



NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

20 JULY 2010



## LETTER FROM THE BOARD

Dear shareholders,

The Board of a2 Corporation Limited (**a2C**) is seeking shareholder approval for certain aspects of the acquisition of the 50% interest it does not already own in a2 Dairy Products Australia Pty Limited (**a2 Dairy Products**) from Freedom Nutritional Products Limited (**FNP**). Under the terms of the proposed acquisition, FNP will become a 25% cornerstone shareholder in a2C with an option to extend its holding up to 27.5%, and options to mitigate against any dilution of FNP's shareholding as a result of the partly-paid shares that have been issued to executives becoming fully paid and any capital raising in the next 12 months.

### *Rationale for the Transaction*

The transaction has a strong commercial rationale for a2C. It allows a2C to:

- increase its exposure to a2 Dairy Products' successful and growing business;
- control the direction, scope and speed of a2 Dairy Products' development;
- further strengthen its financial position through issuing shares to fund the acquisition of a2 Dairy Products;
- more efficiently fund a2 Dairy Products' expansion;
- directly access a2 Dairy Products' cash flows, which will result in a2C becoming cash flow positive considerably earlier than would otherwise have been possible;
- consolidate a2 Dairy Products' earnings, thereby significantly reducing the time until a2C becomes profitable;
- increase its market capitalisation and profile as a listed company, which should make it easier for a2C to access capital to fund its growth; and
- more effectively demonstrate the potential of a2 milk™ products to other possible partners.

### *The Transaction in Detail*

The acquisition of the a2 Dairy Products shares comprises the following:

- The purchase of half of the shares in a2 Dairy Products from FNP, such that the a2C group will then own 100% of the shares.

- As consideration for the acquisition of the a2 Dairy Products shares, FNP will receive:
  - 120,376,950 fully-paid a2C ordinary shares comprising 25% of the enlarged share capital of a2C;
  - an option, for a period of 12 months, to increase its shareholding in a2C up to 27.5%, through the issue of further ordinary shares at an issue price of the NZD-equivalent of A\$0.11 per share at the time of exercise;
  - an option to acquire fully paid a2C ordinary shares equal to 25% of any of the 20 million partly-paid shares<sup>1</sup> that become fully paid; and
  - the right, for a period of 12 months, to participate in any capital raising and thereby acquire such number of further a2C shares as is required to maintain its shareholding percentage.

The acquisition is conditional on all resolutions put to the Special Meeting being approved. For that reason all resolutions are conditional on the others being passed – ie, they all pass or none of them do.

#### *Board appointments*

In connection with the acquisition, three new a2C Directors have been proposed – Geoffrey Babidge, Perry Gunner and Melvyn Miles.

a2C believes that with the integration of the a2 Dairy Products business, it is timely to appoint two representatives of FNP to its Board (Perry Gunner and Melvyn Miles). The understanding of the Australian consumer foods market and a2 Dairy Products that the new directors will bring to the Board will assist a2C as it considers a2C's growth options in Australia, New Zealand and other international markets.

The a2C Board is pleased that Geoffrey Babidge has agreed to join a2C as its Managing Director. Geoffrey has been instrumental in a2 Dairy Products' success in Australia and this experience will be invaluable to a2C as it continues to develop its Australian business and looks to expand into new markets.

The Board of a2C is delighted to present the a2 Dairy Products acquisition to shareholders for consideration. The Board unanimously recommends that all shareholders vote in favour of all resolutions proposed at the Special Meeting.

Yours faithfully



**Cliff Cook**  
**Chairman**

---

<sup>1</sup> These were issued to three a2C executives as part of a long term remuneration package.

# a2 CORPORATION LIMITED

## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN** that a Special Meeting of shareholders of a2 Corporation Limited (**a2C**) will be held at the offices of Simpson Grierson, Level 27, Lumley Centre, 88 Shortland Street, Auckland City on **20 July 2010** commencing at **11.00 am**.

The Explanatory Notes, which accompany this Notice of Meeting, set out the details of the proposed acquisition of shares in a2 Dairy Products Australia Pty Limited (**a2 Dairy Products**) from Freedom Nutritional Products Limited (**FNP**) and the requirements for the resolutions and shareholder approvals under the NZAX Listing Rules (the **Listing Rules**), the constitution of a2C and the Takeovers Code (the **Code**).

### **BUSINESS OF THE MEETING**

The business of the meeting will be to consider and, if thought fit, pass the following resolutions as ordinary resolutions of a2C:

#### **Resolution 1: Issue of Placement Shares**

*"Subject to Resolutions 2 to 8 being passed, to approve, for all purposes (including Listing Rule 7.3.1 and Rule 7(d) of the Code), the:*

- (a) *issue of 120,376,950 fully-paid ordinary shares in a2C (**Placement Shares**) to FNP in partial consideration for the acquisition of FNP's shares in a2 Dairy Products; and*
- (b) *Directors of a2C to take all action, do all things and execute all documents and agreements necessary or considered by them to be expedient to issue the Placement Shares."*

#### **Resolution 2: Issue of Option**

*"Subject to Resolutions 1 and 3 to 8 being passed, to approve, for all purposes (including Listing Rules 7.3.1 and 7.5, and Rule 7(d) of the Code), the:*

- (a) *issue of an option to FNP to allow it to increase its shareholding in a2C up to 27.5% on the terms set out in the explanatory note to this resolution (**Option**);*
- (b) *issue of new ordinary shares in a2C to FNP on the terms set out in the explanatory note to this resolution, as a result of any exercise of the Option; and*
- (c) *Directors to take all action, do all things and execute all documents and agreements necessary or considered by them to be expedient to give effect to the issue of the Option or the issue of new ordinary shares as a result of any exercise of the Option."*

