Explanatory Memorandum to Shareholders

This is an important document and requires your urgent attention. If you are unsure how to deal with it, please consult your legal or financial adviser immediately.

CLOVER

Clover Corporation Limited ABN 85 003 622 866

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Definitions, Terms and Abbreviations

Below is a summary of the definitions, terms and abbreviations used within this Explanatory Memorandum to shareholders.

$	means Australian Dollars;
ASX	means Australian Stock Exchange Limited (ABN 98 008 624 691);
CHH	means Clover's solicitors Cutler, Hughes & Harris (ABN 81 205 375 758);
Clover or the Company	means Clover Corporation Limited (ABN 85 003 622 866);
COGS	means Cost of Goods Sold;
DHA	means Docsaohexaenoic Acid;
Directors or Board	means the Board of Directors of Clover in office at the date of this Explanatory Memorandum;
Explanatory Memorandum	means this Explanatory Memorandum to Clover shareholders dated 16th October 2002;
Ernst & Young Corporate Finance	means Clover's corporate advisors Ernst & Young Corporate Finance Pty Limited (ABN 87 003 599 844);
Food Spectrum Group	means the Food Spectrum Group of Companies which includes Food Spectrum Pty Limited (ACN 010 405 571) and Nutra Spec Pty Limited (ACN 101 754 161);
GLA	means Gamma-Linolenic Acid;
Heads of Agreement	means the Heads of Agreement that was signed between Clover and Food Spectrum Group on 20 August 2002;
Joint Venture	means the Joint Venture as contemplated by the Proposed Transaction;
Nu-Mega	means Nu-Mega Ingredients Pty Limited (ACN 102 460 739) the intended corporate entity for Joint Venture operations upon successful shareholder approval of the Proposed Transaction; and
Proposed Transaction	means the proposed Joint Venture between Clover and Food Spectrum Group on the terms set out in this Explanatory Memorandum.

Chairman's Address

16 October 2002

Dear Clover shareholder

As announced on the 20 August 2002, a Heads of Agreement was entered into between Clover Corporation Limited and the Food Spectrum Group of Companies. The Heads of Agreement outlined an intended Joint Venture between the parties, to be incorporated as "Nu-Mega Ingredients" Pty Limited.

The Proposed Transaction represents the second stage of the restructure of your Company that commenced with Clover's cost base reorganisation that was announced at the 2001 Annual General Meeting held during October last year.

Essentially, the Joint Venture seeks to maximise shareholder value by aligning Clover's food technology-related intellectual property as well as current and potential customers with the Food Spectrum Group's demonstrated food industry management expertise, applications technology development and specialist food industry research and product development team.

In the announcement released on the 20 August 2002, we indicated that the Proposed Transaction was subject to due diligence enquiries, negotiation of the Joint Venture Agreement and associated agreements as well as Clover shareholder approval. We have now completed these enquiries and agreements and are seeking shareholder endorsement of the Proposed Transaction.

Your Directors believe that the Proposed Transaction is in the best interests of all shareholders and unanimously recommend that you support the Proposed Transaction.

Full details of the Proposed Transaction are set out in this Explanatory Memorandum. If you would like to enquire about any aspect of the proposed Joint Venture, please call our Company Secretary on +61 (0)2 9238 0322, or seek advice from your investment adviser or other professional adviser.

I look forward to meeting you personally at the 2002 Annual General Meeting of the Company.

Yours sincerely

Hamish Drummond
EXECUTIVE CHAIRMAN
CLOVER CORPORATION LIMITED

1. Introduction

On the 20 August 2002, the Board of Clover entered into a Heads of Agreement with the Food Spectrum Group. On 11 October 2002 the Directors executed the Joint Venture Agreement and associated agreements, subject to shareholder approval, to form a Joint Venture to be incorporated as "Nu-Mega Ingredients Pty Limited".

The purpose of this Explanatory Memorandum is to provide the background necessary for Clover shareholders to make an informed decision regarding the approval or otherwise of the Proposed Transaction.

