to the NZX Main Board in 2012.

We will not be raising any capital as part of the ASX listing process. Following the Listing, investors will be able to acquire either ASX or NZX Shares.

The Board and senior management of the Company consider that a listing on the ASX will provide a number of benefits. The Australian operations of a2MC currently comprise the most significant component of our business, and accordingly the Listing provides for a closer alignment between our capital markets profile and business operations. The Listing is additionally expected to enable more Australian investors to participate in the Company's growth. We also expect there to be an overall improvement in liquidity of the Company's Shares and improved access to capital markets over time.

After 10 years as Chairman of a2MC, I will be resigning from my position as Chairman and as a Director of the Company shortly before the Company is admitted to the official list of the ASX. My decision to resign has been made with careful consideration of the Company's leadership requirements for the future. With the Company being well established within the Australian market and strongly positioned to pursue further growth opportunities, I believe the Chairman should possess significant fast moving consumer goods skills, broad international experience consistent with the Company's target market strategies and be located closer to those markets.

I am pleased to announce that David Hearn, who is currently Deputy Chairman, will assume the role of Chairman at the time the Company is admitted to the official list of the ASX. David is well positioned to lead a2MC through its next phase of growth and brings a strong skill set in executive management, sales and marketing and strategy development particularly in the food and beverage sectors. David has worked in senior executive roles for a number of large international fast moving consumer goods businesses and has significant experience in this industry. In addition to his role as Chairman, David will further assist the Company through a defined executive role involving guidance and support of a2MC's business, particularly in the United Kingdom ("UK") and United States of America ("USA").

David Hearn has taken the opportunity to introduce himself on the following page and provide you with an overview of the Company and its strategic focus. I encourage you to read his letter and the remainder of this Information Memorandum which contains a significant amount of information regarding a2MC's strategy and operations. This document also contains additional important information in relation to the Listing, business and investment risk factors and historical financial information.

Yours faithfully

Cliff Cook
Chairman
(as of the date of this Information Memorandum)

Deputy Chairman's Letter

Dear Investor

I am delighted to assume the role of Chairman of the a2MC Board at this stage of the Company's development. I have been closely involved with a2MC over the past year since my appointment as a Director, and am looking forward to undertaking additional responsibilities in both my role as Chairman and my role supporting the executive team, particularly in the UK and US businesses.

a2MC is in the business of producing, marketing and selling branded dairy and infant formula products in targeted global markets. a2MC branded milk contains only A2 Protein rather than both A1 Protein and A2 Protein which are found in Regular Cows' Milk. A developing body of scientific research and the reported personal experience of many individual consumers support the claim of potential benefits of a2MC branded milk over and above the benefits of Regular Cows' Milk. a2MC has a targeted communication strategy which seeks to make consumers and healthcare professionals aware of these potential benefits.

The Company sees itself as different from many other dairy businesses as a result of three main business characteristics:

- a2MC is focused on building a high margin and differentiated business supported by an integrated portfolio of intellectual property that enables the commercialisation of a2MC branded products that are all A1 Protein Free
- The Company seeks to optimise its return on capital through a framework that prioritises investment in brand building, selling and distribution and seeks to leverage key supplier relationships for a flexible and scalable supply chain
- The Company's distinctive products have broad appeal across a number of developed and emerging international markets

Importantly, the Company owns the a2MC brands under which it markets and sells liquid milk, infant formula and thickened cream. a2MC's clear strategic focus is to:

- Continue to build a substantial premium dairy business in Australia and New Zealand
- Capture sustainable shares for premium a2MC branded products in targeted global dairy markets
- Establish and build a global infant formula business

The Company has an established presence in the Australian market and is growing its presence in the UK and China. It has also announced its intention to launch in the USA, initially in the West Coast region. I am pleased to be a part of a2MC's continuing growth and look forward to the potential for broader investor participation following the Listing.

Yours faithfully

David Hearn
Deputy Chairman
(Chairman as of the time the Company is admitted to the ASX)

2. Investment Highlights

01
Premium brand and product range supported by an integrated intellectual property portfolio

02
Profitable Australian business has grown rapidly providing a platform for additional growth

03
Differentiated product portfolio has broad appeal across both developed and emerging international markets

04
Flexible and scalable supply chain allows optimisation of return on capital

05
Senior management team with relevant industry and market experience and focus on creating value for Shareholders

3. Key risks

Certain of the key risks impacting the a2MC business are outlined below. Please refer to Section 7 for further details of these risks, other risks affecting a2MC and the potential impact of such risks on the Group's business.

Figure 1 Summary of key risks

Topic	Summary of risk
a2MC may be adversely impacted by a failure to comply with food safety and quality standards	In common with many other food companies, there is a risk that raw materials may deteriorate or that products may become contaminated, tampered with, adulterated or otherwise unsafe or unfit for sale or consumption within the supply chain due to various factors, including human error and equipment failure. Potential adverse consequences for a2MC include regulatory penalties, termination of distribution arrangements, liability associated with adverse health effects on consumers, product recall and disposal costs, loss of stock, delay in supply and financial costs.
Customer concentration and bargaining power may reduce a2MC margins	a2MC's primary customers for its products are supermarkets and grocers in a number of geographies. Losing distribution in a primary customer would have a material adverse impact on sales revenue. These customers generally compete aggressively on price. There is a risk that this price competition may result in a2MC either losing sales volumes, or not being able to maintain its premium price position and margins, or both.
Conflicting scientific research or negative information regarding A1 Protein Free milk may damage the a2MC brand	The a2MC brand proposition is built primarily on the potential digestive well-being benefits of A1 Protein Free milk products compared to Regular Cows' Milk products which contain both A1 Protein and A2 Protein. There is the risk of research or information being published that diminishes or rejects the scientific arguments or consumers' experiences as to the benefits of the consumption of A1 Protein Free dairy products. As a result, the a2MC brand may lose its differentiated position and it may become difficult for a2MC to continue to position its products as premium products sold at a premium price.
Certain of a2MC's intellectual property rights will expire or may weaken or be infringed by competitors	a2MC's business relies in part on its intellectual property portfolio, including brands and trade marks, patents, proprietary processes and know-how. Some forms of registered intellectual property, including patents, are of fixed duration and will expire over time. As any of a2MC's registered intellectual property expires, or if it is invalidated or removed from intellectual property registers, this will adversely impact on a2MC's ability to claim and enforce exclusive rights in such intellectual property. Because of the importance of its intellectual property, a2MC may need to defend its intellectual property or take action against third parties that infringe or claim rights in its intellectual property. Such action may include litigation, which may be protracted and expensive, and which may result in negative publicity.

Topic	Summary of risk
Competitors may develop products or branding that erode the differentiation of a2MC branded products from other dairy products	a2MC's business model relies on a2MC branded products being differentiated from other dairy products in each market in which it operates because they consist of, or are made using, A1 Protein Free milk. There is a risk that a competitor or competitors may launch A1 Protein Free milk products, and this risk may increase over time as a2MC's patents expire. There is also a risk that competitors may develop branding that creates confusion between a2MC branded products and Regular Cows' Milk products or otherwise reduces the perception of a2MC branded products as differentiated A1 Protein Free milk products.
a2MC's reliance on relationships with third parties exposes it to risks associated with those third parties	a2MC's business model and supply chain are dependent on contractual arrangements with third parties which provide essential processing, production or distribution functions for a2MC branded products globally. There is the risk that the operations of one or more third parties change in a material and adverse way or that one or more third parties could reduce their support for the a2MC brand. From a2MC's perspective this could reduce a2MC's ability to maintain supply to its customers in the short to medium term and reduce its ability to maintain its position in existing markets or enter new markets.
a2MC may face difficulties in renewing licences, approvals or consents that are material to a2MC in operating its business	a2MC and its strategic suppliers and contractors require certain licences, approvals and consents in order to conduct their businesses. There is a risk that any such licences, approvals or consents that are material to a2MC in operating its business will not be renewed or will be renewed on more restrictive or onerous terms, or in limited circumstances, revoked.
a2MC's performance is linked to its ability to retain key personnel	a2MC's performance is dependent on the ability of its senior executives and key personnel to manage and grow its business. Continuity and retention of senior executives and key personnel are important for the ongoing implementation of a2MC's strategy.

4. Business Description

4.1 What is a2MC branded milk and how is it different?

- a2MC branded milk is a naturally occurring cows' milk and not a product of genetic engineering or technological processes
- Regular Cows' Milk contains two main types of beta-casein protein, A2 Protein and A1 Protein. Beta-casein protein makes up approximately 30% of the total protein content of milk
- a2MC branded milk is different from Regular Cows' Milk because it is A1 Protein Free. It is comparable to Regular Cows' Milk in other respects
- The variance in structure between A1 and A2 Proteins results in these proteins being broken down differently during human digestion
- a2MC works closely with farmers to select and certify cows that naturally produce A1 Protein Free milk. These identified cows are segregated into their own herds and milked separately. The milk from these herds is kept separate and isolated throughout the supply chain. Subsequent quality assurance checks are carried out to ensure the supply remains A1 Protein Free
- a2MC uses comprehensive herd selection and testing procedures along with patents and proprietary know-how developed over a number of years to ensure that a2MC branded milk is A1 Protein Free
- A growing body of research and the reported personal experience of many individual consumers support the claim of potential benefits of a2MC branded milk over and above the benefits of Regular Cows' Milk. These benefits relate primarily to relief from digestive discomfort but also suggest other potential health and well-being benefits
- Many consumers who would otherwise reduce or cease consuming Regular Cows' Milk, may now be able to enjoy the benefits and taste of real and natural dairy milk when they switch to a2MC branded milk[1]

Figure 2 Milk composition[2]

1 a2MC branded milk contains lactose. Lactose is the sugar which is present in all milk, unless it is labelled 'lactose free'. If a consumer has been diagnosed with lactose intolerance by a doctor, a2MC branded milk will not resolve any digestion problems that result from that lactose intolerance

2 Composition of Regular Cows' Milk in Australia. Composition of solids in milk and milk protein is approximate and can vary according to genetic and environmental factors such as breed, seasonality and feed

Consumer experiences are positive

Many consumers and healthcare professionals report that certain people who experience challenges drinking Regular Cows' Milk may experience benefits when they switch to a2MC branded milk.

Anecdotal or consumer reports link a2MC branded milk with improved digestive comfort and the reduction of symptoms associated with milk protein sensitivities. In addition certain consumers have reported improvements in their health after drinking a2MC branded products.

USA dairy industry research suggests that approximately one in four USA consumers have adverse experiences following the consumption of dairy products, with only a minor proportion of those adverse experiences being attributable to lactose intolerance (although similar symptoms to lactose intolerance are displayed)[3].
This research supports management's proposition that there is a significant market opportunity to encourage consumers who would otherwise limit their dairy intake or exclude dairy products from their diet to be introduced to a2MC branded products.

Developing body of research is consistent with consumer experiences

Scientific research has demonstrated a structural difference between the A1 and A2 Proteins and the way in which the digestive system breaks them down. During the digestive process, a fragment produced from A1 but not A2 Protein has the potential to interact with a range of cells and tissues in the human body, including those involved in digestive and immune function[4].

During the process of digestion, A1 Protein releases a small fragment termed beta casomorphin-7 (BCM-7). The A2 Protein either does not release the BCM-7 fragment during digestion or, if it does, it releases it at a very low rate. If not broken down further, BCM-7 may affect aspects of digestive function.

Further human clinical trials are needed to confirm the differential health effects associated with consuming milk containing solely A2 Protein or both A1 and A2 Protein. However, certain recent advances in scientific research continue to support a2MC's proposition that a2MC branded milk may make dairy nutrition accessible to certain consumers who would otherwise limit their dairy intake or exclude dairy products from their diets. An adult human digestion trial conducted by Curtin University in 2013 demonstrated a differential effect on human digestive function when contrasting the consumption of milk containing only the A1 type of beta-casein protein with the consumption of milk containing only the A2 type of beta-casein protein[5]. The reported observations of this study are consistent with those of three recently reported rodent trials[6] where the differential response was identified as resulting from the action of A1 Protein derived BCM-7 fragment.

Such research suggests that consumption of A1 Protein Free products is associated with lower levels of intestinal inflammation and uninterrupted transit time through the intestine (two functions that are directly linked to digestive comfort), than consumption of products that contain A1 Protein.

Beta-casein proteins occurring in other milks consumed by humans, including human, goat, sheep, and buffalo milk, are more comparable to the A2 Protein than to A1 Protein[7].

a2MC continues to support further research into understanding the potential benefits of consuming A1 Protein Free milk products. The Company has recently commissioned new human studies into the differential health impacts of consuming A1 Protein Free milk compared with Regular Cows' Milk in a number of markets.

3 Lactose Intolerance – Opportunity to Grow Volume for Dairy through Dispelling Myths and Meeting Consumer Needs (2010). Prepared by Dairy Research Institute and Innovation Centre for US Dairy (Rosemont, IL)

4 These studies can be found listed at www.betacasein.net and summarised on www.betacasein.org

5 Comparative effects of A1 versus A2 beta-casein on gastrointestinal measures: a blinded randomised cross-over pilot study, Ho et al, European Journal of Clinical Nutrition, September 2014

6 Ul Haq VM, Kapila R, Saliganti V, *Consumption of beta-casomorphins-7/5 induce inflammatory immune response in mice gut through Th_2 pathway*, Journal of Functional Foods, 2014, 8:150–160; Barnett MP, McNabb WC, Roy NC, Woodford KB, Clarke AJ, *Dietary A1 beta-casein affects gastrointestinal transit time, dipeptidyl peptidase-4 activity, and inflammatory status relative to A2 beta-casein in Wistar rats*, Int J Food Sci Nutr. 2014, 65(6): 720-727; Haq MR, Kapila R, Sharma R, Saliganti V, Kapila S, *Comparative evaluation of cow beta-casein variants (A1/A2) consumption on Th2-mediated inflammatory response in mouse gut*, Eur J Nutr 2014, 53(4): 1039-1049

7 Lonnerdal B, Bergstrom S, Andersson Y, Hjalmarsson K, Sundqvist AK, Hernell O. Cloning and sequencing of a cDNA encoding human milk beta-casein. FEBS Lett. 1990 Aug 20;269(1):153-6; Provot C, Persuy MA, Mercier JC. Complete nucleotide sequence of ovine beta-casein cDNA: inter-species comparison. Biochimie. 1989 Jul;71(7):827-32

4. Business Description

4.2 Business model

The Company considers that its business model differs from that adopted by many dairy businesses for a number of reasons including that:

- Many dairy companies produce high volume commoditised milk products. In contrast, a2MC is focussed on a targeted consumer base and a premium priced A1 Protein Free product portfolio sold under a2MC brands
- Many dairy companies are capital intensive whereas a2MC has a lower reliance on in-house processing facilities and a greater emphasis on strategic relationships
- a2MC consistently pays a premium price to farmers for A1 Protein Free milk over the market price for raw milk in the markets in which it operates

Management believes the revenue growth achieved by a2MC is partly attributable to its ability to leverage its high margin premium brand and differentiated portfolio of products to take advantage of favourable consumer health trends. The strengthening of the brand and business is supported by its business systems and management capabilities. Management believes that these factors also provide a2MC with a basis for expansion into new markets.

Key factors of business model

01 a2MC product attributes align with growing consumer demand for health and well-being

02 Targeted and differentiated brand proposition and distinctive product portfolio

03 Integrated portfolio of intellectual property and proprietary know-how

04 Leverage strategic relationships and a scalable supply chain to optimise return on capital

05 Reinvestment of cash flows into focussed strategic growth opportunities

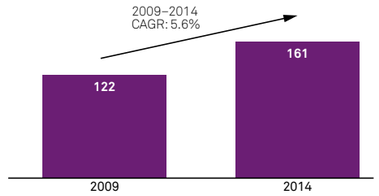
06 Organisational structure designed to deliver strategic priorities

01 a2MC product attributes align with growing consumer demand for health and well-being

The Company is focussed on current favourable consumer trends around health and well-being that management believes support the a2MC commercial proposition.

General health and well-being consumer trends

Figure 3 Global health and wellness dairy market (US$ billion)



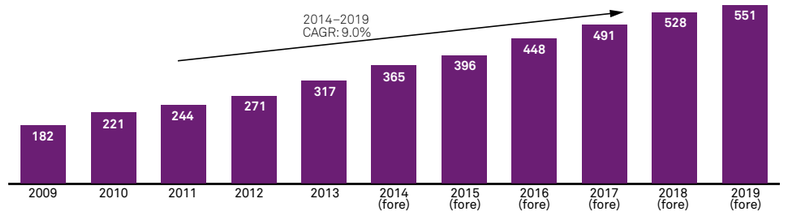
Source: Euromonitor International, Health and Wellness, 2015 edition
Note: Represents current prices, fixed 2014 exchange rates. CAGR stands for compound annual growth rate

- Global consumers are becoming increasingly focussed on their health and well-being which has led to significant growth in the global health and wellness dairy packaged products market
- The a2MC brand is designed to respond to this consumer trend (in particular digestive health)

Growing level of sensitivities

- Management believes that sensitivities are growing concerns and strongly influence young family purchase behaviour which is a key consumption target for a2MC branded products
- Retail sales of free-from foods in the UK are expected to grow at approximately 9% per annum between 2014 and 2019, as indicated in the figure below

Figure 4 Retail sales and forecast of the UK free-from market, 2009-2019 (£ million)



Source: Based on IRI/Mintel, Free-from Foods, UK, November 2014
Note: Data excludes prescription sales. Free-from foods comprise predominantly of gluten free and dairy/lactose free foods

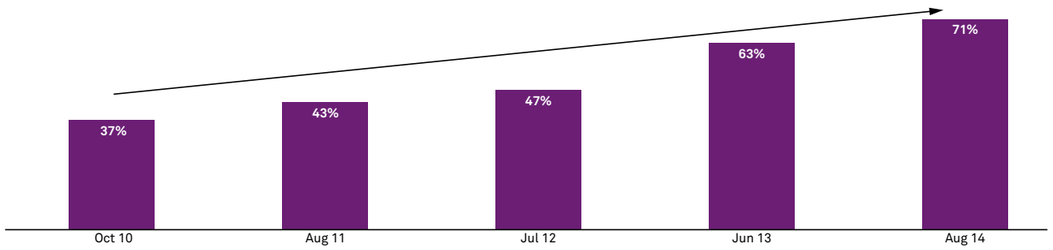
- There is also a notable presence of food sensitive consumers in the USA, with a USA dairy industry report suggesting that approximately one in four USA consumers report discomfort from consuming dairy and that only a minor proportion of those consumers are likely to be lactose intolerant[8]
- The a2MC brand proposition is taking advantage of the growing consumer demand for products that cater to milk protein sensitivities

8 Lactose Intolerance – Opportunity to Grow Volume for Dairy through Dispelling Myths and Meeting Consumer Needs. (2010). Prepared by Dairy Research Institute and Innovation Centre for US Dairy (Rosemont, IL)

4. Business Description

02 Targeted and differentiated brand proposition and distinctive product portfolio

Figure 5 Prompted a2MC brand awareness in Australia



Source: EY Sweeney Brand Health Study, August 2014. Sample size of 999 in October 2010, 1,203 in August 2011, 1,203 in July 2012, 1,754 in June 2013 and 1,379 in August 2014. Participants asked: "Which of the following milk brands have you seen or heard of before today?" in respect of brands including a2MC's

Who is the a2MC consumer?

a2MC targets consumers who 'don't get on with milk'; that is, people who experience perceived discomfort consuming Regular Cows' Milk or infant formula or other dairy products that contain A1 Protein. In Australia, this represents approximately 19% of consumers who consume milk[9].

When targeting these customers, a2MC's marketing approach emphasises the potential health and well-being benefits of a2MC branded products to these consumers who would otherwise limit their consumption of dairy products or avoid them altogether. a2MC aims to "welcome these consumers back to milk" and allow them to enjoy the benefits of natural dairy products.

In doing so, a2MC finds that in addition to attracting those with issues consuming Regular Cow's Milk products, it also attracts an additional group of consumers, being progressive health-conscious consumers who are drawn to the differentiated brand proposition that a2MC delivers.

Distinctive product portfolio

a2MC has a distinctive product portfolio based around the benefits of A1 Protein Free products. At present, management are not aware that any significant dairy industry participant produces and markets A1 Protein Free dairy products in a2MC's target markets (except in New Zealand where Fresha Valley produces and markets A1 Protein Free milk under licence from a2MC and in Australia where Jalna produces and markets A1 Protein Free yoghurt under licence from a2MC).

a2MC's product portfolio can be divided into three core categories: liquid milk, infant formula and other dairy products. Each is positioned in the premium segment of their respective categories.

a2MC approaches each of its markets differently and introduces products according to the market dynamics and local consumer demands. Therefore not all a2MC's products are sold in each market. While a2MC uses the same brand name in each market and on its products, the packaging and scale differs according to local consumer preferences, category nuances, regulatory requirements and time in market.

9 EY Sweeney Brand Health Study, August 2014. Sample size of 1,379 in August 2014

Figure 6 a2MC product portfolio

a2MC is actively considering developing further A1 Protein Free milk products to be launched over time.

Differentiated brand and communication strategy

a2MC has developed a differentiated brand underpinned by the potential benefits its products are perceived to provide to consumers. a2MC also seeks to emphasise the supporting attributes of a2MC branded products of being made from natural, non-genetically modified, 100% pure cows' milk. a2MC is seeking to further build its brand position and the associated goodwill.

These messages are delivered to consumers using category-distinctive advertising, social media and targeted media investment.

a2MC has created advertising campaigns to highlight to consumers the potential benefits they may experience in consuming a2MC branded products.

a2MC also aims to promote consumer engagement and educate a growing community of healthcare professionals as to the potential benefits of a2MC branded products. This is seen as an important component in introducing consumers to a2MC branded products.

The total communication strategy is underpinned by three key components:

1. *What is it?:* Simply and clearly explaining the features of a2MC branded products that differentiate them from other products
2. *a2 Milk Stories™:* Testimonials from a2MC consumers to build awareness and sharing of the potential benefits of a2MC branded products amongst current and potential consumers
3. *Healthcare professional education programmes:* a2MC aims to educate and obtain support from healthcare professionals to provide consumers with recommendations and endorsements. These programmes target a wide range of professionals, including family doctors, dieticians, nutritionists, academics, pediatricians, sports professionals, and naturopaths. The education programmes focus on literature reviews and interaction through seminars and presentations

10 A1 Protein Free fresh milk is sold in New Zealand by Fresha Valley under licence from a2MC

11 A1 Protein Free yoghurt is sold in Australia by Jalna under licence from a2MC

4. Business Description

03 Integrated portfolio of intellectual property and proprietary know-how

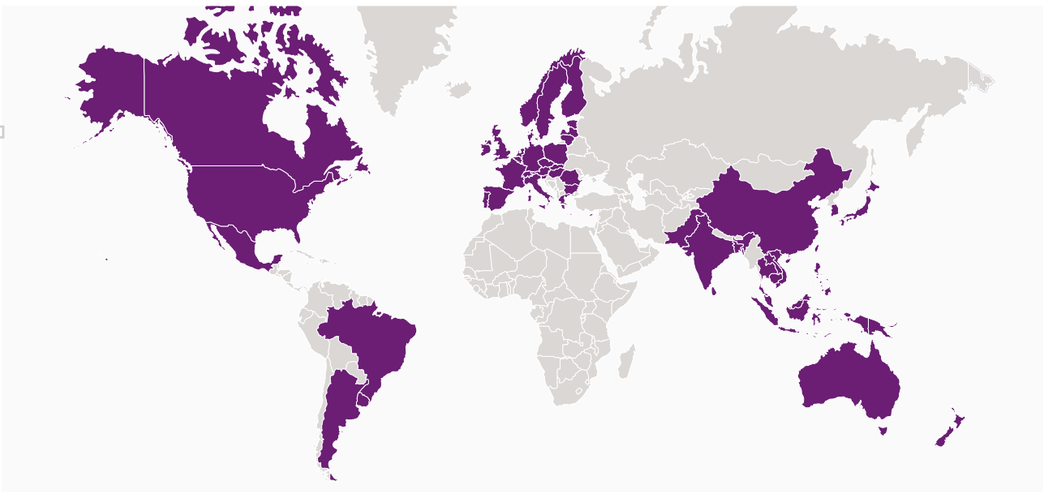
a2MC has developed, and is continuing to enhance the scope of its integrated intellectual property portfolio, comprising brands and trade marks, patents, proprietary processes and know-how with respect to a2MC branded products. a2MC has trade marks and patents in key dairy and infant formula consuming markets including the USA, China, Australia, New Zealand and the European Union (**"EU"**).

The strength of a2MC's intellectual property portfolio is derived from the interlocking and complex nature of the various intellectual property rights. The scope of the integrated intellectual property portfolio combined with its wide geographical coverage across key markets means that potential competitors have restricted ability to produce and sell competing A1 Protein Free products, with limitations in major markets around production, communication, branding, positioning and promotion.

The figure below summarises at a broad level the regions in which a2MC has intellectual property rights. For a detailed summary of the actual intellectual property rights held for each region, refer to Section 5.

a2MC has made a strategic decision to implement a brand-led strategy, and expects that the importance of brand, including trade marks, and goodwill will increase over time, supported by the patent portfolio and proprietary processes. Management believes that this will position a2MC well to maintain its position as a leading producer of A1 Protein Free milk products, by harnessing the goodwill, first-mover advantage and know-how gained during the lead-in phase of exclusivity.

Figure 7 Geographical intellectual property rights coverage



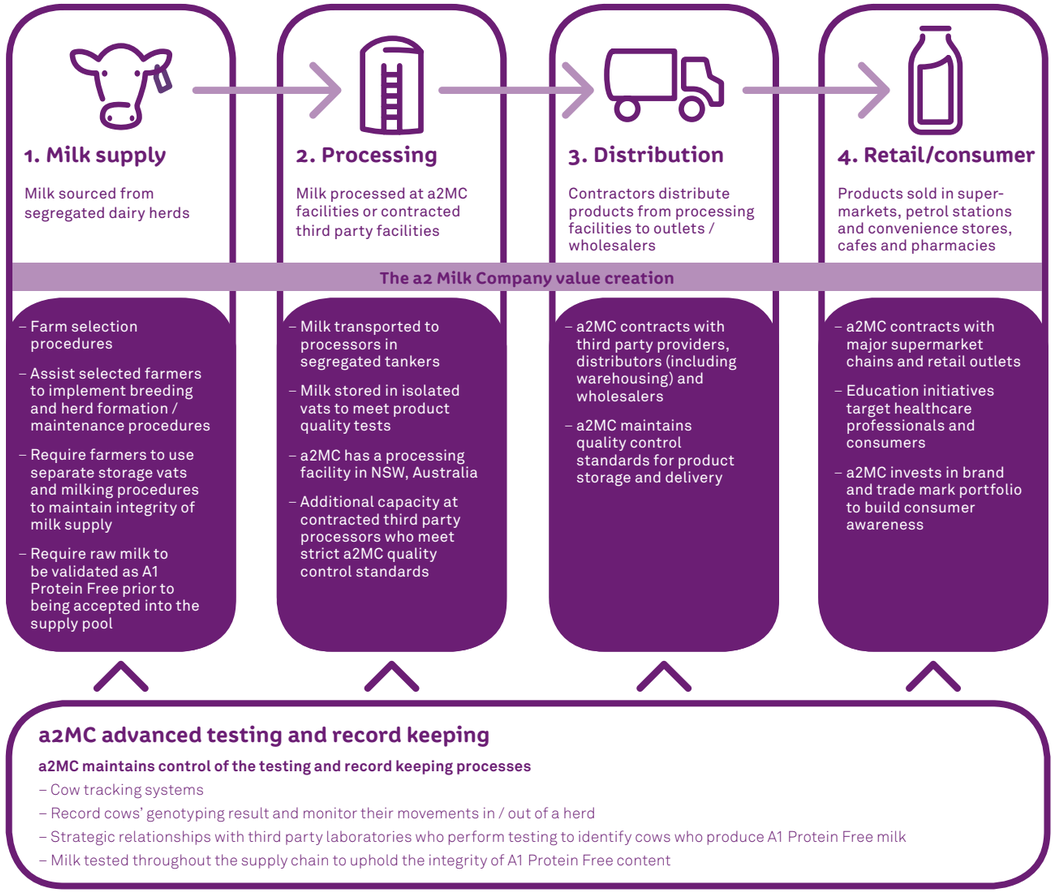
■ Territories in which a2MC has rights in patent and/or trade mark applications or registrations

04 Leverage strategic relationships and a scalable supply chain to optimise return on capital

a2MC's products are produced through a scalable supply chain that commences with milk supply and extends to the ultimate consumer. This is achieved through an efficient integration of the various steps in the supply chain with The a2 System proprietary knowledge, quality assurance and branding.

The success of the supply chain model in Australia provides a template that management believes can be replicated or adapted as required for growth in other international markets. The diagram below sets out the key steps in the Australian a2MC liquid milk supply chain.

Figure 8 a2MC's scalable liquid milk supply chain



4. Business Description

04 Leverage strategic relationships and a scalable supply chain to optimise return on capital (continued)

a2MC approach to supply chain and capital allocation

a2MC seeks to optimise its return on capital by focussing investment on sales, marketing and brand development. This is supported by investment to extend its integrated intellectual property portfolio, including the development of processes, testing procedures and other aspects of The a2 System.

a2MC takes a strategic approach to securing processing capacity. In order to manage cost and risks and in line with a2MC's strategy of prioritising investment in selling, marketing and brand development, a2MC generally seeks to outsource capital intensive supply chain processes through strategic contractual relationships. Third party processing capacity has been generally available on a contracted basis. However, a2MC is willing to commit its own capital where third party capacity is not readily or economically available or where it is considered strategically important for a2MC to establish these elements of the supply chain internally. For example, the development of a2MC's processing facility at Smeaton Grange, in South West Sydney, was determined to be strategically important primarily to secure supply to markets on the East Coast of Australia and to provide operational flexibility. However as a2MC continues to expand its operations into new markets, it reviews these markets on a case by case basis to determine the optimal operational strategy for each region with respect to the mix of a2MC and third party production and distribution facilities.

The key features of the a2MC supply chain that make it scalable include:

- A plentiful supply of cows producing A1 Protein Free milk, which makes it possible for a2MC to work with farmers to form and maintain new herds to provide incremental supply of A1 Protein Free milk as demand builds
- A premium farm gate milk price, which makes production of milk for a2MC an attractive economic proposition for supplying farmers
- a2MC's established and efficient proprietary practices and testing procedures
- Available third party processing capacity in key markets, which a2MC is able to access through strategic contractual relationships
- a2MC's control of its brand and consumer marketing in each of its "core" markets

Regardless of the supply chain model within each market, a2MC is focussed on maintaining the integrity of the entire supply chain from milk supply through to consumers through advanced testing, quality control standards, record keeping and investing in new technologies.

05 Reinvestment of cash flows into focussed strategic growth opportunities

a2MC's strategy seeks to position the Company as a recognised participant within its selected markets in the global dairy and infant formula industries. The components of a2MC's strategy are summarised below and discussed in further detail in Section 4.3.