### **Resolution 3: Issue of Top-up Option**

*"Subject to Resolutions 1, 2 and 4 to 8 being passed, to approve, for all purposes (including Listing Rule 7.3.1 and Rule 7(d) of the Code), the:*

- (a) issue of an option to FNP on the terms set out in the explanatory note to this resolution that, in the event any of the partly-paid shares outstanding in a2C become (or become deemed to be) fully paid (**Relevant Partly-Pd Shares**) at any time after the issue of the Placement Shares, is exercisable to allow FNP to receive (for nil consideration) such number of a2C ordinary shares that is equivalent to 25% of the Relevant Partly Paid Shares (**Top-up Option**);*
- (b) issue of new ordinary shares in a2C to FNP as a result of any exercise of the Top-up Option; and*
- (c) Directors to take all action, do all things and execute all documents and agreements necessary or considered by them to be expedient to give effect to the issue of the Top-up Option or the issue of new ordinary shares as a result of any exercise of the Top-up Option."*

### **Resolution 4: Granting of Capital Raising Right**

*"Subject to Resolutions 1 to 3 and 5 to 8 being passed, to approve, for all purposes (including Listing Rule 7.3.1), the:*

- (a) grant of a right to FNP on the terms set out in the explanatory note to this resolution that, in the event that a2C proposes to issue a2C ordinary shares to any person (as part of any placement or other capital raising) within 12 months of completion of the a2 Dairy Products acquisition, to allow FNP to participate in that capital raising to the extent required to maintain its control percentage, for the same consideration and otherwise on the same terms and conditions as are offered to that person (**Capital Raising Right**);*
- (b) issue of new ordinary shares in a2C to FNP as a result of any exercise of the Capital Raising Right; and*
- (c) Directors to take all action, do all things and execute all documents and agreements necessary or considered by them to be expedient to give effect to the granting of the Capital Raising Right and the issue of new ordinary shares as a result of any exercise of the Capital Raising Right."*

### **Resolution 5: Increase number of Directors**

*"Subject to Resolutions 1 to 4 and 6 to 8 being passed, to approve the increase in the maximum number of Directors of a2C from 7 to 8 Directors for the purpose of clause 16.2 of a2C's constitution."*

### **Resolution 6: Appointment of Geoffrey Babidge as Director**

*"Subject to Resolutions 1 to 5, 7 and 8 being passed, to approve the appointment of Geoffrey Babidge as a Director of a2C with effect from the date of completion of the a2 Dairy Products acquisition."*

**Resolution 7: Appointment of Perry Gunner as Director**

*"Subject to Resolutions 1 to 6 and 8 being passed, to approve the appointment of Perry Gunner as a Director of a2C with effect from the date of completion of the a2 Dairy Products acquisition."*

**Resolution 8: Appointment of Melvyn Miles as Director**

*"Subject to Resolutions 1 to 7 being passed, to approve the appointment of Melvyn Miles as a Director of a2C with effect from the date of completion of the a2 Dairy Products acquisition."*

**NOTES**

**1. EXPLANATORY NOTES**

Explanatory Notes for Resolutions 1 to 8 are set out in the following pages.

**2. PROXIES**

A shareholder entitled to attend and vote at the Special Meeting may appoint a proxy to attend and vote on that shareholder's behalf. The proxy need not be a shareholder of a2C. Proxy appointment forms must be delivered to the share registrar, Link Market Services Limited, no later than 11.00 am, Sunday 18 July 2010. A proxy form is enclosed with this notice. The Chairman of the Special Meeting can be appointed as a proxy.

**3. CORPORATE REPRESENTATIVES**

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

**4. POSTAL VOTES**

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

By order of the Board



Cliff Cook  
Chairman  
July 2010

# TRANSACTION OVERVIEW

## Background

In 2007, a2 Corporation Limited (**a2C**) established a joint venture (**a2 Dairy Products**) with Freedom Nutritional Products Limited (**FNP**) for the production and sale of a2 milk™ products in Australia and Japan. Since its establishment, a2 Dairy Products' business has successfully grown to become a leading specialist milk brand in Australia, selling products including fresh milk, UHT milk and, under a license agreement with Jalna Dairy Foods Pty Limited, a recently launched yogurt product.

During the establishment phase of the Australian and Japanese businesses, a joint venture was considered the most appropriate ownership structure for a2 Dairy Products. However, now that the business has developed, a2C and FNP are of the view that an alternative ownership structure for a2 Dairy Products will better allow a2 Dairy Products to expand its product range and geographical coverage of Australia.

Because a2C and FNP each recognise the potential of the a2 Dairy Products business going forward, neither wanted to sell their respective interests in a2 Dairy Products. After considering a number of alternative ownership structures, a2C and FNP agreed the optimal structure was for a2 Dairy Products' ownership to be consolidated within a2C and for FNP to become a shareholder of a2C. This structure better positions a2 Dairy Products to take advantage of growth opportunities, increases a2C's exposure to a2 Dairy Products' growing business and allows FNP to maintain an exposure to a2 Dairy Products through a shareholding in a2C. This structure also further strengthens a2C's financial position meaning it is in a better position to pursue growth opportunities within a2 Dairy Products and in other markets.

## Rationale for a2C

The Board of a2C considers that the transaction shareholders are being asked to approve is in the best interests a2C.

