

**A2 CORPORATION LIMITED**  
(a2C or Company)  
**MINUTES OF ANNUAL MEETING OF SHAREHOLDERS**

**Held on Thursday, 15 October 2009**  
**at Simpson Grierson, 88 Shortland Street, Auckland**

**Commencing at 10 am**

**PRESENT**

Board Members:

- Cliff Cook (Chairman)
- David Mair
- Richard Le Grice
- Greg Hinton

Management:

- Scott Pannell (Chief Executive)
- Dr Andrew Clarke (Chief Scientific Officer)

Apologies:

- Dr Jock Allison

Shareholders – approximately 10

Service Providers – Representatives of Simpson Grierson

Analysts were present. (No media representatives)

**INTRODUCTION**

The meeting was opened at 10.15 am.

The Chairman, having concluded that a quorum was present, opened the meeting, introduced the directors, members of management and service providers.

The Chairman outlined the agenda for the meeting which would comprise (1) a brief comment about the year, (2) an update on the company's operations from David Mair, (3) an address from Scott Pannell, and (4) the formal part of the meeting (to consider the matters put forward for resolution).

The Chairman stated that Grant Paterson and Wayne Burt had resigned, and this had been announced to the NZX in the morning. The Chairman read the NZX announcement.

The Chairman asked for any further apologies – there were none.

The Chairman outlined the proxies that had been received.

The Chairman noted that Richard Le Grice, the Acting Chairman of the 2008 Annual General Meeting, had reviewed the minutes of that meeting and signed them as a correct record of those proceedings. Those minutes were available for inspection from Simpson Grierson.

## CHAIRMAN'S ADDRESS

The Chairman gave his address. A copy of the script to which the Chairman spoke is attached as Appendix 1. Key points of the Chairman's Address include:

- Successful capital raising meant that the Company had a net cash position of \$8,919,302 as at 30 September 2008.
- As at 30 June 2009 the net cash position was \$7,165,108. This demonstrates the business has stabilised.
- Continued focus will be on cash preservation and cash generation within the business.
- The Chairman thanked shareholders for their strong support in the capital raising.

The Chairman handed over to David Mair for his address.

## OPERATIONAL REVIEW (GIVEN BY DAVID MAIR, Acting CEO)

A copy of the script to which David Mair spoke is attached as Appendix 2. Key points of the Operational Overview include:

- There has been a deliberate strategy to focus on key markets to make them profitable.
- **Australia**
  - The joint venture became profitable in December 2008 and has traded profitably every month since then other than April 2009. It finished the full year significantly ahead of budget EBIT.
  - Total milk volume reached approximately 10.8 million litres for the year compared with 6.6 million litres for the previous year (a 64% increase).
  - This increase in volume has come from expanding the existing base of fresh milk.
- **Japan**
  - In July 2009, David Mair and Rory MacLeod visited a number of milk companies near Tokyo.
  - We see good future prospects in this market.
- **New Zealand**
  - The New Zealand market has two Licensees who are both great supporters of a2 Milk™.
  - Scott Pannell has met both Licensees and is working to develop a business plan for the New Zealand market with a view to working together to ensure better distribution.
- **Korea**
  - Purmil temporarily withdrew a2 milk from the market in January 2009 due to the severe downturn in the Korean market.
  - a2C had agreed to a temporary suspension of the licence but is now pursuing its rights under that agreement.
  - We are still very interested in developing the Korean market.
- **North America**
  - The US dairy milk market remains intensely competitive and continues to be a major challenge.
- **Financial**
  - a2C recorded an audited Group post-tax loss of \$3,552,690 including abnormals for the 15 months ended 30 June 2009. This compared to a loss of \$6,298,221 for the 12 months ended 31 March 2008.
  - In the first 6 months of the year (first half), the Group operating post-tax loss (excluding abnormals) was \$1,992,822, and the loss for the second nine months (second half) was \$771,814.

- The focus remains on ensuring that costs are contained and that all parts of the business have been evaluated to ensure that they are or will contribute positively to the bottom line.
- **Outlook**
  - The challenge is to look beyond these markets and build a successful business that provides long-term health benefits to consumers of a2 Milk™, and ultimately benefits to our shareholders.

## **NEW CEO's INTRODUCTION**

Key points of Scott Pannell's address include:

- A background of Scott's career.
- The two key focus areas:
  - Cash preservation; and
  - Cash generation.
- Ensuring the business models and strategic plans fit both focus areas.

## **QUESTIONS ON THE ADDRESSES**

The Chairman invited questions on the addresses.

The following questions were asked by shareholders. (A summary of the answers follows each question.)

Question 1: Would Scott Pannell explain why he joined a2C, particularly in light of an unproven science?

Answer: Scott Pannell: Whilst the science of a2 Milk is not 100% scientifically proven as yet, there is a lot of positive news and research about a2 beta casein and a2 milk. a2C strongly supports further independent research into beta casein types and their impacts on all aspects of human health. Scott is very excited about a2C's future and its growth potential.