1	**Continue to build a substantial premium dairy business in Australia and New Zealand**	• Grow Australian business in liquid milk and other dairy products including yoghurt and thickened cream • Investigate New Zealand liquid milk opportunity in advance of Fresha Valley's licence expiring in 2017
2	**Capture sustainable shares for premium a2MC branded products in targeted global dairy markets**	• Re-set of the UK business, positioning a2MC branded milk in the premium specialty milk segment and targeting growth of the distribution network • Enter the USA milk market initially in the West Coast region in the first half of 2015 • Progress the China liquid milk opportunity utilising Australian exports • Explore priority Asian markets once position in China established
3	**Establish and build a global infant formula business**	• Strengthen the a2 Platinum™ brand presence in China amongst a targeted consumer group • Capitalise on the Australian business' position and build upon current launch momentum of a2 Platinum™ infant formula • Seek additional market opportunities over time

The development of the a2MC business has been financed to date by a combination of equity and cash flows generated primarily from the Australian business. a2MC does not currently utilise external debt facilities, and the current strategy assumes that growth will be funded in the first instance from cash flows from its existing business.

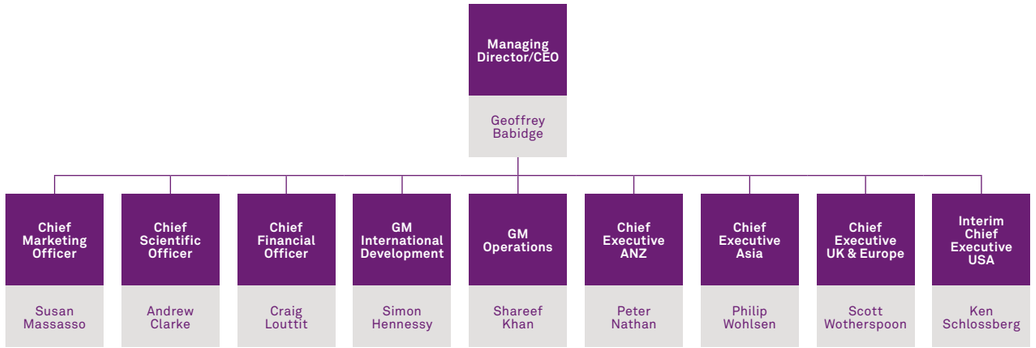
4. Business Description

06 Organisational structure designed to deliver strategic priorities

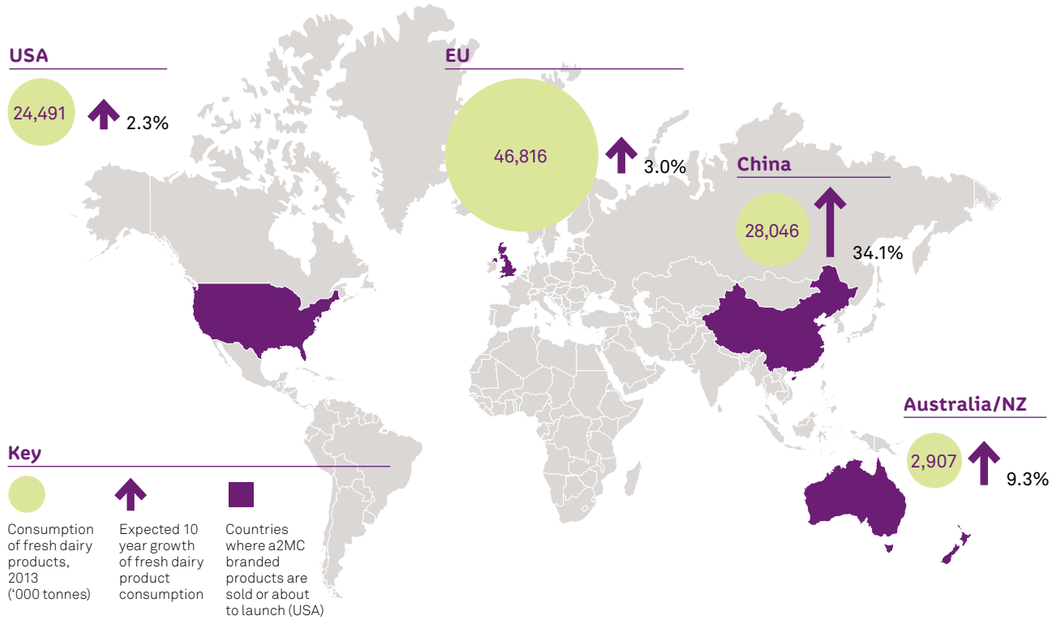
a2MC's organisational structure reflects the Company's strategic priorities for both continued growth in Australia and New Zealand and growth in selected global dairy and infant formula markets. Head office corporate functions are primarily located in Australia and New Zealand. a2MC has regional market heads who are generally based in their respective locations. This enables a2MC to be closely involved in each of its target markets and have greater control of the supply chain operations.

Led by Managing Director/Chief Executive Officer, Geoffrey Babidge, a2MC's senior management team is appropriately qualified and has relevant industry and market experience. Furthermore, senior management incentives are aligned with delivering value for a2MC Shareholders. Figure 9 below sets out the structure of a2MC's senior management team. Details of senior management long term incentives are set out in Section 9.9.

Figure 9 Senior management structure



4.3 Overview of targeted regions



Source: Consumption of fresh dairy products OECD-FAO Agricultural Outlook 2014-2023

a2MC's presence in targeted regions

	Australia/New Zealand		China	UK	USA
Products	Australia Fresh milk, long life milk, cream, yoghurt (sold under licence), infant formula	New Zealand Infant formula, fresh milk (sold under licence)	Infant formula, fresh milk, long life milk	Fresh milk, long life milk	Fresh milk
Market Entry	2003		2013	2012	2015
FY14 Revenue	NZ$106.9m		NZ$2.7m	NZ$1.1m[12]	–
FY14 EBITDA	NZ$4.5m		NZ$(1.8)m	NZ$(2.2)m[12]	–

Note: a2MC financials above based on segment reporting (see Section 8 for further details)

12 FY14 Revenue and EBITDA for the UK represents Revenue and EBITDA for the 6 month period from 1 January 2014 to 30 June 2014, following the acquisition of the remaining 50% shareholding in the UK business from MWD

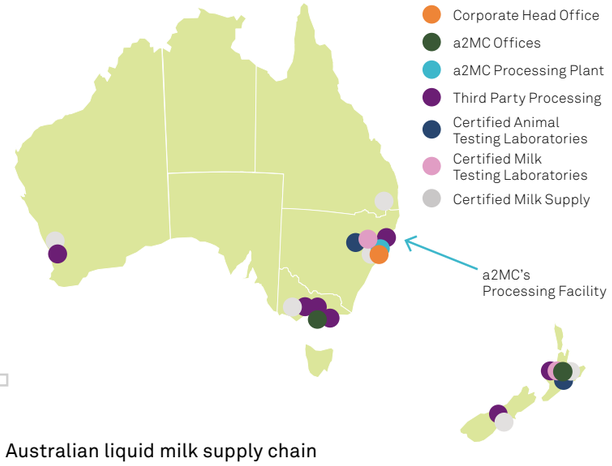
4. Business Description

Australia and New Zealand

Figure 10 a2MC presence in Australia and New Zealand

Australia and New Zealand product portfolio

Facilities and offices supporting the Australia and New Zealand business



Australia and New Zealand timeline

2003
Commences selling in Australia and New Zealand via licences

2007
Enters joint venture with Freedom Foods to produce a2MC branded products

2008
Advocacy by consumers and healthcare professionals in Australia drives brand growth

2009
Licencing agreement with Jalna to produce yoghurt

2010
a2MC assumes full ownership of the joint venture and Geoffrey Babidge appointed as MD and CEO

2012
a2MC commissions new processing facility in Sydney

2013
Launches a2 Platinum™ infant formula in Australia and New Zealand

2014
Extension into cream, and continued market share growth in fresh milk supermarket category

Australian liquid milk supply chain

13 A1 Protein Free fresh milk is sold in New Zealand by Fresha Valley under licence from a2MC

14 A1 Protein Free yoghurt is sold in Australia by Jalna under licence from a2MC

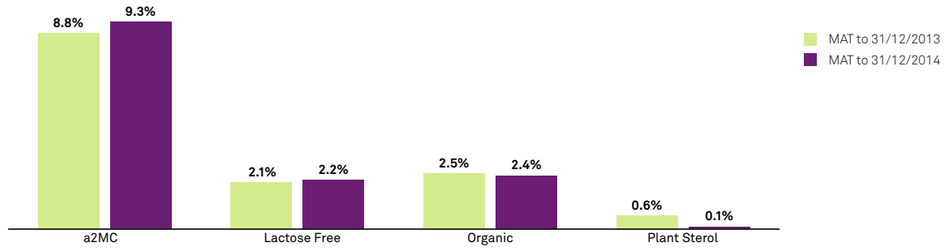
Growth in the Australian market

a2MC has established a significant branded milk business in Australia with a reliable supply chain, strong sales growth and premium pricing. The Company has constructed a modern purpose-built processing facility at Smeaton Grange, Sydney and developed a distribution network throughout the country. These factors have enabled a2MC to grow in the Australian fresh milk market, achieving an approximate 9% market share by value in the grocery channel of total fresh milk for the 12 months to 31 December 2014[15] while maintaining a pricing premium relative to Private Label. This market share is significantly larger than that of other premium specialty milk categories (as indicated in Figure 11) and has contributed to AUD revenue growth of 24% in a2MC's Australian fresh milk business between FY13 and FY14.

Management believes that the experience and growth achieved in this market provides a solid platform for a2MC's global growth strategy.

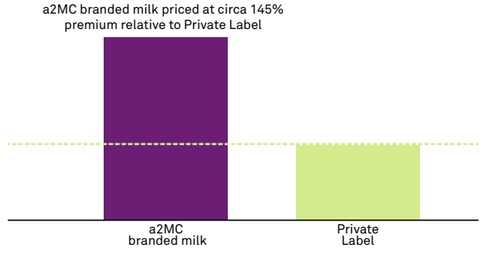
In addition to fresh milk in Australia, a2MC's other established core products include long life milk, yoghurt (under licence with Jalna), cream and a2 Platinum™ infant formula. a2MC branded fresh milk has established a strong position in the grocery market. For the 12 months to 29 June 2014, a2MC had two stock keeping units ("**SKU's**") in the top 20 grocery SKUs (excluding Private Label and tobacco). a2 Platinum™ infant formula was most recently launched in September 2013. Sales have shown strong growth in both grocery and pharmacy channels. a2 Platinum™ infant formula is produced at Synlait's processing facility in Canterbury, New Zealand and utilises milk sourced from a2MC certified dairy farms in New Zealand. a2 Platinum™ infant formula is then sold through a variety of retail channels, including Coles, independents, pharmacies and more recently Woolworths.

Figure 11 a2MC dairy milk value market share compared to other premium specialty milk categories



Source: Aztec scan data Australian grocery weighted, moving average total (MAT) –12 month rolling data to 31 December 2013 and 31 December 2014
Note: Market shares represent the share of total grocery dairy milk which includes both mainstream milk and specialty milk

Figure 12 Average Price $/Litre, Australian grocery fresh milk



Source: Internal a2MC pricing survey June 2013-June 2014 n=500 (across Woolworths, Coles and Independents)

15 Aztec scan data Australian grocery weighted, moving average total –12 month rolling data to 31 December 2013 and 31 December 2014

4. Business Description

Australia and New Zealand (continued)

Developed milk supply chain in place

a2MC sources milk for the Australian market from certified local dairy farms. The cows are tested by an a2MC certified genetic testing laboratory and only those animals that test positive to naturally producing milk containing A2 Protein and not A1 Protein are then isolated to form a herd. The cows' genotyping result is then recorded and monitored through an a2MC-implemented cow tracking system which follows their movements in and out of the herd. Testing of the milk from the farm is conducted to validate that it is A1 Protein Free prior to a2MC certifying that the herd is fit for production. The milk is then transported by contractors to either a2MC's processing facility, Smeaton Grange, or one of a2MC's third party contracted processing facilities. The Smeaton Grange facility commenced operation in February 2012 and was designed as a purpose built liquid fresh milk facility, to process only A1 Protein Free milk to meet a2MC's fresh milk requirements. It is an efficient facility for processing this volume and is scaled to cater for anticipated growth. In addition, a2MC uses a number of independent milk processors who process and pack a proportion of a2MC's total Australian requirements under formal contract packing agreements. Once this milk has been processed and quality checked, it is distributed to retailers for sale to consumers. At present a2MC branded products can be found in supermarkets, petrol stations, cafes and pharmacies. a2MC has arrangements in place so that the products are distributed to supermarket warehouses, rather than direct to individual stores.

a2 Platinum™ infant formula is processed and packaged by Synlait in New Zealand as described on page 28. It is then distributed by contractors to retailer warehouses and pharmacy wholesalers for distribution to individual stores.

Growth strategy in Australia and New Zealand

Australia and New Zealand core strategic priorities

Enhance brand strength	• a2MC seeks to build the strength and differentiation of a2MC brands and exploit its first-mover advantage in the production and sale of A1 Protein Free dairy products
Build core Australia and New Zealand liquid milk businesses	• a2MC's priority business category is liquid milk. a2MC is focussed on continuing to build market share and household penetration within the Australian liquid milk market • a2MC does not currently produce and market liquid milk in New Zealand. This is currently undertaken by Fresha Valley, an independently-owned third party, under a non-exclusive licence from a2MC. In advance of this licence expiring in May 2017 a2MC is investigating a strategy for entering the New Zealand liquid milk market
Grow a2 Platinum™ infant formula business	• a2MC aims to grow its a2 Platinum™ infant formula business building upon current launch momentum. a2MC is seeking to grow sales to channels such as pharmacies in addition to existing supermarket channels
Launch new dairy products	• a2MC management believes there is an opportunity to increase a2MC sales by launching into additional dairy product categories
Build scale and efficiency	• a2MC will continue to seek opportunities to improve its operational efficiencies as the business continues to grow

China

Figure 13 a2MC presence in China

China product portfolio

Targeted cities for infant formula in China

China timeline

2012
Formation of manufacturing agreement with Synlait for the exclusive manufacturing of a2 Platinum™ infant formula in New Zealand for sale into Asia

China State Farm Holding Shanghai Company ("CSF") appointed as sole distributor for a2 Platinum™ into China

2013
a2 Platinum™ infant formula launches in China

2014
a2MC fresh milk and long life milk launches into China

Arrangement with CSF altered whereby CSF becomes the exclusive import agent and a2MC assumes responsibility for distribution

China infant formula supply chain

China (continued)

China market opportunity

a2MC's entry into the Chinese infant formula market represents a foothold in one of the fastest growing regions globally[16]. Management expects that consumer and economic trends, including a desire for safety and premium quality, along with a relaxation of the one-child policy and increased wealth, will continue to drive growth in the premium and ultra-premium infant formula segments.

a2MC launched a2 Platinum™ infant formula into China with the intention of establishing a position there before expanding into other Asian markets. a2 Platinum™ infant formula was first sold to Chinese consumers in November 2013. a2MC has identified that the appropriate channels for initially building the a2 Platinum™ brand in China are through online sales, mother and baby stores and selected high-end supermarkets. This targeted channel strategy is reflected in a broader geographic spread of product distribution. Consumer communication is also structured to mirror these channels.

Infant formula supply chain

a2 Platinum™ infant formula is processed and packaged by Synlait under a formal manufacturing agreement and utilises milk sourced from a2MC certified dairy farms in New Zealand. Synlait operates a modern, technologically advanced infant formula facility in Canterbury, New Zealand. Synlait has an integrated facility that allows full manufacturing and packaging control from sourcing and collection of certified A1 Protein Free milk through to manufacturing and packaging of a2 Platinum™ infant formula.

In 2012, a2MC appointed CSF as the exclusive distributor of a2 Platinum™ for China. In November 2014, this relationship was amended so that CSF became the exclusive import agent for a2 Platinum™ into mainland China. CSF also provides government relations advice and support on an on-going basis. a2MC has assumed responsibility for distribution of a2 Platinum™ infant formula products within the market and is in the process of establishing new arrangements with third parties to expand the distribution network. a2MC also oversees the marketing and communication activities for the brand within China.

a2MC made an active decision to adopt an importation model for the China market, due to the market environment, operational factors and consumer preferences. Consumers in China are seeking high quality imported foods due to safety concerns and supply from New Zealand fulfills this need. In addition, a2MC does not operate a trading subsidiary in China and receives payment for products imported into China in US or New Zealand dollars.

a2MC is seeking to implement further distribution initiatives with capable local companies with experience in distributing premium consumer products supplied by offshore companies and which are compatible with the a2 Platinum™ brand positioning.

Impact of Chinese regulatory changes

a2MC's entry into China has progressed more slowly than initially envisaged due to changes in the regulatory environment in China in response to local contamination issues and a slower than expected build of the distribution network by CSF. The impact of regulatory changes was greatest during 2014. The regulatory environment that applies to infant formula and dairy products sold in China has been evolving, in part as a result of a policy to support consumer confidence and ensure food safety. Consistent with this, there have been changes to access arrangements for imported infant formula including a requirement for manufacturing companies and brands to achieve a new form of registration from May 2014. Chinese authorities have indicated that a further requirement may be to demonstrate "close association" between the brand owner and the manufacturer. The Company is considering ways to address this, in order to seek to avoid any further regulatory disruption to supply into China. a2MC has approval to resume shipments of a2 Platinum™ infant formula into China. Although supply was temporarily disrupted due to the regulatory changes, confirmation of Synlait's registration in 2014 and changes to the Company's supply and distribution arrangements with CSF allowed for an order of approved registered product to be dispatched in December 2014. The regulatory and market environment in China remains subject to change.

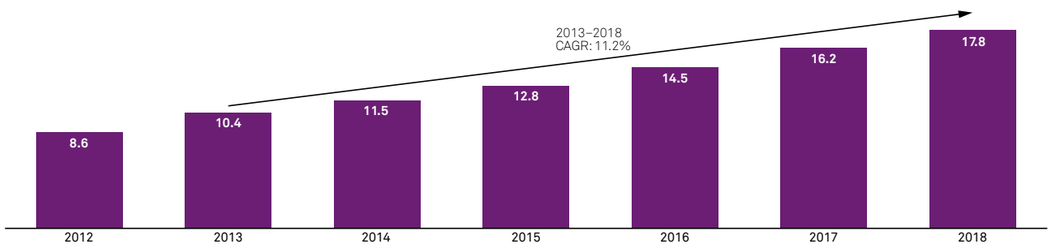
In the short term these changes have brought uncertainty into the market which have impacted the sales of many market participants, including a2MC. The Company is working to enhance the importation and distribution model following this disruption and will continue to closely monitor and respond to regulatory developments in the Chinese market.

Growth strategy in China

a2MC is seeking to establish an e-commerce sales capability to sell infant formula products into international markets, particularly China, directly from Australia or New Zealand. a2MC is also pursuing further opportunities for the sale of both long life milk and fresh milk in China. a2MC first sold fresh milk into China during September 2014. This milk is sourced from Australia, processed and packaged by a2MC's Smeaton Grange facility, sold by an in-market distributor through its e-commerce platform and delivered by the distributor directly to consumers' homes in China. a2MC expects to benefit from the growth of online sales in the Chinese market.

a2MC's growth strategy as summarised below is focussed on initially establishing a recognised market position and brand within China before extending into other Asian markets deemed to be accessible, including Hong Kong and a number of key South East Asian cities. These markets will be chosen according to local consumers' demand for high quality premium priced dairy products and infant formula combined with the availability of distribution channels, the opportunity for strategic relationships, the regulatory environment and the ability to operate an efficient supply chain.

Figure 14 Chinese infant formula market size (US$ billion)



Source: Canadean and ERC valuations based on trade sources 2014

16 Canadean and ERC valuations based on trade sources 2014

China core strategic priorities

Build a recognised premium brand in China	• a2MC will work with local communication providers to educate target consumer groups, healthcare professionals and appropriate local key influencers regarding the potential benefits of a2MC branded products and to build brand awareness • a2MC is committed to maintaining stewardship over the marketing of a2MC branded products throughout China
Build core infant formula and liquid milk business	• a2MC will continue to focus on building its a2 Platinum™ infant formula business amongst a targeted consumer group • a2MC has identified an opportunity to market a premium liquid milk range of A1 Protein Free products exported from Australia into the Chinese market
Enhance supply chain efficiency	• a2MC will continue to seek opportunities to improve its operational efficiencies with its supply chain partners to enhance profitability
Build relationships with distributors	• a2MC will seek to develop strategic distribution relationships to expand market access and premium distribution channels within targeted regions in China for infant formula and liquid milk • Given the penetration and growth of e-commerce in China, a2MC will focus on the potential of this distribution channel

4. Business Description

UK and USA

Figure 15 a2MC presence in the UK

UK product portfolio

UK timeline

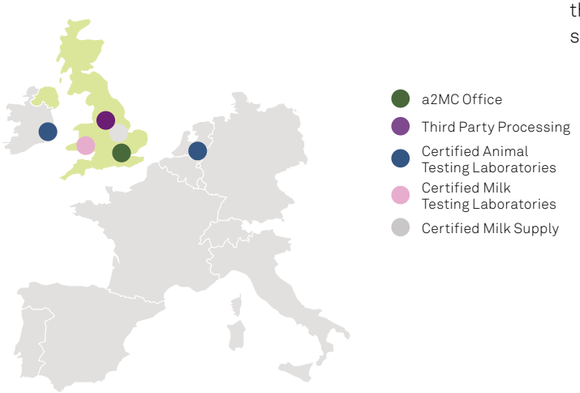
2011
Enters joint venture with Robert Wiseman Dairies to manufacture and market a2MC branded milk in the UK and Ireland

2012
a2MC UK joint venture launches a2MC branded milk in the UK through three major supermarket chains

2014
a2MC assumes full ownership of joint venture from Müller Wiseman Dairies (**"MWD"**)

Adopts new business model in the UK. Product repositioned within the premium specialty milk segment. Initial sales in J Sainsbury

Facilities and offices supporting the UK business



UK liquid milk supply chain

Evolution of UK market entry

a2MC entered the UK market in November 2011, through establishing a joint venture with Robert Wiseman Dairies PLC ("**RWD**") in the UK and Ireland. The joint venture was structured to merge the strong local capability and supply chain infrastructure of the RWD fresh milk business with the intellectual property, product and brand capability of a2MC. The sale of RWD to the Müller Group in early 2012, with the resulting change in priorities of RWD, and slower than anticipated market penetration has resulted in a2MC restructuring its approach to the UK market in order to better control its growth plans.

On 1 January 2014 a2MC acquired the 50% interest in the UK business that it did not already own from MWD, and since that time the business has operated as a wholly owned subsidiary of the Company, with a new local board and management structure in place. Management believes these revised arrangements should enable the business to build sales and distribution in a more focussed way whilst continuing to access the scale and operational capabilities of MWD under a supply and contract pack agreement.

The prior joint venture plan positioned a2MC branded milk within the regular fresh milk segment given RWD's then distribution model. The new business model repositions a2MC branded milk within the speciality milk segment which more closely aligns with the initial position in Australia from 2007. New 1 litre packaging format and pricing reflective of the speciality milk segment was launched in November 2014. The new model will continue to focus on growing distribution in existing accounts and continue the marketing focus on dairy sensitive consumers.

The Company plans to invest approximately £3.5 million from internal sources to fund growth in the UK market during FY15 and is targeting a monthly cash breakeven during the second half of FY16.

UK operations

After a period of structural change and slower than expected market entry, a2MC is progressing a revised business model in the UK market, with an end-to-end supply chain now in place and a growing distribution network consisting of some of the UK's most well-known retailers.

a2MC sources its supply of A1 Protein Free milk from certified farms in the UK. a2MC has achieved a growing distribution network throughout the UK with a2MC branded milk being sold in leading supermarkets including Tesco, Waitrose, Morrisons, Ocado (online supermarket) and more recently J Sainsbury. Products will also commence being sold in Wholefoods and with an additional wholesaler and distributor, Marigold, from early 2015. The Company is currently selling solely fresh milk in the UK.

Growth strategy in the UK

UK core strategic priorities

Build targeted premium brand	• Focus on building a brand proposition that targets the proportion of the population who experience issues digesting Regular Cows' Milk and providing them with a natural alternative to enable them to increase their dairy consumption
Reposition existing fresh milk business	• Reposition a2MC branded milk from the mainstream fresh milk segment to the premium specialty milk segment. This repositioning involves new 1 litre packaging and pricing and a change in in-store location to the specialty section to complement continued marketing focus on dairy sensitive consumers
Build distribution	• Grow distribution in existing supermarkets (in-store and online)
Expand product portfolio	• As the UK milk business continues to develop, it is expected to provide a springboard for expansion of the a2MC product portfolio

4. Business Description

UK and USA

Figure 16 Entry into the USA

USA product portfolio

USA timeline

2003
a2MC enters USA licence arrangement which is later superseded by a joint venture (2005)

2007
Launch of a limited product test market in the mid-west for 12 months

2008
Change in a2MC's strategic direction shifting from a licensing model to a branded product model

2010
a2MC acquires remaining interest in the joint venture and exits the USA market to focus investment on Australian growth momentum

2014
a2MC announces its intention to enter the USA fresh milk market via 100% owned subsidiary

USA entry plan

a2MC considers that the USA market represents a significant opportunity for a2MC branded products. The USA fresh milk market exhibits the characteristics of other mature Western markets, including the commoditisation of drinking milk and a fragmented industry. In addition, a proportion of the USA market comprises health-conscious consumers with favourable demographics and a propensity to purchase premium products with perceived health benefits. Accordingly, a2MC has been planning entry into the USA market for some time and has now established a team of six executives with relevant market experience. The Company's intellectual property rights are considered strong in the USA market, and consumer research suggests potential for a2MC branded products in this market. The Company's initial plans envisage an entry which is concentrated initially in the West Coast region and the opening of an office in Colorado prior to extending distribution into further state markets. a2MC will maintain its consistent focus on the premium specialty milk segment and is planning to launch in the first half of the 2015 calendar year. Significant progress has been made in recruiting the core management team, developing the fresh milk launch product and marketing plan, identifying milk supply and commencing discussions with the retail trade. a2MC's USA business plan envisages an initial investment of approximately US$20 million over three years to fund market entry and working capital requirements.

4. Business Description

4.4 History of The a2 Milk Company Limited

2000
The Company is founded by Dr. Corran McLachlan and Howard Paterson

2003
a2MC begins selling in Australia and New Zealand via licensees

a2MC enters USA licence arrangement which is later superseded by a joint venture (2005)

2004
Listing on the NZX Alternative Market (NZAX)

2007
Enters a joint venture with Freedom Foods to produce and market a2MC branded milk in Australia

2008
Change in a2MC's strategic direction shifting from a licensing model to a branded product model. Consequently exiting licencing and business arrangements in Korea and later in the USA (2010)

2010
Full ownership of the Australian joint venture is purchased and Geoffrey Babidge is appointed Managing Director and CEO

2011
Enters a joint venture with RWD to manufacture and market a2MC branded milk in the UK and Ireland

Formally develop The a2 System comprising a2MC's proprietary processes and know-how

2012
The Company commissions a new, purpose-built processing facility in Sydney, Australia

a2MC UK joint venture launches a2MC branded milk in the UK through three major supermarket chains

CSF is appointed as sole distributor for a2 Platinum™ infant formula into China

A manufacturing agreement is formed with Synlait Milk for the exclusive manufacturing of a2 Platinum™ infant formula in New Zealand

Successful completion of capital raising and transfer of listing to the NZX Main Board

2013
a2 Platinum™ infant formula launches in China, Australia and New Zealand

2014
Company name and subsidiary names aligned to one new brand identity: The a2 Milk Company™

a2MC in Australia extends into thickened cream

First adult human digestion trial published in European Journal of Clinical Nutrition reporting a digestive difference between A1 Protein and A2 Protein[17]

Long life milk and fresh milk launches into China

The Company acquires full ownership of the UK joint venture from MWD

Revised arrangement with CSF as exclusive import agent for a2 Platinum™ in China

a2MC announces its intention to enter the USA fresh milk market via 100% owned subsidiary

17 Comparative effects of A1 versus A2 beta-casein on gastrointestinal measures: a blinded randomised cross-over pilot study, Ho et al, European Journal of Clinical Nutrition, September 2014

5. Intellectual Property

a2MC's intellectual property portfolio includes rights in trade marks, patents, proprietary processes and know-how, which together provide complex and interlocking protection for a2MC branded products. a2MC's continued investment in research and development aims to further expand and strengthen a2MC's intellectual property portfolio and brand presence in key markets.

Brands and trade marks

a2MC makes significant investment in protecting and building the value of its brands. a2MC has trade mark registrations or applications across key global milk-consuming markets covering 57 territories[18], including the USA, the EU, Australia, New Zealand, China, Canada, Brazil, Hong Kong, Singapore, India, Japan, Mexico and South Korea.

The brand portfolio encapsulates rights associated with a2MC branded products. a2MC's trade mark portfolio focusses on milk and milk products, including a2 Platinum™ infant formula. Its primary brands are complemented in a number of countries by secondary trade marks associated with key beneficial messaging. a2MC also has brands associated with testing and supply chain quality control, including True a2™.

Consistent and strong brand positioning and awareness are an important part of a2MC's marketing strategy. A strategic initiative in mid-2014 was the Company's change in name from A2 Corporation Limited to The a2 Milk Company Limited. As part of the overall rebrand, a2MC launched its distinctive white and purple brand format and logos.

a2MC has also secured a number of digital domain names and social media tags relating to its brands and messaging.

18 As at 27 January 2015

5. Intellectual Property

	Key brands and trade marks[19]		Territories registered or under application[20]
Logo Marks			One or more stylised a2™ or a2 Milk™ logos are registered or under application in one or more of the following: Argentina, Australia, Bangladesh, Brazil, Brunei, Cambodia, Canada, China, EU, Fiji, Hong Kong, India, Indonesia, Japan, Laos, Macau, Malaysia, Mexico, New Zealand, Norway, Pakistan, Papua New Guinea, Philippines, South Korea, Singapore, Sri Lanka, Taiwan, Thailand, USA, Uruguay, Vietnam
English Word and Chinese Character Marks	A2 Milk™		Argentina, Australia, Brazil, China, EU, Indonesia, Mexico, Taiwan, Uruguay, USA
	The a2 Milk Company™		Australia, Brazil, Canada, China, EU, Hong Kong, Japan, Malaysia, New Zealand, Singapore, South Korea, Thailand, USA
	True A2™		Australia, Brazil, Canada, China, EU, Malaysia, New Zealand, Singapore, South Korea, Thailand, USA
	Platinum™		Australia, China, EU, Hong Kong, Malaysia, New Zealand, Philippines, Singapore, USA, Thailand, Vietnam
	愛頤 爱颐	(A2 in traditional and simplified Chinese characters)	Hong Kong, Macau, Taiwan
	愛頤牛奶 爱颐牛奶	(A2 Milk in traditional and simplified Chinese characters)	
	白金	(Platinum in simplified Chinese characters)	China, Hong Kong
	源乳	(Natural Sourced Milk in simplified Chinese characters)	China
Secondary Marks	Feel the Difference™		Australia, Canada, Malaysia, New Zealand, Singapore, USA
	Nature's Original Dairy Milk™		Australia, Hong Kong, Japan, New Zealand, Singapore, USA
	The Original Milk Protein™		Canada, Malaysia, New Zealand, Singapore, USA
			Australia, China, New Zealand

19 Example word marks and logos are shown only. The actual trade marks applied for or registered differ between countries. Goods and/or services covered by the trade mark applications and registrations varies between territories

20 Territories listed are where one or more of the corresponding trade marks shown are registered or under application

Patents

a2MC has rights to nine families of patents and patent applications in various combinations covering a spectrum of activities across the value chain, including in relation to testing, herd formation, beneficial uses and physical properties associated with A1 Protein Free milk products.