The transaction results in a2C obtaining complete ownership of a2 Dairy Products, allowing a2C to:

- increase its exposure to a2 Dairy Products' successful and growing business;
- control the direction, scope and speed of a2 Dairy Products' development;
- further strengthen its financial position through issuing shares to fund the acquisition of a2 Dairy Products;
- more efficiently fund a2 Dairy Products' expansion;
- directly access a2 Dairy Products' cash flows, which will result in a2C becoming cash flow positive considerably earlier than would otherwise have been possible;
- consolidate a2 Dairy Products' earnings, thereby significantly reducing the time until a2C becomes profitable;
- increase its market capitalisation and profile as a listed company, which should make it easier for a2C to access capital to fund its growth; and
- more effectively demonstrate the potential of a2 milk™ products to other possible partners.

The Board of a2C is delighted that FNP has agreed to become a significant shareholder of a2C, as the Board considers this demonstrates FNP's view of the attractiveness and potential for a2C in Australia and its other international markets.

FNP's agreement to a 12-month restriction on the sale of the a2C shares issued to it as part of the transaction demonstrates FNP's commitment to an investment in a2C.

### **Explanation of the Transaction Structure**

There are a number of elements to the transaction structure for the purchase of the 50% of a2 Dairy Products that the a2C group does not already own:

- The issue of 120.4 million a2C shares to FNP;
- The option for FNP to receive, at no cost, a2C shares equivalent to 25% of the number of a2C partly-paid shares that become fully paid;
- The option, for a period of 12 months, for FNP to increase its shareholding in a2C up to 27.5%, at an issue price of the NZD-equivalent of A\$0.11 per share at the time of exercise;
- The right, for a period of 12 months, for FNP to participate in any placement or other capital raising and thereby acquire such number of further a2C shares as is required to maintain its shareholding percentage, on the same terms as other investors.

These four elements together represent the total consideration payable by a2C to FNP for the a2 Dairy Products acquisition.

The 120.4 million a2C shares to be issued to FNP represent the base consideration for the purchase of 50% of a2 Dairy Products and provide FNP with a shareholding equivalent to 25% of the enlarged number of fully paid a2C shares on issue at the completion of the transaction.

FNP was concerned that its shareholding in a2C would be diluted if the 20 million partly-paid shares a2C currently has on issue become fully paid. To mitigate this, the parties agreed to grant FNP the option to receive (at no cost) additional a2C shares equal to 25% of the number of partly-paid shares that become fully paid. The entitlement to these further shares only applies to the existing partly-paid shares on issue and lapses if FNP sells any of the a2C shares issued to it as part of this transaction.

FNP also wanted the opportunity to obtain a slightly larger shareholding in a2C and the directors of a2C were comfortable with issuing FNP with an option to acquire additional a2C shares to take FNP's shareholding to 27.5%, at the New Zealand-dollar equivalent of A\$0.11. This option price is equivalent to approximately \$0.135<sup>2</sup> per a2C share. This represents a premium of over 50% to the weighted average trading price for a2C shares over the last 3 months. The a2C Board consider that FNP's acceptance of an option with this exercise price is a clear indication of the value FNP attributes to a2C's shares. This option must be exercised within 12 months or it lapses. If FNP exercises this option, a2C will receive additional capital to help fund its expansion.

Finally, a2C has granted FNP the right to participate in any placement or other capital raising a2C may undertake during the next 12 months. This right is limited to FNP's percentage shareholding in a2C (ie, if FNP has a 25% shareholding in a2C it may

---

<sup>2</sup> Based on NZ\$1 = A\$0.8166.



participate in a capital raising up to 25%). FNP's participation in any capital raising must be on the same terms and conditions as the other participants meaning that FNP does not receive any benefit other than the right to participate. a2C's directors were happy to grant FNP this right as FNP's participation in a capital raising is likely to provide support for that capital raising and FNP's focus on its ability to acquire further a2C shares only provides further evidence of the value FNP sees in a2C going forward.

FNP has been a2C's partner in the establishment and growth of a2 Dairy Products and FNP's continued involvement with a2C, not only as a shareholder but as part of the Board, is welcomed. a2C also believes that with the integration of the a2 Dairy Products business, it is timely to appoint two representatives of FNP to its Board (Perry Gunner and Melvyn Miles). The understanding of the Australian consumer foods market and a2 Dairy Products that the new directors will bring to the Board will assist a2C as it considers a2C's growth options in Australia, New Zealand and other international markets.

The a2C Board is delighted that Geoffrey Babidge has agreed to join a2C as its Managing Director. Geoffrey was instrumental in a2 Dairy Products' success in Australia and this experience will be invaluable to a2C as it continues to develop its Australian business and looks to expand into new markets.

### **Summary**

The Board of a2C unanimously recommends that you approve the resolutions put to the meeting in order to allow the completion of the purchase of the 50% of a2 Dairy Products from FNP. The total consideration for the purchase of 50% of a2 Dairy Products is the a2C shares, the options and the right to participate in any placement or other capital raising for 12 months, as described above.

The transaction has a strong commercial rationale giving a2C complete ownership of the successful and growing a2 Dairy Products business in Australia. It further strengthens a2C's financial position and provides it with access to a2 Dairy Products' cash flow.

a2C's Board considers that FNP's willingness to become a significant shareholder in a2C is a vote of confidence in the a2C business.

The independent adviser has concluded that the terms of the transaction have considerable merit from the perspective of a2C's existing shareholders.

For these reasons, the Board unanimously recommends that you vote in favour of the various resolutions.

