



2 0 0 3 a n n u a l r e p o r t

A2 CORPORATION LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

Contents	Page
Table of Contents	1
Company Directory	2
Chariman's Report	3 - 15
Directors' Report	16 - 17
Approval By Directors	18
Statement Of Financial Performance	19
Statement Of Movements In Equity	20
Statement Of Financial Position	21
Statement Of Cash Flows	22
Notes To The Financial Statements	23 - 31
Auditors' Report	32

**A2 CORPORATION LIMITED
COMPANY DIRECTORY
AS AT 31 MARCH 2003**

Company Number	1014105
Issued Capital	20,422,059 A Class Shares 115,725,000 B Class Shares
Registered Office	Anderson Lloyd Caudwell Otago House 475 Moray Place Dunedin
Shareholders	Listed on NZSE Unlisted Securities Market
Share Registrar	BK Registries Limited PO Box 384 Ashburton
Directors	Mr J K Guthrie. BA LLB (Chairman) Dr C N S McLachlan.PhD (Ceased office 9 August 2003) Mr H J Paterson.BA (Ceased office on 10 July 2003) Dr W L Burt.PhD Dr A J Allison (Appointed 18 September 2003) G J Paterson (Appointed 18 September 2003)
Accountants	Jackson Valentine Limited P O Box 5546 Dunedin
Auditors	Ernst & Young P O Box 2091 Christchurch
Bankers	Bank of New Zealand Dunedin
Solicitors	Anderson Lloyd Caudwell Private Bag 1959 Dunedin

**A2 CORPORATION LIMITED
CHAIRMAN'S REPORT
FOR YEAR ENDING 31 MARCH 2003**

Dear Shareholders

It is my task to report to you on your company's activities during the financial year ending 31 March 2003; in doing so it is inevitable that I also comment upon the company's activities in the period from 1st April 2003 to date. As I sit to prepare this report for you I am struck by the number and force of the events that have occurred this year, and which have been utterly beyond our foresight or control, and which have shaped our company and given focus to its future direction.

The Death of the Company's Founding Shareholders

The deaths of Mr Howard Paterson and Dr Corran McLachlan earlier this year dealt to the company two blows of equal magnitude and it is a credit to my fellow director Dr Wayne Burt that the company was able to absorb these setbacks and continue with a solid business focus on the future.

Howard Paterson's contribution to the company was not merely that he provided its initial capital and persuaded many of us to invest in the A2 story. Equally important were Howard's boundless enthusiasm and his unshaking belief that A2 Corporation Limited was not merely a company with a good financial future but was also a company that was destined to do good for human health globally.

Corran McLachlan's death, so soon after Howard's death seemed at the time to be a blow from which the company might not recover. We have done so however and in marking that achievement I can record that the rigorous adherence to scientific method and logic which characterised all of Corrie McLachlan's professional life continue to be guiding principles by which we manage A2 Corporation now.

Included in this report are copies of obituaries written about Howard and Corrie and which your directors have decided to include in this Annual Report in order that we can mark their contributions to A2 Corporation in a lasting way.

We owe to Howard and Corrie an amazing debt for their commitment, enthusiasm and unwavering support of the A2 theory and its potential for commercialisation.

Corporate Governance

The company was left with only two directors following the loss of Howard and Corrie. They were of course, myself as Chairman and Dr Wayne Burt, who lives as he has always done in recent years in London. It will be appreciated that further assistance around the boardroom table was urgently required and I am extremely grateful to both Dr Jock Allison, a director of Abacus Biotechnology Limited and a former director of research at Invermay Research Centre, and to Mr Grant Paterson, Howard's brother and a very substantial dairy farmer in his own right, who both joined the Board at short notice and at a time when a number of critical issues were taxing management and your directors.

Intellectual Property

Your directors were delighted to learn that the principal patent by which A2 Corporation's technology is protected in the United States was granted. The same patent is being pursued in Europe, Australia and New Zealand but final grant of protection in those territories appears to be some time away as those patent offices wrestle with the new technologies of the patenting of biological processes.

A2 Milk and Human Health

The past year has been progressive on many fronts with regard to the hypothesised benefits of A2 milk.

Our research has provided further support to the link between A1 consumption and the development of arterial plaques and has shed some light on the mechanism of damage. Additionally, with the availability of A2 milk in New Zealand and Australia a number of consumers have been in contact to convey positive experiences with the consumption of A2 milk, in improved behaviour of autistic children, absence of irritable bowel syndrome usually associated with consumption of normal milk and other allergenic responses.

An A1/A2 feeding trial in NZ white rabbits (a model for cholesterol induced heart disease) conducted by Professor Julie Campbell in Queensland was published in the journal *Atherosclerosis* earlier this year. Consumption of beta casein A1 promoted the formation of arterial lesions and reduction of diameter through thickening of the walls and raised levels of cholesterol, relative to beta casein A2 and control groups. In addition the study showed that consumption of A2 milk appeared to attenuate cholesterol induced damage, demonstrating the positive benefits of the consumption of A2 milk.

Further work is planned over the next two years. We suspect that many so-called milk allergies may be related to A1 beta casein, and that A2 milk may have similar properties to goat's milk (goat's milk is all A2!). Unsolicited feedback from consumers of A2 milk in New Zealand and Australia has served to support the link between A1 consumption and the aggravation of neurological disorders. It has also lent suggestion that a proportion of individuals termed 'milk intolerant' may be reacting to A1, or a digestion product of it.

