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Clover Corporation Limited

ASX Appendix 4E
Preliminary Final Report
31st July 2014

Lodged with the ASX under Listing Rule 4.3A

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The reporting period is the financial year ended 31 July 2014 with the corresponding period being the financial year ended 31 July 2013.

Results for Announcement to the Market

- Total revenue decreased 39.2% to \$27.3m;
- Net profit after tax is \$1.0m (2013: profit of \$6.1m);
- For a further explanation of the financial period operating result, please refer to the Review of Operations.

		% Change	Amount of Change \$'000		\$'000
Revenue from ordinary activities	Down	39.2%	17,606	to	27,308
Profit/(Loss) from ordinary activities after tax attributable to members	Down	84.1%	5,111	to	967
Net profit/(loss) for the period attributable to members	Down	83.5%	5,197	to	1,029

Dividends/distributions	Amount per security	Franked %
This Period		
Final dividend	0.50 cents	100%
Interim dividend	0.50 cents	100%
Previous corresponding period		
Final dividend	1.50 cents	100%
Interim dividend	0.50 cents	100%

Record date for determining entitlements to the final dividend: **31 October 2014**

Payment date for determining entitlements to the final dividend: **20 November 2014**

Dividend reinvestment plans

There is no dividend reinvestment plan as at 31 July 2014.

Explanation of Operating Results

For a further explanation of the financial period operating result, please refer to the Review of Operations.

NTA Backing

	2014	2013
Net tangible asset backing per ordinary share after tax	17.05 cents	18.41 cents

EPS

	2014	2013
Basic Earnings per Share	0.59 cents	3.68 cents
Diluted Earnings per Share	0.59 cents	3.68 cents

Explanation of Profit after tax

For an explanation of the financial year operating results, please refer to the Review of Operations.

Explanation of Net Profit

For an explanation of the financial year operating results, please refer to the Review of Operations.

Explanation of Dividends

For an explanation of the dividend declared, please refer to the Review of Operations.

Other information

This report is based on accounts which are in the process of being audited and an unqualified audit opinion is expected to be issued.

Review of Operations

Clover Corporation Limited (Clover) has reported a net profit after tax (NPAT) for the 12 months ended 31st July 2014 of \$1.0m (2013: profit of \$6.1m).

Sales revenue in FY2014 was \$27.2m (2013: \$44.1m) a decrease of 38.3%.

	2014 Statutory \$000's	2013 Statutory \$000's
Sales Revenue	27,190	44,098
EBIT	1,114	8,300
Profit before tax	1,232	8,511
Profit after tax	967	6,078

The performance of the business during FY14 was severely impacted by the New Zealand whey protein concentrate (WPC) incident reported in 2013. Whilst this incident did not directly involve any of Clover's products, it has affected product sales of a number of Clover's customers. As a result, and as predicted in previous statements by Clover to the market, sales of Clover products have reduced by 38.3% compared with the same period last year.

In August 2013 there was a report of possible contamination of WPC manufactured in New Zealand. Clover's products were not involved in the incident. WPC is an important ingredient in infant formula preparations and is used by many infant formula manufacturers. Although the report was subsequently found to be a false alarm, extensive media coverage and precautionary product recalls in several countries resulted in heightened concern about the safety of infant formula. This has led to the decline of sales of infant formula by a number of companies affected by this incident.

The impact of this incident on Clover was foreshadowed in various releases during FY14 and is the primary reason that revenue has dropped 38.3% versus FY13. It is important to note that no customers have been lost as a result of the WPC incident. Throughout FY14, and specifically since the WPC incident, Clover has worked very closely with its customers to understand the impact on each individual customer. The impact has varied from customer to customer. From a revenue perspective, customer ordering patterns suggest that affected customers are beginning to regain lost market share. Clover will continue to work closely with those customers affected by the WPC incident and assist where possible in the recovery process.

Clover continues to demonstrate its ability to develop long term relationships with global infant formula companies and strengthen these relationships over time through the supply of high quality products meeting changing customer requirements. During FY14 the company had success launching new encapsulated products to various existing customers. Other customers presently have new product offerings in qualification.

Other income items for FY14 was \$0.1m, less than the FY13 level of \$0.8m; the FY13 result included favourable foreign exchange gains of \$0.6m.

The gross margin for FY14 was 29.0%, less than the FY13 level of 35.1%; in a very competitive market, Clover's margins have been negatively impacted by raw material cost increases, competitor pricing pressure and product mix.

Total operating expenses for FY14 were \$6.8m, \$1.0m (12.5%) less than the FY13 level. Sales and marketing costs were down 30.0% on PCP, a result of restructuring activities carried out in FY13.

Expenditure on research and development in FY14 was \$1.9m (FY13 \$1.8m). Clover's R&D commitment continues to foster strong and collaborative partnerships with our customers whilst developing the Medical Foods Program.

Working capital levels decreased during FY14 with a significant reduction in Trade Receivables. Inventory levels did increase year on year with timing of production runs to meet returning demand having an impact. Strong progress was made during FY14 through the qualification of additional crude oil suppliers to provide Clover with a strong position for oil supply in the future. During FY14, the company made a considered decision to invest \$0.5m in a secondary spray dryer in New Zealand to assist in new product development and manufacture, and accelerate supply of new products to customers.