The Directors of Clover unanimously recommend that you vote in favour of the Proposed Transaction as they believe the Joint Venture is in the best interests of all shareholders. The major shareholders of the Company, Washington H Soul Pattinson & Company Limited and the Drummond family, intend to vote in favour of the Proposed Transaction for all interests under their control.

If shareholders do not approve the Proposed Transaction, the Joint Venture will not proceed.

2. History of Clover

Clover was established in 1988 and incorporated in 1991. Clover listed on the ASX during November 1999 and raised $21 million as part of this initial public offering process. Clover's entire share capital was dual listed on the Alternative Investment Market of the London Stock Exchange on 16 May 2001.

Over the last 11 years, Clover has focused on being a market driven research-based functional food company which has developed a prominent position in long chain polyunsaturates, Omega-3 (including DHA) and Omega-6 (including GLA) oils.

Clover's unique technology includes the innovative and patented microencapsulation techniques that enable Clover to convert its oils (Omega-3 or Omega-6) into free flowing powders. These microencapsulated powders are deliverable as functional ingredients into both "dry" and "wet" foods such as breads, cereals, milks, yoghurts and infant formula.

Earnings Performance

Clover has incurred operating losses since listing on the ASX. This has been primarily due to lack of sales caused by the need to change Clover's DHA marketing strategy, which necessitated the Company working closer with the research and product development and marketing divisions of current and potential customers. As a result of the requirement for clients to perform stability trials with their own product formulations and conduct consumer acceptance tests, there is a significant time interval from customer interest in DHA products until order placement.

If there is no change to its current operating structure, Clover's management and Directors are forecasting an improvement in DHA sales and operating results in the 2003 financial year, primarily as a result of the following:

- The reorganisation and restructure of Clover's cost base to more closely align with maintainable revenue generation;
- The July 2002 product launch of Tip Top Up® by George Weston Foods Limited; and
- The August 2002 announced Technology License and Contract Manufacturing Agreement with the US based Martek Biosciences Corporation.

Below is a summary of Clover's audited statement of financial performance for each of the 12 months ended 30 June 2000, 30 June 2001 and 30 June 2002.

Statement of Financial Performance for the financial years ended 30 June	Actual 2000 $000's	Actual 2001 $000's	Actual 2002 $000's
Sales revenue	8,066	8,840	9,654
COGS	(6,696)	(7,720)	(8,278)
Gross profit	1,370	1,120	1,376
Other revenues from ordinary activities	6,080	1,279	893
Expenses from ordinary activities	(7,749)	(7,192)	(7,829)
Share of net profit (loss) of joint venture accounted for using the equity method	-	(52)	(12)
Profit (loss) from ordinary activities before income tax	(299)	(4,845)	(5,572)

Source: Clover Corporation Ltd's Annual Reports

During the 2002 financial year, the Directors reorganised and restructured the cost base of the Company. This resulted in one off and non-recurring charges of $1.143 million.

Also during the 2002 financial year, the Directors wrote down the carrying value of goodwill and the majority of other intangibles to nil. These write downs amounted to $1.329 million.

Issued Share Capital

The Company's total issued share capital at 30 June 2002 was $28.5 million represented by 150,447,233 fully paid ordinary shares held by 2,640 shareholders.

As at 30 June 2002, Clover had the following unexercised options on issue:

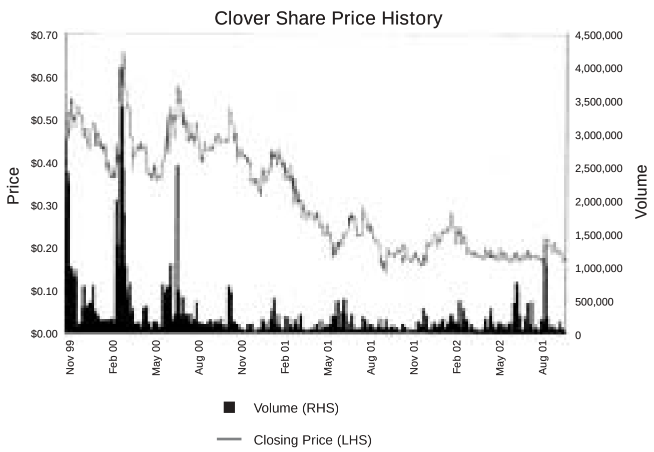
Options	Number of Options
Ordinary options exercisable on or before 31 July 2004 at a price of $0.30	14,902,767
Employee options exercisable on or before 31 July 2004 at a price of $0.30	3,950,000
Employee options exercisable on or before 2 November 2005 at a price of $0.45	400,000
Total	19,252,767

Ownership

As at 6 September 2002, Clover's major shareholders were the interests controlled by the Drummond family representing 26.9% of the issued capital and a cornerstone investor, Washington H Soul Pattinson & Company Limited with 29% of the issued capital.

Share Price History

Clover's share price traded between $0.17 and $0.29 over the period January 2002 to October 2002, implying a market capitalisation of between $29.0 million and $48.6 million on a fully diluted basis.



3. Who is the Food Spectrum Group?

The Food Spectrum Group is a Brisbane based private company group with annual revenues in the order of $35 million, supplying aseptic fruit preparations, aseptic syrups and toppings, formulated premixes and functional ingredient blends into the fast moving consumer goods market primarily of the Asia-Pacific region.

The Food Spectrum Group has recently moved to a new premises based in Nathan, an inner southern suburb of Brisbane, Queensland. This facility has approximately 10,000 square metres of manufacturing area and around 900 square meters of office and administration area. The facility includes a new technical centre, additional liquid processing lines, state-of-the-art raw material handling and upgraded dry processing capabilities.

Milestones and achievements of Food Spectrum Group include: -

- 1989 Official supplier to US Armed Forces;
- 1991 ISO9001 Quality Accreditation;
- 1995 Australian Exporter of the Year;
- 1996 NATA Registered Laboratory;
- 1998 Fully Accredited HACCP System;
- 1999 Stericon Packaging System;
- 2001 Leadership of the Fruit Preparations market; and
- 2002 Commissioning of Nathan site.

The Food Spectrum Group is solely owned by the managing director of the Group, Peter Lancaster and approximately 70 other staff are employed within the Group.

The Food Spectrum Group is managed along three separate business units by an executive management team made up of the managing director, the manager of corporate services, the manager of supply chain management and the manager of business development.

The Food Spectrum Group has gained market share via customer support in applications based food technology and follow-up assistance. Approximately 25% of Food Spectrum Group's staff are employed in research, product development and quality assurance roles. The Food Spectrum Group's significant technical capability is displayed by continued success in providing innovative commercial solutions for large fast moving consumer goods corporations and quick service restaurant chains throughout the Asia-Pacific region.

4. Rationale for Proposed Transaction

In order to reduce the ongoing cash burn of Clover, the Directors reorganised and restructured the cost base during the 2002 financial year. The Directors have also assessed many alternatives to achieve the original projected sales growth of Clover's food technology products. During this review, the Directors identified that additional resources and expertise were needed to commercialise Clover's current technologies in order to market the product range and intellectual property of Clover to its full potential. The two areas of resources identified by Directors are:

- Research and product development team; and
- Applications technology developed by the research and product development team.

The reasons for the additional resources and expertise is best summarised by the product development cycle involved with the recently launched Omega-3 DHA Bread (Tip Top Up®) by George Weston Foods Limited. This product, containing Clover's HiDHA microencapsulated powder, has involved 18 months of development in the stability, application and manufacturing areas. Although Clover's microencapsulated products have proven shelf life and stability qualities in their own individual form and packaging, these same qualities need to flow through to Clover's customers' final food products after they have included Driphorm as an ingredient. A result of the major work conducted with George Weston Foods has been the development of the protocols of when to include Clover's product in the bread's ingredient list and mixing process as well as the method of inclusion within the George Weston Foods' manufacturing processes and plant and equipment.