The strength of a2MC's patent portfolio is derived from the interlocking relationship, complexity and geographical spread of a2MC's patents. a2MC's continued investment in research and development relating to beneficial uses and other aspects of A1 Protein Free milk products aims to explore options to further expand a2MC's patent portfolio in the future.

Patent title(s)[21]	Expiry[22]	Territories[23]
Method of Selecting Non-Diabetogenic Milk or Milk Products and Milk or Milk Products so Selected[24]	3 November 2015	Australia, Canada, Finland, Ireland, Netherlands, New Zealand, Norway, UK, USA
Food Product and Process Bovine Genotype Testing for Beta-Caseins Breeding and Milking Cows for Milk Free of Beta-Casein A1	9 May 2016	Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, New Zealand, Sweden, Switzerland, UK, USA
Prophylactic Dietary Supplement Based on Milk	29 June 2020	Australia, China, New Zealand
Animal Genotyping Method	23 May 2023	Australia, Canada, China, Hong Kong, *India*, Japan, New Zealand, Singapore, South Korea, USA, Vietnam
Method for Altering Fatty Acid Composition of Milk	3 July 2023	Australia, *Canada*, China, Hong Kong, *India*, Japan, New Zealand, Singapore, *South Korea*, USA, Vietnam
Therapeutic Uses of Beta-Casein A2 and Dietary Supplement Containing Beta-Casein A2	3 October 2023	Canada, China, Czech Republic, Denmark, Finland, France, Germany, Hong Kong, India, Ireland, Italy, Japan, the Netherlands, New Zealand, Singapore
A Composition Comprising Beta-Casein		South Korea, Spain, Sweden, Switzerland, UK, Vietnam
Beta-Casein A2 and Prevention of Inflammation of the Bowel	20 May 2034[25]	*International (PCT) Application – Territories to be nominated*[26]
Beta-Casein A2 and Reducing or Preventing Symptoms of Lactose Intolerance	10 July 2034[25]	*International (PCT) Application – Territories to be nominated*[26]
Beta-Casein A2 and Blood Glucose Levels	22 August 2034[25]	*International (PCT) Application – Territories to be nominated*[26]

21 Patent titles are indicative only and have been grouped in rows according to related inventions. One or more of the patent titles listed in each row corresponds to the territories listed in that row

22 Earliest expiry date of any of the territories indicated. The expiry date may be later for some territories

23 Italics indicates territories where the patent is still pending

24 Jointly-owned patents

25 Expiry date shown is indicative only. The actual expiry date is yet to be confirmed and may vary as the patent application is still pending

26 Under the Patent Cooperation Treaty, it is possible to nominate up to 148 countries from a PCT application. A decision as to which countries to nominate has not yet been made

5. Intellectual Property

Research and development

a2MC's research and development programme focusses on providing new intellectual property rights associated with testing, and aspects of and beneficial uses for its a2MC branded products. It continues to partner with a number of third party research institutions in Australia and New Zealand, the USA and Asia, to conduct research to enhance its intellectual property. As a result of its commitment to research and development over many years a2MC owns confidential information, data and trade secrets associated with the effective production, testing and marketing of A1 Protein Free milk.

The a2 System

The production and promotion of a2MC branded products to the quality standards prescribed by a2MC is dependent on access to proprietary processes and know-how codified and collated in a confidential suite of proprietary documents, collectively referred to as "The a2 System".

This know-how system covers all aspects of the supply chain, from herd testing through to the verification of milk, to marketing and retail branding of products as part of an end-to-end supply chain validation process. It also includes templates and testing licences, to allow effective global control and consistency of use of a2MC intellectual property. This contributes to the effective and efficient management of the global portfolio.

a2MC has contractual relationships with a number of leading genetic testing facilities in key milk producing jurisdictions in the USA, Asia, Europe and Australia and New Zealand. These arrangements allow a2MC to consistently certify bull semen and herds capable of producing A1 Protein Free milk to a2MC's highest standards.

To provide assurance of milk integrity in terms of A2 Protein composition, a2MC has entered into contractual relationships with a number of established commercial laboratories in active markets. Using a2MC standardised protocols on high resolution analytical instruments, milk is tested and certified throughout the a2MC supply chain, from farm collection through to finished product. Through these relationships, developed methods and established systems a2MC has collected data and developed intellectual property and confidential information relating to the accurate testing and verification of A1 Protein Free milk.

The a2MC intellectual property portfolio includes rights throughout the value chain and in relation to both milk and other milk-based products, allowing a2MC to either directly exploit or to partner with third parties to market A1 Protein Free products under brands owned or approved by a2MC.

6. Board, Management and Governance

6.1 Directors and senior management

Board renewal

The current Board of Directors as at the date of this Information Memorandum comprises seven Directors, Clifford Cook (Chairman), Geoffrey Babidge, David Hearn (Deputy Chairman), Julia Hoare, Richard Le Grice, Melvyn Miles and David Mair.

A number of changes to the composition of the Board are proposed to take place shortly before the Company is admitted to the Official List of the ASX. These changes are consistent with the process of review and renewal of the Board which the Company commenced during 2013.

The current Chairman of the Company, Clifford Cook, has advised of his intention to resign as both Chairman and a Director of the Company. Mr Cook has been a Director and the Chairman of the Company since 2004 and has been instrumental in leading the evolution of the Company since that time. Mr Cook has advised that the decision to resign has been made with careful consideration of the Company's leadership requirements for the future. With the Company now well established and strongly positioned to pursue further growth in the UK, China and the USA, Mr Cook believes the Chairman should possess significant fast moving consumer goods ("FMCG") skills, broad international experience consistent with the Company's target market strategies and be located closer to those markets. The remaining members of the Board concur with this approach, which is consistent with the ongoing process of Board renewal. As such, Mr Cook intends to resign shortly before the Company is admitted to the Official List of the ASX.

Mr Cook has indicated that he will maintain a continuing interest in the ongoing development of the Company and the entity holding shares associated with him intends to retain a significant holding in the Company.

David Mair has also advised of his intention to resign as a Director shortly before the Company is admitted to the Official List. Mr Mair has been a Director since October 2008. He has been an active and contributory Board member since this time including in his role as Chairman of the Remuneration Committee since FY11 and as the designated Non-executive Director assisting the Company's Asian growth initiatives. Mr Mair's intention to leave the Board is consistent with the process of Board renewal which commenced two years ago and is also a result of other professional commitments.

Consistent with the approach outlined above, the Board has resolved that the current Deputy Chairman David Hearn, who has significant international FMCG experience, will assume the role of Chairman and Julia Hoare the role of Deputy Chairman with effect from the Company's admission to the Official List of the ASX.

In addition to his role as Chairman of the Board, with effect from the Listing, Mr Hearn will perform a defined executive role working with the Managing Director and Chief Executive Officer to provide guidance and support, particularly in respect of the Northern Hemisphere activities of a2MC based on his domicile and experience in this region.

Further, the Board will consider the appointment of an additional Independent Non-executive Director with appropriate skills and experience in due course.

6. Board, Management and Governance

The Board on Listing

The following table provides information regarding the composition of the Board following the Listing. The Board has a broad range of experience in FMCG combined with financial and commercial expertise.

Name	Age	Position	Independence[27]
David Hearn	59	Chairman and Executive Director	Not independent[28]
Julia Hoare	54	Deputy Chairman and Non-executive Director	Independent
Geoffrey Babidge	61	Managing Director and Chief Executive Officer	Not independent[29]
Richard Le Grice	52	Non-executive Director	Independent
Melvyn Miles	65	Non-executive Director	Not independent[30]

Directors' profiles

David Hearn **Chairman & Executive Director** *Master of Arts*	David was appointed to the Board in February 2014. David has experience and skills in executive management, sales and marketing and strategy development in FMCG in international markets. He has held senior executive roles including Chief Executive Officer or Managing Director roles for FMCG companies including Goodman Fielder Limited, UB Snack Foods Europe/Asia, Del Monte UK and Smith's Crisps and for the marketing services group, Cordiant Communications Group. David is a member of the Nomination and Remuneration Committees. In addition to his a2MC directorship, David is also a director of Lovat Partners Limited and Robin Partington & Partners Limited.
Julia Hoare **Deputy Chairman and Independent Non-Executive Director** *Bachelor of Commerce, FCA, MInstD*	Julia was appointed to the Board in November 2013. Prior to joining the Board, Julia had extensive chartered accounting experience in Australia, the UK and New Zealand and was a partner with PwC New Zealand for 20 years. Julia is Chairman of both the Nomination Committee and the Audit and Risk Management Committee. In addition to her a2MC directorship, Julia is also a director of New Zealand Post Limited, Watercare Services Limited and AWF Group Limited.
Geoffrey Babidge **Managing Director and Chief Executive Officer** *Bachelor of Economics*	Geoffrey is currently the Managing Director and Chief Executive Officer of a2MC. Geoffrey was appointed to the Board in September 2010. Geoffrey has over 25 years senior management experience working in the Australian FMCG industry. Prior to his appointment as Managing Director and Chief Executive Officer of a2MC in 2010, Geoffrey held senior executive roles with a number of companies in Australia including Freedom Foods Group Limited, Bunge Defiance and National Foods. Prior to these roles he was a practicing chartered accountant and Partner at Price Waterhouse.
Richard Le Grice **Independent Non-Executive Director** *Bachelor of Laws*	Richard was appointed to the Board in February 2007. Richard has experience in management of and as a shareholder in a number of private companies. He brings considerable international experience with these companies operating in a number of countries including Australia. Richard is Chairman of the Remuneration Committee and a member of both the Audit and Risk Management Committee and the Nomination Committee. In addition to his a2MC directorship, Richard is also a director of several other companies including Energi New Zealand Limited, Thode Knife & Saw Limited and The Gravitas Group Limited.
Melvyn Miles **Non-Executive Director** *Bachelor of Science (Hons)*	Melvyn was appointed to the Board in July 2010. Melvyn has over 30 years Australian and international senior executive experience in the FMCG industry, and has held Vice President roles in Carlton & United Breweries and Foster's Group and General Manager roles in Visy Industries and Amcor. He is a member of the both the Audit and Risk Management Committee and the Remuneration Committee. In addition to his a2MC directorship, Melvyn is also a director of Freedom Foods Group Limited and Brewtique Pty Ltd.

Senior management profiles

Geoffrey Babidge **Managing Director and Chief Executive Officer** *Bachelor of Economics*	See the Directors' profiles above for details of Geoffrey's qualifications and experience.
Craig Louttit **Chief Financial Officer and Company Secretary** *Bachelor of Commerce, CA*	Craig joined a2MC in April 2014 from ASX listed public company UGL Limited where, since 2007, he had held senior finance roles including as General Manager Finance, Transport and Technology Systems, and Group Financial Controller. Prior to this he held senior finance roles with EMI Group PLC from 1999 in London, UK, including Head of Financial Reporting, Director Financial Analysis and Group Reporting Manager.
Susan Massasso **Chief Marketing Officer** *Bachelor of Commerce (Accounting/Marketing)*	Susan has over 18 years' experience in the FMCG industry. She joined a2MC in September 2013 as Chief Marketing Officer with oversight of marketing and brand development across all markets. Susan has held several senior leadership positions across the Campbell Arnott's business including most recently Asia Pacific Regional Marketing Director. Prior to this she held a number of commercial roles including Marketing Director Arnott's ANZ, Marketing Director Campbell's ANZ and General Manager Campbell's ANZ. Prior to this Susan spent a number of years at Unilever where she held a number of marketing, consumer insight and logistics roles. Susan attended the University of Sydney under scholarship from accounting firm Price Waterhouse where she also gained undergraduate employment throughout her degree.

27 The Company has assessed the independence of its Directors having regard to the requirements for independence which are set out in Principle 2 of the ASX Corporate Governance Principles and Recommendations and NZX Main Board Listing Rules

28 David Hearn will not be considered independent for the purposes of the ASX Corporate Governance Principles and Recommendations or the NZX Listing Rules as a result of his executive role with a2MC as described above and the remuneration he will receive for this role as described below

29 Geoffrey Babidge is not considered independent for ASX or NZX purposes because of his executive role with the Company

30 Melvyn Miles is not considered to be independent due to the fact that he is a director of Freedom Foods Group Limited which is a substantial Shareholder of the Company

6. Board, Management and Governance

Senior management profiles (continued)

Dr Andrew Clarke **Chief Scientific Officer** *Bachelor of Science (Hons), Master of Science, PhD*	Andrew joined a2MC in 2003. Andrew has over 15 years' experience in private sector pharmaceutical research and agricultural biotechnology. He received a PhD in Biochemistry and Molecular Biology from the University of Auckland. In his role as Chief Scientific Officer, Andrew oversees all aspects of a2MC's science-based activities including research and development, scientific communications and the expansion of intellectual property.
Simon Hennessy **General Manager, International Development** *Bachelor of Science (Chemistry), Graduate Diploma, Corporate Finance*	Simon Hennessy joined a2MC in 2007 as the Business Unit Manager for the Australian joint venture with Freedom Foods. In 2010 Simon took on the responsibilities for a2MC group operations and development of new markets. Simon has over 25 years' experience in manufacturing operations, sales and marketing, after an early career in research and development and quality management.
Shareef Khan **General Manager, Operations** *Bachelor of Science, CSCP, APICS*	Shareef joined a2MC in June 2012. He has over 13 years' senior management experience as a qualified supply chain professional. He is experienced across a number of industries, some of which include FMCG, infant nutrition, office products and construction.
Peter Nathan **Chief Executive, Australia & New Zealand** *Bachelor of Business (Marketing)*	Peter joined a2MC in 2008 and in 2010 took on the role of Chief Executive of the Australia and New Zealand region. During his time with the Company, Peter has led the successful re-launch of a2MC branded milk in the Australian market. He has over 20 years' experience working the FMCG industry, as evidenced by his previous senior marketing and sales roles for Gillette and Colgate Palmolive in Australia and Asia as well as his involvement with Freedom Foods Group Limited as General Manager.
Scott Wotherspoon **Chief Executive, UK and Europe** *Bachelor of Arts (Hons) (Law)*	Scott joined a2MC in January 2014 assuming the role of Chief Executive of the wholly owned subsidiary, a2 Milk (UK) Ltd. Prior to his appointment with the a2MC group Scott held a number of senior roles including 15 years in marketing, sales and commercial roles both in Europe and Asia with the Unilever Group, CEO of a specialist beauty devices business and CEO of Plum Baby, a private equity backed food business in the UK which was recently acquired by Campbell's Soup Company. Scott has also received a degree from Cambridge University.
Philip Wohlsen **Chief Executive, Asia** *Bachelor of Business, Master of Business Administration*	Philip joined a2MC in January 2014. In his role as General Manager Asia, Philip assumes overall responsibility for managing the profitable development of the current business and developing new growth initiatives within the region. Philip has experience in marketing, sales and business development in both Australia and Asia. His previous roles include Asia Pacific Franchise Director of OTC and Consumer Healthcare for Johnson & Johnson, Marketing Director with Pfizer, New Business Development Manager with Campbell Arnotts Group and Account Director with JWT advertising agency (formerly known as J. Walter Thompson).
Ken Schlossberg **Interim Chief Executive, USA** *Bachelor of Science (Nutrition), Associate of Applied Science (Food Science)*	Ken was the co-founder and served as the most senior, full-time, managing executive of Steuben Foods, Inc. Steuben Foods is the leading manufacturer of extended shelf life and aseptic food products in the USA with sales in excess of $300 million. Ken's extensive experience, knowledge and relationships have been invaluable in the development of the USA launch plan and in-market infrastructure.

6.2 Corporate governance

The Company's Constitution provides that the maximum number of Directors is eight and the minimum number of Directors is four, of which at least such minimum number of Directors as is required by the Listing Rules and law (currently at least two) must be New Zealand residents in order to comply with NZX requirements. As at the date of this Information Memorandum, the Company has seven Directors serving on the Board, and following the Listing it will have five Directors.

The Board is responsible for the overall governance of the Company. Issues of substance affecting the Company are considered by the Board, with advice from external advisers as required. Each Director must bring an independent view and judgment to the Board and must declare all actual or potential conflicts of interest on an ongoing basis. Any issue concerning a Director's ability to properly act as a Director must be discussed at a Board meeting as soon as practicable, and a Director may not participate in discussions or resolutions pertaining to any matter in which the Director has a material personal interest.

Board's role in risk oversight

The Board's role in risk oversight includes receiving reports from management and the Audit and Risk Management Committee on a regular basis regarding material risks faced by a2MC and applicable mitigation strategies and activities. Those reports detail the effectiveness of the risk management programme and identify and address material business risks such as technological, strategic, business, operational, financial, human resources and legal/regulatory risks. The Board and its committees consider these reports, discuss matters with management and identify and evaluate any potential strategic or operational risks including appropriate activity to address those risks.

The responsibilities of the Board are set down in the Company's Board Charter, which has been prepared having regard to the ASX Corporate Governance Principles and Recommendations and the NZX Corporate Governance Best Practice Code. A copy of the Company's Board Charter is available on the Company's website at www.thea2milkcompany.com. The Company will also send Shareholders a paper copy of its Board Charter, at no cost, should they request a copy.

Board committees

As set out below, the Board has established three standing committees to facilitate and assist the Board in fulfilling its responsibilities. The Board may also establish other committees from time-to-time to assist in the discharge of its responsibilities.

Committee	Overview	Members
Audit and Risk Management Committee	Responsible for monitoring and advising the Board on the Company's audit, risk management and regulatory compliance policies and procedures	Julia Hoare (Chairman) Melvyn Miles Richard Le Grice
Nomination Committee	Responsible for advising the Board on the composition of the Board and its committees, reviewing the performance of the Board, its committees and the individual Directors, ensuring the proper succession plans are in place and advising the Board in respect of the effectiveness of its corporate governance policies and developments in corporate governance	Julia Hoare (Chairman) David Hearn Richard Le Grice
Remuneration Committee	Responsible for establishing the policies and practices of the Company regarding the remuneration of Directors and other senior executives and reviewing all components of the remuneration framework and associated performance	Richard Le Grice (Chairman) Melvyn Miles David Hearn

6. Board, Management and Governance

Each committee has the responsibilities described in the committee charter adopted by the Company (each of which has been prepared having regard to the ASX Corporate Governance Principles and Recommendations and the NZX Corporate Governance Best Practice Code). Copies of the charters for the above committees are available on the Company's website at www.thea2milkcompany.com. The Company will also send Shareholders paper copies of the committee charters, at no cost, should they request a copy.

Corporate governance policies

The Company has also adopted the following policies, each of which has been prepared having regard to the ASX Corporate Governance Principles and Recommendations and the NZX Corporate Governance Best Practice Code and which are available on the Company's website at www.thea2milkcompany.com.

Code of Ethics
This policy sets out the standards of ethical behaviour that the Company expects from its Directors, officers and employees.

Continuous Disclosure Policy
Once listed on the ASX, the Company will need to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act in addition to requirements under the NZSX Listing Rules to ensure the Company discloses to the ASX and the NZX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. As such, this policy sets out certain procedures and measures which are designed to ensure that the Company complies with its continuous disclosure obligations.

Risk Management Policy
This policy is designed to assist the Company to identify, assess, monitor and manage risks affecting the Company's business.

Securities Trading Policy
This policy is designed to maintain investor confidence in the integrity of the Company's internal controls and procedures and to provide guidance on avoiding any breach of insider trading laws.

Shareholder Communications Policy
This policy sets out practices which the Company will implement to ensure effective communication with its Shareholders.

Diversity Policy
This policy sets out the Company's objectives for achieving appropriate diversity amongst its Board, management and employees.

The Company will send Shareholders a paper copy of the above policies, at no cost, should they request a copy.

ASX Corporate Governance Principles and Recommendations

The Board has evaluated the Company's current corporate governance policies and practices in light of the ASX Corporate Governance Principles and Recommendations. A brief summary of the approach currently adopted by the Company is set out below.

Principle 1 – Lay solid foundations for management and oversight
The respective roles and responsibilities of the Board and executives are defined in the Board Charter, a copy of which is available on the Company's website at www.thea2milkcompany.com. There is a clear delineation between the Board's responsibility for the Company's strategy and activities, and the day-to-day management of operations conferred upon the Company's officers.

The Company Secretary, Craig Louttit, reports directly to the Chairman of the Board. The role of the Company Secretary is outlined in the Board Charter.

The process for selection, appointment, and re-appointment of Directors is detailed in the Nomination Committee Charter, a copy of which is available on the Company's website at www.thea2milkcompany.com. Under the Nomination Committee Charter, Shareholders are required to be provided with all material information in the Committee's possession relevant to a decision on whether or not to elect or re-elect a Director. The Company's Nomination Committee is also responsible for evaluating the performance of the Board and individual Directors of the Company.

The Company has adopted a Diversity Policy, a copy of which is available on the Company's website at www.thea2milkcompany.com. The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity, and provides for delegation to the Nomination Committee to review the Company's progress in meeting these objectives.

Principle 2 – Structure the Board to add value
The Board is comprised of two executive and three non-executive Directors and the roles of Chairman and Chief Executive Officer are exercised by two separate individuals. The majority of Directors are not considered independent for ASX purposes and the Company's Chairman is also not considered to be an independent Director for ASX purposes. However, the Board believes that, as a whole, it is not hindered in its ability to exercise an independent view and judgement. Taking into account that the Board has resolved to seek to appoint an additional independent Director during 2015, the Board believes that the size, composition and skills of the Board are appropriate for the Company's business and circumstances, and are in the best interests of Shareholders as a whole.

The Company's Nomination Committee is responsible for regularly reviewing the size, composition and skills of the Board to ensure that the Board is able to discharge its duties and responsibilities effectively, and to identify any gaps in the skills or experience of the Board. The Nomination Committee is also responsible for reviewing the performance of the Board.

The Company has an induction programme for new Directors and with the assistance of the Nomination Committee provides continuing education for Directors to develop and maintain the skills and knowledge needed to perform their roles as Directors effectively.

Principle 3 – Promote ethical and responsible decision making
The Company has adopted a Code of Ethics which applies to all Directors, officers and employees of the Company as well as a Securities Trading Policy. Each of these has been prepared having regard to the ASX Corporate Governance Principles and Recommendations and the NZX Corporate Governance Best Practice Code and is available on the Company's website at www.thea2milkcompany.com.

Principle 4 – Safeguard integrity in financial reporting
The Company has established an Audit and Risk Management Committee which complies with the ASX Corporate Governance Principles and Recommendations and the NZX Listing Rules to oversee the management of financial and internal risks. The Audit and Risk Management Committee is governed by an Audit and Risk Management Committee Charter, a copy of which is available on the Company's website at www.thea2milkcompany.com.

Principle 5 – Make timely and balanced disclosure
The Company is committed to providing timely and balanced disclosure to the market in accordance with its Continuous Disclosure Policy, a copy of which is available on the Company's website at www.thea2milkcompany.com.

Principle 6 – Respect the rights of Shareholders
The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board, a copy of which is available on the Company's website at www.thea2milkcompany.com. The Company seeks to recognise numerous modes of communication, including electronic communication, to ensure that its communication with Shareholders is timely, clear and accessible.

The Company provides investors with comprehensive and timely access to information about itself and its governance on its website at www.thea2milkcompany.com.

All Shareholders are invited to attend the Company's annual meeting, either in person or by representative. The Board regards the annual meeting as an excellent forum in which to discuss issues relevant to the Company and accordingly encourages full participation by Shareholders. Shareholders have an opportunity to submit questions to the Board and to the Company's auditor.

Principle 7 – Recognise and manage risk
In conjunction with the Company's other corporate governance policies, the Company has adopted a Risk Management Policy, which is designed to assist the Company to identify, evaluate and mitigate risks affecting the Company.

6. Board, Management and Governance

The Audit and Risk Management Committee is responsible for reviewing whether the Company has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks, and present such strategies to the Board.

Regular internal communication between the Company's management and Board supplements the Company's quality system, complaint handling processes, employee policies and standard operating procedures which are all designed to address various forms of risks.

The Company regularly evaluates the effectiveness of its risk management framework to ensure that its internal control systems and processes are monitored and updated on an ongoing basis. Under the Audit and Risk Management Committee Charter, the Audit and Risk Management Committee is responsible for providing an independent and objective assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control process. A copy of the Company's Risk Management policy is available on the Company's website at www.thea2milkcompany.com.

Principle 8 – Remunerate fairly and responsibly

The Company has a Remuneration Committee to oversee the level and composition of remuneration of the Company's Directors and executives. The Company's Remuneration Committee is governed by a Remuneration Committee Charter, a copy of which is available on the Company's website at www.thea2milkcompany.com.

The majority of the Company's Remuneration Committee members are not independent Directors for ASX purposes. However, the Board believes that the members of the Committee as a whole are not hindered in their ability to exercise independent view and judgment. Further, the Remuneration Committee Charter prohibits a member of the Committee from being present for discussions at a Committee meeting on, or vote on a matter regarding, his or her remuneration.

The Company will provide disclosure of its Directors' and executives' remuneration in its annual report.

6.3 Arrangements with Directors and management

Executive services agreement with Managing Director and Chief Executive Officer

The Company has entered into an executive services agreement with Mr Geoffrey Babidge in respect of his employment as Managing Director and Chief Executive Officer of the Company. Geoffrey receives an annual base salary of A$525,300 and has the opportunity to receive 30% of his annual remuneration in the form of a short term incentive, subject to the achievement of performance objectives determined by the Chairman of the Company and the Chairman of the Remuneration Committee of the Board. Geoffrey also holds 11 million Partly Paid Shares which were issued to him under the long term incentive scheme described in Section 9.9.

Geoffrey's employment commenced in 2010 and continues until 31 December 2015, after which his employment will automatically extend for successive 12 month terms unless the Company serves him with notice to terminate.

The Company may terminate Geoffrey's employment for any reason by giving at least six months' notice in writing. The Company may also terminate his employment without notice in certain circumstances, including breach of contract, criminal activity or serious misconduct.

Geoffrey may terminate his employment with the Company on three months' written notice for any reason. He may also terminate his employment by one month's written notice for a 'good reason', including where there is a material dilution in his status, level of authority, nature of responsibilities and accountabilities without his consent, a scheme of arrangement in respect of the Company proposed or sought by the Company's creditors or a change of control of the Company.

On termination of the service agreement by a2MC for cause or by Geoffrey for any reason, Geoffrey is entitled to receive payment from a2MC, in respect of any accrued but untaken annual leave and long service leave and any annual remuneration, long and short term incentive entitlements accruing up to the date of termination. Alternatively, where a2MC terminates Geoffrey's employment for any reason or Geoffrey terminates his employment for 'good reason', a2MC must pay Geoffrey the amounts mentioned above, as well as certain additional amounts including an amount equal to the annual salary he received in the 12 month period up to the date of cessation of his employment, and an amount equal to the short term incentive he is entitled to receive in respect of the period up to the date of cessation of his employment.

Geoffrey's service agreement also includes a restraint of trade period of 12 months post termination of his employment. Enforceability of such restraint is subject to all usual legal requirements.

Non-executive Directors' appointment letters

Each of the Non-executive Directors has entered into an appointment letter with the Company outlining the terms of their appointment, including the remuneration arrangements detailed below.

Directors' remuneration

The Board has approved the following annual remuneration arrangements for the Directors to take effect upon the Listing:

Name	Directors' remuneration
David Hearn	NZ$120,000 Director's fees plus options as described below
Julia Hoare	NZ$150,000 Director's fees including for her role as Deputy Chairman and Chairman of the Audit and Risk Committee and Nomination Committee
Geoffrey Babidge	As per Executive Services Agreement described above plus options as described below
Richard Le Grice	NZ$85,000 Director's fees including for his role as Chairman of the Remuneration Committee
Melvyn Miles	NZ$85,000 Director's fees[31]

In addition the Board has approved the grant of 5,000,000 options to David Hearn under the Company's new Long Term Incentive Plan (described in Section 9.9) which will occur shortly before the listing.

The key terms of the options are set out below:

- vesting – the options will vest in five equal tranches over five years commencing on the first anniversary of the date of grant;
- exercise price – NZ$0.63

Directors' indemnity arrangements

The Company has entered into deeds of indemnity and undertaking with each Director. The deeds set out the basis on which the Company indemnifies each Director against certain liabilities that may arise from any act or omission in their capacity as a Director of the Company (or a related body corporate of the Company as the case may be), to the extent permitted by law. These liabilities include losses or liabilities incurred by a Director to any other person as an officer of the Company, including legal expenses. The deeds provide that where, in the reasonable opinion of the Board, it appears that the Director is entitled to the specified indemnity, the Company must meet any amount incurred by the Director in defending or settling the proceedings as they are incurred. The deeds note that the Company must maintain in favour of each officer a directors' and officers' policy of insurance in the amount the Board, acting reasonably, approves.

31 Melvyn Miles has also entered into a consultancy arrangement with the Company under which he is entitled to an annual consultancy fee of US$40,000 for consultancy services provided to a2MC concerning the USA market opportunity

7. Risk Factors

a2MC is subject to various risk factors. Some of these are specific to its business activities. Others are of a more general nature. Individually or in combination, these risk factors may affect the future operating and financial position or performance of a2MC, its investment returns and the market value of the Shares. Each of the risks described below may, if it eventuates, have a material adverse impact on a2MC's business, financial condition and the results of its operations. This Section 7 does not purport to list every risk that may be associated with an investment in a2MC or the Shares, either now or in the future, and many of the risks described below are outside the control of a2MC and its directors and management. This Section 7 should be read in conjunction with the other information disclosed in this Information Memorandum and with all publicly available documentation of a2MC lodged with NZX. There can be no guarantee that a2MC will achieve its stated objectives or that the achievement of any forward looking statements will eventuate.

Before deciding whether to make an investment in the Company's Shares, prospective investors should satisfy themselves that they have a sufficient understanding of the matters referred to in this Section 7 and should consider whether Shares are a suitable investment for them, having regard to their own investment objectives, financial circumstances and particular needs (including financial and tax issues). Prospective investors should seek their own professional advice from tax and other independent professional advisers before deciding whether to invest in Shares. No representation or warranty, express or implied, is given to any investors in Shares as to the tax consequences of them acquiring, holding or disposing of any Shares and neither a2MC nor any of its Directors will be responsible for any tax consequences of any such investment.

7.1 Business risk factors

a2MC may be adversely impacted by a failure to comply with food safety and quality standards

In common with many other food companies, there is a risk that raw materials may deteriorate or that products may become contaminated, tampered with, adulterated or otherwise unsafe or unfit for sale or consumption within the supply chain due to various factors, including human error and equipment failure. This could also occur where affected products are procured by a2MC from, or produced for a2MC under contract by, third parties. These risks are more pronounced in relation to emerging markets that a2MC may operate in or seek to export products into, such as China.

Such incidents or instances of non-compliance with food safety regulations and quality standards and any related adverse publicity could damage a2MC's brand and reputation, which may in turn affect a2MC's ability to make future sales of products and the price at which products can be sold.

Other potential adverse consequences for a2MC include regulatory penalties, termination of distribution arrangements, and liability associated with adverse health effects on consumers, product recall and disposal costs, loss of stock, delay in supply and financial costs.

In addition, new or amended regulations may increase the cost of compliance, adversely impact a2MC's ability to comply, or expose a2MC to unforeseen costs and liabilities where, for example, such changes to the regulatory framework result in higher or more complicated regulatory standards.