It is well established that digestion of beta casein A1 yields a protein fragment with 'opioid' activity, whereas A2 does not. Work performed by well-established groups researching Autistic Spectral Disorder (ASD) has shown that removal of casein and gluten (two known sources of exogenous opioid) from the diet of patients leads to a marked reduction in associated symptoms. It is clear that the digestion of beta casein A1 yields the agent responsible for aggravating symptoms associated with ASD. This has recently been confirmed by detailed research in the United States.

The evidence for beneficial effects of A2 milk consumption continues to mount.

The Fonterra Litigation

The company initiated a lawsuit against Fonterra Co-Operative nearly two years ago. The company at that time faced a number of hurdles in bringing its products to market. The impediments to the launch of A2 milk and milk products in New Zealand were such that we took advice from two of New Zealand's leading Queen's Counsel. Acting upon their advice an action under the Fair Trading Act was commenced against Fonterra Co-Operative Limited. In the year under review your directors took further advice in respect of this litigation and as a consequence an agreement was reached with Fonterra Co-Operative Limited that the proceeding would be withdrawn and that neither side would make a claim against the other for any costs arising from the prosecution and the settlement of the litigation.

Bringing the litigation with Fonterra Co-Operative Limited to an end has allowed a resumption of dialogue with senior executives within Fonterra. I expect that those talks will continue in the future and express the hope that a closer relationship will develop between A2 Corporation and Fonterra in due course.

Business Development

The year under review has seen a further significant expenditure in an effort to establish A2 products in the major markets of the world, particularly the United States and Australia. Early in 2004 the company will push into European markets. Because of the size of the populations of those territories your directors have focused the company's activities upon them. Significant revenue streams can be earned from modest royalties charged for the use by licensees of A2's intellectual property in those markets.

United States of America

In September 2003 A2 Corporation announced the formation of a strategic partnership with IdeaSphere Inc. to market A2 milk in the North America. IdeaSphere is a leader in the natural products industry. The company markets a full range of natural and organic products, including foods, beverages, nutritional supplements and personal and home care products and health information through traditional retail and online channels. The company recently announced its planned acquisition of the Twinlab brand, a market-leader of nutritional

supplements and related products in the U.S., with annual sales of more than US\$100 million. The company is also an equity owner of Rebus LLC, a 25-year-old publisher of consumer health, nutrition and science information and creator of the world-renowned UC Berkley Wellness Letter and the Johns Hopkins Health After 50 newsletter.

Chairman and CEO of IdeaSphere, David Van Andel, is also a board member of Alticor, formerly the Amway Corporation, which was co-founded by his father, Jay Van Andel with his partner Richard DeVos. IdeaSphere's executive management includes Bill Nicholson, the former Chief Operating Officer of Amway Corporation; Anthony Robbins, the best-selling author and personal development expert; and Mark Fox, who assisted in the launch of WebMD.

A2 Corporation believes that IdeaSphere, with its commitment to natural health and its demonstrated marketing expertise, are the best possible partner to bring A2 milk to North American consumers. A2 Corporation and IdeaSphere expect that it will take up to a year to get the milk on to shelves in the US. The license agreement requires IdeaSphere to make minimum royalty payments to A2 Corporation of US\$500,000 in the first year and US\$2.0 million in the second year.

In addition to the royalty revenue, A2 Corporation will also receive revenues from animal testing. IdeaSphere expects to commence testing North American herds in the near future. A2 Corporation has recently appointed a North American laboratory to perform these tests. To generate the minimum levels of production specified in the license agreement, A2 Corporation expects to test in excess of 100,000 cows over the first two years, generating gross testing revenues of approximately US\$1.0 million.

Australia

A2 milk was launched in Northern New South Wales earlier this year. Demand is currently greatly outstripping supply, with consumers providing highly favourable feedback from consumers. Furthermore, with regard to this, both television and print media have provided extensive publicity for A2 milk.

Currently A2 Corporation is actively looking to build on this successful launch with the establishment of a nationwide distribution and marketing initiative of both fresh and UHT A2 milk. We are in the process of identifying parties with sufficient resources with which to partner to achieve maximum market penetration.

New Zealand

There are four processors producing A2 milk in New Zealand: Ridge Processing, Fresha Valley and Independent Dairy Processors supplying the North Island; and International Dairy Ventures which has exclusive rights to supply and distribute A2 milk in the South Island. A2 milk is available, be it in limited to areas and volumes, in the Progressive Enterprises Limited chains of supermarkets (Woolworth's and Foodtown) and selected New World supermarkets in the North Island.

Currently A2 Corporation is working closely with our licensees on supply and marketing initiatives, with the aim of making A2 milk available to consumers throughout New Zealand.

The Management Team

Andrew Clarke

Andrew Clarke was appointed acting Chief Executive Officer after the onset of the illness of Dr McLachlan in June of this year and following three months of guiding A2 Corporation through a very challenging period.

Andrew is a scientist by background, with post-graduate degrees in biochemistry and molecular biology. Andrew became associated with A2 Corporation in 2001. Prior to joining A2 Corporation he has had experience in both agricultural biotechnology, investigating variations in bovine (cattle) genes, and in pharmaceutical research where he has been involved in the characterisation and clinical trialling of putative drugs.