Question 2: The cash preservation/cash generation strategy was presented – is there likely to be any near term capital requirement?

Answer: Scott Pannell: No; a short term need for further capital is not expected.

Question 3: Can you give an indication of timing for further capital?

Answer: Scott Pannell: It depends on where the Board decides to go with the strategic plan for a2C. Certainly not in the short term.

Question 4: What other forms of packaging are being considered? For example, bottled water on-the-go has been very successful.

Answer: Scott Pannell: Part of the strategic plan will address new ways to ensure greater availability of a2 Milk.

Question 5: Michael Hare: You have mentioned a few different operating models for the Company; do any of these models mean no further capital is required in the future.

Answer: Scott Pannell: There are a number of operating models – for

example, license models, joint venture models, etc. a2C will use whichever model best ensures greater availability of a2 Milk in the future

Question 6: Is the business stable enough now? Would any further cash raised be only for growth initiatives?

Answer: Scott Pannell: Yes, the business is stable and yes, cash would only be used for growth initiatives.

Chairman: The business currently sustains itself.

Question 7: Do you see different countries producing different products (e.g. New Zealand vs Australia)?

Answer: Chairman: We believe we have the model to ensure that a2 Milk is a global brand. We're comfortable that we won't be coming back to shareholders for the existing business; rather only if it goes exceptionally well and we need to move on quickly.

We will advise shareholders of the strategic plan in the New Year.

Australasia is seen as a test market – to secure quality product and develop a clear plan.

David Mair: You also asked about New Zealand. The New Zealand licence agreements were, when implemented, not well thought through and changes will need to be negotiated going forward. Both a2 Milk and the licensees are keen to change the model. We believe that we need to get the money closer to the customer, rather than at the start of the supply chain.

There is a need to move forward in a manner which is not capital intensive.

Question 8: Is there different growth in Australia than in New Zealand?

Answer: Scott Pannell: New Zealand has negligible growth. There have been supply chain issues (rather than supply issues). a2 Milk is working on the distribution network.

Question 9: Has the company considered infant formula production?

Answer: Cliff Cook: Delivery of the fresh product is the hardest part of the process and the part that is being focussed on currently. Powder and formula will play a big part in the future.

Over the past few years, the company has been busy fixing a number of legacy issues.

Scott is now in a position to start afresh; the legacy issues are gone. He can pick a strategic direction and work to it, without needing to focus on other issues.

## **FORMAL BUSINESS**

The Chairman outlined the voting procedures for the meeting.

### **1. Financial statements**

The Chairman moved that the annual financial statements for the period ended 30 June 2009 together with the directors' and auditor's reports thereon be received by the meeting. Seconded by John Clearwater.

He asked for any discussion about the financial statements (there was none).

The Chairman moved that the annual report, including the financial statements be received. The motion was passed by voice.

### **2. Election of Directors**

The Chairman called on Greg Hinton to chair the motion to re-appoint Cliff Cook. Greg Hinton took the Chair.

- Cliff Cook (moved by Greg Hinton, seconded by John Phipps).

No discussion. Cliff Cook re-elected by voice.

Greg Hinton called on Cliff Cook to resume the Chairmanship.

- Dr Arthur John Allison (moved by the Chairman, seconded by Scott Jolly).

No discussion. Dr Arthur John Allison re-elected by voice.

- David Mair (moved by the Chairman, seconded by Michael Hare).

No discussion. David Mair re-elected by voice.

### **3. Auditors**

The Chairman stated that the Company's auditor, Ernst and Young, will continue in office pursuant to section 200(1) of the Companies Act 1993.

The Chairman moved that the Directors be authorised to fix the auditor's remuneration for the ensuing year. Seconded by John Phipps.

There was no discussion. The Directors were authorised to fix the auditor's remuneration by voice.

#### 4. General Business

The Chairman asked whether there was any general business. There were additional questions:

Question 10: Would you care to comment on the issue of shares to David Mair and Scott Pannell?

Answer: Chairman: I acknowledge it affects existing shareholders, and indeed I am the most affected. However, issuing the partly paid shares was necessary to attract both Scott Pannell and David Mair. The attraction to Scott and David is the upside potential in those shares. The issue was integral in attracting them, and supporting their future performance. The board believes that the issue of shares was in the best interests of the company and its shareholders.

The partly paid shares were not gifts, payment is required, and on today's price, they paid more than the current value of the shares.

When seeking candidates for the CEO position, a large number of applications were received. Scott Pannell was the stand-out candidate, but it would not have been possible to attract any of the candidates without this type of package.

David Mair already has done an enormous amount for the business. He brings tremendous experience, particularly in Asia – a targeted market.

Question 11: Michael Hare: Is there a risk that Australia becomes too successful, such that things are driven out of Australia with NZ shareholders only receiving 50% of the profits?