Customer concentration and bargaining power may reduce a2MC margins

a2MC's primary customers for its products are supermarkets and grocers in a number of geographies. In Australia more than 85% of a2MC branded products are sold to Woolworths, Coles and Metcash. Losing any one of these customers would have a material adverse impact on sales revenue. These customers generally compete aggressively on price. The price competition between these customers may lead to these customers putting pressure on a2MC to reduce its wholesale price and margins by denying a2MC shelf locations and facings that will support its sales volumes. There is a risk that this price competition may result in a2MC either losing sales volumes, or not being able to maintain its premium price position and margins, or both. Any or all of these factors could have an adverse effect on a2MC's operating and financial performance.

There is also an increased drive by these customers to grow their "Private Label" product offerings. These factors, together with increased levels of branded competition, could reduce a2MC's margins and restrict its access to retail channels over time, which could have an adverse effect on a2MC's operating and financial performance.

Conflicting scientific research or negative information regarding A1 Protein Free milk may damage the a2MC brand

The a2MC brand proposition is built on the potential well-being benefits of A1 Protein Free milk compared to Regular Cows' Milk. There is the risk of research or information being released that diminishes or rejects the scientific arguments and consumer experiences as to the benefits of the consumption of A1 Protein Free dairy products. There is also a risk that competitors will attempt to discredit scientific research and consumer experiences that support the a2MC brand proposition and undermine the a2MC brand. As a result, the a2MC brand could lose its differentiated position and it may become difficult for a2MC to continue to position its products as premium products sold at a premium price. This could lead to lower overall sales revenue, materially adversely affecting a2MC's operating and financial performance.

Certain of a2MC's intellectual property rights will expire or may weaken or be infringed by competitors

a2MC's business relies in part on its intellectual property portfolio, including brands and trade marks, patents, proprietary processes and know-how. Some forms of registered intellectual property, including patents, are of fixed duration and will expire over time. Some forms of registered intellectual property, such as domain names, registered trade marks and patents, will also expire if not renewed periodically. Registered intellectual property such as trade marks may also become vulnerable to revocation or challenged as to validity. As a2MC's patents or other registered intellectual property expires over time, a2MC's business may rely more on its remaining intellectual property rights, such as trade marks, brands, proprietary processes and know-how. Accordingly, the scope of protection of a2MC's intellectual property portfolio, and the importance of certain intellectual property to a2MC's business, will change over time.

Three of the patent families, some other patent families in certain territories, and some of the trade marks, are still in application stage. Accordingly, there is a possibility of third party objection or opposition to these trade marks and patents. There is the additional risk that competitors may prematurely infringe or file proceedings to challenge the validity of aspects of a2MC's registered intellectual property.

There is also a risk that licences, approvals or consents that relate to intellectual property and are material to a2MC in operating its business will not be renewed or will be renewed on more restrictive or onerous terms, or in certain circumstances, revoked. Any of these scenarios could have a negative impact on customer and consumer perceptions of the Company's and a2MC's brand.

As any of a2MC's registered intellectual property expires, or is invalidated or removed from intellectual property registers, this will adversely impact on a2MC's ability to claim and enforce exclusive rights in such intellectual property.

There is a possibility that scientific research or investigations may weaken some of the patents or cast doubt on some of the patent claims. This could materially and adversely affect the patent portfolio and a2MC's ability to enforce those patents against third parties.

Because of the importance of its intellectual property, a2MC may need to defend its intellectual property or take action against third parties that infringe or claim rights in its intellectual property. Such action may include litigation, which may be protracted and expensive, and which may result in negative publicity.

Competitors may develop products or branding that erode the differentiation of a2MC branded products from other dairy products

a2MC's business model relies on a2MC branded products being differentiated from other dairy products in each market in which it operates because they consist of or are made using A1 Protein Free milk. There is a risk that a competitor or competitors may launch A1 Protein Free milk products, including both branded and Private Label

7. Risk Factors

products, and this risk may increase over time as a2MC's patents expire. There is also a risk that competitors may develop branding that creates confusion between a2MC branded products and Regular Cows' Milk products or otherwise reduces the perception of a2MC branded products as differentiated A1 Protein Free milk products. Both of these scenarios could lead to lower sales of a2MC branded products and may adversely affect a2MC's operating and financial performance.

a2MC's reliance on relationships with third parties exposes it to risks associated with those third parties

a2MC's business model and supply chain are dependent on contractual arrangements with third parties such as Synlait and Müller Wiseman Dairies, which provide essential processing, production or distribution functions for a2MC branded products globally. As a2MC expands into new international markets, including the USA, it will need to establish and maintain relationships with new third parties in order to secure essential processing, production or distribution functions for a2MC branded products to support its operations. a2MC's financial performance in each territory in which it operates will to a large extent be determined by the success of the arrangements with these parties.

There is a risk that the operations of one or more third parties may change in a material and adverse way or that one or more third parties could reduce their support for the a2MC brand. From a2MC's perspective this could reduce a2MC's ability to maintain supply to its customers in the short to medium term and reduce its ability to maintain its position in existing markets or enter new markets. In particular, Synlait is the sole producer and packager of a2 Platinum™ infant formula for sale in Australia and New Zealand, China and potentially in other markets. A material disruption in the supply of a2 Platinum™ infant formula from Synlait could not be mitigated in the short term by obtaining supply of a2 Platinum™ infant formula from another source. Similarly, Müller Wiseman Dairies is a2MC's sole processor and packager of a2MC branded milk in the UK and a2MC is likely, at least initially, to contract with a sole processor and packager of a2MC branded milk in the USA.

Other risks, including those identified in this Section 7 with respect to a2MC, may also impact third parties that have contractual arrangements with a2MC. These risks faced by third parties indirectly impact a2MC's operating activities given a2MC's financial performance will to a large extent be determined by the success of the arrangements it has with third parties.

a2MC has only a limited ability to compel its contractual counterparties to take out insurance against relevant risks to those counterparties. Even where those parties take out such insurance or a2MC is able to obtain business interruption insurance cover where events affecting third party contractors limit or halt supply of a2MC branded products, a2MC is not able to insure against damage that may be caused to the a2MC brand by such events.

Increases in the costs of inputs or a failure of third parties to provide those products or services to a2MC could also constrain, disrupt or impact the cost of supply or give rise to a2MC's products being defective or unavailable. This may have adverse effects on a2MC's reputation in relation to the quality of its products and the reliability of its supply.

All of these factors may adversely affect a2MC's operating and financial performance and hinder plans for global expansion.

a2MC may face difficulties in renewing licences, approvals or consents that are material to a2MC in operating its business

a2MC and its strategic suppliers and contractors require certain licences, approvals and consents in order to conduct their businesses. There is a risk that any such licences, approvals or consents that are material to a2MC in operating its business will not be renewed or will be renewed on more restrictive or onerous terms, or in limited circumstances, revoked.

If a licence is withdrawn or not renewed (or the renewal is delayed), the supply of a2MC's products in certain jurisdictions may be interrupted which could have a material adverse effect on a2MC's business.

a2MC's performance is linked to its ability to retain key personnel

a2MC's performance is dependent on the ability of its senior executives and key personnel to manage and grow its business. Continuity and retention of senior executives and key personnel are important for the ongoing implementation of a2MC's strategy. As a2MC expands into new international markets it will need to be able to attract and retain new management with the appropriate skills and experience to implement a2MC's strategy in those markets. The loss of the services of senior executives or key personnel, or an inability to attract and retain qualified and competent senior executives or key personnel, and the potential for disruption caused by the loss of know-how and the time taken to appoint appropriate replacements could have a material adverse effect on a2MC's operating and financial performance.

a2MC relies on the supply of A1 Protein Free milk, which may fluctuate

a2MC is reliant on the supply of raw A1 Protein Free milk in the production of a2MC branded products and collects and processes milk, either directly or under contractual arrangements with third parties, in a number of countries including Australia, New Zealand and the UK. As a2MC expands into new international markets, including the USA, it will need to establish and maintain relationships with new third parties in order to secure adequate milk supply to support its operations.

The volume and pattern of milk supply, and the cost of milk supplied, may change over time due to the influence of long-term economic trends. Changes in the economy that have implications for input costs, the volatility of dairy goods prices and relative returns for dairy farming may affect farmers' decisions to produce and supply raw milk. Fluctuations in milk prices may also put financial pressure on farmers with the result that some farmers could be forced to leave the industry. This could lead to an overall reduction in the available supply of milk in extreme circumstances.

More generally, economic factors may affect the competitiveness of milk production in countries where a2MC collects milk. Competition for raw milk in countries where a2MC collects milk, particularly Australia, New Zealand and the UK, can lead to an increase in the price paid to suppliers of milk in such countries and, as a result, may impact on a2MC's earnings.

Due to the seasonality of milk supply in Australia, New Zealand and the UK, a2MC is reliant on its forecasts of market demand and product mix requirements in relation to the manufacture of products over the peak season for subsequent sale during the periods when milk supply volumes are low. Differences between actual market demand and product mix requirements from those forecast by a2MC can affect a2MC's earnings.

Milk supply to a2MC in Australia, New Zealand and the UK and in other countries can also be adversely affected by changes in climate or weather-related events. Prevailing weather and climate conditions affect pasture growth, thereby affecting a2MC's milk collection volumes. Weather and climatic events such as droughts or other unforeseen weather patterns that impact supply could cause significant fluctuations in the amount of product that a2MC produces. Such events would adversely impact on a2MC's reputation in relation to the reliability of the supply of its products.

Regulatory limits on the use of health claims in marketing products may restrict brand penetration

The a2MC brand proposition is closely associated with the perceived benefits of A1 Protein Free milk. In each of a2MC's target markets there are restrictions on the types of claims that can be made about the health benefits or effects of a product in marketing material and on product packaging. Of a2MC's current markets, the EU (including the UK) is the most restrictive. There is also increasing regulatory and industry scrutiny of product label health claims which could result in further restrictions on the making of these health claims in the future. Such measures could have a material adverse impact on a2MC's ability to operate or achieve sales growth.

Products in new markets and new product lines may fail to gain the same level of penetration as existing product lines in Australia

There is the risk that a2MC will not be able to replicate its Australian performance and market penetration in other markets, including in New Zealand, the UK, the USA and China due to the differing characteristics in these markets. There is also a risk that where a2MC incurs costs in pursuing its strategy to expand into additional milk-based product lines, these product lines will not perform as strongly as existing product lines in Australia or other markets.

These factors could reduce the growth prospects of the Company and hinder plans for global expansion.

7. Risk Factors

a2MC may be adversely impacted by a failure to comply with A1 Protein Free quality standards

There is a risk that a2MC or its supply chain contractors may fail to adhere to a2MC's quality standards for the production of A1 Protein Free milk and milk products or to accepted industry standards for A1 Protein Free products. A1 Protein may contaminate a2MC branded products in a number of scenarios, including where there has been inadequate or improper cleaning of machinery or instruments used in the transportation, processing or packaging of milk or milk products, or where there has been a failure to maintain the integrity of a herd of cows that is certified as producing A1 Protein Free milk. Contamination by A1 Protein could have consequences for the accuracy of the advertising and promotion of a2MC's products. Potential adverse consequences of A1 Protein contamination of a2MC branded products include regulatory penalties, product recall and disposal costs, loss of stock, delay in supply and financial costs, and potential damage to the a2MC brand.

a2MC's business may be affected by political risk in offshore markets

a2MC intends to increase the proportion of its revenue derived from international markets outside of Australia, including China. These may include developing markets that are economically and politically less stable than developed economies. A foreign country may become politically unstable resulting in the loss of an investment, or default in payment by a debtor. Sales of dairy products, including a2MC branded products, and earnings may also be affected by war, nationalisation of assets, economic instability or downturn, deflation, inflation or hyperinflation, currency volatility, price control, or political interference or uncertainty. Certain political, commercial or economic events in one market may also disrupt delivery of a2MC's products into other markets.

The Chinese legal and regulatory system is dynamic and still in the process of being refined and there is a degree of uncertainty with respect to whether and how existing laws and regulations will apply to certain events or circumstances. There can be no assurance that, should the Chinese government decide to introduce new laws, or amend or apply different interpretations to existing laws, or should there be a delay in the issuance of rulings, interpretations or approvals from relevant Chinese authorities, there will be no adverse and material impact on a2MC's business or its business partners' commercial arrangements.

The Chinese government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The Chinese government has implemented a number of measures such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates in order to slow down specific segments of China's economy that it believed to be overheating. These actions as well as other actions and policies of the Chinese government could materially affect a2MC's counterparties in China and a2MC's commercial operations in China.

Regulatory changes can lead to increased costs or restrict access to markets

Governments can take actions which influence or restrict the international trade in dairy products, including through tariffs, quotas, price controls, other non-tariff barriers (such as technical or sanitary requirements), the imposition of antidumping measures, subsidies and food-related regulation. A breach of regulatory requirements may result in legal action, financial penalties, prosecution, trade embargoes and loss of market access. These risks are more pronounced in emerging economies, including China.

a2MC's operations in overseas jurisdictions are also exposed to the risk of regulatory changes in those jurisdictions. Changes in laws or regulations in overseas jurisdictions could expose a2MC to increased compliance costs or require a2MC to change the structure of its operations in that jurisdiction. Any failure to comply with the applicable laws and regulations could also result in fines, injunctions, suspensions, penalties or other sanctions being imposed.

Movements in foreign exchange rates or interest rates could adversely impact a2MC's financial performance

a2MC currently sells a2MC branded products in Australia, the UK and China, and reports its financial results in New Zealand Dollars. A significant proportion of a2MC's revenues is and will continue to be derived in currencies other than New Zealand Dollars. a2MC is exposed to foreign exchange risk in the revenue it receives on sales of products overseas, and to both foreign exchange risk and interest rate risk on its investment and returns in relation to its overseas business and foreign currency-denominated borrowings and other liabilities. Exchange rates can be volatile and fluctuations in exchange rates may have a direct impact on a2MC's sales revenue and have a material adverse impact on a2MC's financial performance.

Taxation risks may negatively affect a2MC

There is potential for changes to tax laws and changes in the way tax laws are interpreted. Any change to the current rates of taxes imposed on a2MC (including in foreign jurisdictions in which a2MC operates) may affect returns to Shareholders.

a2MC obtains expert advice on the application of tax laws to its operations, including in relation to transfer pricing, tax residency and withholding tax. A change in the nature of the business operations of a2MC or an interpretation of tax laws by a revenue authority that is contrary to a2MC's interpretation of those laws may increase the amount of tax a2MC is required to pay.

a2MC may not establish adequate internal controls and may face increased internal control costs as it expands globally

a2MC intends to increase the proportion of its revenue derived from international markets outside of Australia. As this expansion occurs, a2MC's corporate structure could become more complex and potentially increase the risk of failure of internal systems. This could result in inadequacies in reporting, supply chain difficulties and information loss. a2MC may also face increased internal control costs, including costs of monitoring regulatory compliance, as it expands into international markets.

Consumer preferences may change leading to lower sales of a2MC branded products

a2MC seeks to maintain a premium price position in the geographies and categories in which it is available. There is the risk that consumers become less willing to pay for premium priced products in one or more geographies. This could reduce a2MC's market penetration and profitability.

Throughout international markets, there are continual changes in consumer preferences and trends, including as a result of emerging health trends and scientific studies. This may result in a2MC's consumers substituting the a2MC branded products they purchase with non-dairy products or Regular Cows' Milk products of competitors.

The significant growth of the a2MC brand has been assisted by an increasing consumer focus on health and well-being. There is the risk that the trend towards health and well-being products reduces or that growth declines materially, or that the consumer perception of a2MC branded products as health and well-being products may weaken. These factors could reduce the attractiveness of the a2MC brand proposition to consumers.

All of these factors may adversely affect a2MC's operating and financial performance and hinder plans for global expansion.

7. Risk Factors

Biosecurity events may have a negative impact on a2MC sales

As with many food companies, a2MC is exposed to biosecurity risks associated with the supply of dairy products, including the risk of animal disease outbreak, including for example foot and mouth disease among cows. Biosecurity risks may arise from inadvertent actions such as the use of contaminated stock feed or from deliberate acts such as bioterrorism which may occur in any of the markets in which a2MC sources dairy products, including Australia, New Zealand and the UK. A biosecurity event could significantly disrupt the supply of raw milk to a2MC and a2MC's output of a2MC branded products.

a2MC could also be indirectly affected if the biosecurity event relates to a country or region where a2MC has significant operations even though the event is not directly related to a2MC's products. Adverse perceptions resulting from a biosecurity event could affect the reputation of and reduce demand for a2MC branded products.

Environmental violations, incidents or concerns may affect a2MC's business

a2MC's operations are subject to environmental consents and regulations. In the event of discharges into the environment or other events of non-compliance, a2MC may be subject to clean-up costs and financial penalties. Production may also be disrupted in the event of material non-compliance with environmental or other approvals authorising production and associated processes, or from those approvals not being renewed (or being renewed on more onerous terms).

The storage, use, production and transport of a2MC's products or products used in the production process (including hazardous substances) over long distances also involves the risk of accidents, spills or contamination. Each of these occurrences could result in harm to the environment. These may lead to disruption in operations, and regulatory sanctions and may involve remediation costs. A material environmental violation or other incident could harm the reputation of a2MC and its brands.

Agricultural activity produces significant greenhouse gas emissions. Internationally, charges, taxes or other imposts are being introduced in relation to greenhouse gas emissions. A number of emissions trading schemes are also planned or have been implemented in various countries in response to obligations under the Kyoto Protocol and may increasingly be extended to apply to the agricultural sector. Due to a2MC's international business operations, it is possible that a2MC will face increased costs as a result of these developments.

There are also risks for a2MC associated with other environmental concerns linked with the global supply of dairy products, including in relation to water access and usage, animal welfare and the potential environmental impacts of the use of certain feed supplements. These may impact a2MC's operating activities in global markets. These environmental concerns could also affect a2MC's reputation, result in greater regulation, consent and licensing requirements or restrictions on a2MC's operations.

In addition, new or amended environmental regulations may increase the cost of compliance, adversely impact a2MC's ability to comply, or expose a2MC to unforeseen costs and liabilities where, for example, such changes to the regulatory framework result in higher or more complicated regulatory standards.

Information technology failure may disrupt a2MC's business

a2MC manages its global supply chain through its information technology system. The failure of information technology systems, business continuity plans and data protection systems, could result in business interruption or information loss and lead to production delays and other supply chain difficulties. The infiltration of or interference with information technology systems could lead to a failure of systems or loss of confidential sensitive commercial information. a2MC from time to time undertakes projects relating to the upgrade or replacement of its information technology systems. Any delays to, or failure in, the implementation of such projects could have an adverse impact on a2MC's financial performance.

a2MC's relative scale may result in higher costs and lower growth

a2MC competes with large dairy and non-dairy producers that, due to their size and scale, can achieve economies of scale. There is a risk that a2MC in seeking to enter new markets or increase its sales in markets in which it already operates, may not have sufficient scale to achieve an efficient cost of goods, or to efficiently market a2MC branded products to achieve brand penetration and growth, which may result in lower than expected sales growth and have an adverse impact on a2MC's financial performance.

a2MC could be impacted by catastrophes and disruptive events

A catastrophe, violent act or disaster could damage or destroy manufacturing facilities of a2MC or its third party suppliers, including Synlait, or general business infrastructure, which could constrain or disrupt a2MC's ability to operate or constrain demand for a2MC's products. Such events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, storms, earthquakes, volcanic eruption, labour strikes, sabotage, civil wars, other natural disasters, outbreaks of disease or other natural or man-made events or occurrences.

a2MC has only a limited ability to insure against some of these risks.

Disruption to a2MC or customers or suppliers due to industrial action may reduce supply and sales of a2MC products

There is a risk of industrial action arising from claims for higher wages and / or better conditions in the industries and related industries in which a2MC operates (such as the manufacturing, packaging, transport logistics and supermarket industries), which could disrupt a2MC's operating activities and have an adverse effect on its financial position and performance.

a2MC may fail to meet its workplace health and safety obligations

a2MC must comply with various health and safety laws and regulations in various jurisdictions. Penalties and other liabilities for the violation of such standards could be imposed on a2MC following actual or potential harm to individuals or for non-compliance with applicable laws and regulations. A health and safety incident involving injury or death could also impact on a2MC's reputation as an employer, its compliance and insurance costs, staff morale and productivity, and may attract media exposure and additional regulatory scrutiny.

a2MC may be involved in litigation or other disputes

In the ordinary course of its business, a2MC has had, and may have, disputes with third parties, including disputes resulting in litigation or threatened litigation initiated by a2MC or a third party. A dispute (whether or not it results in litigation) could have a material adverse impact on a2MC.

General economic and market conditions may have an adverse effect on a2MC's business

The international market for dairy products is affected by general economic conditions and other events. Changes in the global economy could significantly affect the purchasing patterns of some of a2MC's customers and the general level of consumption of dairy products. Changes in the global economy and market conditions could also affect a2MC's ability to access the capital markets as a source of funding. The scope and extent of these factors and events cannot be predicted and, as a result, it is not possible to assess with any certainty any additional impact that they may have on the funding or operating activities of a2MC.

7. Risk Factors

7.2 Investment and general risk factors

Price of Shares may go down

The Company, as a publicly listed company, is subject to general market risk that is inherent in all securities listed on a securities exchange. This may result in fluctuations in its Share price that are not explained by the fundamental operations and activities of a2MC.

The price of Shares quoted on the ASX or the NZX Main Board may rise or fall and Shares may trade below or above the price at which an investor first acquired those Shares due to a number of factors including, for example:

(a) general economic conditions in Australia, New Zealand and globally, including interest rates, exchange rates, inflation rates and commodity prices

(b) fluctuations in the local and global market for listed securities

(c) changes in government policy, legislation or regulation

(d) inclusion or removal from market indices

(e) the nature of markets in which a2MC operates

(f) general and operational business risks

(g) natural disasters

(h) global hostilities, tensions and acts of war or terror

There is no assurance that the price of Fully Paid Shares will increase following their quotation on the ASX even if a2MC's earnings increase.

Trading in Shares may not be liquid

Once the Company's Fully Paid Shares are quoted on the ASX there can be no guarantee that an active trading market for those Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of Fully Paid Shares on the ASX at any time. This may increase the volatility of the market price for Fully Paid Shares. It may also affect the prevailing market price at which holders of Fully Paid Shares are able to sell those Shares. This may result in a holder of Fully Paid Shares receiving a market price for their Shares that is less than the price that Shareholder paid.

Risk of dilution

In the future, the Company may elect to issue Shares or engage in fundraisings. While the Company will be subject to the constraints of the ASX Listing Rules and the NZSX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares or fundraisings.

Taxation issues for holders of the Company's Shares

An investment in Shares involves tax considerations which may differ for each Shareholder. Each prospective Shareholder is encouraged to seek professional tax advice in connection with any investment in Shares.

Accounting standards

a2MC is subject to the risk that changes to accounting standards in the jurisdictions in which it operates, including Australia, New Zealand, the UK or the USA, may affect future measurement and recognition of key statements of profit and loss and balance sheet items, including revenue and receivables.

There is also a risk that interpretations of accounting standards, including those relating to measurement and recognition of key statements of profit and loss and balance sheet items, including revenue and receivables, may differ. Changes to accounting standards or to commonly held views on the application of those standards could materially adversely affect the financial performance and position of a2MC as reported in a2MC's consolidated financial statements.

8. Summary Financial Information

8.1 Introduction to financial information

This section provides an overview of the financial performance of a2MC and includes other financial disclosures as required by the ASX Listing Rules.

Audited financial statements in NZD for The a2 Milk Company Limited and its subsidiaries for the year ended 30 June 2014 and unaudited financial statements for the half year ended 31 December 2014 are set out, respectively, in Appendices 1 and 2 of this Information Memorandum. The full year financial statements, comprising the statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and the accompanying notes, have been independently audited by Ernst & Young. The unaudited financial statements for the half year ended 31 December 2014 have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34 (NZ IAS-34) Interim Financial Reporting. These financial statements should be read in conjunction with the Company's annual report for the 12 months ended 30 June 2014.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements comply with International Financial Reporting Standards.

8.2 Summary historical financial performance

Performance over the last four financial years

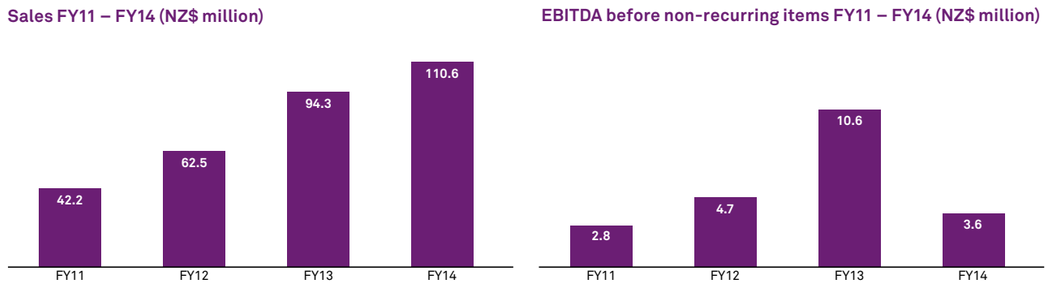
a2MC has achieved strong sales growth over the past four financial years driven primarily by the Australian and New Zealand segment of the business. For FY14, this segment contributed 96% of overall revenues.

The Company has generated a positive EBITDA[32] since FY11. EBITDA comprises contribution from the well-established Australian and New Zealand business, from which is deducted corporate costs and costs associated with the growth initiatives in the UK and China. The EBITDA reduction from FY13 to FY14 was as a result of:

- increased marketing and corporate costs to support the international growth initiatives, particularly in China
- inclusion of costs associated with the UK business from 1 January 2014 previously reported as a share of loss of associates

These costs were in part offset by increased contributions from the Australian business.

Figure 17 Historical financial performance



32 EBITDA is a non-GAAP measure. However, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business

8. Summary Financial Information

Non-GAAP Financial Performance Summary

Figure 18 Financial performance summary

For the Half Year ended 31 December 2014 and the Years ended 30 June 2014, 2013, 2012	1H15 $000	2014 $000	2013 $000	2012 $000
Sales	74,659	110,621	94,304	62,458
Gross margin	26,116	39,819	33,633	20,927
EBITDA excluding non-recurring items	**3,266**	**3,566**	**10,640**	**4,737**
Share of Associate earnings[33]	–	(1,361)	(3,719)	(743)
Profit before tax	1,680	720	5,164	4,118
Income tax income/(expense)	(1,555)	(710)	(1,044)	287
Profit after tax	**125**	**10**	**4,120**	**4,405**
Profit before tax includes the following significant expense items:				
Marketing expenses	(6,886)	(9,706)	(4,529)	(3,185)
Administrative expenses	(6,770)	(11,753)	(8,024)	(5,522)

Commentary on 2014 Financial Year

a2MC had a strong FY14 and continued to develop its growth initiatives in a number of markets. The Australian business achieved record sales and earnings, the Company developed additional products to complement a2 Platinum™ infant formula and a revised model for the UK business was implemented. FY14 revenue exceeded expectations in Australia and, with modest sales in the UK and to China, resulted in Group sales of $110.6m, an increase of 17% over the previous financial year. EBITDA before non-recurring items was $3.6m compared to the prior financial year of $10.6m, and net profit after tax was $0m compared to the prior financial year of $4.1m.

The key profit and loss items driving a2MC's 2014 financial performance are set out below:

- *Revenue:* FY14 revenue growth was driven by a strong sales performance for the Australian business which achieved 31% growth in revenue in AUD over the prior financial year
- *Gross margin:* FY14 gross margin of 36.0% reflects the premium brand and product portfolio and was marginally higher than the FY13 gross margin of 35.7%
- *Marketing expenses:* FY14 marketing expenses of $9.7m were $5.2m higher than FY13 due to the consolidation of the UK business from January 2014, increased spend in China and the launch of new products in Australia
- *Administrative expenses:* FY14 administration expenses of $11.8m were $3.7m higher than FY13 due to the consolidation of the UK business from January 2014, higher non-cash employee Share scheme expenses and higher international business development costs

Commentary on 2015 Half Year

a2MC performed ahead of plan during the six months to 31 December 2014 as the strategic growth initiatives continued to gain momentum. The Group recorded revenue of $74.79m (an increase of 38% relative to the prior comparative period ("PCP"), EBITDA excluding non-recurring items of $3.27m and net profit after tax of $0.13m). The Australian and New Zealand business continued to perform strongly with sales growth and operating earnings in Australia well ahead of the PCP. Total revenue growth for the Australian and New Zealand business on the PCP was 39%, driven by growth in a2MC branded milk and a2 Platinum™ sales. Additionally the UK business achieved milestones consistent with the revised business plan, the China infant formula business was repositioned in response to the regulatory changes and further progress was made for the launch into the USA.

33 Share of Associate earnings represents a2MC's 50% share of the UK business up until 31 December 2013. From 1 January 2014 the UK business was 100% consolidated in the financial results

Segment results

Going forward, a2MC will report three geographic segment results and a corporate segment as follows: (1) Australia and New Zealand, (2) China and other Asia, (3) UK and US and (4) Corporate and other.

Prior to 1 January 2014, the UK business comprised a share of joint venture profits and losses which related to a2MC's 50% shareholding of the UK business. a2MC acquired the remaining 50% shareholding of this business on 1 January 2014, from which point the UK business was 100% consolidated in the financial results and therefore included in segment EBITDA.

The Corporate and other segment revenue comprises external royalty and licence fee income. Corporate and other segment EBITDA also includes (i) internal royalties, licence fees and management fee income from subsidiaries and (ii) costs, such as marketing and herd testing costs, associated with development of intellectual property globally.

Figure 19 Segment results

	Revenue				EBITDA			
	1H15 $000	2014 $000	2013 $000	2012 $000	1H15 $000	2014 $000	2013 $000	2012 $000
Continuing operations								
Australia and New Zealand	72,794	106,866	92,450	62,605	4,876	4,517	3,627	3,945
China and other Asia	1,076	2,745	1,977	–	(610)	(1,777)	(131)	–
UK and USA[34]	892	1,108	–	–	(1,919)	(2,178)	(207)	–
Corporate and other	23	126	247	1,442	157	3,004	6,527	1,371
Group total	**74,785**	**110,845**	**94,674**	**64,047**	**2,504**	**3,566**	**9,816**	**5,316**
Interest income/(expense)					88	415	174	(22)
Share of losses from associates/joint ventures					–	(1,361)	(3,719)	(743)
Depreciation and amortisation					(912)	(1,900)	(1,107)	(433)
Income tax income/(expense)					(1,555)	(710)	(1,044)	287
Consolidated segment profit/(loss)					**125**	**10**	**4,120**	**4,405**

34 The USA launch is planned for the first half 2015 and therefore there has been no revenue during FY12 to 1H15. Expenses relating to the USA launch incurred during this period are included in corporate and other expenses

8. Summary Financial Information

Reconciliation of Non-GAAP Financial Information

Figure 20 Reconciliation of Non-GAAP financial information

For the Half Year Ended 31 December 2014 and the Year Ended 30 June 2014, 2013, 2012	1H15 $000	2014 $000	2013 $000	2012 $000
EBITDA[35]	2,504	3,566	9,816	5,316
EBITDA excluding non-recurring items[36]	3,266	3,566	10,640	4,737
Depreciation/Amortisation	(912)	(1,900)	(1,107)	(433)
EBIT excluding non-recurring items[35]	2,354	1,666	9,533	4,304
Share of Associate loss	–	(1,361)	(3,719)	(743)
Non-recurring items[36]	(762)	–	(824)	579
Interest income/(expense)	88	415	174	(22)
Income tax income/(expense)	(1,555)	(710)	(1,044)	287
Net Profit for the Period	**125**	**10**	**4,120**	**4,405**

8.3 Other financial disclosures

Events subsequent to 31 December 2014

At a Special Meeting of Shareholders held on 27 January 2015, a new Constitution was adopted in place of the previous Constitution. The changes to Constitution approved by Shareholders primarily allow a reduction in the minimum number of Directors who must be ordinarily resident in New Zealand from three to the minimum number required by the NZX Main Board Listing Rules, currently being two.