## EXPLANATORY NOTES

### A. Background

As noted above, a2 Corporation Limited (**a2C**) entered into a conditional agreement (**Agreement**) with Freedom Nutritional Products Limited (**FNP**) to acquire the shares in a2 Dairy Products Australia Pty Limited (**a2 Dairy Products Shares**) that a2C does not own. In consideration for the a2 Dairy Products Shares, FNP will receive:

- 120,376,950 fully-paid a2C ordinary shares, comprising 25% of the enlarged share capital of a2C (**Placement Shares**) (see Resolution 1);
- an option for FNP to increase its shareholding in a2C up to 27.5% within 12 months of completion of the a2 Dairy Products Shares acquisition, at an issue price of the NZD-equivalent of A\$0.11 per share at the time of exercise (**Option**) (see Resolution 2);
- an option for FNP, exercisable in the event any of the partly-paid shares outstanding in a2C become (or become deemed to be) fully paid at any time after the issue of the Placement Shares (**Relevant Partly Paid Shares**), to acquire such number of a2C ordinary shares that is equivalent to 25% of the Relevant Partly Paid Shares (**Top-up Option**) (see Resolution 3); and
- a right for FNP to participate in any placement or other capital raising and acquire such number of further a2C shares as is required to maintain FNP's control percentage, exercisable each time a2C proposes to issue shares to any person (as part of a placement or other capital raising) within 12 months of completion of the a2 Dairy Products Shares acquisition, provided that any shares issued to FNP will be on the same terms and conditions as are offered to that person (**Capital Raising Right**) (see Resolution 4).

The acquisition of the a2 Dairy Products Shares, the issue of the Placement Shares, the Option and the Top-up Option, and the granting of the Capital Raising Right are all conditional upon all resolutions set out in this Notice of Meeting being approved. Each of the Director appointments will also require the approval of shareholders.

### Settlement of the Transaction

Settlement of the a2 Dairy Products Shares acquisition is scheduled to take place one business day after the conditions in the Agreement are satisfied. This is anticipated to be the day after the Special Meeting. a2C will provide further announcements regarding the satisfaction of the outstanding conditions precedent in the Agreement (if any) in due course.

### a2 Dairy Products

a2 Dairy Products has the exclusive rights for the production and sale of a2 milk™ products in Australia and Japan in association with a2C. The rights relate to a series of patents and brand registrations that restrict other players in sourcing, distributing and marketing a2 milk.

Under FNP management, a2 Dairy Products has developed into a leading specialist milk brand and FNP management believes it has capacity for growth. The past 12 months has delivered strong growth in sales and profitability, with the business achieving an Operating EBIT of around A\$1.0 m for the year ended 30 June 2009. This growth reflected increasing awareness of the potential health benefits of consuming a2 milk™ and improving shelf

presence and availability. a2 milk™ fresh milk is now available in all mainland states of Australia.

### **The Valuation of the a2 Dairy Products Shares Acquisition**

The Board commissioned an independent adviser to provide it and the a2C shareholders with a report on the merits of the transaction. A copy of this report is enclosed. Having had regard to the independent adviser's report, amongst other things, the Board believes that the issue to FNP of the Placement Shares, the Option and the Top-up Option, and the granting of the Capital Raising Right represents fair value to a2C and its shareholders for the purchase of the a2 Dairy Products Shares. In reaching this view, the Board took into account the following considerations:

(a) the independent adviser's report stated that:

*"the FNP Placement, the FNP Option and the Top-up Option have considerable merit from the perspective of the Company's shareholders"*

*"the rationale for the FNP Placement, the FNP Option and the Top-Up Option is sound"*

*"the assessed value of the 50% shareholding in [a2 Dairy Products] exceeds the assessed value of the consideration being paid to FNP"; and*

(b) the purchase, and consideration for the purchase, of the a2 Dairy Products Shares was negotiated between the Boards of a2C and FNP on a commercial arms length basis.

The independent adviser has considered the values of the a2 Dairy Products Shares and the consideration for those shares (ie, the Placement Shares, the Option, the Top-up Option and the Capital Raising Option). Shareholders may wish to refer to the independent adviser's valuations in considering the proposed resolutions. These are set out in sections 2.4, 2.5, and 6 to 9 of the independent adviser's report.

## **B. Legal Requirements**

### **Listing Rules and Takeovers Code**

a2C is listed on the New Zealand Alternative Market (**NZAX**) and must comply with the NZAX Listing Rules (**Listing Rules**) and the Takeovers Code (**Code**). The Code, a2C's constitution and the Listing Rules contain specific requirements which are relevant to the approvals sought at this Special Meeting.

### **Takeovers Code Requirements**

Under Rule 6 of the Code, FNP may not become the holder or controller (together with its associates) of more than 20% of the voting rights in a2C, and once it holds more than 20% of the voting rights it may not increase its control of voting rights in a2C, unless the increase is permitted by an exception to that Rule.

FNP is seeking a2C shareholder approval of its increase in voting control in a2C under the transaction through the issue of the Placement Shares and the issue of any a2C ordinary shares pursuant to the Option, the Top-up Option or the Capital Raising Right, by an ordinary resolution pursuant to Rule 7(d) of the Code.

Rule 16 of the Code specifies certain information that must be disclosed in a Notice of Meeting in relation to that approval, so that shareholders can make an informed decision. The information required by the Code is set out at Appendix 1 of this Notice of Meeting.

### **Takeovers Panel Exemption Relief Approved**

Because of the nature of the Option and the Top-up Option, some of the information required by Rule 16 of the Code cannot be stated. The Takeovers Panel has, therefore, granted an exemption to those requirements of the Code which cannot be met. (See the description of the Takeovers Code (a2 Corporation Limited) Exemption Notice 2010 (**Exemption Notice**) below.)