In simple terms, Clover needs to further develop product applications knowledge and expertise and to be able to advise customers as to the best available methods to incorporate microencapsulated powders into their manufacturing processes. This advice must be relevant whether customers are manufacturing bread and cereal products or yoghurt and milk products and the type of manufacturing plant and equipment used.

Essentially, there were two identified strategies for Clover to be able to deliver these additional necessary resources. There is the "start from scratch" strategy of directly employing the research and product development team and building the associated infrastructure needed or there is the strategy of identifying resources that are already in existence but owned by a third party and arranging a Joint Venture. The Board has preferred the strategy of forming a Joint Venture.

5. Summary of the Terms of the Proposed Transaction

5.1 Equity Structure of the Transaction

The ownership structure of the Joint Venture will initially be as follows with Clover owning 70% (represented by 70 of the 100 ordinary shares to be initially issued in Nu-Mega) of the ordinary share capital of Nu-Mega and Food Spectrum Group owning 30% (represented by 30 of the 100 ordinary shares to be initially issued in Nu-Mega) of the ordinary share capital:

Clover 70%

Food Spectrum Group 30%

Nu-Mega Ingredients Pty Ltd

The Shareholders' Agreement details an earn-in mechanism whereby Food Spectrum Group may increase in three tranches (as set out below) its interest in Nu-Mega to a maximum 50% if Nu-Mega achieves specified net profit before tax targets over the period commencing 1 July 2003 to 30 June 2006. The buy-in mechanism operates such that unless the net profit before tax thresholds are achieved in the relevant financial year, the option in respect of that financial year lapses unless Food Spectrum Group achieves the net profit before tax target for the 2006 financial year whereby the achievement enables Food Spectrum Group to increase its interest to the maximum 50%. Further information of the net profit before tax targets is contained in section 5.5 of this explanatory memorandum.

Financial Year Ending	Incremental Shares in Nu-Mega	Food Spectrum Group's Interest	NPBT Target $000's
30 June 2004	0	30%	0
30 June 2005	13	38%	4,471
30 June 2006	13	44%	8,942
30 June 2007	14	50%	13,425
	40		

Initially, the board of directors of Nu-mega will be composed of five member directors with Clover nominating three directors and Food Spectrum Group two directors. For so long as Clover is the majority shareholder, a Clover nominated director will act as Chairman. In the event that Food Spectrum Group's interest increases to 50%, Food Spectrum Group will be entitled to appoint an additional representative to the board of Nu-Mega. The Chairmanship will then rotate every 24 months with a Food Spectrum Group representative holding the Chair for the first 24 month period after the date that Nu-Mega is equally owned by Clover and Food Spectrum Group.

Operational management of Nu-Mega will be the responsibility of Food Spectrum Group under the direction of Nu-Mega's board. Nu-Mega will carry on business in accordance with an annual business plan in force from time to time as adopted by the board of Nu-Mega.

Hamish Drummond the current executive Chairman of Clover has indicated that if the Proposed Transaction is approved by shareholders that he intends to move to a non-executive director role within the Company. Nu-Mega will retain Mr Drummond as a consultant on a fee of $75,000 per annum paid monthly.