Tax status

The Company is a tax resident of New Zealand and not a tax resident of Australia. The proposed Listing in itself does not have a direct effect on the tax residency of a2MC.

Dividend policy

At present, a2MC has no formal dividend policy in place. a2MC's present focus is to reinvest cash flows into the growth of its business, which includes the further growth in a2MC's established markets and development of targeted international markets.

Working capital statement

a2MC has suffient working capital to carry out its current business plans and stated objectives.

35 EBITDA and EBIT are Non-GAAP measures. However, the Company believes that they provide investors with a comprehensive understanding of the underlying performance of the business

36 1H15 Listing, FY13 strategic review costs and FY12 strategic review costs and the net settlement from a legal dispute in Korea

9. Additional Information

9.1 Incorporation and registered address

The Company was incorporated in New Zealand (as A2 Corporation Limited) on 17 February 2000 and changed its name to The a2 Milk Company Limited on 8 April 2014. Its registered office is c/o Simpson Grierson, Level 27, 88 Shortland Street, Auckland, New Zealand.

9.2 NZX Main Board listing/disclosure

The Company, as a listed issuer in New Zealand whose Shares are quoted on the NZX Main Board, is subject to the continuous disclosure obligations prescribed by the NZSX Listing Rules. As such, the Company is required, subject to certain exceptions, to immediately notify NZX of any information concerning a2MC of which the Company is or becomes aware and which a reasonable person would expect to have a material effect on the price of the Shares.

The Company has disclosed the following material information to NZX for release to NZX markets in accordance with its continuous disclosure obligations on or after the date on which its annual report was released to NZX (29 September 2014):

Date	Announcement
18 November 2014	2014 Annual Meeting presentation
18 November 2014	Proposed listing on the ASX
18 November 2014	Advancing strategic initiatives to drive revenue growth
18 November 2014	a2 Platinum™ arrangements with CSF revised
9 January 2015	Notice of Special Meeting
27 January 2015	Special Meeting results

As at the date of this Information Memorandum, the Company is not aware of any material information that is not generally available to the market that the Company is entitled not to disclose to NZX under the exceptions to the continuous disclosure obligations.

Copies of the above announcements (and all of a2MC's releases to NZX) are available free of charge on NZX's website (www.nzx.com) under the ticker ATM and on the Company's website at www.thea2milkcompany.com.

9.3 Capital structure

The issued capital of the Company as at the date of this Information Memorandum is set out in the figure below:

Class of Security	Number of Securities
Fully Paid Shares	633,066,979
Partly Paid Shares	27,000,000

Details of the existing Partly Paid Shares are set out below.

Executive Employee	Year of issue	Shares issued	Exercise price	Amount paid
Geoffrey Babidge	2010	6,000,000	$0.10	$0.001
Peter Nathan	2011	3,500,000	$0.15	$0.0015
Simon Hennessy	2011	3,000,000	$0.15	$0.0015
Sarah Kolkman[37]	2013	2,500,000	$0.55	$0.0055
Andrew Clarke	2013	2,000,000	$0.55	$0.0055
Geoffrey Babidge	2013	5,000,000	$0.64	$0.0064
Susan Massasso	2014	5,000,000	$0.72	$0.0072

Save for the grant of 5,000,000 options to David Hearn described in Section 6.3 the Company does not intend to issue any additional securities prior to the Listing. However, the holders of Partly Paid Shares can elect to pay up their Shares at any time and become Fully Paid Shares.

The Board is also considering the grant of options to members of the senior management team under the terms of the Company's new long term incentive scheme, which is described in Section 9.9. Any such grant would take place after the Listing.

37 Sarah Kolkman resigned from her employment with the Company as chief financial officer with effect from 1 April 2014, the date on which Craig Louttit's appoinment as chief financial officer of the Company took effect

9. Additional Information

9.4 Substantial Shareholders

Pursuant to sub-part 3 of the Securities Markets Act 1988, the following persons have given notice as at 20 February 2015, being the latest practicable date before the date of this Information Memorandum, that they were substantial Shareholders in the Company and held a relevant interest (under New Zealand law) in the number of Fully Paid Shares shown below:

Shareholder	Number of Shares	Percentage holding
Freedom Foods Group Limited	117,878,629	17.86%
Milford Asset Management Limited	97,877,776	14.83%
Mountain Road Investments	57,558,701	8.72%
New Zealand Superannuation Fund Nominees Limited	41,344,622	6.26%
AMP Capital Investors (New Zealand) Limited	37,022,083	5.61%

9.5 Rights attaching to the Shares

The Company is seeking to list its Fully Paid Shares on the ASX. Fully Paid Shares are ordinary shares with the rights and liabilities described below. The Company has also issued Partly Paid Shares to certain members of a2MC senior management. The Partly Paid Shares are quoted on the NZX Main Board although a2MC is not seeking quotation of the Partly Paid Shares on the ASX. The Company has no class of shares on issue other than the Shares.

The rights and liabilities attaching to ownership of the Shares arise from a combination of the Constitution, the Companies Act and other statutes, the NZSX Listing Rules and general law. In addition, certain terms of the Partly Paid Shares are set out in the Share Subscription Deeds with the applicable members of senior management. A summary of the additional terms of the Partly Paid Shares is set out in Section 9.9.

A summary of significant rights attaching to the Shares is set out below. This summary is not intended to be an exhaustive summary or to constitute a definitive statement of the rights and obligations attaching to the Shares. A copy of the Constitution can be obtained from the a2MC website at www.thea2milkcompany.com, through a search for The a2 Milk Company Limited on www.business.govt.nz/companies or by request to a2MC.

Rights attaching to the Shares

Each Share gives the holder the right to:

(a) Attend and vote at a meeting of Shareholders of the Company, including the right to cast one vote per Shareholder on a show of hands and one vote per Share on a poll on any resolution, including but not limited to a resolution to:

- appoint or remove a Director
- adopt, revoke or alter the Constitution
- approve a major transaction (as that term is defined in the Companies Act), or
- approve the amalgamation of the Company (under section 221 of the Companies Act)

(b) Receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by the Company in respect of that Share

(c) Receive a share with other Shareholders in the distribution of surplus assets in any liquidation of the Company

(d) Be sent certain company information, including notices of meeting and company reports, sent to Shareholders generally

(e) Exercise all other rights conferred upon a Shareholder by the Companies Act and the Constitution

Precedence of Listing Rules

Despite anything in the Constitution, once the Company is admitted to the Official List of the ASX, if there is any inconsistency between the Constitution and the ASX Listing Rules, the ASX Listing Rules will prevail.

If any provision in the Constitution is inconsistent with the NZSX Listing Rules, the NZSX Listing Rules will prevail.

While the Company is listed on both the ASX and the NZX, it will be required to comply with both the ASX Listing Rules and the NZSX Listing Rules to the extent a relevant waiver does not apply.

Transfer of Shares

Subject to any restrictions in the Constitution, any Shareholder may transfer their Shares together with any liability in respect of unpaid calls and by instrument of transfer approved in the Constitution, or by using any electronic means approved by any applicable statute. Shares may be transferred under a system of transfer approved under section 376 of the Financial Markets Conduct Act, which is applicable to the Company. CHESS is an approved system of transfer under section 376 of the Financial Markets Conduct Act.

The Board may, in its absolute discretion, refuse or delay registration of a transfer of any Shares if:

(a) the Company has a lien on the Shares

(b) the registration, together with the registration of any further transfer of Shares held by the Company and awaiting registration, would result in the relevant Shareholder holding the number of Shares less than a Minimum Holding as defined in the Constitution, or

(c) the title of the transferor to, or the right of the transferor to transfer the Shares, has not been established by such evidence that the Board reasonably requires

Share buy back

The Company may, in accordance with the Companies Act, the NZSX Listing Rules and the ASX Listing Rules purchase or acquire its own equity securities.

Variation of rights attaching to Shares and amendment of Constitution

The Constitution may be altered by special resolution of Shareholders. In regards to the issue of further Shares or other securities which rank equally with, or in priority to, the Shares, whether as to voting rights, distributions, dividends or otherwise, the Board is not obligated to comply with section 45 of the Companies Act which is negated by virtue of the Constitution.

In the event of any amendment being made to the NZSX Listing Rules or the ASX Listing Rules, that amendment automatically becomes part of the Constitution without the need for any Shareholder resolution.

9. Additional Information

9.6 Subsidiaries

Subsidiary name	Country of incorporation	Percentage ownership	Principal activity
A2 Holdings UK Limited	New Zealand	100%	Holding company for investment in The a2 Milk Company Limited (UK)
A2 Infant Nutrition Limited	New Zealand	100%	Distribution and marketing of a2 Platinum™ infant nutrition in New Zealand and China
The a2 Milk Company (New Zealand) Limited	New Zealand	100%	Dormant
A2 Exports Limited	New Zealand	100%	Dormant
A2 Australian Investments Pty Limited	Australia	100%	Holding company for other Australian subsidiaries
A2 Botany Pty Limited	Australia	100%	Collecting interest from related companies
The a2 Milk Company (Australia) Pty Limited	Australia	100%	Distribution and marketing of a2MC branded milk and cream in Australia
A2 Exports Australia Pty Limited	Australia	100%	Export of a2MC branded milk to China and marketing in China
A2 Infant Nutrition Australia Pty Limited	Australia	100%	Distribution and marketing of a2 Platinum™ infant formula in Australia
The a2 Milk Company Limited	Scotland	100%	Distribution and marketing of a2MC branded milk in the UK
The a2 Milk Company LLC	USA	100%	Dormant
The a2 Milk Company	USA	100%	Distribution and marketing of a2MC branded milk in the USA (has not yet commenced trading)
The a2 Milk Company Limited	Canada	100%	Dormant

9.7 Material contracts

a2MC's business model and supply chain are dependent on contractual arrangements with third parties which provide essential processing, production, distribution or other logistical functions for a2MC branded products globally. The Directors consider that, of these contractual arrangements, those with Synlait, Müller Wiseman Dairies, CSF and Brownes Food Operations Pty Limited are significant or material enough to the Company that an investor may wish to have details of them, and summaries of each of them are set out below. a2MC's primary customers for its products are supermarkets and grocers in a number of geographies. A significant proportion of a2MC's sales are made to Australian supermarkets, including Woolworths, Coles, Metcash, under agreed trading terms. The Directors consider that an investor may wish to have an understanding of these arrangements and an overview of them is therefore provided below. The summaries of material contracts set out in this Information Memorandum do not purport to be complete and are qualified by the text of the contracts themselves.

Synlait nutritional powders manufacturing and supply agreement

In March 2012, the Company entered into a contract with Synlait to manufacture and supply a2MC milk powder and retail ready canned infant products.

Exclusivity
Subject to Synlait meeting the Company's requirements, the Company agrees that it and its subsidiaries will purchase New Zealand made A1 Protein Free infant formula and milk powder exclusively from Synlait for the term of the agreement.

Product quality
Synlait must ensure that the manufacture and supply of the Company's products conform to the specifications set by the Company, including guidelines relating to relevant health authority standards for infant formula and other milk products in countries that may import the products.

Price
The prices for which Synlait manufactures and supplies the Company's products are determined quarterly and include:

- Milk solids (**"MS"**): a per kilogram premium over and above a published benchmark milk price
- Whole milk powder (**"WMP"**) and Skim milk powder (**"SMP"**) products: cost plus pricing based on the cost of production and published benchmark WMP and SMP prices
- Infant formula (**"IF"**) products: cost plus pricing based on the cost of production and published benchmark WMP and SMP prices

Intellectual property rights
For the term of the agreement, the Company grants to Synlait the non-exclusive right to use the Company's intellectual property to manufacture, pack and deliver the Company's products as ordered by the Company, and also grants Synlait the right to grant sub-licenses to Synlait's producers to use the Company's intellectual property solely for the purpose of arranging for testing, selection, identification and herd formation for the production and supply of A1 Protein Free milk to Synlait.

Term and further term
The initial term of the agreement is three years with three options for either party to renew the agreement for three years. As such the maximum terms of the agreement (inclusive of all renewal option) is 12 years.

Termination
The agreement may be terminated by mutual written agreement between Synlait and the Company. Additionally, both parties to the agreement have the right to terminate the agreement for any material breaches of the agreement by the other party and subsequent failure to rectify the breach within 20 business days, or upon certain events occurring to a party that affect the other party (including a party ceasing to conduct business, being unable to pay its debts as they fall due, entering into an arrangement with its creditors or being affected by specific insolvency events).

9. Additional Information

Müller Wiseman supply and processing agreement

In January 2014 the Company entered into an agreement with Müller Wiseman Dairies and a2 Milk (UK) Limited (**"a2MC UK"**), a wholly owned subsidiary of the Company, relating to the supply and processing of a2MC branded products. As consideration for the payment of the relevant prices, Müller Wiseman Dairies agrees to provide accounts and administration services, farm services, processing and packaging services, supply services (in circumstances where Müller Wiseman Dairies is not required to provide processing and packaging services) and ordering services (together the **"Services"**) to a2MC UK.

Exclusivity
a2MC UK is restricted from appointing any other parties to carry out the Services in Great Britain for the duration of the agreement. This restriction does not apply to a2MC UK if Müller Wiseman Dairies is unable to meet the forecasts of a2MC UK, unable to carry out the Services due to an event of force majeure or if notice to terminate the agreement is served by any party.

Quality
Müller Wiseman Dairies must ensure that the manufacture and supply of the Company's products conform to the specifications set by the Company.

Price
a2MC (UK) pays Müller Wiseman Dairies for the following services:

- Supply of a2MC branded milk: the Müller Wiseman Milk Group base price per litre inclusive of constituent bonuses for quality standards, butterfat content and volume which it pays to members of the Müller Wiseman Milk Group plus a premium set, and subsequently changed from time to time, by a2MC (UK)
- Milk collection, packaging and processing: actual cost per unit plus a set percentage premium
- Administration: a fixed annual fee (exclusive of insurance policies)

Intellectual property
a2MC (UK) grants to Müller Wiseman Dairies a sub-licence to use the Company's present and future proprietary and/or intellectual property rights in Great Britain for the purpose of the provision of the Services by Müller Wiseman Dairies. In accordance with the terms of the agreement, a2MC (UK) grants Müller Wiseman Dairies a limited right to grant further sub-licenses of the Company's intellectual property to farmers who have entered into an agreement to supply Müller Wiseman Dairies with raw A1 Protein Free milk.

Term
The agreement commenced on 1 January 2014 and will remain in effect until terminated in accordance with any of the termination methods detailed below.

Termination
Either a2MC (UK) or Müller Wiseman Dairies may terminate the agreement by written notice for cause or otherwise on not less than 12 months' written notice.

a2MC (UK) may also elect on not less than 3 months' notice that Müller Wiseman Dairies cease the supply of any part of the services provided under the agreement (other than the farm services relating to the testing, selecting, identifying and forming of herds of cows to provide and supply A1 Protein Free milk).

Commitment from Müller Wiseman Dairies
Subject to certain exceptions, Müller Wiseman Dairies agrees that it will not engage (or have any interest whether directly or indirectly) in the production or the supply or marketing of any competing products within Great Britain or any other territories in which a2MC (UK) carries on business from time to time.

CSF agreement

Objectives
Under the terms of the agreement between CSF and the Company, CSF is the exclusive import agent for a2MC infant formula into mainland China (excluding Hong Kong and Macau) and provides government relations advice and support on an on-going basis. The Company is responsible for distribution of infant formula products within the market and will progressively establish new distribution arrangements to expand the network currently in place and the Company will continue to oversee the marketing and communication activities for the brand as is presently the case. The agreement is in the form of a memorandum of understanding (**"MOU"**), dated and effective from 20 November 2014.

Cooperation Agreement
Both parties intend to enter into a formal cooperation agreement in respect of the agreed services outlined in the MOU (**"Cooperation Agreement"**). Each party agrees to operate under the terms of the MOU until a Cooperation Agreement has been agreed and signed.

Term and extension
The appointment of CSF as import agent and government relations and regulatory affairs partner is for an initial period of four years with an option to extend for an additional three years on terms to be agreed subsequent to the MOU.

Fees
In respect of the provision of government relations and regulatory affairs services, the Company must pay CSF an annual fee which steps up in years 2 and 3.

The import agent service fee payable by the Company to CSF is based on a percentage of the cost and freight value of the a2MC infant formula products imported by CSF. Similarly, the Company must pay an annual sales commission based on a percentage of the cost and freight value of the a2MC infant formula products imported by CSF in respect of mainland China.

Failure to agree to Cooperation Agreement
In the event that the Cooperation Agreement is not agreed and signed within six months of the signing of the MOU, CSF's import agent right will become non-exclusive and the Company may continue to use CSF's services as import agent or appoint an alternate import agent. If the Company choses to appoint an alternate import agent as a result of a failure to agree and execute the Cooperation Agreement within the specified time, the Company will pay CSF additional fees for each remaining year of the term.

Trading terms for Australian supermarkets

a2MC supplies a2MC branded products to supermarkets and other retailers in Australia under agreed trading terms. These trading terms do not form a contract for the supply of goods. Rather they set out the terms that will apply to the contract for supply that is formed each time the customer places an order for a2MC branded products. Each customer's terms of trade are different, but they have certain common features, including that:

- the customer is under no obligation to place a purchase order for a2MC branded products
- title to the goods supplied passes on delivery
- a2MC indemnifies the customer against losses or claims connected with a2MC delivering defective products to the customer

Brownes Contract Manufacture Agreement

The a2 Milk Company (Australia) Pty Ltd (**"a2MC Australia"**) entered into an agreement with Brownes Foods Operations Pty Limited (**"Brownes"**) for the manufacture and supply of one litre and two litre variants of fresh a2MC branded milk (**"Products"**) commencing in October 2013.

The initial term of the agreement is three years and will continue for a further three year term unless terminated in accordance with the terms and conditions of the agreement.

a2MC Australia agrees not to source any Products from any other person other than Brownes in Western Australia during the term of the agreement, except where Brownes is unable to meet the requirements of a2MC Australia or Brownes is unable to deliver the Products to a delivery point specified by a2MC Australia.

a2MC Australia will pay Brownes a fixed price for the manufacturing, packing and delivery of the Products.

a2MC Australia grants to Brownes the non-exclusive licence to use the intellectual property of a2MC Australia for the sole purpose of manufacturing, packing and delivering the Products ordered by a2MC Australia.

Either party may terminate the agreement for cause.

9. Additional Information

9.8 Related party agreements

As noted on page 62, the largest Shareholder of the Company is Freedom Foods Group Limited, an Australian listed company that is controlled by Arrovest Pty Limited, an Australian proprietary company that is a member of the Perich Group of companies. a2MC has, directly or through its subsidiaries, entered into certain agreements with companies that are owned or controlled by Freedom Foods Group Limited or the Perich Group.

Pactum processing and packaging agreement

In August 2013, a2 Exports Australia Pty Limited (**"a2 Exports"**), a wholly owned Australian subsidiary of a2MC, entered into an agreement with Pactum Australia Pty Limited (**"Pactum Australia"**, a wholly owned subsidiary of Freedom Foods Group Limited) and Pactum Dairy Group Pty Limited (**"Pactum Dairy"**, a joint venture company owned by Freedom Foods Group Limited and Australian Consolidated Milk Pty Limited) for the processing and packaging of a2MC long life milk at Pactum Australia's facility at Taren Point in New South Wales and at Pactum Dairy's facility at Shepperton in Victoria. The agreement is in the form of a term sheet and was negotiated at arms' length. Together, Pactum Australia and Pactum Dairy Group are referred to as **Pactum**.

The key provisions of the agreement are as follows.

Objectives
In accordance with best industry practice, for Pactum to supply or procure supply of a2 Exports' volume requirements for a2MC branded long life milk for Australia, New Zealand, South East Asia and mainland China (in all sizes) on an exclusive basis.

Term and renewal
The initial term is five years. The parties will meet during the second year of the initial term to discuss expanding the five year term and may agree to extend the initial term for a period of between 12 and 24 months, with any further extensions being subject to a2MC Shareholder approval.

Delivering Raw A1 Protein Free Milk
a2 Export delivers or procures the delivery of raw A1 Protein Free milk at a2 Exports' cost.

Price
The price per litre of packaged a2MC branded long life milk is at cost plus a margin that reduces according to the volume of a2MC long life milk processed by Pactum in any contract year, with costs and pricing reviewed semi-annually.

Services competitiveness
Pactum must use all reasonable endeavours to minimise all costs relevant to pricing, making available the benefits of all efficiency enhancements including those resulting from increased capacity usage at the Shepparton Facility whether by a2 Exports or others.

Pactum's aggregated pricing (inclusive of its margin) must be competitive against the pricing of services from other long life milk processors and packagers at the relevant time, taking into account volume supplied, the period of supply in the year, and quality specification.

a2MC may benchmark pricing against information obtained in connection with the anticipated negotiation of contracts for supply of a2MC long life milk in other international markets. a2MC will also have the ability to seek proposals for competitive supply from other long life milk processors or packagers from time to time.

In the event that Pactum determines in good faith that pricing post 31 December 2014 for all or any packaged a2MC branded long life milk is uncommercial to its business interest, Pactum may advise a2 Exports of that and enter into good faith discussion as to the reasons and as to the possible options, which may include revised pricing, subject to any required a2MC Shareholder approvals.

There is no limit on the value of the services which can be obtained under the Processing and Packaging Agreement.

Exclusivity, Restraints and Priority
Pactum must not, directly or indirectly, process or package any competing products or assist any other person to do so. This restriction will continue to apply for one year after termination, except where the arrangement is terminated by Pactum for cause or where Pactum gives notice of intention not to renew the arrangement beyond the initial term.

Except where Pactum is unable to meet demand, or declines to supply new packaging formats, a2 Exports will use Pactum as its exclusive provider in relation to all of a2 Exports' and a2MC's long life milk requirements (using raw A1 Protein Free milk) sourced from New Zealand and Australia for sale in Australia, NZ, South East Asia and mainland China (in all sizes).

Technological Developments
If a2 Export wishes to use new packaging formats (including different sizings), then Pactum must be given written notice of at least 9 months and a first option to provide that packaging. If Pactum does not accept that option, a2 Exports may obtain product elsewhere.

Guarantees
Pactum's obligations are guaranteed by Freedom Foods Group Limited. a2 Exports' obligations are guaranteed by the Company.

Leppington Pastoral milk supply agreement

a2MC Australia and Leppington Pastoral Company (**Leppington**) entered into a contract for the supply of A1 Protein Free milk commencing 1 July 2014. Leppington acknowledges that its appointment is not exclusive in any respect and that a2MC Australia is entitled to purchase milk from any third party at any time.

Term and renewal
The initial term of the agreement is for three years commencing on 1 July 2014, unless or until the agreement is terminated in accordance with its terms.

Quality assurance
Leppington agrees that it shall be responsible for the compliance with all laws, regulations, codes of practice, food standards and other requirements of any governmental or regulatory authority applicable to its operations and the agreement.

Volume
For each year, commencing 1 July 2014, Leppington agrees to maintain sufficient quantities of A1 Protein Free milk to supply to a2MC Australia's specified minimum volume requirements. Separately, a2MC Australia undertakes to purchase a minimum volume of A1 Protein Free milk from Leppington each year until the termination of the agreement.

Price
Generally, the price per litre that a2MC Australia will pay Leppington for its supply of A1 Protein Free milk will increase each year.

Intellectual property
Unless otherwise agreed in writing by the Company or a2MC Australia, Leppington is not licensed to use, licence or sub-license any trademark or brand forming part of the Company's intellectual property. Further, Leppington agrees that it, and any related parties, will not at any time during the term or after expiry or early termination of the agreement directly or indirectly challenge the validity or ownership of the Company's intellectual property.

Termination
A party is entitled to terminate the agreement by written notice to the other party upon the occurrence of a breach of any obligation or duty owed under the agreement or if a party is or becomes unable to pay all of the party's debts as and when they become due and payable.

a2MC Australia may also terminate the agreement where there is a proposed or actual change of control of Leppington by giving 30 business days' notice or immediately on written notice in the event that the license granted from the Company to a2MC Australia is terminated.

Both parties may terminate the agreement at any time for any reason on 180 days' written notice to the other party.

Indemnity
Leppington indemnifies a2MC Australia against any losses incurred by a2MC or the Company arising from any negligent act or omission by Leppington, its employees, consultants or representatives or any breach, non-performance or negligent performance of Leppington's obligations under the agreement.

Lease of Smeaton Grange premises

a2MC Australia leases the site of the Smeaton Grange milk processing plant from RRT Investments Pty Limited, a company owned by the Perich Group, under a lease dated 1 February 2012. The lease was negotiated at arms' length and provides for an annual adjustment to the rent payable by a2MC Australia and for a mark-to-market rent review process to be undertaken every five years. The lease is for a term of 10 years with an option for a2MC Australia to renew the lease for a further 10 years and an option for a2MC Australia to purchase the site on the expiry of the initiator extended lease term for fair market value.

9. Additional Information

9.9 Executive incentive scheme

New Long Term Incentive Plan

The Company has adopted the **Long Term Incentive Plan** to assist in the reward, retention and motivation of certain employees and Directors of the Company and its subsidiaries (**"Participants"**).

The Company may grant options and/or performance rights (**"Awards"**) to eligible participants under its Long Term Incentive Plan. Each Award granted represents a right to receive one Fully Paid Share in the Company once the Award vests and is exercised by the relevant Participant.

In accordance with the rules of the Long Term Incentive Plan, the Board will determine in its sole and absolute discretion the terms and conditions of Awards which are granted under the Long Term Incentive Plan including, but not limited to, the following:

- which individuals will be invited to participate in the Long Term Incentive Plan
- the number of Awards to be granted to each Participant
- the fee payable (if any) by Participants on the grant of Awards to Participants
- the terms on which the Awards will vest and become exercisable, including any vesting conditions or performance hurdles which must be met
- the exercise price of each option granted to Participants
- the period during which a vested option can be exercised
- any forfeiture conditions or disposal restrictions applying to the Awards and any Fully Paid Shares that Participants receive upon exercise of their Awards

The Board may delegate management and administration of the Long Term Incentive Plan together with any of its powers or discretions under the Long Term Incentive Plan to a committee of the Board or to any one or more persons selected by it as the Board thinks fit, including but not limited to the Company Secretary.

The Long Term Incentive Plan will operate subject to the ASX Listing Rules and the NZSX Listing Rules.

Partly Paid Share scheme

The Company has to date used a partly paid share scheme to provide equity incentives to certain of its senior management team. The terms of the Partly Paid Shares are set out in individual share subscription deeds between the Company and each relevant executive. The key terms of the Partly Paid Shares are set out below.

Rights attaching to Partly Paid Shares
Each Partly Paid Share carries a fractional right to a distribution and a fractional voting right, such fractions being the equivalent to the amount of the subscription price paid up on the Partly Paid Shares.

Buy back/ forfeiture/ purchase of Partly Paid Shares
If the holder does not, by the relevant share payment date, fully pay up the Partly Paid Shares, the Company may, subject to the provisions of the Companies Act, the constitution of the Company and any relevant NZSX Listing Rule either:

(i) buy back

(ii) forfeit, or

(iii) compulsorily sell

the applicable Partly Paid Shares.

Put option
The holders each have the right, at any time, to require the Company to repurchase any of their Partly Paid Shares, subject to the Companies Act, the Constitution of the Company or the NZSX Listing Rules, at a price equal to the amount paid up on the applicable Partly Paid Shares.

The holder may only exercise a put option once prior to the share payment date, and where the holder's employment is terminated, the put option can only be exercised within 10 days from the termination date.

Restrictions on transfer
Generally, each holder may not transfer their Partly Paid Shares, even if fully paid, for a period of between two to five years from the date on which each the holder entered into a share subscription deed with the Company (**"Restricted Period"**), unless:

(i) the a2MC business is sold or there is a change of control of the Company

(ii) in the case of certain executives, the holder's employment with the Company is terminated for a reason other than for cause, and at least two years have passed since the relevant employment agreement was entered into, or

(iii) it is a permitted transfer

The transfer restrictions for Partly Paid Shares held by certain of the executives reduce over time. The percentage of the holder's Partly Paid Shares which is restricted from transfer decreases over time such that the holder cannot transfer 100% of their Partly Paid Shares in the first year of employment with the Company, 90% in the second year, 75% in the third year, 55% in the fourth year, and finally 30% in the fifth year.

Sale of up to 50% of the Partly Paid Shares
Certain of the holders are permitted to transfer up to 50% of their Partly Paid Shares in a single transaction following the third anniversary of the date on which the relevant holder entered into the share subscription deed with the Company.

Actions on termination of employment
In the event that a holder's employment with the Company is terminated for cause and the holder has paid the total applicable subscription price of their Partly Paid Shares before the relevant share payment date so that those Shares are Fully Paid Shares, the holder may then transfer their Fully Paid Shares in an unrestricted manner, provided that the Fully Paid Shares cannot be transferred for a minimum of 180 days from the date of termination of employment. Where the Company has given a buy back/forfeiture/sale notice, the relevant holder may not transfer their Fully Paid Shares without the prior written consent of the Company.

Company can refuse transfer
The Company may refuse to record any transfer of any Partly Paid Shares and may refuse to allow the transferee of the relevant Partly Paid Shares to vote or receive dividends in respect of the Partly Paid Shares if:

(i) the holder has not paid the subscription price in respect of the Partly Paid Shares which it has purported to transfer in full, provided that the Partly Paid Shares may, at any time after the relevant issue date, be transferred with the prior written consent of the Board of the Company

(ii) the holder transfers their Partly Paid Shares in breach of the terms of their respective share subscription deed

9. Additional Information

9.10 Disclosure of Directors' interests

The figure below sets out the interests of the Directors who will be on the Board following the Listing as at the date of this Information Memorandum. The figure also discloses the interests of Clifford Cook and David Mair as at the date of this Information Memorandum although they will resign from the Board shortly before the Listing.

Director	Nature of interest	Number of Shares	Percentage of total issued share capital
David Hearn[38]	–	–	–
Julia Hoare	–	–	–
Geoffrey Babidge[39]	Beneficial interest	11,000,000 (partly paid)	1.67%
Richard Le Grice	–	–	–
Melvyn Miles	–	–	–
Clifford Cook[40]	Beneficial interest	57,558,701	8.72%
David Mair[41]	Beneficial interest	5,000,000	0.75%
	Relevant interest	1,122,531	0.17%

David Hearn and Melvyn Miles have each had consultancy arrangements with the Company under which they have been paid the following consultancy fees over the last two years for services provided over and above their duties as Directors of the Company:

- David Hearn – £45,417
- Melvyn Miles – A$26,996

Melvyn Miles' consultancy arrangements have been replaced with a new consultancy agreement with effect from 1 February 2015. David Hearn's consultancy arrangement will be replaced with new remuneration arrangements with effect from his appointment as Chairman shortly before the Listing. Details of the new arrangements for David Hearn and Melvyn Miles are set out in section 6.3.