John Ryall

John Ryall comes to A2 Corporation with twenty years of experience in negotiating, sales, and market building. His vision for A2 Corporation is to create several income streams. Initially these will be based on herd testing and milk sale royalties, however in the future it will be expanded to encompass herd formation and maintenance as well as the export of A2 milk products out of New Zealand and Australia.

John believes that A2 Corporations success largely revolves around identifying key partners in each defined market who have the necessary resources and expertise to grow A2 Corporation's business. Following the successful negotiation and subsequent agreement of the IdeaSphere licence in the United States John believes that although unique parameters must be considered in every 'deal' the IdeaSphere agreement presents a model to mirror in other markets and territories.

Financial Position

At the time of the deaths of Messrs Paterson and McLachlan A2 Corporation had been planning a capital raising by way of an issue of rights to members to take up shares . That planning has now been carried further, and I can advise that A2 Corporation intends shortly to go to the market, with a renouncable rights issue intended to raise further capital to enable the intellectual property owned by the company to be fully exploited. The offer is of course to be made first to existing shareholders.

This capital raising will enable the company to repay loans made to it by the family interests of Mr Paterson and Dr McLachlan. Without the support of the estates of those two men the company would not have been able to put itself into the strong position it is today and I express our gratitude to the Paterson family and the McLachlan family for their unqualified support at what were for us all difficult times.

The money to be raised will enable the company to fully explore the market for A2 milk and A2 products. Your directors believe that the money to be raised will be sufficient to demonstrate either that A2 Corporation Limited has a product to sell in significant quantities

on a global market, or that our confidence has been misplaced. Needless to say we would not be proceeding with capital raising were your directors not wholly convinced that A2 Corporation has a very bright future indeed.

The money raised will be intended to be sufficient to enable A2 Corporation to continue its market development activities until the Company begins to receive significant royalty revenues under the North American license agreement with IdeaSphere.

NZAX

A2 Corporation shares currently trade on the Second Board of the New Zealand Stock Exchange, which will cease operation at the end of this year. In order to provide continued liquidity for A2 Corporation shareholders, the Company intends to list on the Stock Exchange's NZAX Alternative Market.

The New Zealand Stock Exchange (NZX) is to launch before the end of this year the new NZAX facility for newly emerging companies. NZAX will provide a market for your shares in A2 Corporation Limited that has certainty, timeliness and depth. NZX has invited your company to be one of its "first fifteen" of newly emergent companies and your directors have accepted this offer.

Listing on NZAX is a further sign of the growing maturity of A2 Corporation Limited and of the market's expectations of us to perform well in the medium term and to provide a worthwhile investment for its shareholder members.

Options

An extraordinary amount of effort has been put into securing A2 Corporation's future by myself and Dr Burt and more recently by Mr Grant Paterson and Dr Jock Allison.

Mr Greg Hinton has very recently been invited to join the Board and has immediately lent his commercial skill and experience to the company's future. Mr Clarke and Mr Ryall in

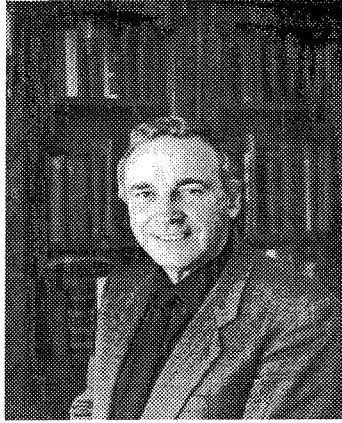
Auckland, have worked ceaselessly and with seemingly inexhaustible energy in their attempts to bring A2 Corporation to profitability. None of these efforts are adequately rewarded by the remuneration paid by us to these two men and it is only recently that more appropriate salary packages have been put in place for Mr Clarke and Mr Ryall.

Your directors believe the best way to maintain the enthusiasm, commitment and focus on the future by both senior management and directors is to issue options that allow those persons to share in the company's success, a success which will be largely of their making in any event. At the Annual Meeting your Board of Directors will report the issue of significant numbers of options to Option Scheme Limited, the vehicle by which A2 Corporation manages the issue of options.

A2 CORPORATION LIMITED

A handwritten signature in cursive script, appearing to read 'Jim Guthrie', written in dark ink.

Jim Guthrie
Chairman



Corrie McLachlan
Chemical Engineer, Research Scientist, Entrepreneur.

Dr Corran Norman Stuart McLachlan, the CEO of A2 Corporation, died peacefully on Saturday from cancer, surrounded by his family. He was 59.

Dr McLachlan was the driving force behind the company, which he co-founded in 2000 along with South Island entrepreneur Howard Paterson, to bring A2 milk onto the market. His scientific knowledge and passionate belief in the product, based on five years epidemiological research, were evident in the numerous interviews that he gave as both the CEO and media representative.

Earlier this year, he was delighted to realize a long-term ambition with the launch of A2 milk in both Australia and New Zealand.

Dr Wayne L. Burt, a Director of A2 Corporation speaking from London, said:

"Very sadly New Zealand has lost one of its premier scientific minds. Dr Corrie McLachlan obtained international standing during recent years for his pioneering scientific work on A2 proteins in milk. He was a man not only of great intellect but also of real humanity. His legacy will be the positive contribution to public health made by the widespread introduction of A2 milk for which he fought so long and so passionately."