Rule 16(b) of the Code requires a2C to disclose the exact number of voting securities (both number and percentage) that FNP would receive upon exercising each of the Option and the Top-up Option. This information cannot be stated in relation to the approval of the Option and the Top-up Option for the reasons outlined below:

- **Option:** a2C is unable to comply with Rule 16(b) as the Option expresses FNP's entitlement to acquire a2C ordinary shares in percentage terms, rather than as a specified number of shares. Further, the Option may be exercised by FNP in whole or in part so there is no certainty as to how many shares, or whether any shares, will be issued pursuant to the Option. Accordingly, it is not possible to comply with the provisions of Rule 16(b) of the Code in respect of the Option.
- **Top-up Option:** a2C is unable to comply with Rule 16(b) as the Top-up Option is exercisable each time a holder of partly-paid shares pays the liability on those shares in full. This may occur at any time over a period (which is up to 4 years for some of the shares), and at multiple times. There is no certainty the shares will become fully paid at any time. Accordingly, it is not possible to comply with the provisions of Rule 16(b) of the Code in respect of the Top-up Option.

### **Conditions to the Takeover Code (a2 Corporation Limited) Exemption Notice 2010**

As set out above, the Takeovers Panel has granted an exemption from those rules that a2C cannot comply with.

A summary of the terms and conditions of the exemption approved by the Takeovers Panel are:

- a2C is required to disclose certain information in relation to the Option and the Top-up Option. The information required under the Exemption Notice is set out at Appendix 1 of this Notice of Meeting with the other information required by the Code.
- a2C is required to disclose certain information in a2C's annual report in relation to the Option and the Top-up Option. That information is to be included in a2C's annual report for the period during which the Option and the Top-up Option remain exercisable.
- The exemption does not apply to any increase in FNP voting control in a2C other than:
  - as a result of the allotment of the Placement Shares;
  - as a result of the exercise of the Option and the Top-up Option; or

- an increase in voting in accordance with the Takeovers Code (Class Exemptions) Notice (No.2) 2001.
- The Notice of Meeting must contain certain statements.
- The form of the Notice of Meeting be approved by the Takeovers Panel.
- The exemption ceases to apply if there is a change of control of FNP.

As a result of a2C's inability to comply with the rules relating to the Notice of Meeting for the approval of the Option and the Top-up Option, the Takeovers Panel has granted FNP a consequential exemption to Rule 7(d).

The exemption will lapse on 30 September 2014.

**Note: By exempting FNP from Rule 7(d), and a2C from Rule 16(b), of the Code, and approving the form of this Notice of Meeting, the Takeovers Panel is:**

- (a) **neither endorsing nor supporting the accuracy or reliability of the contents of this Notice of Meeting; and**
- (b) **not implying it has a view of the merits of the proposed issue to FNP of voting securities on the exercise of the Option or the Top-up Option.**

#### **Independent Adviser's Report**

As required by Rule 18 of the Code, a report has been obtained from Simmons Corporate Finance, the independent adviser approved by the Takeovers Panel, on the merits of the proposed allotment of the Placement Shares and issue of the Option and the Top-up Option.

A full copy of this report is enclosed with this Notice of Meeting.

Each shareholder will need to carefully consider the information in this Notice of Meeting and the Simmons Corporate Finance report in light of that shareholder's individual circumstances. Shareholders should consult their own professional adviser as appropriate.

#### **Resolutions**

The resolutions which are to be considered at the Special Meeting are ordinary resolutions. An ordinary resolution is a resolution passed by a simple majority of votes of shareholders of a2C, entitled to vote and voting.

#### **Resolutions are Inter-Conditional**

The resolutions set out in this Notice of Meeting are inter-conditional. This means that either all of the resolutions pass or none of them pass. In the event that any resolution is not approved, the remaining resolutions will be unable to be passed and the Chairman may determine not to put the remaining resolutions to a vote.

#### **Voting Exclusion Statement**

While a2C believes that all a2C shareholders will be eligible to vote (as it believes that no a2C shares are held by FNP or its associates), a2C must disregard any votes cast on the resolutions by FNP and any persons who are associates of FNP (should they hold any shares at the time of the Special Meeting).

However, a2C needs not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the Special Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Set out below is further information on the resolutions to be proposed at this Special Meeting. The implications of the above legal requirements, including the Listing Rules, the Code and the Constitution, insofar as they relate to each resolution, are addressed in the Explanatory Notes to each resolution.

## **C. Specific Explanatory Notes to the Resolutions**

### **RESOLUTION 1: ISSUE OF PLACEMENT SHARES**

#### **General**

The purchase price for the acquisition of the a2 Dairy Products Shares pursuant to the Agreement will be satisfied, in part, by the issue of the Placement Shares to FNP.

#### **Requirement for Resolution**

##### *Constitution and Listing Rules*

a2C's constitution and Listing Rule 7.3.1 require that the issue of the Placement Shares be approved by an ordinary resolution of the existing shareholders of a2C.

##### *Takeovers Code*

The issue of Placement Shares is subject to the Code as the issue relates to an allotment of more than 20% of the voting securities of a2C. In accordance with Rule 7(d) of the Code, the allotment of the Placement Shares to FNP must be approved by an ordinary resolution of shareholders for it to be an exception to the usual Code restriction on acquiring more than 20% of the voting securities of a2C.

#### **Board Recommendation**

The Directors of a2C unanimously recommend that a2C shareholders vote in favour of Resolution 1. If this resolution is not passed, none of the other resolutions in this Notice of Meeting are able to pass and the Agreement will lapse (assuming there is no waiver of the conditions or any amendment to the Agreement).

### **RESOLUTION 2: ISSUE OF OPTION**

#### **General**

In addition to the issue of the Placement Shares, a2C will issue FNP the Option, which entitles it to increase its shareholding in a2C up to 27.5%.