5.2 Contribution of Clover to the Nu-Mega Joint Venture

Clover will contribute the following to Nu-Mega:

- Assignment of sales, marketing and distribution arrangements between Clover and Clover's current and potential customer base, excluding the Martek Technology License Agreement but including the Martek Toll Manufacturing Agreement;
- Lease and license the use of Clover's plant, equipment and intellectual property. The lease and licence fee is made up of a base fee of $150,000 per annum paid monthly plus a royalty of 1.75% of Nu-Mega net sales above $10 million from the 2004 financial year onwards and $6.7 million for the 2003 financial year;
- Clover will sell down its inventories held at the commencement date of the Joint Venture to Nu-Mega on an as needs basis at Clover's bill of material cost per product or raw material;
- Working capital loan of up to $1.5 million. The working capital loan will be entitled to interest at 9% per annum on the amount outstanding calculated and paid on a monthly basis with the entire loan being repayable on 31 October 2006;
- Company secretarial services will be provided to Nu-Mega at least until 31 October 2006 for a fee of $24,000 per annum paid monthly; and
- If the Proposed Transaction is approved by shareholders, Clover will grant 3 million ordinary options to members of the executive management team of the Food Spectrum Group. These ordinary options will have an exercise price of 30 cents each and an expiry date on or before 30 November 2007.

5.3 Clover's Retained Assets & Liabilities

Clover will retain ownership of its intellectual property, cash, crude tuna oil supply agreement with the Heinz Group of Companies, plant, equipment, Martek Technology License Agreement, Food Science Australia Collaboration and Option Agreement as well as the inventories on hand, debtors and creditors as at the Joint Venture commencement date.

Clover will continue to maintain its listing on the ASX and incur such costs as are necessary in this regard.

In addition to its initial 70% interest in Nu-Mega, Clover will be entitled to interest of 9% per annum on the amount outstanding under the working capital facility, and a licence and lease fee for the use of Clover's plant, equipment and intellectual property comprised of a base fee of $150,000 per annum and a royalty of 1.75% of the amount by which Nu-Mega's sales that exceed $10 million from the 2004 financial year or $6.7 million in the 2003 financial year. The quantum of such income streams will be dependent on Nu-Mega's sales and the amount outstanding, from time to time, on the working capital facility.

Clover will sell its existing inventory on hand at the Joint Venture commencement date, and future purchases of crude tuna oil, to Nu-Mega on a as needs basis. The existing inventory's carrying costs will be paid for by Nu-Mega and Nu-Mega will be responsible for the costs of warehousing and insuring the existing inventory. The sale price for the existing inventory will be Clover's standard bill of material cost per product or raw material.

As at the Joint Venture commencement date, Clover will collect outstanding debtors as well as pay outstanding trade creditors.

Clover will be entitled to its equity interest in the profits and dividends of Nu-Mega.

To the extent that Clover has surplus cash the Board will seek to identify investment opportunities.

5.4 Contribution of Food Spectrum Group to the Nu-Mega Joint Venture

Food Spectrum Group will contribute the following to Nu-Mega:

- Operational management of Nu-Mega including product development, sales, marketing and administration;
- Food technology and applications support; and
- Information technology and operating systems.

5.5 Financial Performance of Nu-Mega

The Proposed Transaction provides an incentive to Food Spectrum Group to achieve net profit before tax targets in order to increase its interest in Nu-Mega to a maximum of 50%. These net profit before tax targets were established based on profit to sales ratios for the food industry and imply sales targets of $50 million, $100 million and $180 million in each of the three financial years up to that ending 30 June 2006.

Assuming all of these targets are achieved, Clover's interest in Nu-Mega's profit and the lease and licence fees relating to the use of Clover's plant, equipment and intellectual property would be as follows:

Clover's Interest in Nu Mega - Profits and Lease & License Fees

Financial Year Ending 30 June	Target Revenues $000's	Target NPBT $000's	Clover's interest in Nu-Mega at year end	Clover's share of Nu-Mega NPBT $000's	Clover's Lease & Licence fees from Nu-Mega[1] $000's
2004	50,000	4,471	70%	3,130	850
2005	100,000	8,941	62%	5,539	1,725
2006	180,000	13,426	56%	7,459	3,125
2007	180,000	13,426	50%	6,713	3,125

Notes:

1. Excludes Clover's licence and royalty fees associated with the recently announced Martek Technology License Agreement.

2. We have shown the 2007 financial year on the same basis as 2006 to demonstrate the dilutive effect on Clover's share of income following Food Spectrum Group's final option exercise.