A2 Corporation Chairman Mr. Jim Guthrie stated:

"Dr McLachlan's vision would be continued to be pursued with enthusiasm and fortitude. A2 Corporation was determined to realise the potential public health benefits that have stemmed from Dr McLachlan's research."

Corrie McLachlan was born in 1944 to an old established New Zealand family and raised on the family farm in Masterton with his two brothers and his sister. His country upbringing engendered a love of natural history that remained with him throughout his life.

He was educated at Wairarapa College where he developed his interest in physics and chemistry and also became the head boy and senior athletics champion. In 1962 he went on to Canterbury University where he gained a first class honours degree in Chemical Engineering. This was followed by a move to Cambridge University in England, where he completed a PhD thesis on the Reactions of CO₂ in Alkaline Solutions under Professor de Danckwerts in 1969.

During this time, he met and married his wife, Ulrike, who was working in Cambridge as an au pair. He also began to collect rare books on natural history, later specializing in the natural history of New Zealand.

Dr McLachlan returned to New Zealand in 1970 to take up a position in the Chemistry Division of the DSIR, doing biotechnology research on polymers, agricultural processes, and the dairy industry. He was the recipient of the first United Development Corporation Inventor's Prize in 1974.

After two years as a Visiting Research Fellow at the Engler-Bunte Institute, University of Karlsruhe between 1975-77, Dr McLachlan returned to the DSIR in 1978 as Group Leader of the Industrial Research Division, investigating biotechnology, food processing, industrial chemistry, and chemical engineering.

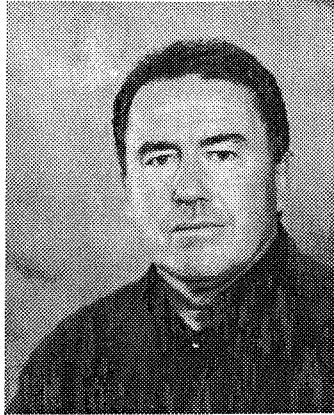
In 1981 he joined the Energy Section of the NZ Treasury, where he conducted appraisals of the Electricity Division, NZ Power Planning, and NZ Steel.

Dr McLachlan then joined Kupe Group in 1985 as the General Manager, New Investments; and also became an Executive Director of Duncan & Davies Nurseries Ltd, responsible for Operations and Management in New Zealand, as well as Chairman of their UK subsidiary.

Three years later, he set up a venture research company with the Morrinsville-Thames Valley Dairy Co-operative to manufacture a cholesterol-free butter and low-fat meat products through the use of novel extraction technology. He remained as the Managing Director of Tenon Developments Ltd until his death.

Dr McLachlan was made an honorary Senior Research Fellow of the School of Biological Sciences, Auckland University, in 1995. He authored 29 scientific papers and confidential reports and holds 11 patents.

He is survived by his wife, Ulrike, and their three children, Julia, Michael, and Kate.



Paterson - a Visionary Loyal to the South

by Neal Wallace

He could see for miles. Mention the name Howard Paterson to anyone who knew him, and he is described as a visionary.

That ability to see further than most saw him accumulate a substantial empire of property, tourism, agriculture, viticulture, health and biotechnology interests.

His business interests would grow to include the world's largest deer farmer (New Zealand Deer Farms), the country's largest dairy farm owner (Tasman Agriculture), poultry farmer (Mainland Poultry) and private vineyard company (Waitaki Valley Estates).

The folklore surrounding Howard James Paterson (50) as a businessman is almost as vast as his interests, but his vision is an attribute that keeps coming to the fore.

Business associates say Mr Paterson had enormous intellect and a tireless capacity for work. Underneath, he was a humanitarian, who enjoyed people's company and socialising, they say.

He had an international network of confidantes he consulted regularly, often until all hours of the night.

When committed to a project he was singularly focused, organising the right people to drive it, along with finance and management structures.

He was loyal to the South and to those who helped him.

Mr Paterson shunned publicity, but when he did give interviews his replies were carefully considered, showing his uneasiness by walking around the room as he answered questions.

He was born in Dunedin in November 1952. His father was a builder. He had two brothers and a sister, living in Dunedin and Wanaka. His entrepreneurial spirit was obvious from an early age. As a pupil at Otago Boys High School, he sold firewood and sphagnum moss to the parents of his school mates. At age 19 he started a commerce degree at the University of Otago, and - spying an opportunity - bought his first rental property.

His property portfolio would grow to 150 houses and flats in Dunedin, Invercargill and Christchurch and eventually include commercial property. In 1980, he returned to university to finish his degree and, showing a maverick side, changed the focus from commerce to phenomenology of religion.

His vision saved his fledgling empire during the hype of the get-rich-quick ethos that prevailed in New Zealand in the mid-1980s. Early in 1986, Mr Paterson predicted the sharemarket bubble was about to burst, and, selling his property interests to Chase Corporation six months before the crash, left for Hawaii, where he continued with property development.

He returned two years later and embarked on what many associates say was his business master-stroke when he bought his first farm near Gore. Farming was at a low ebb and land prices had tumbled accordingly.

Mr Paterson could see dairy returns rising, so together with fellow investors started buying sheep farms, converting them to dairying.