#### **Terms of the Option**

The principal terms of the Option are:

- Under the Option, FNP may acquire further a2C ordinary shares up to a maximum shareholding of 27.5%.

- FNP must pay an issue price that is the NZD-equivalent of A\$0.11 per share (calculated at the time of exercise of the Option)<sup>3</sup> in order to exercise the Option.
- The Option does not give FNP any right to vote. FNP will acquire voting rights with the ordinary shares it receives on any exercise of the Option.
- The Option is exercisable for the 12 months following completion of the a2 Dairy Products Shares acquisition. FNP may exercise the Option once, at any time during this period.
- The Option will lapse if FNP disposes of any or all of the a2C shares it holds.
- All shares issued to FNP upon the exercise of the Option will rank equally in all respects with all other a2C Shares on issue.

The Option will not be quoted on the NZAX.

### **Issue of Ordinary Shares upon the Exercise of the Option**

The resolution approves the issue of the Option and the issue of ordinary shares in a2C on any exercise of the Option.

If the price for the ordinary shares on issue in a2C appreciates or depreciates, or the Australian-dollar / New Zealand-dollar exchange rate appreciates or depreciates, during the Option Period, FNP is still entitled to exercise the Option and acquire ordinary shares in a2C at the NZD-equivalent of A\$0.11 per share at the time of exercise. This may represent a premium or a discount to the market price for the ordinary shares at that time.

### **Requirement for Resolution**

#### *Listing Rules*

Listing Rule 7.3.1 states, in general terms, that shareholder approval must be obtained for any issue of Equity Securities (which includes the Option) by a2C. Accordingly, shareholder approval is being sought in accordance with Listing Rule 7.3.1.

Listing Rule 7.5 states, in general terms, that any issue of shares that affects control of the issuer must be approved by an ordinary resolution of shareholders. While a2C does not believe the issue of shares on the exercise of the Option will affect control of a2C, it wishes to seek the approval of shareholders to remove any doubt.

#### *Takeovers Code*

The Option gives FNP the right to acquire shares in a2C that would increase FNP's shareholding up to 27.5% of the ordinary shares in a2C. In accordance with Rule 7(d) of the Code, the issue of the shares issued pursuant to the Option must be approved by an ordinary resolution for it to be an exception to the usual Code restriction on FNP increasing its voting control in a2C (as FNP will hold and control more than 20% of the voting rights in a2C).

**Note:** As described previously, the Exemption Notice applies to the Option. Please refer above for details of the Exemption Notice and a2C's disclosure requirements in relation to the Option.

### **Board Recommendation**

The Directors of a2C unanimously recommend that a2C shareholders vote in favour of Resolution 2. If this resolution is not passed, none of the other resolutions in this Notice of

<sup>3</sup> The NZD-equivalent is the mid-point between the buy rate and the sell rate quoted by the Bank of New Zealand at (or as close to possible to) 11:00 am on the date of the exercise of the Option or, if such date is not a business day, the next business day after that date.

Meeting are able to pass and the Agreement will lapse (assuming there is no waiver of the conditions or any amendment to the Agreement).

### **RESOLUTION 3: ISSUE OF TOP-UP OPTION**

#### **General**

a2C will issue FNP the Top-up Option, which entitles it to acquire ordinary a2C shares should any of the 20 million partly-paid shares that have been issued to three a2C executives become fully paid at any time. Under the Top-up Option, FNP is entitled to be issued shares equivalent to 25% of any of the 20 million partly-paid shares that become fully paid. If any of the partly-paid shares are paid-up, the voting rights of the holder will increase and FNP's voting rights will decrease. The issue of a2C shares to FNP under the Top-up Option will mitigate this decrease.

#### **Terms of the Top-up Option**

The principal terms of issue of the Top-Up Option are:

- The Top-up Option can be exercised to allow FNP to acquire such number of a2C shares that is equivalent to 25% of the number of partly-paid shares that become fully paid at any time (ie, up to a maximum of 5,000,000 a2C shares can be issued to FNP under the Top-up Option).
- Any shares issued on the exercise of the Top-up Option will be issued for nil consideration.
- The Top-up Option can be exercised to the extent any of the 20 million partly-paid shares become fully paid.
- The last date that the Top-up Option is exercisable is 24 August 2014, relating to 10 million partly-paid shares (with the others expiring not later than 10 September 2011). The Top-up Option will lapse when none of the partly-paid shares are able to be paid-up.
- The Top-up Option will lapse if FNP disposes of any or all of the a2C shares it holds.

#### **Issue of Shares upon the Exercise of the Top-Up Option**

The resolution approves the issue of the Top-up Option and the issue of ordinary shares in a2C on any exercise of the Top-up Option.

As the consideration for any exercise of the Top-up Option will be nil, FNP will effectively be granted a2C shares for free.

#### **Requirement for Resolution**

##### *Listing Rules*

Listing Rule 7.3.1 states, in general terms, that shareholder approval must be obtained for any issue of Equity Securities (which includes the Top-up Option) by a2C. Accordingly, shareholder approval is being sought in accordance with Listing Rule 7.3.1.

##### *Takeovers Code*

The Top-up Option gives FNP the right to increase its control of voting rights at a level above 20%. In accordance with Rule 7(d) of the Code the issue of shares to FNP upon the exercise of the Top-up Option, must be approved by an ordinary resolution for it to be an exception to the usual Code restriction on FNP increasing its voting control in a2C (as FNP holds and controls more than 20% of the voting rights in a2C).



