



Clover Corporation Limited

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**Chairman's Address to the
2006 Annual General Meeting
28 November, 2006**

Firstly may I say how delighted I am that Dr Ian Brown accepted the position of Managing Director and CEO of Clover mid way through this year. Ian brings to Clover 25 years of technical and commercial experience in the cereals, ingredient, food & nutrition industries. With the number of both commercial and research projects currently under way the company needs someone of Ian's experience and ability to not only co-ordinate the projects but more importantly to make the critical decision on which are commercially viable. Ian will outline a number of these projects when he presents his report.

The profit result for 2006, on the surface, looks disappointing. The profit of \$453,000 was down on last year however included in this year's result was a number of significant items:-

- the expensing of \$525,000 in research and product development costs;
- the write-down in the value of plant and equipment at the Altona manufacturing site by \$191,000;
- start-up losses in Future Food Ingredients Pty Ltd (FFI) the 50% owned soy joint venture.

During this current financial year we expect to expense further research and product development costs under the present Australian accounting standards and the soy joint venture will continue to incur losses as the business slowly grows momentum in the second half of the year.

Apart from Ian's appointment in June 2006 the company took further steps during the year to secure its future in the Omega³ DHA market. In June 2006 Clover signed a 10 year (5 + 5) supply contract with Starkist in Samoa hence ensuring a reliable supply of crude tuna oil. We view this relationship with Starkist as critical as the world supply of fish oil, in particular, tuna oil, continues to come under pressure. Secondly, the installation of a new deodorizer in Altona has enabled Clover to produce a much improved refined oil which will open up new markets for the company and finally, the development work to improve our microencapsulation technology is nearing completion. This development work is being undertaken with Food Science Australia (FSA) and will enhance the functionality of the powdered Driphorm ingredients in a number of applications.

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In reviewing the company's results by geographic segments you will notice how reliant the company is on Australasia. At present Clover has little presence in UK, Europe and the USA. These are large markets for both Omega³ DHA and wholebean soy flour. The Board is of a strategic view that for Clover to improve its performance and provide adequate returns for its shareholders it must partner with locally based ingredient manufacturers, suppliers and/or distributors to gain access to these markets. Ian is about to embark on a trip to Europe and the USA to follow-up on a number of potential partners however we will not be rushing into any formal agreements until we are satisfied that the potential partner has the technical skills to support our product range.

As I said at the outset the profit result for 2006 was disappointing however the underlying performance from the company's core business of Omega³ DHA was sound. We expect this trend to continue through 2007 although sales into Indonesia have been affected by the earthquake earlier this year in Surabaya where one of our major infant formula customers suffered damage to its manufacturing plant and has experienced further delays in production start-up. The soy joint venture is still in the commercialization phase and incurring losses. The plant is now capable of producing a high quality wholebean flour witnessed by Page 3.

So Natural Foods converting its entire range of soymilk products to Nu-Soya commencing in 2007. The full effect of this contract will be seen in the 2007-2008 financial year. Further resources are needed in this business, particularly in the sales, marketing and technical support area and progress is being made to identify those resources. This business is break-even at 2000 tonnes and when this point is reached cash flows look very encouraging.

The company's balance sheet is sound and cash flows from operating activities was again positive in 2006. A percentage of our cash holding will be used this year for further product development and adding resources where needed. This should be seen as investing in the future growth of the company.

Finally, I would like to thank my fellow directors for their contribution during the year, to Peter Lancaster for his management role in Nu-Mega Ingredients Pty Ltd and to Guy Drummond who has played a major role in the deodorizer project and for laying the groundwork in the US market which is about to be followed-up by Ian.

A great deal has been achieved during the year and for this I thank the management and staff for their tireless efforts.

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