Publicly listed Tasman Agriculture would eventually own 73 dairy farms throughout the South Island and substantial holdings in Tasmania. Again, his vision would prove masterful, as he decided in 2001 to liquidate the company when land prices were close to their peak and distribute the proceeds to shareholders.

From his tenth-floor office in Moray Pl, Mr Paterson could look across to the University of Otago, which he once described as a mine of untapped potential.

It was to be the basis of his third business phase as he single-handedly thrust Dunedin to the forefront of the biotechnology industry by linking commerce, life science and agriculture.

He was to instigate the listing of four biotechnology companies on the New Zealand Stock Exchange, leading from the front the development of an industry identified by political and business leaders as one in which New Zealand has a business edge.

Otago Daily Times 2/7/2003

**A2 CORPORATION LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2003**

Statement of Affairs of the Company

The results of operations for the period and the financial position of the company are detailed in the accompanying financial statements.

Principal Activity

The principal activity of the company is developing the international commercial opportunities to earn royalties on the production and sale of beta-casein A2 milk products.

To this end the company is engaged in pursuing its patent rights in various parts of the world negotiating licencing agreements and is in the course of registering trade-marks.

Appropriations	2003	2002
	\$	\$
Opening Retained Earnings (Deficit)	(3,248,760)	(449,627)
Net Surplus (Deficit) Attributable to the Shareholders	(2,155,794)	(2,799,133)
Closing Retained Earnings (Deficit)	<u>(5,404,554)</u>	<u>(3,248,760)</u>

Dividend

The directors recommend that no dividend be paid.

Auditor

It is proposed that the auditors Ernst & Young, continue in office in accordance with Section 200(1) of the Companies Act 1993.

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

Interests Register

Directors have declared interests during the period as follows:

- Mr J K Guthrie, in his capacity as a partner of Anderson Lloyd Caudwell barristers & solicitors, recorded an interest in legal fees and rent paid by the company in relation to general legal services and office accommodation provided. The legal fees and rent were charged at commercial rates.
- Dr C N S McLachlan disclosed his interest as a shareholder and director of Tenon Developments Limited for consultancy services paid at commercial rates by the company to Tenon Developments Limited.
- Mr H J Paterson disclosed his interest as a shareholder and director of Otago Trust Limited for rent paid at commercial rates by the company to Otago Trust Limited and as a shareholder of Big Sky Dairy Farms Limited for bad debts written off during the year.

Directors' Remuneration

There was no remuneration or other benefits paid or due to directors during the year, for their services as directors.

**A2 CORPORATION LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2003**

Directors Loans

There were no loans from the company to Directors.

Directors Holding Office

No directors ceased to be directors during the year however Mr H J Paterson ceased office on 10 July 2003, and Dr C N S McLachlan on 9 August 2003. Dr A J Allison & Mr G J Paterson were appointed directors, to hold office until the next Annual General Meeting.

Use of Company Information

The board received no notices during the period from directors requesting to use the company information received in their capacity as directors which would not have been otherwise available to them.

Share Dealing

750,000 options were issued to Mr J K Guthrie during December 2002. These can be exercised at \$0.10 per share at any time until September 30, 2008.

Employee Remuneration

No employee received remuneration and other benefits in excess of \$100,000 per annum in their capacity as employees during the year.

Donations


Donations made by the company during the year ended March 31, 2003 totalled nil.

**A2 CORPORATION LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003**

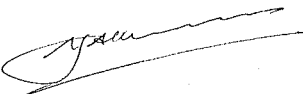
APPROVAL BY DIRECTORS

The directors are pleased to present the financial statements of A2 Corporation Limited for the year ended 31 March 2003 on pages 19 - 31.

On Behalf of the Board

Director 

J. K. Guthrie

Director 

A. J. Allison

Dated this 11th day of November 2003

A2 CORPORATION LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2003 \$	2002 \$
Revenue		104,000	192,022
Expenses		<u>2,259,794</u>	<u>2,991,155</u>
Operating Surplus (Deficit) before Income Tax	6	<u>(2,155,794)</u>	<u>(2,799,133)</u>
Taxation Expense	4	-	-
Net Surplus (Deficit) for the year	6	<u><u>(2,155,794)</u></u>	<u><u>(2,799,133)</u></u>

This statement should be read in conjunction with the Notes on Pages 23 to 31

A2 CORPORATION LIMITED
STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2003

	2003	2002
	\$	\$
Equity at the Beginning of the Year	9,743,740	12,542,873
Net Surplus (Deficit) for the year	<u>(2,155,794)</u>	<u>(2,799,133)</u>
Total Recognised Revenues and Expenses for the Year	<u>(2,155,794)</u>	<u>(2,799,133)</u>
Equity at the End of the Year	<u><u>7,587,946</u></u>	<u><u>9,743,740</u></u>