**Note:** As described previously, the Exemption Notice applies to the Top-up Option. Please refer above for details of the Exemption Notice and a2C's disclosure requirements in relation to the Top-Up Option.

### **Board Recommendation**

The Directors of a2C unanimously recommend that a2C shareholders vote in favour of Resolution 3. If this resolution is not passed, none of the other resolutions in this Notice of Meeting are able to pass and the Agreement will lapse (assuming there is no waiver of the conditions or any amendment to the Agreement).

## **RESOLUTION 4: GRANTING OF CAPITAL RAISING RIGHT**

### **General**

a2C will grant FNP the Capital Raising Right, which entitles it to participate in any placement or other capital raising and thereby acquire such number of further a2C shares as is required to maintain FNP's control percentage, should a2C wish to issue shares to any person for a capital raising within 12 months of completion of the a2 Dairy Products Shares acquisition. The shares issued on any exercise of the Capital Raising Right will be for the same consideration and on otherwise the same terms and conditions as are offered to that person. The Capital Raising Right is only applicable for the 12 months following completion of the a2 Dairy Products Shares acquisition.

### **Requirement for Resolution**

The Agreement requires that the granting of the Capital Raising Right be approved by an ordinary resolution of a2C shareholders.

### *Takeovers Code*

The Capital Raising Right will not require shareholder approval under the Code as FNP will participate in the capital raising and FNP will be issued the shares on the same terms and at the same time as they are issued to another person. As such, that FNP's voting control will not change.

### **Board Recommendation**

The Directors of a2C unanimously recommend that a2C shareholders vote in favour of Resolution 4. If this resolution is not passed, none of the other resolutions in this Notice of Meeting are able to pass and the Agreement will lapse (assuming there is no waiver of the conditions or any amendment to the Agreement).

## **RESOLUTION 5: INCREASE NUMBER OF a2C DIRECTORS**

### **General**

With the integration of the a2 Dairy Products business, a2C believes it is timely to appoint two representatives of FNP (Perry Gunner and Melvyn Miles) to its Board, along with Geoffrey Babidge as the Managing Director.

In order to do this and allow for the directors to be appointed pursuant to Resolutions 6, 7, and 8, a2C must increase the maximum number of Directors from 7 to 8, for the purpose of clause 16.2 of a2C's constitution.

Accordingly, an ordinary resolution of shareholders is required in order to alter the maximum number of Directors under clause 16.2 of a2C's constitution.

### **Board Recommendation**

The Directors of a2C unanimously recommend that a2C shareholders vote in favour of Resolution 5. If this resolution is not passed, none of the other resolutions in this Notice of Meeting are able to pass and the Agreement will lapse (assuming there is no waiver of the conditions or any amendment to the Agreement).

## **RESOLUTIONS 6, 7, AND 8: APPOINTMENT OF DIRECTORS**

### **General**

The Agreement provides the appointment of Geoffrey Babidge, Perry Gunner and Melvyn Miles as Directors of a2C. Perry Gunner and Melvyn Miles represent FNP's interests and each of their appointments is in recognition of FNP's investment in a2C. Geoffrey Babidge has agreed to join a2C as its Managing Director.

### **Requirement for Resolutions**

The Constitution and the Listing Rules provide that an ordinary resolution of a2C shareholders is required to appoint a Director. Accordingly, separate ordinary resolutions approving the appointment of Geoffrey Babidge, Perry Gunner and Melvyn Miles are sought. If approved, the appointments will be effective from the date of the acquisition of the a2 Dairy Products Shares.

### **Biographies**

Brief biographies for each of Geoffrey Babidge, Perry Gunner and Melvyn Miles are provided below:

#### ***Geoffrey Babidge (B.Comm., ACA)***

Geoffrey will join a2C as its Managing Director. Geoffrey was instrumental in the success of a2 Dairy Products in Australia and this experience will be invaluable to a2C in its continued development of the Australian business and expansion into new markets.

He has extensive public company experience within the Australian food industry. Geoffrey is currently the CEO and Managing Director of FNP, the former CEO of the major milling and baking group, Bunge Defiance and for many years was the Managing Director of the dairy interests of National Foods Limited.

Geoffrey is a Chartered Accountant.

#### ***Perry Gunner (B.Ag,Sc.)***

Perry has over 20 years experience in the wine industry and is the former Chairman and CEO of Orlando Wines – responsible for the international development of the Jacobs Creeks brand. Perry is currently the Chairman of ABB Grain Limited, the Deputy Chairman of Viterra Inc and a Director of Australian Vintage Ltd.

Perry is the Non-Executive Chairman of FNP and is a Fellow of the Australian Institute of Company Directors.

***Melvyn (Mel) Miles (B.Sc. (Hons), F.I.B.D)***

Melvyn has extensive senior management experience in a number of major Australian public and private companies. Melvyn is the former Vice President of Carlton and United Breweries and Foster's Group. He is also a former Director of Carlton and United Breweries (and its subsidiary companies) and Pacific Distilleries, Fiji. Melvyn has also held general management positions with Visy Industries and Amcor Australasia.

Melvyn is a Non-Executive Director of FNP, a member of the Strategic Planning Committee for the Institute of Brewing and Distilling, Asia Pacific, as well as being a Fellow of the Australian Institute of Company Directors.

**Board Recommendation**

The Directors of a2C unanimously recommend that a2C shareholders vote in favour of Resolutions 6, 7, and 8. If these resolutions are not passed, none of the other resolutions in this Notice of Meeting are able to pass and the Agreement will lapse (assuming there is no waiver of the conditions or any amendment to the Agreement).