Other than as set out above or elsewhere in this Information Memorandum, no Director:

- has or had at any time during the two years preceding the date of this Information Memorandum an interest in the promotion of the Company, or in any property acquired or proposed to be acquired by the Company
- has been paid or agreed to be paid any amount, or has been given or agreed to be given any other benefit, either to induce him or her to become, or to qualify him or her as, a Director or otherwise for services rendered by him or her in connection with the formation or promotion of the Company

9.11 No reliance on Euromonitor market information

Euromonitor information in this Information Memorandum on the global market is from independent market research carried out by Euromonitor International Limited and should not be relied upon in making, or refraining from making, any investment decision.

9.12 ASX waivers and confirmations

The Company has applied for waivers and confirmations from the ASX which are standard for a New Zealand company listed on the ASX (including confirmation that the ASX will accept accounts denominated in New Zealand dollars and prepared and audited in accordance with New Zealand Generally Accepted Accounting Practice and New Zealand auditing standards).

9.13 Selling Shares on the ASX and CHESS

The Company will apply to participate in the ASX's Clearing House Electronic Subregister System ("CHESS") in accordance with the ASX Settlement Operating Rules. CHESS is an automated electronic transfer and settlement system for transactions in securities quoted on the ASX. Shareholdings will be registered on one of two sub-registers, the electronic CHESS subregister or an issuer sponsored subregister. The Fully Paid Shares of a Shareholder who is a participant in CHESS or is sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Any Shareholder who has elected to have their Fully Paid Shares registered in CHESS will be sent an initial holding statement setting out the number of Fully Paid Shares held. This statement will also provide details of a Shareholder's Holder Identification number ("HIN") for CHESS holders or Shareholder Reference Number ("SRN") for issuer sponsored holders. Shareholders will subsequently receive statements showing any changes in their shareholding in a2MC.

9.14 Governing law and comparison of Australian and New Zealand laws

Governing law

The Company is a company incorporated in New Zealand. In Australia, the Company is registered with ASIC as a foreign company. As the Company is not incorporated in Australia, its general corporate activities (apart from any offering of securities in Australia) are generally not regulated by the Corporations Act and ASIC but instead are regulated in New Zealand by the Companies Act, the Financial Markets Conduct Act and the New Zealand Financial Markets Authority and Registrar of Companies.

Set out below is a figure summarising key features of the laws that apply to the Company as a New Zealand company (under New Zealand law, including as modified by exemptions or waivers) compared with the laws that apply to Australian publicly listed companies generally. It is important to note that this summary does not purport to be a complete review of all matters of New Zealand law applicable to publicly listed companies or to highlight all provisions that may differ from the equivalent provisions in Australia.

Comparison of laws governing the Company as a New Zealand company with laws governing Australian publicly listed companies generally

Unless otherwise stated, the Corporations Act provisions referred to below do not apply to the Company as a foreign company.

38 Upon his appointment as Chairman of the Board, shortly prior to the Listing, David Hearn will be granted 5 million options which will be held on trust by Lovat Partners Limited, as described in Section 6.3

39 Geoffrey Babidge's shareholding is held on trust by GCAA Investments Pty Ltd

40 Clifford Cook's shareholding is held on trust by Mountain Road Investments Limited

41 As at the date of this Information Memorandum, Public Trustee Forté Nominees Limited ("Forté Nominees") holds 1,122,531 Shares as custodian of the assets of the Forté Equity Fund ("Forté Fund"). David Mair, as a holder of more than 20% of the shares in Forté Funds Management Limited, the manager and promoter of the Forté Fund, has a non-beneficial relevant interest in the Shares held by Forté Nominees

	New Zealand Law	Australian Law
Transactions that require shareholder approval	Under the Companies Act, the principal transactions or actions requiring shareholder approval include: • adopting or altering the constitution of the company; • appointing or removing a director or auditor; • major transactions (being transactions involving the acquisition or disposition (whether contingent or not) of assets, the value of which is more than half the value of the company's assets, or the acquisition of rights or interests or the incurring of obligations or liabilities (including contingent liabilities), the value of which is more than half the value of the company's total assets); • putting the company into liquidation (although liquidation can also occur other than by shareholder approval); and • changes to the rights attached to shares. The NZSX Listing Rules also require shareholder approval in respect of: • director remuneration; • certain transactions with related parties; • certain issues of shares; and • in certain circumstances, the provision of financial assistance for the purpose of, or in connection with, the acquisition of shares.	Principal transactions or actions requiring shareholder approval under the Corporations Act are comparable to those under the Companies Act. However, shareholder approval is also required for certain transactions affecting share capital (e.g. share buybacks and share capital reductions) and there is no shareholder approval requirement for major transactions under the Corporations Act (although certain related party transactions require shareholder approval). Under the ASX Listing Rules shareholder approval is required for: • increases in the total amount of directors' fees; • directors' termination benefits in certain circumstances; • certain transactions with related parties; • certain issues of shares; and • if a company proposes to make a significant change to the nature or scale of its activities or proposes to dispose of its main undertaking.
Shareholders' right to request or requisition a general meeting	A special meeting of shareholders entitled to vote on an issue must be called by the board on the written request of shareholders holding shares carrying together not less than 5% of the voting rights entitled to be exercised on the issue.	The Corporations Act contains a comparable right to that provided by the Companies Act. The Corporations Act also requires the directors to call a general meeting on the request of at least 100 shareholders who are entitled to vote at a general meeting. Shareholders with at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting at their own expense.

	New Zealand Law	Australian Law
Shareholders' right to appoint proxies to attend and vote at meetings on their behalf	A shareholder may exercise the right to vote at a meeting either by being present in person or by proxy. A proxy is entitled to attend and be heard, and to vote, at a meeting of shareholders as if the proxy were the shareholder. A proxy must be appointed by notice in writing signed by or, in the case of an electronic notice, sent by the shareholder to the company. The notice of appointment must state whether the appointment is for a particular meeting or a specified term.	The position is comparable under the Corporations Act.
Changes in the rights attaching to shares	A company must not take action that affects the rights attached to shares unless that action has been approved by a special resolution of each interest group. (An "interest group" in relation to an action or proposal affecting the rights attached to shares means a group of shareholders whose affected rights are identical and whose rights are affected by the action or proposal in the same way and who comprise the holders of one or more classes of shares in the company).	The Corporations Act allows a company to set out in its constitution the procedure for varying or cancelling rights attached to shares in a class of shares. If a company does not have a constitution, or has a constitution that does not set out a procedure, such rights may only be varied or cancelled by: • a special resolution passed at a meeting for a company with a share capital of the class of members holding shares in the class; or • a written consent of members with at least 75% of the votes in the class.

9. Additional Information

	New Zealand Law	Australian Law
Shareholder protections against oppressive conduct	A shareholder or former shareholder of a company (or any other person who holds any rights and powers of a shareholder under the constitution) who considers that the affairs of a company have been (or are being, or are likely to be) conducted in a manner that is (or any act or acts of the company have been, or are, or are likely to be) oppressive, unfairly discriminatory, or unfairly prejudicial to him or her in any capacity may apply to the court for relief. The court may, if it thinks it is just and equitable to do so, make such orders as it thinks fit.	Under the Corporations Act, shareholders have statutory remedies for oppressive or unfair conduct of the company's affairs and the court can make any order as it sees appropriate.
Shareholders' rights to bring or intervene in legal proceedings on behalf of the company	A court may, on the application of a shareholder of a company, grant leave to that shareholder to bring proceedings in the name and on behalf of the company or any related company, or intervene in proceedings to which the company or any related company is a party, for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company or related company. Leave may only be granted if the court is satisfied that either the company or related company does not intend to bring, diligently continue or defend, or discontinue the proceedings, or it is in the interests of the company or related company that the conduct of the proceedings should not be left to the directors or to the determination of the shareholders as a whole. No proceedings brought by a shareholder or a director or in which a shareholder or a director intervenes with leave of the court (as described above) may be settled or compromised or discontinued without the approval of the court.	The Corporations Act permits a shareholder to apply to the court for leave to bring proceedings on behalf of the company, or to intervene in proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for those proceedings, or for a particular step in those proceedings. The court must grant the application if it is satisfied that: • it is probable that the company will not itself bring the proceedings, or properly take responsibility for them, or for the steps in them; • the applicant is acting in good faith; • it is in the best interests of the company that the applicant be granted leave; • if the applicant is applying for leave to bring proceedings, there is a serious question to be tried; and • either at least 14 days before making the application, the applicant gave written notice to the company of the intention to apply for leave and of the reasons for applying, or the court considers it appropriate to grant leave. Similar to the Companies Act, the Corporations Act provides that proceedings brought or intervened in with leave must not be discontinued, compromised or settled without the leave of the court.

	New Zealand Law	Australian Law
"2 strikes" rule in relation to remuneration reports	There is no equivalent of a "2 strikes" rule in relation to remuneration reports in New Zealand. New Zealand companies are not required to publish remuneration reports so shareholders necessarily cannot vote on them. There is, however, an obligation to state in the company's annual report, in respect of each director or former director of the company, the total of the remuneration and the value of other benefits received by that director or former director from the company during the relevant accounting period and, in respect of employees or former employees of the company, not being directors of the company, who received remuneration and any other benefits in their capacity as employees during the relevant accounting period, the value of which was NZ$100,000 per annum or greater, the number of such employees, stated in brackets of NZ$10,000.	The Corporations Act requires that company's annual report must include a report by the directors on the company's remuneration framework (called a remuneration report). A resolution must be put to shareholders at each annual general meeting of the company's shareholders (**"AGM"**) seeking approval for the remuneration report. The approval is advisory only, however, if more than 25% of shareholders vote against the remuneration report at 2 consecutive AGMs (i.e. 2 strikes) an ordinary (50%) resolution must be put to shareholders at the second AGM proposing that a further meeting be held within 90 days at which all of the directors who approved the second remuneration report must resign and stand for re-election.

	New Zealand Law	Australian Law
Disclosure of substantial holdings	The Financial Markets Conduct Act requires every person who is a "substantial product holder" in a listed issuer to give notice to that listed issuer and NZX that they are a substantial product holder. "Substantial product holder" means, in relation to a listed issuer, a person who has a relevant interest in 5% or more of a class of listed voting products of that listed issuer. The Financial Markets Conduct Act also empowers the listed issuer to require from a relevant person the name and address of every person who has a relevant interest in quoted voting products of the listed issuer and the nature of that interest, or other information that will, or is likely to, assist in identifying that person and the nature of that interest. The substantial product holder also has ongoing disclosure requirements to notify the listed issuer and NZX of certain changes in the number of voting products in which the substantial product holder has a relevant interest or if there is any change in the nature of any relevant interest in the substantial holding or where that person ceases to be a substantial product holder.	The Corporations Act requires every person who is a substantial holder to notify the listed company and the ASX that they are substantial holder and to give prescribed information in relation to their holding if: • the person begins to have, or ceases to have, a substantial holding in the company or scheme; • the person has a substantial holding in the company or scheme and there is a movement of at least 1% in their holding; or • the person makes a takeover bid for securities of the company. Similar to the Companies Act, under the Corporations Act a person has a substantial holding if the total votes attached to voting shares in the company in which they or their associates have relevant interests is 5% or more of the total number of votes attached to voting shares in the company, or the person has made a takeover bid for voting shares in the company and the bid period has started and not yet ended. These provisions do not apply to the Company as an entity established outside Australia. However, the Company will be required to release to the ASX any substantial holder notices that are released to NZX.

	New Zealand Law	Australian Law
How takeovers are regulated	The New Zealand position under the Takeovers Code and Financial Markets Conduct Act is comparable to the Australian position in relation to the regulation of takeovers. Substantial product holder notice requirements apply to relevant interests in 5% or more of company's quoted voting products (as discussed above under the heading "Disclosure of substantial holdings"). For the purposes of the Takeovers Code, a code company is one that is a listed issuer that has financial products that confer voting rights quoted on the NZX or has 50 or more shareholders and 50 or more parcels of shares. A 20% threshold applies (under which a person may not become the holder or controller of an increased percentage of the voting rights in a code company unless after the event, that person and their associates hold or control in total not more than 20% of the voting rights in the code company, or may not become the holder or controller of an increased percentage of voting rights if they already hold or control more than 20% of the voting rights), subject to certain exceptions (including full and partial offers, 5% creep over 12 months in the 50% to 90% range, and acquisitions with shareholder approval). Compulsory acquisitions are permitted by persons who hold or control 90% or more of voting rights in a company.	The Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if any person's voting power in the company will increase from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. Exceptions to the prohibition apply (eg. acquisitions with shareholder approval, 3% creep over 6 months and rights issues that satisfy prescribed conditions). Substantial holder notice requirements apply (as discussed above under the heading "Disclosure of substantial holdings"). Compulsory acquisitions are permitted by persons who hold 90% or more of securities or voting rights in a company. The Australian takeovers regime will not apply to the Company as a foreign company.

9.15 Directors' signatures

A copy of this Information Memorandum is authorised and has been signed for and on behalf of each Director of the Company by their duly authorized agent, Geoffrey Babidge.

Geoffrey Babidge
Managing Director and CEO
The a2 Milk Company Limited
Dated: 24 February 2015

10. Glossary

The following definitions apply throughout this Information Memorandum unless the context requires otherwise:

A1 Protein	means the A1 beta-casein protein.
A1 Protein Free	means, in respect of milk or any milk product, that the milk or product contains no detectable amounts of A1 Protein.
a2MC or Group	means the Company and its subsidiaries.
A2 Protein	means the A2 beta-casein protein.
ASIC	means the Australian Securities and Investments Commission.
ASX	means the Australian Securities Exchange or ASX Limited ACN 008 624 691 (as the context requires).
ASX Listing Rules	means the official listing rules of the ASX as amended or waived from time to time.
Board	means the board of directors of The a2 Milk Company Limited from time to time.
CAGR	means compound annual growth rate.
Companies Act	means the New Zealand Companies Act 1993.
Company	means The a2 Milk Company Limited (ARBN 158 331 965).
Constitution	means the constitution of The a2 Milk Company Limited, as amended from time to time.
Corporations Act	means the Australian Corporations Act 2001 (Cth), as amended from time to time.
CSF	means China State Farm Holding Shanghai Company, a2MC's exclusive import agent for China.
Director	means an individual who is appointed to the Board.
EBIT	means earnings before interest and tax.
EBITDA	means earnings before interest, tax, depreciation and amortisation.
Financial Markets Conduct Act	means the Financial Markets Conduct Act 2013 (NZ), as amended from time to time.
Fresha Valley	means Fresha Valley Processors (Waipu) Ltd, the third party which markets and sells A1 Protein Free milk in New Zealand under licence from a2MC.
Fully Paid Share	means a fully paid Share.
IFRS	means International Financial Reporting Standards.
Information Memorandum	means this information memorandum prepared by The a2 Milk Company Limited on 24 February 2015 for the purposes of the Listing.
Jalna	means Jalna Dairy Foods Pty Limited.
Listing	means the proposed admission of the Company to the Official List of the ASX and the quotation of the Fully Paid Shares on the ASX.
Long Term Incentive Plan	means the long term incentive plan described in Section 9.9.
Müller Wiseman Dairies or MWD	means Müller UK & Ireland Group LLP trading as Müller Wiseman Dairies.
NZSX Listing Rules	means the NZX Main Board Listing Rules as amended or waived from time to time.
NZX	means NZX Limited.
NZX Main Board	means the main board equity security market operated by NZX.
Official List	means the official list of entities that the ASX has admitted and not removed.

Partly Paid Share	means a partly paid Share as described in Section 9.9.
Private Label	means products produced and supplied to a retailer by a third party under contract, for sale under a retailer-owned brand.
Regular Cows' Milk	means cows' milk produced by herds that have not been formed on the basis of their beta-casein genotypes and are likely to produce milk that contains both A1 Protein and A2 Protein.
Share	means an ordinary share in the capital of The a2 Milk Company Limited.
Shareholder	means a holder of Shares.
Synlait	means Synlait Milk Limited.
The a2 System	means the confidential documents that contain proprietary processes, know-how and the quality standards prescribed by a2MC for the validation, production and promotion of a2MC branded products.

Appendix 1.
FY14 Audited Accounts

Extracted from FY14 Annual Report

Financials

Directors' responsibility statement

For the year ended 30 June 2014

The Directors of The a2 Milk Company Limited are pleased to present to shareholders the financial statements for The a2 Milk Company Limited for the year ended 30 June 2014.

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 2014 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:

CJ Cook
Chairman
16 September 2014

GH Babidge
Managing Director

Appendix 1.
FY14 Audited Accounts

EY
Building a better working world

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Independent Auditor's Report

To the Shareholders of The a2 Milk Company Limited

Report on the Financial Statements

We have audited the financial statements of The a2 Milk Company Limited and its subsidiaries on pages 28 to 76, which comprise the statement of financial position of The a2 Milk Company Limited and its subsidiaries as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in The a2 Milk Company Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 28 to 76:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of The a2 Milk Company Limited and the group as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by The a2 Milk Company Limited as far as appears from our examination of those records.

Ernst & Young

Ernst and Young
16 September 2014
Sydney

Appendix 1.
FY14 Audited Accounts

Statement of comprehensive income

For the year ended 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
Continuing operations					
Sales		110,621	94,304	–	–
Cost of sales		(70,802)	(60,671)	–	–
Gross margin		39,819	33,633	–	–
Interest income		455	288	2,967	1,900
Other revenue	3.1	224	370	20,598	23,326
Administrative expenses	3.2	(11,753)	(8,024)	(4,467)	(6,828)
Finance costs		(81)	(120)	(586)	(3)
Marketing expenses		(9,706)	(4,529)	(9,199)	(8,030)
Occupancy expenses		(456)	(170)	(109)	(144)
Other expenses	3.3	(16,421)	(12,565)	(6,106)	(3,679)
Profit before tax and share of associate/ joint venture earnings/(loss)		2,081	8,883	3,098	6,542
Share of net profits/(loss) of associates and joint ventures accounted for using the equity method	22.3	(1,361)	(3,719)	–	–
Profit before tax		720	5,164	3,098	6,542
Income tax (expense)/benefit	4.1	(710)	(1,044)	(1,395)	(987)
PROFIT AFTER TAX FOR THE YEAR		10	4,120	1,703	5,555
OTHER COMPREHENSIVE INCOME/ (LOSS)					
Items that will be not be reclassified to profit or loss		–	–	–	–
Items that may be reclassified to profit or loss:					
Foreign currency translation gain/(loss)	18	(4,497)	(2,316)	631	–
TOTAL COMPREHENSIVE INCOME /(LOSS)		($4,487)	$1,804	$2,334	$5,555
Earnings per share					
Basic (cents per share)	14.1	-	0.70		
Diluted (cents per share)	14.2	-	0.66		

The accompanying notes form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
Equity at the beginning of year		59,930	37,348	59,194	32,861
Total comprehensive income /(loss) for the year		(4,487)	1,804	2,334	5,555
		55,443	39,152	61,528	38,416
TRANSACTIONS WITH OWNERS					
Issue of ordinary shares	13	2,011	21,598	2,011	21,598
Share issue costs	13	–	(1,099)	–	(1,099)
Employee equity settled payments reserve	16	1,190	279	1,190	279
Equity at end of year		$58,644	$59,930	$64,729	$59,194
EQUITY COMPRISES:					
Share capital					
Balance at beginning of year		84,253	63,754	84,253	63,754
Issue of ordinary shares		2,011	20,499	2,011	20,499
Balance at end of year	13	86,264	84,253	86,264	84,253
Retained earnings/(deficit)					
Balance at beginning of year		(23,984)	(28,104)	(26,888)	(32,443)
Net surplus/(deficit) for the period including associate/joint venture surplus/(losses)		10	4,120	1,703	5,555
Balance at end of year	17	(23,974)	(23,984)	(25,185)	(26,888)
Foreign currency translation reserve					
Balance at beginning of year		(2,168)	148	-	-
Movements during the period		(4,497)	(2,316)	631	-
Balance at end of year	18	(6,665)	(2,168)	631	-
Employee equity settled payments reserve					
Balance at beginning of year		1,829	1,550	1,829	1,550
Movements during the period		1,190	279	1,190	279
Balance at end of year	16	3,019	1,829	3,019	1,829
EQUITY AT END OF YEAR		$58,644	$59,930	$64,729	$59,194

The accompanying notes form part of these financial statements.

Appendix 1.
FY14 Audited Accounts

Statement of financial position

As at 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
ASSETS					
Current assets					
Cash & short term deposits	6	15,979	20,187	4,251	13,943
Trade and other receivables	7	27,358	24,375	153	368
Prepayments		1,992	2,399	227	118
Inventories	8	5,583	742	-	-
Current tax assets		225	-	611	-
Total current assets		51,137	47,703	5,242	14,429
Non-current assets					
Property, plant & equipment	9	9,163	10,290	167	12
Investments in subsidiaries	20.2	-	-	18,827	18,827
Non-current receivables in associates and joint ventures	22.2	-	377	-	-
Loans to subsidiaries	20.3	-	-	42,215	29,798
Goodwill	11	10,587	9,370	-	-
Other Intangible assets	12	4,194	3,036	2,462	996
Deferred tax	4.4	1,562	1,628	557	688
Total non-current assets		25,506	24,701	64,228	50,321
TOTAL ASSETS		$76,643	$72,404	$69,470	$64,750
LIABILITIES					
Current liabilities					
Loans from subsidiaries	20.3	-	-	2,854	4,386
Accounts payable	10.1	17,875	12,093	1,852	1,126
Current tax liabilities		-	301	-	22
Total current liabilities		17,875	12,394	4,706	5,534
Non-current liabilities					
Accounts payable	10.2	124	80	35	22
Total non-current liabilities		124	80	35	22
TOTAL LIABILITIES		$17,999	$12,474	$4,741	$5,556
EQUITY					
Equity attributable to equity holders of the parent					
Share capital	13	86,264	84,253	86,264	84,253
Retained earnings/ (deficit)	17	(23,974)	(23,984)	(25,185)	(26,888)
Foreign currency translation reserve	18	(6,665)	(2,168)	631	-
Employee equity settled payments reserve	16	3,019	1,829	3,019	1,829
Total equity		58,644	59,930	64,729	59,194
TOTAL LIABILITIES & EQUITY		$76,643	$72,404	$69,470	$64,750

The accompanying notes form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from (applied to):					
Receipts from customers		107,446	86,502	–	125
Interest received		403	274	2,967	274
Other income		224	225	20,644	2
Tax refunds		756	244	109	-
Payments to suppliers & employees		(106,699)	(82,932)	(19,149)	(934)
Interest paid		(40)	(100)	(579)	-
Taxes paid		(1,655)	(566)	–	(229)
Net cash inflow (outflow) from operating activities	28.1	435	3,647	3,992	(762)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from (applied to):					
Funds advanced to The a2 Milk Company (Australia) Pty Ltd		-	-	(3,872)	(2,800)
Payment for property, plant & equipment		(871)	(1,245)	(182)	(10)
Funds advanced to A2 Infant Nutrition Limited		-	-	(6,735)	(5,094)
Investment in other intangible assets		(2,042)	(2,071)	(1,758)	(564)
Investment in The a2 Milk Company Limited (UK)	22.2	(4,574)	(2,514)	-	-
Funds advanced to A2 Holdings UK Limited		-	-	(4,877)	(2,514)
Funds advanced from A2 Exports Limited		-	-	(3)	-
Funds borrowed from A2 Infant Nutrition Australia Pty Limited		-	-	1,728	-
Funds borrowed from other subsidiaries		-	-	10	-
Net cash outflow from investing activities		(7,487)	(5,830)	(15,689)	(10,982)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of equity shares		2,011	21,582	2,011	21,582
Short term borrowings		-	(4,414)	-	-
Repayment of lease liability		-	(47)	-	-
Payment for capital raising costs		-	(1,099)	-	(1,099)
Net cash outflow from financing activities		2,011	16,022	2,011	20,483
Net increase/(decrease) in cash & short term deposits		(5,041)	13,839	(9,686)	8,739
Cash & short term deposits at the beginning of the year		20,187	6,568	13,943	5,188
Effect of exchange rate changes on cash		(605)	(220)	(6)	16
Cash acquired with The a2 Milk Company Limited (UK)		1,438	-	-	-
Cash and short term deposits at the end of the year		$15,979	$20,187	$4,251	$13,943
COMPRISED OF:					
Cash & short term deposits	6	$15,979	$20,187	$4,251	$13,943

The accompanying notes form part of these financial statements.

Appendix 1.
FY14 Audited Accounts

Notes

to the financial statements

1. Corporate information and
2. Summary of significant accounting policies

1. CORPORATE INFORMATION

The a2 Milk Company Limited ("Company") (formerly A2 Corporation Limited) and its subsidiaries (together the "Group") is a profit-oriented entity incorporated and domiciled in New Zealand.

The principal activity of the Company is the commercialisation of a2™ brand milk and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of a2™ brand milk. The Company sources and supplies a2™ brand milk in Australia through its 100% owned subsidiary The a2 Milk Company (Australia) Pty Limited and in the UK through its subsidiary The a2 Milk Company Limited (UK). The Company supplies a2™ brand infant nutrition through its 100% owned subsidiaries A2 Infant Nutrition Limited and A2 Infant Nutrition Australia Pty Limited.

The a2 Milk Company Limited is registered in New Zealand under the Companies Act 1993. The Company is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and the Companies Act 1993. The shares of The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange (NZX).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

The financial statements are presented in New Zealand dollars.

The same accounting policies and methods of computation are followed in these annual financial statements as were applied in the preparation of the Group's financial statements for the year ended 30 June 2013.

2.2 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').

2.3 Adoption of new and revised standards and interpretations

i) Standards and Interpretations in Issue and Adopted during the Year

In the current year, the Group has applied for the first time NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities, NZ IFRS 13 Fair Value Measurement, NZ IAS 27 Separate Financial Statements (revised 2011) and NZ IAS 28 Investments in Associates and Joint Ventures (revised 2011).

NZ IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The basis of accounting for the Group has not changed as a result of the adoption of this Standard.

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FY14 Audited Accounts

2. Summary of significant accounting policies cont.

2.3 Adoption of new and revised standards and interpretations cont.
NZ IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under NZ IFRS 11, there are only two types of joint arrangement – joint operations and joint ventures. The classification of joint arrangements under NZ IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangements. A joint venture is a joint arrangement whereby the parties that have control of the arrangement (ie joint venturers) have rights to the net assets of the arrangement.

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method. Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The adoption of this standard has not led to any changes in the Group's accounting policies or impacted the presentation of the financial statements.

The Group has adopted NZ IFRS 13 Fair Value Measurements for the first time in the current year. NZ IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The fair value measurement requirements of NZ IFRS 13 apply to both financial instrument items and non-financial instrument items for which other NZ IFRS require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of NZ IFRS 2 Share-based Payment, leasing transactions that are within the scope of NZ IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value.

NZ IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under NZ IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also NZ IFRS 13 includes extensive disclosure requirements.

The application of NZ IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

2. Summary of significant accounting policies cont.

2.3 Adoption of new and revised standards and interpretations cont.
The adoption of other Standards, Interpretations and Amendments that became effective in the current period has not led to any changes in the Group's accounting policies or measurement and recognition impacts on the periods presented in these financial statements.

ii) Standards and Interpretations in Issue Not Yet Adopted

The following new standards and amendments to existing standards are not a comprehensive list of standards and amendments but are only those that are likely to affect the Group.

NZ IFRS 9 (2010) 'Financial instruments' (effective from 1 January 2017): Classification and measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determinations are made at initial recognition. The classification depends on the Group's business model for managing the financial assets, for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements.

The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. The Group is yet to assess NZ IFRS 9's full impact. The Group will also consider the impact of the remaining phases of NZ IFRS 9 (2013 and 2014) when completed by the International Accounting Standards Board. The International Accounting Standards Board (IASB) has published the final version of IFRS 9 'Financial Instruments'. The Standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after 1 January 2018. This has not yet been approved in New Zealand.

The New Zealand Financial Reporting Framework is changing. The Company is expected to be a Tier One reporting entity under the revised financial reporting framework. The impacts of this are currently being considered by the Company, but are not expected to require changes to recognition or disclosure requirements.

2.4 Critical accounting judgements
In the application of the Group's accounting policies 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.

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.

Appendix 1.
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2.5 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 subsidiaries, associates and joint ventures. (refer to Note 20).
- Assessment of impairment of goodwill (refer Note 11).
- Assessment of impairment of intangible assets (refer Note 12).
- Capitalisation of intangible assets (refer Note 2.11).
- Estimation of fair value of share based payments (refer to Note 15).
- Assessment of recognition of deferred tax on temporary differences and tax losses (refer to Note 4).

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.

2.6 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 when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income 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.

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

2.7 Business combinations
Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

2.7 Business combinations cont.
When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with NZ IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

2.8 Investments in associates & joint ventures
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. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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.

The interest in a joint venture entity is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the Group's share of the results of the joint venture entity is recognised in the statement of comprehensive income, and the investment is presented as a non-current asset on the face of the statement of financial position.

2.9 Property, plant and equipment
All items of property, plant and equipment are stated at cost less accumulated depreciation, and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight line 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 estimated useful lives are used in the calculation of depreciation:

Plant and equipment
10-15 years

Furniture and fittings
5-10 years

Office and computer equipment
3-10 years

Lease improvements
6-10 years

Motor vehicles
4 years

Appendix 1.
FY14 Audited Accounts

2. Summary of significant accounting policies cont.

2.10 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.

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

2.11 Intangible assets
Intellectual Property
The cost of intellectual property including patents, trademarks and licenses are capitalised where there is sufficient evidence to support the probability of the expenditure generating sufficient future economic benefits for the company.

Patents are considered to have a finite life and amortisation is charged on a straight line basis over the lifetime of the patent. Software is amortised on a straight line basis over 3 years. All other intellectual property, where there is a probability of generating sufficient future economic benefits, is considered to have an infinite life. These assets are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

Project Development Costs
An intangible asset arising from project development expenditure on an internal project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the project 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 project 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.

2.12 Impairment of tangible and intangible assets including goodwill
At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives, goodwill 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

2. Summary of significant accounting policies cont.

2.12 Impairment of tangible and intangible assets including goodwill cont.
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. Impairment losses in relation to goodwill are not reversed in a subsequent period.

2.13 Share-based payment transactions
The Group has an ownership-based compensation scheme for executives and senior employees of the Group.

In accordance with the provisions of the scheme, executives and senior employees may be issued partly paid shares.

There was a plan in place to provide these benefits during the current reporting period:

- Partly Paid Share Plan (PPSP), which provides benefits to executives and senior employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes-Merton option pricing and Binomial option pricing model. Further details of which are given in Note 15.3.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of The a2 Milk Company Limited if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- The grant date fair value of the award;
- 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
- The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

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FY14 Audited Accounts

2. Summary of significant accounting policies cont.

2.13 Share-based payment transactions cont.
If the terms of an equity-settled transaction are modified, as a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled transaction is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

2.14 Revenue recognition
Revenue is recognised and measured at the fair value of the consideration received or receivable.

Sale of Goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods.

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. 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.

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.

Management Fees
Management fees are recognised on a 'cost-plus' basis and are due and payable when services are rendered.

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.

2.15 Operating segments
The Group has adopted NZ IFRS-8 Operating Segments with effect from 1 January 2009. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

Information regarding the Group's reportable segments is presented in Note 27.