This statement should be read in conjunction with the Notes on Pages 23 to 31

A2 CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2003

	Notes	2003	2002
		\$	\$
EQUITY			
Share Capital	2	12,992,500	12,992,500
Retained Earnings (Deficit)	3	<u>(5,404,554)</u>	<u>(3,248,760)</u>
Total Equity		<u>7,587,946</u>	<u>9,743,740</u>
CURRENT ASSETS			
Cash and Short Term Deposits		261,770	1,841,245
Accounts Receivable and Accruals		46,257	105,934
Prepayments		-	10,000
RWT Refund Due		<u>11,180</u>	<u>51,999</u>
Total Current Assets		<u>319,207</u>	<u>2,009,178</u>
CURRENT LIABILITIES			
Accounts Payable and Accruals		171,305	350,123
Employee Entitlements		<u>8,380</u>	<u>-</u>
Total Current Liabilities		<u>179,685</u>	<u>350,123</u>
WORKING CAPITAL		139,522	1,659,055
NON CURRENT ASSETS			
Property, Plant and Equipment	7	34,552	44,357
Investments	5	50,000	-
Intangible Assets	8	<u>7,363,872</u>	<u>8,040,328</u>
Total Non Current Assets		<u>7,448,424</u>	<u>8,084,685</u>
NET ASSETS		<u>7,587,946</u>	<u>9,743,740</u>

For and on behalf of the Board of Directors who have authorised the issue of the financial report on the 11th day of November 2003.

Directors



 J. K. Guthrie



 A. J. Allison

This statement should be read in conjunction with the Notes on Pages 23 to 31

A2 CORPORATION LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2003 \$	2002 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		40,091	37,485
Interest received		49,475	165,964
RWT refund		52,019	-
Cash was disbursed to:			
Payments to suppliers and employees		1,294,195	1,351,392
Research costs		349,963	648,633
Interest expense		542	1,516
RWT paid		11,200	32,363
Net cash flows from (used in) operating activities	16	<u>(1,514,315)</u>	<u>(1,830,455)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Purchase of property, plant and equipment		7,384	44,438
Purchase of investments		50,000	
Purchase & development of patents, trademarks & intellectual property		-	63,259
Net cash flows from (used in) investing activities		<u>(57,384)</u>	<u>(107,697)</u>
NET INCREASE IN CASH BALANCES		<u>(1,571,699)</u>	<u>(1,938,152)</u>
Opening Cash Carried Forward		1,841,245	3,779,397
Effect of exchange rate changes on cash		(7,776)	-
ENDING CASH CARRIED FORWARD		<u>261,770</u>	<u>1,841,245</u>
COMPOSITION OF CASH			
Cash and Short Term Deposits		<u>261,770</u>	<u>1,841,245</u>

This statement should be read in conjunction with the Notes on Pages 23 to 31

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

1 Statement of Accounting Policies

Reporting Entity

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

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

A. Measurement Base

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

B. Specific Accounting Policies

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

(i) Revenue Recognition

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

(ii) Depreciation

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

Depreciation rates are:

Office and computer equipment 14.4% - 48%

(iii) Property, Plant and Equipment

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

(iv) Patent Rights and Trade Marks

Patent rights and trade marks are recognised at their cost and amortised to the statement of financial performance on a straight line basis over their useful lives, a period not exceeding twenty years and five years respectively.

(v) Impairment

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

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

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

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

(vi) Debtors

Debtors are stated at their net realisable value.

(vii) Consumable Supplies

Consumable supplies are recorded at cost.

(viii) Research and Development Costs

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

(ix) Taxation

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method. Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

(x) Goods and Services Tax (GST)

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

(xi) Financial Instruments

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

(xii) Foreign Currencies

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

(xiii) Leases

The company leases certain premises.

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

C. Changes in Accounting Policies

There have been no changes in accounting policies. These have been applied on bases consistent with those used in the previous period.

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

2 Share Capital		2003	2002
		\$	\$
20,422,059 A Class Shares	fully paid	30,000	30,000
115,725,000 B Class Shares	fully paid	12,962,500	12,962,500
		<u>12,992,500</u>	<u>12,992,500</u>

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

The holders of A Class Shares are entitled to:

- a. 15% of the total voting rights on a poll taken in accordance with clauses 16.15 to 16.22 of the constitution (both inclusive) and 15% of all distributions to shareholders (whether in the nature of a dividend, a share repurchase or otherwise howsoever); and
- b. always hold 15% of the shares in the company. Therefore if the Company issues further shares then, upon the holder of A Class Shares providing notice in writing to the company, the company will for no additional consideration whatsoever issue fully paid A Class Shares, as applicable, to that shareholder to a total amount issued, equal to 15% of the total number of shares in the Company.
- c. To appoint one of the directors of the company, and from time to time and at any time, to remove from office any director so appointed and to appoint another person in his or her place.

The holders of B Class Shares are entitled to:

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

Share Options

Expire September 30, 2008

Option Scheme Limited holds an option to subscribe for a cumulative total of 7,500,000 B class shares in the Company at \$0.10 per share, at any time or times up to 30 September 2008, as agent for persons determined by the directors of A2 Corporation Limited as having made or making a significant contribution to the development or commercialisation of the Company's business including, but not limited to, directors and employees of the Company. Option Scheme Limited then has the power to decide which of the persons so determined by the directors of the Company are to be entitled to subscribe for shares and the maximum number of shares that Option Scheme Limited may subscribe for on behalf of each such person. A total of 145,000 Class B shares at \$0.50 per share (the equivalent of 725,000 shares at \$0.10 cents per share) were subscribed for and issued, in February 2001, pursuant to the exercise of the option held by Option Scheme Limited. A further 1,300,000 options have been allocated but had not been exercised at 31 March 2003. Accordingly, 5,475,000 options remain to be allocated and 6,775,000 shares remain to be issued pursuant to the exercise of the option.