## APPENDIX 1

### INFORMATION REQUIRED BY THE TAKEOVERS CODE AND THE EXEMPTION NOTICE IN RESPECT OF RESOLUTIONS 1 TO 3

**1. Identity of Allottee**

The Placement Shares, the Option, and the Top-up Option are all issued to Freedom Nutritional Products Limited (**FNP**).

**2. Particulars of the Voting Securities being Allotted**

	Maximum number of voting securities that could be allotted to FNP	Maximum number of voting securities that could be allotted expressed as a percentage of the total voting securities on issue after the exercise	Maximum percentage of the total voting securities on issue that could be held or controlled by FNP after the completion of the allotment	Aggregate of the maximum percentages of the total voting securities on issue that could be held or controlled by FNP and by FNP's associates after completion of the allotment
<b>Placement Shares</b>	120,376,950	25%	25%	25%
<b>Option</b>	19,189,924*	3.65%*	27.5%	27.5%
<b>Top-up Option</b>	5,000,000	0.99%	25%	25%
<b>Aggregate of Option and Top-up Option</b>	24,189,924*	4.6%*	27.5%	27.5%

\* assumes the Top-up Option is exercised in full.

The above information is provided on the basis that, there is no change to the total number of voting securities on issue as at the date of the Notice of Meeting other than as a result of the issue of the Placement Shares and the exercise of the Option and Top-Up Option

**3. If voting securities being allotted are voting securities of a body corporate other than the code company**

- (a) The number of voting securities in the code company that are held or controlled by that body corporate: Not applicable.
- (b) The percentage of the total voting securities of the code company that that number represents: Not applicable.

**4. Issue price for voting securities being allotted and when it is payable**

The Placement Shares, the Option and the Top-up Option are being issued as consideration for the purchase by a2C of the a2 Dairy Products Shares.

The a2 Dairy Products Shares are being purchased at the same time as the allotment of the Placement Shares and the granting of the Option and the Top-up Option.

The issue price for a2C shares issued upon the exercise of the Option is the NZD-equivalent of A\$0.11 (at the time of exercise of the Option)<sup>4</sup> and is payable by FNP upon the issue of a2C shares pursuant to the Option.

The issue price for a2C shares issued upon the exercise of the Top-Up Option is nil.

**5. Reasons for allotment**

The Placement Shares are being issued and the Option and the Top-Up Option are being granted to FNP pursuant to the sale and subscription implementation agreement under which a2C will acquire the a2 Dairy Products Shares.

a2C ordinary shares will be issued on the exercise of the Option and the Top-Up Option in accordance with the terms of issue of those options.

**6. Statement that the transaction will be permitted under Rule 7(d) of the Takeovers Code**

The allotment of the Placement Shares and any a2C ordinary shares issued upon exercise of the Option or the Top-up Option pursuant to the ordinary resolutions set out in this Notice of Meeting, if approved, will be permitted under Rule 7(d) of the Takeovers Code (taking into account the Exemption Notice, where applicable) as an exception to Rule 6 of the Takeovers Code.

**7. Statement by person acquiring voting securities setting out particulars of arrangements relating to voting securities or voting rights**

FNP has provided a statement to a2C in accordance with Rule 16(g) of the Takeovers Code, that there are no agreements or arrangements (whether legally enforceable or not) that have been, or are intended to be, entered into between FNP and any other person relating to the allotment, holding or control of the voting securities to be allotted, or to the exercise of the voting rights in a2C, other than:

- (a) the proposed allotment of the Placement Shares and the granting of the Option, Top-up Option and Capital Raising Right (and the shares issued pursuant to them) that has been approved by the Board of a2C; and
- (b) the restriction on FNP from transferring any of the a2C shares issued pursuant to the Agreement for a period of 12 months from completion of the a2 Dairy Products Shares acquisition (subject to limited exceptions relating to transfers to FNP's wholly-owned related companies, takeovers of a2C, a2C share buy backs, and schemes of arrangement or amalgamations involving a2C).

**8.** The report from an independent adviser required by Rule 18 of the Takeovers Code is **enclosed** with this Notice of Meeting.

**9.** The statement by the Directors of a2C required by Rule 19 of the Takeovers Code is included at Appendix 2.

---

<sup>4</sup> The NZD-equivalent is the mid-point between the buy rate and the sell rate quoted by the Bank of New Zealand at (or as close to possible to) 11:00 am on the date of the exercise of the Option or, if such date is not a business day, the next business day after that date.

## **APPENDIX 2**

### **DIRECTORS' STATEMENT – RULE 19 OF THE CODE**

Each of Arthur John Allison, Clifford James Cook, Richard Oram Le Grice, Gregory Paul Hinton and David William Mair have reviewed the Independent Adviser's Report on the merits of the issue of the Placement Shares (see Resolution 1), the Option (see Resolution 2), and the Top-up Option (see Resolution 3) from the perspective of shareholders who are not interested in the transaction (a copy of which is enclosed with this Notice of Special Meeting of shareholders).

After careful consideration, the Directors recommend approval under rule 7(d) of the Code of the issue of the Placement Shares, the issue of shares on the exercise of the Option, and any issues of shares on the exercise of the Top-up Option on the basis that it (together with the granting of the Capital Raising Right) will enable a2C to purchase the a2 Dairy Products Shares, and that the acquisition of the a2 Dairy Products Shares should benefit a2C for the following reasons:

- The acquisition of the a2 Dairy Products Shares is seen as an important step for the development of a2C in the Australian market.
- The Board considers that the issue of the Placement Shares and the granting of the Option, the Top-up Option, and the Capital Raising Right represent fair consideration to a2C and the shareholders for the purchase of the a2 Dairy Products Shares.