2.16 Borrowing costs
All borrowing costs are recognised in the income statement in the period in which they are incurred, unless they are directly attributable to qualifying assets in which case they are capitalised.

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

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited in other comprehensive income, in which case the tax is also recognised in other comprehensive income, or where they arise from the initial

2. Summary of significant accounting policies cont.

2.17 Taxation cont.
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. The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax 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.

2.18 Goods & Services Tax (GST)
Revenue, expenses and assets are recognised net of the amount of Goods and Service Tax (GST) and other similar taxes such as Value Added Tax, except:

- 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
- 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.

2.19 Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is calculated using a standard weighted average method. Standard costs are regularly reviewed and, if necessary, revised to reflect actual costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.20 Financial assets
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.

Appendix 1.
FY14 Audited Accounts

2. Summary of significant accounting policies cont.

2.20 Financial assets cont.
The Group does not currently hold any financial assets that are classified as 'available-for-sale', held to maturity or FVTPL.

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.

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 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. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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.

2.21 Financial liabilities
Financial liabilities, including trade and other payables and borrowings, are initially measured at fair value, net of transaction costs.

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.

2.22 Employee benefits
Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

2. Summary of significant accounting policies cont.

2.23 Provisions
Provisions are recognised when the Group has a preset obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.24 Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

2.25 Foreign 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.

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.

Appendix 1.
FY14 Audited Accounts

2. Summary of significant accounting policies cont.

2.26 Statement of cash flows
For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

Operating activities -
are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities -
are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities -
are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

2.27 Trade & other payables
Trade and other payables are carried at amortised cost due to their short term nature and 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 48 days of recognition.

2.28 Earnings per share
Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), 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);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

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

2.29 Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdraft. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

Notes to the financial statements
For the year ended 30 June 2014

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
3. REVENUE & EXPENSES				
3.1 Other revenue				
Other income from operations consisted of the following items:				
Milk royalties	140	235	10	588
Licence fees	-	-	20,571	22,572
Foreign exchange gain	-	121	-	-
Other	84	10	17	166
Gain on disposal, plant & equipment	-	4	-	-
	$224	$370	$20,598	$23,326
3.2 Administrative expenses				
Board meeting costs	38	60	38	60
Employee equity compensation	1,190	279	1,190	279
Management fees	-	-	-	3,425
Salary and wage costs	7,564	6,504	2,000	2,459
Travel costs	1,592	765	623	537
Other administrative expenses	1,369	416	616	68
	$11,753	$8,024	$4,467	$6,828
3.3 Other expenses				
Audit fees	186	125	95	15
Bad and doubtful debts	12	14	-	-
Consultancy, accounting & secretarial fees	2,359	1,051	759	800
Directors' fees and expenses	352	243	352	243
Freight	7,942	7,492	-	-
Foreign exchange loss	597	-	2,548	165
Legal expenses	1,199	630	669	415
Patents, trademarks and international development	253	108	230	108
Strategic review costs	-	824	-	824
Other operating expenses	3,521	2,078	1,453	1,109
	$16,421	$12,565	$6,106	$3,679

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Notes to the financial statements

For the year ended 30 June 2014

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
4. INCOME TAXES				
4.1 Income tax recognised in profit or loss				
Current tax expense	1,522	1,826	1,110	1,085
Prior period adjustment to tax expense - current tax	(917)	(112)	114	717
Deferred tax expense/(income) relating to the origination and reversal of timing differences and tax losses	(810)	560	234	493
Prior period adjustment to tax expense - deferred tax timing differences	560	101	(103)	(17)
Tax losses utilised	(195)	(346)	-	(346)
Tax losses utilised in relation to previous periods	-	(626)	-	(626)
Effect on deferred tax balances due to the change in UK income tax rate from 23.75% to 20%	80	-	-	-
Unutilised foreign tax credits forfeited	40	499	40	499
Deferred tax asset not recognised / (recognised)	430	(858)	-	(818)
Total tax expense/(benefit)	$710	$1,044	$1,395	$987
The prima facie income tax on pre-tax accounting profit from operations reconciles to:				
Profit/(Loss) from operations	2,081	8,883	3,098	6,542
Income tax expense/(benefit) calculated at 28%	583	2,487	867	1,832
Difference in UK (23.75%) and Australian (30%) income tax rates	115	(73)	-	-
Non-deductible expenses/(non-taxable income)	14	(28)	477	(254)
Tax losses utilised	(195)	(346)	-	(346)
Tax losses utilised in relation to previous periods	-	(626)	-	(626)
Prior period adjustment to tax expense	(357)	(11)	11	700
Effect on deferred tax balances due to the change in UK income tax rate from 23.75% to 20%	80	-	-	-
Unutilised foreign tax credits forfeited	40	499	40	499
Deferred tax asset not recognised / (recognised)	430	(858)	-	(818)
Total tax expense/(benefit)	$710	$1,044	$1,395	$987

4.2 Income tax recognised in other comprehensive income

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

4.3 Tax losses

Company

The Company has estimated tax losses of $Nil not recognised at balance date (2013: $Nil).

Group

The Group has estimated tax losses of $12,388,000 not recognised at balance date (2013: $2,342,000) which comprises $9,378,000 relating to the United Kingdom (the UK business became a subsidiary from 1 January 2014), $1,211,000 (2013: $1,357,000) relating to the United States and $1,799,000 (2013: $2,342,000) relating to Australia. These are subject to confirmation by the HM Revenue & Customs, the Internal Revenue Service and the Australian Tax Office and subject to meeting the requirements of the income tax legislation in each jurisdiction.

Notes to the financial statements

For the year ended 30 June 2014

4.4 Deferred tax balances

Deferred tax assets are only recognised in the financial statements to the extent that it is probable that sufficient taxable profits will be available. The Group has a deferred tax asset of $1,562,000 (2013: $1,628,000).

The Company has a deferred tax asset of $557,000 (2013: $688,000) which has been recognised in the financial statements.

2014 Group	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
	$'000	$'000	$'000	$'000
Gross deferred tax assets				
Intellectual property	1,322	(853)	469	469
Provisions	594	(31)	563	563
Tax losses	-	1,008	1,008	1,008
	1,916	124	2,040	2,040
Gross deferred tax liabilities				
Property, plant and equipment	(288)	(190)	(478)	(478)
	(288)	(190)	(478)	(478)
Net Deferred Tax Balance			$1,562	$1,562

2014 Company	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
	$'000	$'000	$'000	$'000
Gross deferred tax assets				
Intellectual property	595	(167)	428	428
Provisions	93	36	129	129
	688	(131)	557	557
Net Deferred Tax Balance			$557	$557

2013 Group	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
	$'000	$'000	$'000	$'000
Gross deferred tax assets				
Intellectual property	1,936	(614)	1,322	1,322
Provisions	(32)	626	594	594
	1,904	12	1,916	1,916
Gross deferred tax liabilities				
Property, plant and equipment	-	(288)	(288)	(288)
	-	(288)	(288)	(288)
Net Deferred Tax Balance			$1,628	$1,628

Notes to the financial statements
For the year ended 30 June 2014

4.4 Deferred tax balances cont.

2013 Company	Opening Balance	Charged to income	Closing Balance	Recognised in the financial statements
	$'000	$'000	$'000	$'000
Gross deferred tax assets				
Intellectual property	750	(155)	595	595
Provisions	68	25	93	93
	818	(130)	688	688
Net Deferred Tax Balance			$688	$688

	Company	
	2014 $'000	2013 $'000
4.5 Imputation credit account balances		
Balance at beginning of the year	230	6
Resident withholding tax	-	74
Provisional tax paid/payable	84	150
Balance at end of the year	$314	$230
4.6 Franking credit account balances		
Balance at beginning of the year	860	143
Income tax paid/payable	1,175	717
Balance at end of the year	$2,035	$860

5. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Wages and salaries and other short-term employee benefits	3,419	4,184	2,709	2,082
Share-based payments	1,190	279	1,190	279
	$4,609	$4,463	$3,899	$2,361

6. CASH & CASH EQUIVALENTS

Cash & cash equivalents	$15,979	$20,187	$4,251	$13,943

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 10,939,000 (2013: AUD 4,242,000) GBP 20,000 (2013: GBP 242,000) USD 3,582,000 (2013: USD 958,000) and EUR 3,000 (2013: EUR nil). Short term deposits earn interest at 2.78% - 4.14% (2013: 0.08% - 3.10%).

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	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
7. TRADE & OTHER RECEIVABLES				
Trade receivables	24,811	22,405	-	-
Allowance for doubtful debts	(46)	(38)	-	-
Receivables from subsidiaries	-	-	-	161
Other receivables	2,593	2,008	153	207
	$27,358	$24,375	$153	$368

The average credit period on sales is 78 days (2013: 77 days). No interest is charged on trade receivables outstanding.

Included in the Group's accounts receivable balance are debtors with a carrying amount of $394,000 (2013: $151,000) which are past due at the reporting date but not considered doubtful. These relate to a number of accounts of which there is no recent history of default. 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 ageing of the debtors that are past due but not impaired are predominantly 30 days or more beyond the due date of commercial trading terms.

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
7.1 Movement in allowance for doubtful debts				
Balance at beginning of year	38	25	-	-
Amount charged to the statement of comprehensive income	12	14	-	-
Amounts written off during the year	-	(1)	-	-
Net foreign currency exchange differences	(4)	-	-	-
Balance at end of year	$46	$38	$-	$-

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. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for impairment losses.

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
8. INVENTORIES				
Raw materials	486	398	-	-
Finished goods	5,097	344	-	-
Total inventories at the lower of cost and net realisable value	$5,583	$742	$-	$-

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9. PROPERTY, PLANT & EQUIPMENT

Group	Office & Computer	Furniture & Fittings	Lease Improvements	Motor Vehicles	Plant & Equipment	Capital WIP	Total Property, Plant & Equipment
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost 1 July 2013	273	104	22	-	12,350	121	12,870
Acquisition through business combination	32	-	-	-	-	-	32
Additions	130	4	-	-	441	296	871
Disposals/Transfers	-	-	-	-	-	-	-
Net foreign currency exchange differences	(52)	(16)	(4)	-	(2,241)	(23)	(2,336)
Cost 30 June 2014	383	92	18	-	10,550	394	11,437
Accumulated depreciation & impairment charges 1 July 2013	151	21	10	-	1,279	-	1,461
Depreciation expense	69	9	3	-	983	-	1,064
Accumulated depreciation reversed on disposal/transfer	-	-	-	-	-	-	-
Net foreign currency exchange differences	(28)	(3)	(2)	-	(218)	-	(251)
Accumulated depreciation and impairment charges 30 June 2014	192	27	11	-	2,044	-	2,274
Book Value 30 June 2014	$191	$65	$7	$-	$8,506	$394	$9,163

Group	Office & Computer	Furniture & Fittings	Lease Improvements	Motor Vehicles	Plant & Equipment	Capital WIP	Total Property, Plant & Equipment
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost 1 July 2012	192	79	22	59	11,335	-	11,687
Additions	83	26	-	-	1,015	121	1,245
Disposals/Transfers	(2)	(1)	-	(59)	-	-	(62)
Cost 30 June 2013	273	104	22	-	12,350	121	12,870
Accumulated depreciation & impairment charges 1 July 2012	99	13	7	29	324	-	472
Depreciation expense	53	9	3	15	955	-	1,035
Accumulated depreciation reversed on disposal/transfer	(1)	(1)	-	(44)	-	-	(46)
Accumulated depreciation and impairment charges 30 June 2013	151	21	10	-	1,279	-	1,461
Net foreign currency exchange differences	(3)	(6)	(1)	-	(1,104)	(5)	(1,119)
Book Value 30 June 2013	$119	$77	$11	$-	$9,967	$116	$10,290

Notes to the financial statements
For the year ended 30 June 2014

9. PROPERTY, PLANT & EQUIPMENT CONT.

Company	Office & Computer	Furniture & Fittings	Total Property, Plant & Equipment
	$'000	$'000	$'000
Cost 1 July 2013	26	-	26
Additions	9	173	182
Disposals/Transfers	-	-	-
Net foreign currency exchange difference	-	(5)	(5)
Cost 30 June 2014	35	168	203
Accumulated depreciation & impairment charges 1 July 2013	14	-	14
Depreciation expense	9	14	23
Accumulated depreciation reversed on disposal/transfer	-	-	-
Net foreign currency exchange differences	-	(1)	(1)
Accumulated depreciation and impairment charges 30 June 2014	23	13	36
Book Value 30 June 2014	$12	$155	$167

Company	Office & Computer	Furniture & Fittings	Total Property, Plant & Equipment
	$'000	$'000	$'000
Cost 1 July 2012	16	-	16
Additions	10	-	10
Disposals/Transfers	-	-	-
Cost 30 June 2013	26	-	26
Accumulated depreciation & impairment charges 1 July 2012	6	-	6
Depreciation expense	8	-	8
Accumulated depreciation reversed on disposal/transfer	-	-	-
Accumulated depreciation and impairment charges 30 June 2013	14	-	14
Book Value 30 June 2013	$12	$-	$12

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For the year ended 30 June 2014

	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
10. ACCOUNTS PAYABLE				
10.1 Accounts payable - current				
Trade creditors	8,391	7,150	683	231
Accruals	7,160	2,859	617	248
Employee entitlements	1,167	1,227	537	647
Withholding tax payable	1,157	857	15	-
	$17,875	$12,093	$1,852	$1,126

The average credit period on purchases is 48 days (2013: 47 days). No interest was charged on trade creditors outstanding.

	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
10.2 Accounts payable - non current				
Employee entitlements	124	80	35	22
	$124	$80	$35	$22

	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
11.GOODWILL				
Cost				
Balance at beginning of the year	9,370	10,055	-	-
Acquisition of The a2 Milk Company Limited (UK)	2,061	-	-	-
Effects of foreign currency exchange differences	(844)	(685)	-	-
Balance at end of the year	10,587	9,370	-	-
Carrying amount				
At beginning of the year	9,370	10,055	-	-
At end of the year	$10,587	$9,370	$-	$-

Annual test for impairment

All Goodwill relates to the principal activity of the Company being the commercialisation of A2™ brand milk and related products.

Goodwill has been allocated for impairment testing purposes at the level of its respective cash generating unit which is also an operating segment (refer to Note 27) as follows: Australia $8.179m; UK $2.061m; and NZ/other $0.347m.

The recoverable amount of this goodwill has been determined based on a value in use basis using a discounted cash flow approach, and projections based on financial budgets and business plans approved by senior management covering a 5 year period.

Key assumptions:

Discount rate (pre-tax): 9.5% to 11%
Terminal growth rate range: 1% to 2.5%
Average range of annual market share growth: 0% to 1%

Sensitivity to changes in assumptions:

Management believe that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to exceed its recoverable amount. On the basis of this assessment no impairment write downs are considered necessary.

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12. OTHER INTANGIBLE ASSETS

	Group 2014 $'000 Patents	Trade marks	Soft ware	Project Develop-ment costs	Total	Company 2014 $'000 Patents	Trade marks	Soft ware	Project Develop-ment costs	Total
Cost										
Balance at the beginning of the year	296	379	176	2,316	3,167	296	379	-	370	1,045
Additions	50	147	533	1,312	2,042	50	147	372	1,189	1,758
Transfers	-	-	86	(86)	-	-	-	82	(82)	-
Net foreign currency exchange differences	-	-	(32)	(31)	(63)	-	-	(8)	(23)	(31)
Balance at the end of the year	346	526	763	3,511	5,146	346	526	446	1,454	2,772
Amortisation										
At beginning of year	(49)	-	(82)	-	(131)	(49)	-	-	-	(49)
Current year change	(31)	-	(95)	(710)	(836)	(31)	-	(26)	(205)	(262)
Net foreign currency exchange differences	-	-	13	2	15	-	-	1	-	1
At end of year	(80)	-	(164)	(708)	(952)	(80)	-	(25)	(205)	(310)
Carrying amount										
At beginning of year	247	379	94	2,316	3,036	247	379	-	370	996
At end of year	$266	$526	$599	$2,803	$4,194	$266	$526	$421	$1,249	$2,462

	Group 2013 $'000 Patents	Trade marks	Soft ware	Project Develop-ment costs	Total	Company 2013 $'000 Patents	Trade marks	Soft ware	Project Develop-ment costs	Total
Cost										
Balance at the beginning of the year	215	208	140	533	1,096	215	208	-	533	956
Additions	81	171	36	1,783	2,071	81	171	-	312	564
Transfers	-	-	-	-	-	-	-	-	(475)	(475)
Balance at the end of year	296	379	176	2,316	3,167	296	379	-	370	1,045
Amortisation										
At beginning of year	(21)	-	(38)	-	(59)	(21)	-	-	-	(21)
Current year change	(28)	-	(44)	-	(72)	(28)	-	-	-	(28)
At end of year	(49)	-	(82)	-	(131)	(49)	-	-	-	(49)
Carrying amount										
At beginning of year	194	208	102	533	1,037	194	208	-	533	935
At end of year	$247	$379	$94	$2,316	$3,036	$247	$379	$-	$370	$996

The Project Development Costs are amortised for a maximum of five years.

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	Company	
	2014 $'000	2013 $'000
13. SHARE CAPITAL		
a) Share capital		
Balance at beginning of the year	84,253	63,754
Ordinary shares: Partly paid shares fully paid	2,011	1,598
Ordinary shares: Pursuant to Placement Agreement issued 11 December 2012	-	20,000
	86,264	85,352
Less: Capital raising costs	-	(1,099)
Balance at end of the year	$86,264	$84,253

b) Number of ordinary shares on issue	2014	2013
i) Fully paid ordinary shares	No.	No.
Balance at beginning of the year	615,165,990	559,008,069
Shares issued	17,900,989	56,157,921
Balance at end of the year	633,066,979	615,165,990
ii) Partly paid ordinary shares		
Balance at beginning of the year	30,000,989	45,658,910
Shares fully paid	(17,500,989)	(15,657,921)
Shares issued	14,500,000	-
Balance at end of the year	27,000,000	30,000,989
Total ordinary shares on issue	660,066,979	645,166,979

In August 2013, the Company and Freedom Foods Group Limited (FFG) agreed to modify the anti-dilution protections arising from the Company's acquisition of the remaining 50% holding in The a2 Milk Company (Australia) Pty Limited (formerly A2 Dairy Products Australia Pty Limited) during 2010. As part of this modification, the Company issued 400,000 new fully paid ordinary voting shares to FFG at an issue price of $nil.

During the year ended 30 June 2014, 17,500,989 partly paid ordinary shares became fully paid (2013: 15,657,921).

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

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

In April 2014, the Company issued 5,000,000 partly paid ordinary shares to one senior employee at an issue price of $0.72 per share.

Partly paid ordinary shares carry the same rights and entitlements on a fractional basis, as fully paid ordinary shares, which such fractions being the equivalent to the proportion which the amount paid is of the total amount paid and amounts still payable on the shares.

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	2014 Cents per Share	2013 Cents per Share
14. EARNINGS PER SHARE		
14.1 Basic earnings per share		
From continuing operations	-	0.70
Total basic earnings per share	-	0.70

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

	2014 $'000	2013 $'000
Net surplus/(deficit): From continuing operations	10	4,120
	$10	$4,120
	No.	No.
Weighted average number of ordinary shares ('000) for the purpose of basic earnings per share	626,324	588,240

	2014 Cents per Share	2013 Cents per Share
14.2 Diluted earnings		
From continuing operation	-	0.66
Total diluted earnings per share	-	0.66

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

	2014 $'000	2013 $'000
Net surplus/(deficit): From continuing operations	10	4,120
	$10	$4,120
	No.	No.
Weighted average number of ordinary shares ('000) for the purpose of basic earnings per share	626,324	588,240
Effect of dilution due to partly paid ordinary shares ('000)	27,897	38,839
Weighted average number of ordinary shares ('000) for the purpose of diluted earnings per share	654,221	627,079

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15. EQUITY SETTLED SHARE-BASED PAYMENTS

Partly paid shares

The Group has ownership-based compensation schemes for executives and senior employees of the Group. This has been undertaken historically through the issue of partly paid shares.

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

The partly paid shares are issued on the following terms:

a) **Restrictions on transfer**

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

b) **Issue price**

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

- The closing price quoted on the New Zealand Exchange Limited's NZX Market for the Company's shares as at the date the parties enter into the share subscription agreement; and
- The average closing price on the New Zealand Exchange Limited's NZX Market for the Group's shares over the three months prior to the date the parties enter into the share subscription agreement;

provided that such price must not be lower than 10 cents per share for Tranches II - IV and 15 cents per share for Tranches V - VII.

Under the share subscription agreements the issue prices were calculated as 10 cents per share for Tranches II -IV, 15 cents per share for Tranches V – VII, 55 cents per share for Tranches VIII – IX, 64 cents per share for Tranche X and 72 cents per share for Tranche XI. These were issued as partly paid shares at 1% of the issue price.

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

c) **Rights**

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

15.1 Partly paid shares issued

During the year 14,500,000 partly paid shares were issued to key management personnel (the purchasers) under partly paid share plans (2013: Nil). These were issued in four tranches as partly paid shares comprising 4,500,000 partly paid to $0.0055 per share; 5,000,000 partly paid to $0.0064 per share and 5,000,000 partly paid to $0.0072 per share. As at 30 June 2014, purchasers had paid $115,448 for tranches IV to XI. This payment has been recognised as a financial liability until such time as vesting conditions are met.

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15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.2 Summary of share-based payments

The following share-based payment arrangements were in existence as at 30 June 2014:

Partly paid shares series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
(1) Partly paid shares - Tranche IV	6,000,000	25 Aug 2010	1 Sep 2011 – 1 Sep 2015	25 Aug 2015	$0.10	$233,542
(2) Partly paid shares - Tranche VI	3,000,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	$0.15	$151,358
(3) Partly paid shares - Tranche VII	3,500,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	$0.15	$176,584
(4) Partly paid shares – Tranche VIII	2,500,000	9 Jul 2013	9 Jul 2018	9 Jul 2018	$0.55	$610,250
(5) Partly paid shares – Tranche IX	2,000,000	15 Jul 2013	15 Jul 2018	15 Jul 2018	$0.55	$565,600
(6) Partly paid shares – Tranche X	5,000,000	29 Oct 2013	29 Oct 2018	1 Dec 2050	$0.64	$1,281,500
(7) Partly paid shares – Tranche XI	5,000,000	9 Apr 2014	9 Apr 2019	9 Apr 2019	$0.72	$1,355,000

Partly paid shares exercised/forfeited during period

During the year 11,500,000 partly paid shares were exercised and fully paid to the issue price (2013: 15,500,000). 9,000,000 were fully paid to $0.10 per share and 2,500,000 were fully paid to $0.15 per share (2013: 15,000,000 were fully paid to $0.10 and 500,000 were fully paid to $0.15).

No partly paid shares lapsed during the year ended 30 June 2014 (2013: Nil).

Partly paid shares expired during period

No partly paid shares expired during the year ended 30 June 2014 (2013: Nil).

Weighted average remaining contractual life

The weighted average remaining contractual life of the partly paid shares at 30 June 2014 is 8.98 years (2013: 2.63 years).

Weighted average exercise price

The weighted average exercise price of the partly paid shares outstanding as at 30 June 2014 is $0.402 (2013: $0.122).

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15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.3 Estimation of fair value of partly paid shares at measurement date

Valuation methodology

The partly paid shares are valued using a Binomial Option pricing model. Employees holding these tranches can purchase the remaining balance of the shares at any point up until the expiry date and this is consistent with 'American' Options. The Binomial Option pricing model allows for this.

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) Partly paid shares - Tranche IV	25 Aug 10	$0.087	$0.10	50%	4.00	0%	4.37%
(2) Partly paid shares - Tranche VI	28 Mar 11	$0.11	$0.15	50%	4.00	0%	4.28%
(3) Partly paid shares - Tranche VII	28 Mar 11	$0.11	$0.15	50%	4.00	0%	4.28%
(4) Partly paid shares – Tranche VIII	9 Jul 13	$0.63	$0.55	30%	5.00	0%	3.56%
(5) Partly paid shares – Tranche IX	15 Jul 13	$0.68	$0.55	30%	5.00	0%	3.48%
(6) Partly paid shares – Tranche X	29 Oct 13	$0.69	$0.64	30%	37.11	0%	4.04%
(7) Partly paid shares – Tranche XI	17 Dec 13	$0.75	$0.72	30%	5.00	0%	4.30%

Early exercise

For Tranche X, an early exercise has been assumed after five years. The timing of early exercise has been estimated after taking into consideration factors including: the employee's age and employment contract term; and that the partly paid shares must be exercised within 12 months of the employee leaving the Company.

No allowance has been made for the possibility of early exercise for other Tranches. For these Tranches the partly paid shares are held by a small number of executives and the Company has no reason to believe that the partly paid shares will be exercised early.

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.3 Estimation of fair value of partly paid shares at measurement date cont.

Volatility

Volatility has been assessed by considering the historical volatility of comparable companies, as well as other factors that influence expected future volatility. Prior to the Company moving to the NZX Main Board in December 2012, the Company's historical share price movements were 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 of underlying value. The Company's historical volatility is therefore considered to be too high to be predictive of future volatility. For partly paid shares granted prior to December 2012 a volatility of 50% has been adopted for each of the Company's partly paid share valuations.

For partly paid shares granted after December 2012 a volatility of 30% has been adopted for each of the Company's partly paid share valuations.

Other factors

No other factors have been incorporated into the partly paid share 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 2014		30 June 2013	
	Amount recognised as employee expense in profit or loss $'000	Amount recognised in other comprehensive income $'000	Amount recognised as employee expense in profit or loss $'000	Amount recognised in other comprehensive income $'000
(1) Partly paid shares - Tranche II	-	-	8	8
(2) Partly paid shares - Tranche III	-	-	15	15
(3) Partly paid shares - Tranche IV	114	114	77	77
(4) Partly paid shares - Tranche V	-	-	114	114
(5) Partly paid shares - Tranche VI	30	30	30	30
(6) Partly paid shares - Tranche VII	35	35	35	35
(7) Partly paid shares - Tranche VIII	610	610	-	-
(8) Partly paid shares - Tranche IX	109	109	-	-
(9) Partly paid shares - Tranche X	155	155	-	-
(10) Partly paid shares - Tranche XI	137	137	-	-
Total	$1,190	$1,190	$279	$279

Tranche VIII are partly paid shares held by a former employee. An acceleration of vesting was recognised in the 2014 year for Tranche VIII when the employee left the company.

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	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
16. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE				
Balance at beginning of the year	1,829	1,550	1,829	1,550
Movements during the period	1,190	279	1,190	279
Balance at end of the year	$3,019	$1,829	$3,019	$1,829

The employee equity settled payments reserve is used to record the value of share based payments provided to employees, including key management personnel.

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
17. RETAINED EARNINGS (DEFICIT)				
Balance at beginning of the year	(23,984)	(28,104)	(26,888)	(32,443)
Net surplus/(deficit) for the period excluding Associate/joint venture net profits/(losses)	1,371	7,839	1,703	5,555
Share of net profits/(loss) of associates and joint ventures accounted for using the equity method	(1,361)	(3,719)	-	-
	10	4,120	1,703	5,555
Balance at end of year	$(23,974)	$(23,984)	$(25,185)	$(26,888)

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
18. FOREIGN CURRENCY TRANSLATION RESERVE				
Balance at beginning of the year	(2,168)	148	-	-
Arising on translation of foreign operations	(4,497)	(2,316)	631	-
Balance at end of year	$(6,665)	$(2,168)	$631	-

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

19. OPERATING & FINANCE LEASE COMMITMENTS

Operating leases relate to The a2 Milk Company Limited and The a2 Milk Company (Australia) Pty Limited. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company has an option to purchase some leased assets at the expiry of the relevant lease period.

19.1 Non-cancellable operating lease payments

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Not longer than 1 year	855	922	216	228
Longer than 1 year and not longer than 5 years	2,392	2,816	338	531
Longer than 5 years	1,369	2,066	-	-
	$4,616	$5,804	$554	$759

19.2 Finance lease commitments

There are no finance lease commitments for the Group or Company.

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20. INVESTMENT IN SUBSIDIARIES

20.1 Subsidiaries owned

Details of the Company's subsidiaries at 30 June 2014 are as follows:

Name of subsidiary	Place of ownership & operation	Proportion of ownership interest 2014	Proportion of ownership interest 2013	Principal activity
A2 Exports Limited	New Zealand	100%	100%	Non active
A2 Holdings UK Limited	New Zealand	100%	100%	Investment in The a2 Milk Company Limited (UK)
A2 Infant Nutrition Limited	New Zealand	100%	100%	Distribution and marketing of a2™ brand infant nutrition in New Zealand and China
A2 Australian Investments Pty Limited	Australia	100%	100%	Investment in other Australian subsidiaries
A2 Botany Pty Limited	Australia	100%	100%	Collecting interest from related companies
The a2 Milk Company (Australia) Pty Limited (formerly A2 Dairy Products Australia Pty Limited)	Australia	100%	100%	Distribution and marketing of a2™ brand milk and cream in Australia
A2 Exports Australia Pty Limited	Australia	100%	100%	Export of a2™ brand milk to China and marketing in China
A2 Infant Nutrition Australia Pty Limited	Australia	100%	100%	Distribution and marketing of a2™ brand infant formula in Australia
The a2 Milk Company Limited (UK) (formerly A2 Milk (UK) Limited)	UK	100%	50%	Distribution and marketing of a2™ brand milk in the UK
The a2 Milk Company LLC (formerly A2 Milk Company LLC)	USA	100%	100%	Non active
The a2 Milk Company (New Zealand) Limited (formerly A2 Dairy Products New Zealand Limited)	New Zealand	100%	100%	Non active
The a2 Milk Company Limited (Canada)	Canada	100%	0%	Non active

All subsidiaries have a balance date of 30 June except for The a2 Milk Company LLC which has a balance date of 31 December.

The a2 Milk Company Limited (Canada) was incorporated on 8th April 2014. The a2 Milk Company Limited (formerly A2 Corporation Limited) is incorporated in New Zealand and is the parent entity of the Group.

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20. INVESTMENT IN SUBSIDIARIES CONT.

20.2 Shares held in subsidiaries

Investments in subsidiaries

	Company 2014 $'000	Company 2013 $'000
Balance at begining of period		
A2 Australian Investments Pty Limited	15,492	-
A2 Botany Pty Limited	2,983	2,983
The a2 Milk Company LLC	351	351
A2 Infant Nutrition Limited (NZ)	1	1
Additions during the period		
A2 Australian Investments Pty Limited	-	15,492
Balance at end of period	$18,827	$18,827

The Directors are satisfied that no impairment write down is required to the carrying values of A2 Australian Investments Pty Limited, A2 Botany Pty Limited, The a2 Milk Company LLC and A2 Infant Nutrition Limited (NZ) at 30 June 2014.

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20. INVESTMENT IN SUBSIDIARIES CONT.