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

	2003	2002
3 Retained Earnings (Deficit)	\$	\$
Opening Balance	(3,248,760)	(449,627)
Net Surplus (Deficit) for the Year	<u>(2,155,794)</u>	<u>(2,799,133)</u>
Closing Balance	<u>(5,404,554)</u>	<u>(3,248,760)</u>
4 Taxation		
(i) Income Tax Expense		
This has been estimated as follows:		
Profit (Loss) Before Taxation	(2,155,794)	(2,799,133)
Taxation at 33%	-	-
Cumulative tax losses available to carry forward at 31 March 2003 are \$5,665,961.		
In accordance with the accounting policy no income tax benefit has been recognised.		
(ii) Imputation Credit Account		
Opening Balance	51,999	19,636
Plus Credits: RWT attached to interest received	11,200	32,363
Less Debits: Income Tax Refunds	<u>52,019</u>	<u>-</u>
Closing Balance	<u>11,180</u>	<u>51,999</u>
5 Investments		
New Zealand Shares	<u>50,000</u>	<u>-</u>
	<u>50,000</u>	<u>-</u>
6 Operating Surplus (Deficit) Before Taxation	2003	2002
after charging:	\$	\$
Amortisation of trade mark costs	8,558	8,558
Amortisation of Patent costs	667,898	667,898
Audit Fees related to Annual Financial Statements	8,019	8,686
Bad debts written off	74,111	-
Depreciation on office equipment and computers	16,914	20,446
Foreign exchange loss	2,048	-
Marketing costs	262,158	290,413
Rent	50,217	11,004
Research Costs	349,963	648,633
Interest Expense	542	1,516
after receiving:		
Interest Received	49,475	154,537

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

7 Property, Plant and Equipment	Cost	Accumulated	Book
		Depreciation	Value
	\$	\$	\$
March 31, 2003			
Office & Computer Equipment	74,563	47,073	27,490
Development Expenditure	7,062	-	7,062
Total	81,625	47,073	34,552
March 31, 2002			
Office & Computer Equipment	68,238	30,943	37,295
Development Expenditure	7,062	-	7,062
Total	75,300	30,943	44,357
8 Intangible Assets	2003		2002
	\$		\$
Patent Costs			
Opening Balance	8,014,786		8,682,684
Less amortisation of patent costs	667,898		667,898
	7,346,888		8,014,786
Trade Marks			
Opening Balance	25,542		34,100
Less amortisation of Trade Marks	8,558		8,558
	16,984		25,542
Total Intangible Assets	7,363,872		8,040,328

9 Capital Commitments

There are no capital commitments as at 31 March 2003, Last Year: Nil.

10 Contingent Liabilities

When the directors of the company are satisfied that the therapeutic product claim in the patent application (or a patent to similar effect) has been granted to Dr C N S McLachlan in the USA and the countries in the European patent office which allow therapeutic claims, then the company will issue to Dr McLachlan (or his nominee) fully paid up B shares equivalent to 5% of the total paid-up capital of the company prior to that issue and will also pay Dr McLachlan (or his nominee) NZ\$100,000 as a further capital payment for the patent rights.

The company is the plaintiff in proceedings initiated against Fonterra Co-Operative Group Limited relating to product related issues under the Fair Trading Act and the Australia New Zealand Food Standards Authority's regulations.

Subsequent to balance date the litigation was settled by mutual agreement with no liability to the company incurred. The company is no longer exposed in respect of this litigation and is responsible for its own legal costs amounting to approximately \$38,500.

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

11 Events Subsequent to Balance Due

In August 2003 the company executed a licencing agreement with Ideasphere Inc. based in Michigan USA, which in its first year will generate minimum royalties of US\$500,000 and US\$2.0 million in the second year.

12 Financial Instruments

Credit Risk

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

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

Maximum exposures to credit risk at balance date are:	2003	2002
	\$	\$
Cash and Short Term Deposits	261,770	1,841,245
Accounts Receivable and Accruals	46,257	105,934
	<u>308,027</u>	<u>1,947,179</u>

Concentrations of Credit Risk

A2 Corporation Limited's bank accounts are all with the Bank of New Zealand. The company does not have any other concentrations of credit risk.

Currency Risk

The company has a bank account in Australian Dollars. The balance of this bank account at balance date was AUD \$10,236; NZD \$11,178.

Interest Rate Risk

The company has no interest rate risk as all interest rates are floating. The interest rates at balance date range between 0% and 5.75%.

Credit Facilities

The company has no credit facilities.

Fair Values

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

	Carrying Amount 2003 \$	Fair Value 2003 \$	Carrying Amount 2002 \$	Fair Value 2002 \$
Cash and Short Term Deposits	261,770	261,770	1,841,245	1,841,245
Accounts Receivable and Accruals	46,257	46,257	105,934	105,934
Accounts Payable and Accruals	179,685	179,685	350,123	350,123

13 Segment Reporting

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

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

14 Operating Lease Commitments	2003	2002
Commitments in respect of non-cancellable operating leases:	\$	\$
Not later than one year	43,000	16,238
Later than one year and not later than two years	17,917	-
Later than two years and not later than five years	-	-
	<u>60,917</u>	<u>16,238</u>

15 Transactions With Related Parties

A2 Corporation Limited paid legal fees and rent to Anderson Lloyd barristers and solicitors of which Mr J K Guthrie is a partner. The legal fees and rent were charged at commercial rates. This year \$67,173; Last year \$44,361. At balance date \$1,065 was outstanding; Last year \$Nil.