Answer: Chairman: a2C benefits from a2 Milk globally, whereas the Australian joint venture is only Australia and Japan. The Australian joint venture is keen and making large inroads in developing a proven platform for a2 Milk in the rest of the World.

Greg Hinton: David Mair and Greg Hinton will focus on the Australian market, with Scott Pannell focussing on the rest of the world.

Question 12: Will China be part of a2C's strategy?

Answer: David Mair: Entry into the Chinese market is often easier through other Asian markets, such as Korea. Scott has connections into China, which the a2C can use. China is a very diverse market, and there is a lot of interest in it. That is why the Australasian market is important – the more successful the JV is in Australia and Japan, the more it assists the rest of the world.

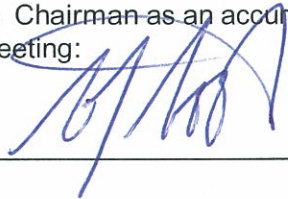
Chairman: Need to make each place a win, and focus on each step.

Question 13: The French analysis showed that a2 science wasn't proven. Would you like to comment?

Answer: Dr Andrew Clarke: Dr Andrew Clarke. (*Clarified that it was the EFSA review he was referring to.*) It is important to look at the terms of reference of the EFSA review, which was to review all available data to determine if there was a causative relationship between BCM-7 and communicable diseases; namely Diabetes and Heart Disease. Though EFSA concluded there was not sufficient data to determine if a causative link exists between A1 (or BCM-7) and these diseases, the report documented that BCM-7 can have a vast range of biological effects on tissues such as the immune and digestive systems. Questions left open by the EFSA review related to the exposure to, or production and absorption of, BCM-7 in humans – necessary to make the required disease linkage analyses. A recent peer reviewed study answered these questions; it clearly demonstrated that BCM-7 is produced and absorbed in human infants, of which 30% experience psychomotor development delay.

There being no further business, the Chairman closed the meeting at 11.15 am and invited shareholders to join the directors for refreshments, including a2 Milk.

**SIGNED** by the Chairman as an accurate record of the meeting:



Chairman

19/11/09

Date

## **APPENDIX 1**

### **Chairman's Address**

I would like to say that despite these challenging financial times, A2C was able to successfully complete a capital raising that meant the company had a net cash position of \$8,919,302 as at 30 September 2008. The net cash position was \$7,165,108 at 30 June 2009 showing that the business has stabilized. We have and will continue to focus on cash preservation and cash generation within the business.

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

David Mair joined the board immediately after the last AGM and has been the acting CEO until the appointment of Scott Pannell recently.

I now call on David to give the Chief Executive's Operational Review (David Mair).

## APPENDIX 2

### Chief Executive Officer's Address

#### *Introduction*

Good morning Ladies and Gentlemen. It has been just one year since I became a Director of the Company and there has been a lot of change. In November, we announced a change in direction and following a restructure we have seen significant change.

#### *Market Growth and Development*

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

#### *Australia*

The joint venture, Australian Dairy Products Australia (A2DPA) became profitable in December 2008 and has traded profitably every month since then other than April 2009 (where a small loss was registered after a one-off cost). It finished the full year significantly ahead of budget EBIT of AUD 500,000 and ahead of the previously announced expected AUD 1,000,000. This compares very favourably with the loss of AUD 3,400,000 last year.

A2C and its joint venture partner Freedom Nutritional Products limited (FNP) have converted their respective convertible notes totalling AUD 4.5 million into ordinary shares in the joint venture A2 Dairy Products limited (A2DPA). A2DPA is owned 50/50. The conversion reflects the improved profitability in the current financial year and provides the base for continued growth.

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

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

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

#### *Japan*

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

### *New Zealand*

The New Zealand market has two Licensees who are both great supporters of A2 Milk™. Although the milk is not as widely available as we would all like, there have been discussions around how we can work together to improve the situation we are in. Scott Pannell has met both Licensees and is working to develop a business plan for the New Zealand market.

### *North America*

A2MCo, the A2C joint venture in the USA has regained all rights to the US market through a settlement with their Licensee The Original Foods Company (TOFC). The US dairy milk market remains intensely competitive and continues to be a major challenge.

### *Korea*

Lotte has changed its name to Purnil. We were informed that Purnil had temporarily withdrawn A2 milk from the market in January 2009 due to the severe downturn in the Korean market. A2C had agreed to a temporary suspension of the licence but is now pursuing its rights under that agreement.

Namyang Dairy Products Company launched an infant formula containing A2 skim milk powder without agreement from A2C. It has been withdrawn from the market, after allegations of false advertising since the product also included A1 skim milk powder. We are still very interested in developing the Korean market.

In the first 6 months of the year (first half), the Group operating post-tax loss (excluding abnormals) was \$1,992,822, and the loss for the second nine months (second half) was \$771,814.

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

### *Outlook*

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

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

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