3. The net profit before tax and lease and licence fees shown above are not Clover forecasts or projections.

Whether the net profit before tax targets will be achieved will be dependent on the future management performance of Food Spectrum Group. If Nu-Mega does not achieve the net profit before tax targets in all of the financial years ending 30 June 2004, 30 June 2005 and 30 June 2006, Clover's interest in Nu-Mega might not decrease (if none of the targets are achieved). However, Clover's interests could decrease by a lower amount (if the targets for only the first and second financial years were achieved) or decrease to 50% more slowly (if the targets for the first or second financial years are not achieved while the target for the third financial year is achieved).

If by the end of the financial year ending 30 June 2006, the net profit before tax of Nu-Mega is less than $4,471,000, Clover has the right to terminate the Joint Venture by compulsory acquiring the Food Spectrum Group's share in it.

Notwithstanding the financial performance of Nu-Mega, the Food Spectrum Group is prohibited from disposing of its interest in Nu-Mega until 31 October 2006.

5.6 Financial Impact on Clover

By entering into the Joint Venture, Clover the parent entity will have estimated annualised residual operating expenses of approximately $1.2 million of which $0.6 million relates to depreciation and amortisation expense.

Income offsetting these expenses will include interest income on Clover's cash balances (while cash balances are not invested in other assets and intellectual properties), interest income on working capital loans to Nu-Mega, lease and licence fees for Nu-Mega's use of Clover's plant, equipment and intellectual property, licence fees and royalties from the Martek Technology Licence Agreement and Clover's equity share of Nu-Mega's net profit before tax.

In addition, Clover also has a substantial current investment in inventory and has significant future commitments to the Heinz Group of Companies for the purchase of crude tuna oil. At 30 June 2002, the book value of Clover's inventory (before provisioning) was $2.7 million. In the event that Nu-Mega achieves targeted net profit before tax levels, sufficient sales will be generated to convert inventories to cash as well as meet contractual crude tuna oil purchase requirements from the Heinz Group of Companies.

Had the Proposed Transaction been effected as at 30 June 2002, and trading assets converted to cash, liabilities settled, receivables paid up and creditors paid out, Clover's net assets would have comprised the following:

Proforma balance sheet as at 30 June	2002 $000's
Current Assets	
Cash and liquid investments	12,411
Investments	1,101
	13,512
Non-current Assets	
Property Plant & Equipment	2,825
Intagibles	208
Other	9
	3,042
Net Assets	16,554

6. Directors' Recommendation for the Proposed Transaction

The Directors unanimously recommend the Proposed Transaction. It is the Directors' view that the Proposed Transaction represents the best available method to commercialise Clover's existing food assets and technologies into maintainable ongoing revenues and earnings. The Joint Venture structure also enables the diversification of Clover into other synergistic assets associated with the food ingredients, food technology, healthcare and biotechnology fields. The Directors believe that Clover's corporate structure involving cash balances, no debt, listing on the ASX and Alternative Investment Market of the London Stock Exchange enables the diversification of Clover's current assets by suitable acquisitions.

7. Clover's Due Diligence Process

As part of the due diligence process, Clover engaged Ernst & Young Corporate Finance to advise the Board on the commercial aspects of the Proposed Transaction.

CHH has provided legal assistance with the drafting of the legal agreements associated with the Proposed Transaction.

8. If the Proposed Transaction does not Proceed

In the event that the Proposed Transaction not proceeding, Clover would continue operating its business under normal conditions and would consider seeking other proposals to benefit shareholders.

This Explanatory Memorandum is signed for and on behalf of the Company by Hamish Drummond, being a director of the Company who is authorised to sign this Explanatory Memorandum pursuant to a resolution passed on 16 October 2002.

Dated 16 October 2002

Hamish Drummond
EXECUTIVE CHAIRMAN
CLOVER CORPORATION LIMITED

CLOVER

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