A2 Corporation Limited paid consultancy fees to Tenon Developments Limited of which Dr C N S McLachlan, a director and shareholder had an interest. The consultancy services were charged at commercial rates. This year \$150,000; Last year \$150,000.

A2 Corporation Limited paid rent to Otago Trust Limited of which Mr H J Paterson was a director and shareholder. The rental was charged at commercial rates. This year \$5,502; Last year \$11,003.

A2 Corporation Limited wrote off a debt owing by Big Sky Dairy Farms Limited of which Mr H J Paterson was a shareholder. This year \$74,111; Last year \$Nil.

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

	2003	2002
	\$	\$
Net Surplus (Deficit) After Taxation	(2,155,794)	(2,799,133)
Plus (less) Non-cash items:		
Amortisation of Trade Mark Costs	8,558	8,558
Amortisation of Patent Costs	667,898	667,898
Depreciation	16,914	20,446
Loss on sale of property, plant and equipment	275	13,125
Foreign exchange movement on foreign cash balances	7,776	-
	<u>701,421</u>	<u>710,027</u>
Plus (less) Items accrued as investing activities:		
Patents & Trademarks	-	63,259
	<u>-</u>	<u>63,259</u>
Plus (less) Movements in working capital:		
Accounts Payable and Accruals	(170,438)	179,430
RWT Refund Due	40,819	(32,363)
Accounts Receivable and Accruals	59,677	16,186
Prepayments	10,000	17,183
Inventories	-	14,956
	<u>(59,942)</u>	<u>195,392</u>
Net Cash Flows From (Used In) Operating Activities	<u>(1,514,315)</u>	<u>(1,830,455)</u>

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

17 Future Funding

The directors of the company have prepared forecasted cashflows and have put in place adequate funding facilities to ensure the company can continue to meet its obligations for the following twelve months.

18 Sales Subsequent to Balance Date

The company has recognised sales of \$158,784 in its financial statements for the financial year to date.

A2 CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

19 Prospective Financial Information

In December 2000, A2 Corporation Limited issued a prospectus for the subscription of 6,000,000 ordinary shares. The information below is a comparison of the forecast financial statements to A2 Corporation actual results for the year ended 31 March 2003.

	Year Ended March 31, 2003		Year Ended March 31, 2002	
	Forecast <i>(conservative)</i>	Actual	Forecast <i>(conservative)</i>	Actual
Statement of Financial Performance	\$	\$	\$	\$
Total Operating Revenue	58,373,000	104,000	21,771,000	192,022
Operating Surplus (Deficit) Before Taxation and Amortisation of Intellectual Property	21,311,000	(1,479,338)	674,000	(2,122,677)
Amortisation of Intellectual Property	-	(676,456)	-	(676,456)
Income tax expense (benefit)	7,033,000	-	222,000	-
Operating Surplus (Deficit) After Taxation	14,278,000	(2,155,794)	452,000	(2,799,133)
 Statement of Financial Position				
Equity	34,098,000	7,587,946	22,320,000	9,743,740
Current liabilities	(2,837,000)	(179,685)	(1,551,000)	(350,123)
Current assets	19,113,000	319,207	4,613,000	2,009,178
Non-current assets	17,822,000	7,448,424	19,258,000	8,084,685
Net assets	34,098,000	7,587,946	22,320,000	9,743,740
 Statement of Cash Flows				
Net Cash Flow from Operating Activities	29,263,000	(1,514,315)	15,311,000	(1,830,455)
Net Cash Flow from Investing Activities	(170,000)	(57,384)	(12,210,000)	(107,697)
Net Cash Flow from Financing Activities	(17,500,000)	-	(6,000,000)	-
Net increase (decrease) in cash held	11,593,000	(1,571,699)	(2,899,000)	(1,938,152)

Actual operating revenue for the year ended March 31, 2003, is less than forecast as the company had decided not to proceed with testing cows and supplying A2 milk until animal research studies were completed. The company has just started launching A2 milk in New Zealand and Australia. The non current assets are lower than forecasted due to the purchase of property, plant and equipment being deferred since the company is not supplying A2 milk.

Auditor's Report

To the Shareholders of A2 Corporation Limited

We have audited the financial statements on pages 19 to 31. The financial statements provide information about the past financial performance of the company and its financial position as at 31 March 2003. This information is stated in accordance with the accounting policies set out on pages 23 and 24.

Directors' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company as at 31 March 2003 and of its financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

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

Basis of Opinion

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

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

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

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

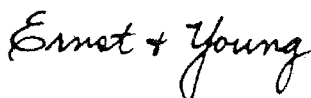
Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 19 to 31:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the company as at 31 March 2003 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 11 November 2003 and our unqualified opinion is expressed as at that date.



Christchurch



A2 Corporation Limited
58 College Hill, Ponsonby, Auckland
New Zealand
Phone: +64 9 360 0833
Fax: +64 9 360 0834
Freephone: 0800 A2MILK
Email: info@a2corporation.com
Web: www.a2corporation.com