20.3 Loans to subsidiaries

At balance date, The a2 Milk Company Limited had loans to subsidiaries as follows:

	Company	
	2014 $'000	2013 $'000
Non-current assets		
A2 Australian Investments Pty Limited	7,430	7,573
The a2 Milk Company (Australia) Pty Limited	12,374	11,708
A2 Holdings UK Limited	9,823	4,948
A2 Infant Nutrition Limited (NZ)	12,291	5,569
A2 Botany Pty Limited	297	-
Total Non-Current Assets	42,215	29,798
Current liabilities		
A2 Infant Nutrition Australia Pty Limited	1,728	-
A2 Exports Australia Pty Limited	2	-
The a2 Milk Company (Australia) Pty Limited	-	3,259
A2 Exports Limited (NZ)	1,124	1,127
Total Current Liabilities	2,854	4,386

A loan for AUD 8,721,000 was advanced to A2 Australian Investments Pty Limited in the 2011 year to fund the purchase of the shares in The a2 Milk Company (Australia) Pty Limited. The loan is for a period of 10 years with interest charged at the bank bill rate plus a margin of 2.00% p.a. Repayments occur from time to time as agreed between the parties. The current balance of the loan is AUD 6,418,458.

An initial loan for NZD 3,400,000 was advanced to The a2 Milk Company (Australia) Pty Limited during the 2011 year. The loan is for a period of 10 years with interest charged at 7.5% p.a. The accrued interest is capitalised to the principal outstanding.

The above balances include interest accrued on the principal amounts outstanding. As at balance date, the accrued interest has been capitalised to the principal outstanding.

The loan to A2 Holdings UK Limited is to fund the investment in The a2 Milk Company Limited (UK). The loan commenced on 15 November, 2011 and is interest free and repayable on demand.

21. ACQUISITION OF SUBSIDIARIES

21.1 Subsidiary acquired

During 2012 The a2 Milk Company Limited (UK) ("A2M UK") was formed as a joint venture between A2 Holdings UK Limited ("A2H"), a subsidiary of the Group, and Muller Wiseman Dairies (MWD), formerly Robert Wiseman & Sons Limited, each holding a 50% interest.

On 1 January 2014 MWD sold their 50% interest to A2H in the form of 2,000,000 ordinary shares in A2M UK for consideration of £1. This resulted in A2H owning a 100% interest in A2M UK.

The acquisition of A2M UK was made to provide for an expected increase in market activity, with the marketing and sales of a2™ fresh milk products being assumed by the Group and MWD to continue to procure, process and distribute a2™ milk.

21.2 Assets acquired and liabilities assumed at the date of acquisition

Financial information in respect of the fair value of net assets acquired on acquisition of 50% of A2M UK is as follows:

	(50% interest) $'000
Cash and cash equivalents	719
Trade and other receivables	895
Other financial assets	210
Inventories	2
Property, plant and equipment	16
Trade and other payables	(1,371)
Loan from A2H	(2,532)
Total identifiable net assets /(liabilities)	$(2,061)

At the acquisition date no intangible asset qualified for separate recognition. There were no contingent liabilities identified.

The fair value of the financial assets acquired includes trade and other receivables with a fair value of $0.895 million. At the acquisition date all these receivables were expected to be collectible.

Goodwill of $2.061 million arose in the business combination because the amount paid for the remaining 50% shareholding exceeded the remaining 50% share of the net asset book value of A2M UK. This reflects the expected synergies and economies of scale expected from combining the operations of the Group and A2M UK and is a portion of the costs incurred to establish the business in the United Kingdom. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the Group's equity interest in A2M UK held before the business combination was nil.

The revenue included in the consolidated statement of comprehensive income since 1 January 2014, contributed by A2M UK was $1.108 million. A2M UK also contributed a loss of $2.178 million over the same period. Had A2M UK been consolidated from 1 July 2013, the consolidated statement of comprehensive income would have included revenue of $2.157 million and a loss of $4.9 million.

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22. INVESTMENT IN ASSOCIATES/JOINT VENTURES

22.1 Interest in associates/joint ventures

During the year the Group purchased the remaining 50% interest in the joint venture, A2M UK. The entity is now a 100% owned subsidiary.

22.2 Movements in the amount of the groups investment in associates/joint ventures

	Group	
	2014 $'000	2013 $'000
Carrying value at beginning of year	377	1,582
Funds advanced/(repaid)	4,574	2,514
Share of net surplus/(deficit)	(1,361)	(3,719)
	3,590	377
Carrying value derecognised when Associates/Joint ventures became a Subsidiary	(3,590)	-
Carrying value at end of year	$-	$377
Represented by:		
Investment in Associates/Joint Ventures	-	-
Non-current receivables in Associates/Joint Ventures	-	377
	$-	$377

22.3 Summarised financial information

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

	2014 $'000	2013 $'000
Extract from the associate/joint venture's balance sheets:		
Total assets	-	3,578
Current liabilities	-	(4,906)
Net assets/(liabilities)	-	(1,328)
Share of associate/joint venture's net assets/(liabilities)	$-	$(664)

	2014 $'000	2013 $'000
Extract from the associates/joint venture's income statements:		
The 2014 figures are to the date the joint venture became a subsidiary.		
Revenue	1,049	979
Net surplus/(deficit)	(2,722)	(7,438)
Share of associates/joint ventures surplus/(deficit)	(1,361)	(3,719)

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23. RELATED PARTY TRANSACTIONS

23.1 Ultimate parent

The a2 Milk Company Limited is the parent of the Group. The Group consists of The a2 Milk Company Limited and its subsidiaries.

23.2 Key management personnel

Details relating to key management personnel, including wages, salaries and other short term benefits are included in Note 5.

23.3 Transactions with related parties

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given and no expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

The following table provides details of transactions that were entered into with related parties for the relevant financial year.

Related party	Sales to related parties		Other transactions with related parties		Outstanding transactions with related parties	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Subsidiaries						
The a2 Milk Company (Australia) Pty Limited – intercompany interest received by The a2 Milk Company Limited	-	-	1,421	802	-	-
The a2 Milk Company (Australia) Pty Limited – intercompany interest paid by The a2 Milk Company Limited	-	-	579	-	-	-
A2 Australian Investments Pty Limited – intercompany interest received by The a2 Milk Company Limited	-	-	758	825	-	-
A2 Infant Nutrition Limited – intercompany interest received by The a2 Milk Company Limited	-	-	588	-	-	-
The a2 Milk Company (Australia) Pty Limited – license fees received by The a2 Milk Company Limited	20,504	22,572	-	-	-	-
A2 Infant Nutrition Australia Pty Limited – license fees received by The a2 Milk Company Limited	67	-	-	-	-	-
The a2 Milk Company (Australia) Pty Limited – royalties received by The a2 Milk Company Limited	-	571	-	-	-	-
Associate/Joint Venture:						
The a2 Milk Company Limited (UK) – expenses recharged for overseas travel and accommodation incurred by The a2 Milk Company Limited in relation to the business activities of The a2 Milk Company Limited (UK)	-	-	125	116	-	82
The a2 Milk Company Limited (UK) – interest received by A2 Holdings UK Limited	-	-	52	-	-	-

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23. RELATED PARTY TRANSACTIONS CONT.

Related party	Sales to related parties		Other transactions with related parties		Outstanding transactions with related parties	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Other:						
A2 Holdings (UK) Limited – consultancy fees paid to M Miles, a Director of the Company. The fees were charged at commercial rates	-	-	7	15	-	-
The a2 Milk Company Limited (UK) – consultancy fees paid to Lovat Partners Limited, an entity controlled by D Hearn, a Director of the Company. The fees were charged at commercial rates	-	-	41	-	41	-
The a2 Milk Company Limited (Australia) Pty Limited– purchase of packaged UHT milk from Pactum Australia Pty Limited, a wholly owned subsidiary of Freedom Foods Group Limited. The amounts were charged at commercial rates	-	-	1,574	469	-	37

24. COMMITMENTS FOR EXPENDITURE

24.1 Capital expenditure commitments

As at 30 June 2014, there were no capital expenditure commitments (2013: $Nil).

25. CONTINGENT LIABILITY

As at 30 June 2014, there were no material contingent liabilities (2013: $Nil).

26. SUBSEQUENT EVENTS

There has been no subsequent events requiring disclosure.

27. OPERATING SEGMENT INFORMATION

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

- The New Zealand segment receives income from milk and infant formula sales, and royalty, licence fee and management fee income.
- The Australian segment receives income from milk, cream and infant formula sales.
- From 1 January 2014 the United Kingdom segment receives income from milk sales. Prior to 1 January 2014 the United Kingdom segment received a share of joint venture profits and losses.
- The China segment receives income from milk and infant formula sales.

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

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

27. OPERATING SEGMENT INFORMATION CONT.

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

	Segment Revenue		Segment Profit	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Continuing operations				
Australia	106,866	92,450	4,517	3,627
China	2,745	1,977	(1,777)	(131)
New Zealand	126	247	3,004	6,756
United Kingdom	1,108	-	(2,178)	(207)
Adjustments and eliminations	-	-	-	(229)
	$110,845	$94,674	$3,566	$9,816
Interest income			455	288
Interest expense			(40)	(114)
Share of losses from associates/joint ventures			(1,361)	(3,719)
Depreciation and amortisation			(1,900)	(1,107)
Income tax income/(expense)			(710)	(1,044)
Consolidated segment profit/(loss)			$10	$4,120

Over 86% of milk and infant formula sales come from three customers. (2013: over 90% from three customers)

	Depreciation & Amortisation		Additions to Non-Current Assets	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Australia	1,234	1,070	1,057	1,232
China	-	-	-	-
New Zealand	658	37	1,856	13
United Kingdom	8	-	-	-
	$1,900	$1,107	$2,913	$1,245

	Assets		Liabilities	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Australia	63,455	72,134	36,979	43,940
China	4,854	5,274	997	1,148
New Zealand	75,852	58,845	16,612	2,440
United Kingdom	3,305	499	9,416	5,090
Adjustments and eliminations	(70,823)	(64,348)	(46,005)	(40,144)
	$76,643	$72,404	$17,999	$12,474

Appendix 1.
FY14 Audited Accounts

Notes to the financial statements
For the year ended 30 June 2014

28. NOTES TO THE CASH FLOW STATEMENT

28.1 Reconciliation of net surplus/ (deficit) after taxation with net cash flows from operating activities

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Net surplus /(deficit) for the year	10	4,120	1,703	5,555
Adjustments for non-cash items:				
Depreciation & amortisation expense	1,900	1,107	285	36
Expense recognised in profit & loss in respect of equity-settled share-based payments	1,190	279	1,190	279
Net foreign exchange (gain)/loss	(1,448)	(545)	635	1,407
Share of (profit)/loss of associates/joint ventures and other obligations	1,361	3,719	-	-
Deferred tax	66	(542)	131	(688)
Income & expenses credited to inter-company loan	-	-	-	(7,609)
	3,079	8,138	3,944	(1,020)
Movements in working capital				
(Increase)/decrease in trade and other receivables	(1,193)	(7,186)	54	(184)
(Increase)/decrease in prepayments	827	(1,918)	(109)	(115)
(Increase)/decrease in inventories	(4,838)	(65)	-	-
Increase/(decrease) in accounts payable	2,742	4,948	708	712
Increase/(decrease) in current tax liabilities	(226)	(337)	(618)	(155)
	391	3,580	3,979	(762)
Plus/(Less) items classified as investing and financing activities:				
Reclassification of lease liability to financing activities	-	47	-	-
Amounts in receivables relating to investing activities	-	20	-	-
Movement in non-current accounts payable	44	-	13	-
Net cash inflow (outflow) from operating activities	$435	$3,647	$3,992	$(762)

Notes to the financial statements
For the year ended 30 June 2014

29. FINANCIAL INSTRUMENTS

29.1 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.

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.

29.2 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 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 6, 13, 16, 17 and 18 respectively.

The Group is not subject to externally imposed capital requirements and 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.

29.3 Categories of financial instruments

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Financial assets				
Trade and other receivables	27,358	24,375	153	368
Loans to subsidiaries	-	-	42,215	29,798
Cash and Short Term Deposits	15,979	20,187	4,251	13,943
Financial liabilities at amortised cost				
Trade creditors	8,391	7,150	683	231
Loans from subsidiaries	-	-	2,854	4,386

Appendix 1.
FY14 Audited Accounts

Notes to the financial statements
For the year ended 30 June 2014

29. FINANCIAL INSTRUMENTS CONT.

29.4 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 29.6, 29.7, 29.8 and 29.9 below).

Market risk exposures continue to be monitored by management on an ongoing basis and 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.

29.5 Foreign currency risk management

In the course of normal trading activities, the Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Company does not hedge this risk.

The carrying amount of the Company's foreign currency denominated financial instruments at the balance date are as follows:

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
US dollars				
Assets				
Cash and short term deposits	4,092	4	824	4
Accounts receivable	811	2,149	13	-
	$4,903	$2,153	$837	$4
Liabilities				
Trade creditors	1,794	-	45	-
	$1,794	$-	$45	$-
AUS dollars				
Assets				
Cash and short term deposits	11,772	5,037	3,356	28
Accounts receivable	25,287	21,912	65	161
Loans to subsidiaries	-	-	20,102	7,573
	$37,059	$26,949	$23,523	$7,762
Liabilities				
Trade creditors	8,348	6,945	761	-
Loans from subsidiaries	-	-	1,730	-
	$8,348	$6,945	$2,491	$-

Notes to the financial statements
For the year ended 30 June 2014

29. FINANCIAL INSTRUMENTS CONT.

29.5 Foreign currency risk management cont.

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
GB pounds				
Assets				
Cash and short term deposits	38	476	9	476
Accounts receivable	380	-	6	-
Loans to subsidiaries	-	-	9,823	4,948
	$418	$476	$9,838	$5,424
Liabilities				
Trade creditors	1,677	-	4	-
	$1,677	$-	$4	$-
Euro				
Assets				
Cash and short term deposits	4	2	4	2
	$4	$2	$4	$2

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2014 and 30 June 2013.

Appendix 1.
FY14 Audited Accounts

29. FINANCIAL INSTRUMENTS CONT.

29.6 Foreign currency sensitivity analysis

The Group is exposed to foreign currency risk arising from revenues and costs 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), the currency of the United Kingdom (GBP) and the currency of the United States of America (USD).

The following table details the Group's sensitivity to a 10% increase and decrease in the New Zealand dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external bank accounts and external receivables 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 and vice versa for a weakening of the New Zealand dollar.

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Currency impact on profit or Loss				
Strengthening in NZD/AUD	4	245	4	706
Weakening in NZD/AUD	(4)	110	(4)	(863)
Strengthening in NZD/GBP	1	256	1	493
Weakening in NZD/GBP	(1)	(619)	(1)	(603)
Strengthening in NZD/USD	311	265	79	-
Weakening in NZD/USD	(311)	(324)	(79)	-
Currency impact on equity				
Strengthening in NZD/AUD	4,948	2,580	19	706
Weakening in NZD/AUD	(4,948)	(3,153)	(19)	(863)
Strengthening in NZD/USD	311	265	79	-
Weakening in NZD/USD	(311)	(324)	(79)	-
Strengthening in NZD/GBP	(85)	256	1	493
Weakening in NZD/GBP	85	(619)	(1)	(603)

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

29.7 Interest rate risk

The Group has been exposed to interest rate risk during the period as it invests cash on call at floating interest rates and cash in short term deposits at fixed interest rates.

The Directors consider that the Group's sensitivity to a reasonably possible change in interest rates would not have a material impact on profit or equity.

29. FINANCIAL INSTRUMENTS CONT.

29.8 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.

29.9 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 has credit risk exposure as the majority of sales are to three customers. However this risk is mitigated as these customers are all creditworthy, have sufficient collateral and are not related entities.

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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
The maximum exposures to credit risk at balance date are:				
Cash, short term deposits and short term borrowings	15,979	20,187	4,251	12,816
Trade and other receivables	27,358	24,358	153	351
Prepayments	1,992	2,399	227	118
Loans to subsidiaries	-	-	42,215	26,539
	$45,329	$46,944	$46,846	$39,824

At balance date, the Group's bank accounts were held with National Australia Bank Limited, Bank of New Zealand Limited and Clydesdale Bank. The Group does not have any other concentrations of credit risk. The Group does not require any collateral or security to support financial instruments.

29.10 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 Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities.

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

Appendix 1.
FY14 Audited Accounts

Notes to the financial statements

For the year ended 30 June 2014

29. FINANCIAL INSTRUMENTS CONT.

29.11 Liquidity & interest risk tables

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

Group	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
2014	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities:							
Trade creditors		8,391	-	-	-	-	8,391
		$8,391	$-	$-	$-	$-	$8,391

	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
2013	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities:							
Trade creditors		7,150	-	-	-	-	7,150
		$7,150	$-	$-	$-	$-	$7,150

Company	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
2014	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities:							
Trade creditors		683	-	-	-	-	683
		$683	$-	$-	$-	$-	$683

	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
2013	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities:							
Trade creditors		231	-	-	-	-	231
		$231	$-	$-	$-	$-	$231

Appendix 2.
FY15 First Half Results

Extracted from Half Yearly Report for the Six Months Ended 31 December 2014

Directors' Declaration

For the six months ended 31 December 2014

The Directors of The a2 Milk Company Limited are pleased to present the Interim Financial Statements for the half-year ended 31 December 2014.

The Statements presented are signed for and on behalf of the Board and were authorised for issue on 24 February 2015.

The Interim Statements are unaudited.

CJ Cook
Chairman
24 February 2015

GH Babidge
Managing Director

Appendix 2.
FY15 First Half Results

Auditor's Review Report

For the six months ended 31 December 2014

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Building a better working world

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Review Report to the Shareholders of The a2 Milk Company Limited ("the company") and its subsidiaries (together "the group")

We have reviewed the interim financial statements on pages 10 to 19, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information

This report is made solely to the company's shareholders, as a body, in accordance with section 205 (1) of the Companies Act 1993. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review 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 review work, for this report, or for our findings.

Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with generally accepted accounting practice in New Zealand and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Reviewer's Responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with ISRE (NZ) 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. ISRE (NZ) 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with the applicable financial reporting framework. As the auditor of The a2 Milk Company Limited, ISRE (NZ) 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

A review of interim financial statements in accordance with ISRE (NZ) 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 10 to 19, do not present fairly, in all material respects, the financial position of the company as at 31 December 2014 and its financial performance and cash flows for the six month period ended on that date in accordance with generally accepted accounting practice in New Zealand as it relates to interim financial statements.

Our review was completed on 24 February 2015 and our findings are expressed as at that date.

Ernst & Young
Sydney

Condensed consolidated statement of comprehensive income

For the six months ended 31 December 2014

	Notes	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000
Continuing operations			
Sales		74,659	54,008
Cost of sales		(48,543)	(34,078)
Gross margin		26,116	19,930
Interest income		88	240
Other revenue		126	147
Administrative expenses	3	(6,770)	(4,746)
Finance costs		(41)	(18)
Marketing expenses	4	(6,886)	(5,395)
Occupancy expenses		(263)	(226)
Other expenses	5	(10,690)	(7,965)
Profit before tax and share of associate/joint venture loss		1,680	1,967
Share of associate/joint venture loss		–	(1,361)
Profit before tax		1,680	606
Income tax (expense)/benefit		(1,555)	37
PROFIT AFTER TAX FOR THE PERIOD		125	643
Items of other comprehensive income that may be reclassified to profit or loss:			
Foreign currency translation loss	6	(1,545)	(3,179)
TOTAL COMPREHENSIVE LOSS		(1,420)	(2,536)
Earnings per share			
Basic (cents per share)		0.02	0.11
Diluted (cents per share)		0.02	0.11

The accompanying notes form part of these financial statements.

Appendix 2.
FY15 First Half Results

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Condensed consolidated statement of changes in equity

For the six months ended 31 December 2014

	Notes	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000
Equity at the beginning of period		58,644	59,930
Total comprehensive loss for the period		(1,420)	(2,536)
		57,224	57,394
TRANSACTIONS WITH OWNERS			
Employee equity settled payments reserve		419	240
Issue of ordinary shares		–	1,323
EQUITY AT END OF THE PERIOD		57,643	58,957
EQUITY COMPRISES:			
Share capital			
Balance at beginning of period		86,264	84,253
Issue of ordinary shares		–	1,323
Balance at end of period		86,264	85,576
Retained earnings/(deficit)			
Balance at beginning of period		(23,974)	(23,984)
Net surplus for the period including associate /joint venture losses		125	643
Balance at end of period		(23,849)	(23,341)
Foreign currency translation reserve			
Balance at beginning of period		(6,665)	(2,168)
Movements during the period		(1,545)	(3,179)
Balance at end of period		(8,210)	(5,347)
Employee equity settled payments reserve			
Balance at beginning of period		3,019	1,829
Movements during the period		419	240
Balance at end of period		3,438	2,069
EQUITY AT END OF THE PERIOD		57,643	58,957

The accompanying notes form part of these financial statements.

2015

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Condensed consolidated statement of financial position

As at 31 December 2014

	Notes	As at 31 Dec 14 (Unaudited) $'000	As at 30 Jun 14 (Audited) $'000
ASSETS			
Current assets			
Cash & short term deposits		9,863	15,979
Trade and other receivables		30,680	27,358
Prepayments		4,257	1,992
Inventories		8,126	5,583
Current tax asset		210	225
Total current assets		53,136	51,137
Non-current assets			
Property, plant & equipment		8,534	9,163
Goodwill		10,360	10,587
Other intangible assets		5,763	4,194
Deferred tax asset		1,876	1,562
Total non-current assets		26,533	25,506
TOTAL ASSETS		79,669	76,643
LIABILITIES			
Current liabilities			
Accounts payable		21,607	17,875
Total current liabilities		21,607	17,875
Non-current liabilities			
Accounts payable		138	124
Deferred tax liability		281	–
Total non-current liabilities		419	124
TOTAL LIABILITIES		22,026	17,999
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	7	86,264	86,264
Retained earnings/(deficit)		(23,849)	(23,974)
Foreign currency translation reserve		(8,210)	(6,665)
Employee equity settled payments reserve		3,438	3,019
TOTAL EQUITY		57,643	58,644
TOTAL LIABILITIES & EQUITY		79,669	76,643

The accompanying notes form part of these financial statements.

2015

Appendix 2.
FY15 First Half Results

Condensed consolidated statement of cash flows

For the six months ended 31 December 2014

	Notes	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to):			
Receipts from customers		71,413	50,933
Interest received		88	240
Other income		126	13
Payments to suppliers & employees		(71,967)	(52,814)
Taxes paid		(3,767)	(629)
Net cash inflow (outflow) from operating activities	11	(4,107)	(2,257)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from (applied to):			
Payment for property, plant & equipment		(266)	(685)
Investment in other intangible assets		(1,895)	(369)
Investment in The a2 Milk Company Limited (UK)		–	(4,574)
Net cash outflow from investing activities		(2,161)	(5,628)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from (applied to):			
Proceeds from issue of equity shares		–	1,323
Net cash inflow from financing activities		–	1,323
Net decrease in cash & short term deposits		(6,268)	(6,562)
Cash & short term deposits at the beginning of the period		15,979	20,187
Effect of exchange rate changes on cash		152	(469)
Cash and short term deposits at the end of the period		9,863	13,156
COMPRISED OF:			
Cash & short term deposits		9,863	13,156

The accompanying notes form part of these financial statements.

Notes to the condensed consolidated financial statements

For the six months ended 31 December 2014

1. STATEMENT OF COMPLIANCE

The a2 Milk Company Limited ("Company") and its subsidiaries (together the "Group") is a profit-oriented entity incorporated and domiciled in New Zealand.

The principal activity of the Group is the commercialisation of a2MC branded milk and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of a2MC branded milk. The Group sources and supplies a2MC branded milk in Australia through its 100% owned subsidiary The a2 Milk Company (Australia) Pty Limited and in the UK through its subsidiary The a2 Milk Company Limited (UK). The Group supplies a2MC branded infant nutrition through its 100% owned subsidiaries A2 Infant Nutrition Limited and A2 Infant Nutrition Australia Pty Limited.

The a2 Milk Company Limited is registered in New Zealand under the Companies Act 1993. The Group is a Financial Markets Conduct entity for the purposes of the Financial Markets Conduct Act 2013 and its financial statements comply with that Act and the Companies Act 1993. The shares of The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange (NZX).

The unaudited interim financial statements have been prepared in accordance with New Zealand equivalent to International Accounting Standard 34 (NZ IAS-34) *Interim Financial Reporting*. The financial statements should be used in conjunction with the Group's annual report for the 12 months ended 30 June 2014.

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

Pronouncement	Effective for periods beginning
Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendment to IAS 36 Impairment of Assets	1 January 2014
Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
Amendment to IFRS 10, IFRS 12 and IAS 27 – Investment Entities	1 January 2014
IFRIC 21 Levies	1 January 2014
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014

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

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

Appendix 2.
FY15 First Half Results

2. BASIS OF PREPARATION

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

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

The financial statements are presented in New Zealand dollars.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Group's financial statements for the year ended 30 June 2014.

3. ADMINISTRATIVE EXPENSES

Administrative expenses have increased compared to the prior corresponding period by $2,024,000 primarily in relation to employee and travel costs associated with the growth of the business. Included in this number is the increase associated with the consolidation of the UK business from 1 January 2014.

4. MARKETING EXPENSES

Marketing expenses have increased compared to the prior corresponding period by $1,491,000 primarily in relation to growth initiatives in the UK and China segments.

5. OTHER EXPENSES

	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000
Freight	4,655	4,107
Other operating expenses	5,273	3,858
Non-recurring items – ASX listing process	762	–
	10,690	7,965

Other operating expenses have increased compared to the prior corresponding period by $1,415,000 primarily in relation to selling and consulting expenses associated with business growth. Included in this number is the increase associated with the consolidation of the UK business from 1 January 2014.

Non-recurring items represent costs associated with the ASX listing process during the six months to 31 December 2014.

6. FOREIGN CURRENCY TRANSLATION LOSS

The foreign currency translation loss in the six months to 31 December 2014 has primarily arisen on the translation of Australian dollar advances to subsidiary companies which have been negatively impacted by the strengthening of the NZD/AUD rate in the period.

7. SHARE CAPITAL

	As at 31 Dec 14 (Unaudited) $'000	As at 30 Jun 14 (Audited) $'000
a) Share capital		
Balance at beginning of period	86,264	84,253
Ordinary Shares: Partly paid shares fully paid	–	2,011
Balance at end of period	86,264	86,264

	As at 31 Dec 14 (Unaudited) No.	As at 30 Jun 14 (Audited) No.
b) Number of ordinary shares on issue		
(i) Fully paid ordinary shares		
Balance at beginning of period	633,066,979	615,165,990
Shares issued	–	17,900,989
Balance at end of period	633,066,979	633,066,979
(ii) Partly paid ordinary shares		
Balance at beginning of period	27,000,000	30,000,989
Shares fully paid	–	(17,500,989)
Shares issued	–	14,500,000
Balance at end of period	27,000,000	27,000,000

Partly paid ordinary shares carry the same rights and entitlements on a fractional basis, as fully paid ordinary shares, with such fractions being equivalent to the proportion which the amount paid on the shares is of the total amount paid and amounts still payable on the shares.

(iii) Total shares on issue		
Fully paid ordinary shares	633,066,979	633,066,979
Partly paid ordinary shares	27,000,000	27,000,000
Balance at end of period	660,066,979	660,066,979

Issue of Shares

There were no fully paid or partly paid shares issued during the period.

Appendix 2.
FY15 First Half Results

8. OPERATING SEGMENT INFORMATION
The Group has adopted NZ IFRS-8 Operating Segments. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

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

- The Australia and New Zealand segment receives external revenue from milk, cream and infant formula sales, and royalty and licence fee income.
- The China and Other Asia segment receives external revenue from milk and infant formula sales. This segment is responsible for the infant formula supply chain to all markets.
- The United Kingdom and USA segment receives external revenue from milk sales. Prior to 1 January 2014 this segment comprised a share of joint venture profits and losses which related to a2MC's 50% shareholding of the UK business. a2MC acquired the remaining 50% shareholding of this business on 1 January 2014, from which point the UK business was 100% consolidated in the financial results and therefore included in segment profit.
- The Corporate and other segment external revenue comprises external royalty and licence fee income. Corporate and other segment profit also includes:
  - internal royalty, licence fee and management fee income from subsidiaries; and
  - costs, such as marketing and herd testing costs, associated with development of intellectual property globally.

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

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

	Segment Revenue		Segment EBITDA	
	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000
CONTINUING OPERATIONS				
Australia and New Zealand	72,794	52,317	4,876	2,292
China and other Asia	1,076	1,822	(610)	660
UK and USA[5]	892	–	(1,919)	(127)
Corporate and other	23	16	157	(249)
Segment revenue & EBITDA[6]	74,785	54,155	2,504	2,576
Net Interest income			88	240
Share in associate/ joint venture losses			–	(1,361)
Depreciation and amortisation			(912)	(849)
Income tax income/(expense)			(1,555)	37
CONSOLIDATED SEGMENT PROFIT			125	643

Over 68% of sales come from three customers in Australia (2013: over 84% from three customers).

5 The Company plans to launch in the USA during the second quarter of calendar 2015 and therefore there is no revenue from the USA included in the UK and USA Segment for the period ended 31 December 2014

6 EBITDA is a non-GAAP measure and represents earnings before interest, taxation, depreciation and amortisation

8. OPERATING SEGMENT INFORMATION CONT.

	Depreciation & Amortisation		Additions to Non-Current Assets	
	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000
Australia and New Zealand	566	590	48	594
China and other Asia	195	140	–	35
UK and USA	32	–	1,712	–
Corporate and other	119	119	401	425
	912	849	2,161	1,054

	Assets		Liabilities	
	31 Dec 14 (Unaudited) $'000	30 Jun 14 (Audited) $'000	31 Dec 14 (Unaudited) $'000	30 Jun 14 (Audited) $'000
Australia and New Zealand	80,131	63,455	28,646	36,979
China and other Asia	4,171	4,854	249	997
UK and USA	5,724	3,305	14,149	9,416
Corporate and other, including eliminations	(10,357)	5,029	(21,018)	(29,393)
	79,669	76,643	22,026	17,999

Additions to Non-Current Assets include additions to property, plant and equipment, and other intangibles, and excludes additions to investments in associates and joint ventures in the prior year.

9. CHANGES TO COMPARATIVES
Where necessary, comparatives have been adjusted for better comparison with current period figures.

10. SUBSEQUENT EVENTS
At a Special Meeting of shareholders held on 27 January 2015, a new constitution was adopted in place of the previous constitution. The changes to the constitution approved by shareholders primarily allow a reduction in the minimum number of Directors who must be ordinarily resident in New Zealand from three to the minimum number required by the NZX Main Board Listing Rules, currently two.

Appendix 2.
FY15 First Half Results

Notes to the condensed consolidated financial statements cont.

For the six months ended 31 December 2014

11. RECONCILIATION OF NET SURPLUS AFTER TAXATION WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	6 Months 31 Dec 14 (Unaudited) $'000	6 Months 31 Dec 13 (Unaudited) $'000
Net surplus for the year	125	643
Adjustments for non-cash items:		
Depreciation & amortisation expense	912	849
Loss on disposal	16	–
Expense recognised in profit & loss in respect of equity-settled share-based payments	419	240
Net foreign exchange gain	(1,174)	(1,085)
Share of loss of associates/joint ventures and other obligations	–	1,361
Deferred tax	(32)	505
	266	2,513
Movements in working capital		
(Increase)/decrease in trade and other receivables	(3,322)	(612)
(Increase)/decrease in prepayments	(2,265)	(2,010)
(Increase)/decrease in inventories	(2,543)	(775)
Increase/(decrease) in accounts payable	5,166	591
Increase/(decrease) in current tax liabilities	(1,409)	(1,964)
Net cash outflow from operating activities	(4,107)	(2,257)

Corporate Directory

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