The cash balance closed at \$8.0m. During FY14, Clover invested \$0.2m in asset replacement and funded dividend payments of \$3.3m.

The first initiative under Clover's Medical Foods Program is the development of a preterm infant DHA emulsion to reduce the incidence of a number of significant problems that can affect prematurely-born (preterm) infants. The progress of this initiative has been significant. A Phase 3 clinical trial is being conducted by The Women's and Children's Hospital Adelaide, to test the effectiveness of Clover's DHA emulsion in reducing the incidence of Broncho-pulmonary Dysplasia (BPD) in infants born prematurely. The trial, which involves hospitals in three countries, is progressing well. Enrolment of babies in the trial is scheduled to be concluded by early 2015 and the results of the trial should be available by mid 2015.

Clover has applied for the regulatory approvals that it will need for sale of the DHA emulsion once trial results are available, and commercialisation plans are being evaluated.

As the next step in building this technology platform, Clover is exploring the opportunity for a second generation medical food product. The company has signed a research agreement with the University of Wollongong and Callahan Innovation (New Zealand), which will conduct preclinical development of a novel fatty acid targeted at gastrointestinal health in preterm infants.

Clover continues to look for strategic acquisitions that will fuel the growth of the company in relation to expanding the current product range, which will provide additional market and sales opportunities.

Dividend

Based on the performance of Clover in FY14, and being cognisant of the significant impact to the business caused by the WPC incident, the Directors have decided to declare a fully franked final dividend for FY14 of 0.50 cents per share. The record date for this dividend will be 31 October 2014, with payment due on 20 November 2014. Together with the interim dividend of 0.5 cents per share declared in March 2014, the total dividend paid in respect to FY14 is 1.00 cent per share, compared with 2.00 cents per share in FY13. The Directors acknowledge that the total FY14 dividend payment is a reduction against FY13, however consider this prudent business practice given the trading conditions experienced throughout FY14.



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PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 JULY 2014

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JULY 2014**

	Notes	31-Jul-14 \$'000	31-Jul-13 \$'000
Sale of goods	1	27,190	44,098
Cost of goods sold		<u>(19,271)</u>	<u>(28,622)</u>
Gross profit		7,919	15,476
% of revenue		29.0%	35.1%
Other income	1	118	816
Sales and marketing expenses		(1,872)	(2,674)
Administration and corporate expenses		(2,834)	(3,261)
Research and development expenses		(1,923)	(1,846)
Other expenses		<u>(176)</u>	<u>-</u>
Profit before income tax		1,232	8,511
Income tax expense		<u>(265)</u>	<u>(2,433)</u>
Profit after tax for the period		<u>967</u>	<u>6,078</u>
Other comprehensive income			
Foreign currency translation adjustment, net of 30% tax		<u>62</u>	<u>148</u>
Other comprehensive income for the period		<u>62</u>	<u>148</u>
Total comprehensive income for the period		<u>1,029</u>	<u>6,226</u>
Earnings per share (EPS)			
Basic earnings per share (cents per share)		0.59	3.68
Diluted earnings per share (cents per share)		0.59	3.68

Weighted average number of shares used in calculating basic and diluted earnings per share is 165,181,696.

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 JULY 2014

	Notes	31-Jul-14 \$'000	31-Jul-13 \$'000
Current Assets			
Cash and cash equivalents		8,029	8,315
Trade and other receivables		6,921	12,001
Inventories		16,504	14,006
Other current assets		1,452	425
		<u>32,906</u>	<u>34,747</u>
Non-Current Assets			
Financial assets		7	6
Property, plant and equipment		2,974	3,262
Deferred tax assets		1,647	1,474
Intangible assets		1,964	1,995
		<u>6,592</u>	<u>6,737</u>
Total Assets		<u>39,498</u>	<u>41,484</u>
Current Liabilities			
Trade and other payables		8,627	7,730
Current tax liabilities		-	274
Short-term provisions		530	661
		<u>9,157</u>	<u>8,665</u>
Non-Current Liabilities			
Deferred tax liabilities		159	346
Long-term provisions		48	64
		<u>207</u>	<u>410</u>
Total Liabilities		<u>9,364</u>	<u>9,075</u>
Net Assets		<u>30,134</u>	<u>32,409</u>
Equity			
Issued capital		32,920	32,920
Foreign currency translation reserves		2	(60)
Accumulated losses		(2,788)	(451)
Total Equity		<u>30,134</u>	<u>32,409</u>

The Statement of Financial Position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 JULY 2014**

Consolidated	Issued Capital \$'000	Accumulated Losses \$'000	Foreign Currency Translation Reserve \$'000	Total \$'000
Balance at 1 August 2012	32,920	(2,812)	(208)	29,900
Profit for the period	-	6,078	-	6,078
Dividend paid	-	(3,717)	-	(3,717)
Foreign currency translation reserve	-	-	148	148
Balance at 31 July 2013	32,920	(451)	(60)	32,409
Balance at 1 August 2013	32,920	(451)	(60)	32,409
Profit for the period	-	967	-	967
Dividend paid	-	(3,304)	-	(3,304)
Foreign currency translation reserve	-	-	62	62
Balance at 31 July 2014	32,920	(2,788)	2	30,134

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2014**

	31-Jul-14 \$ '000	31-Jul-13 \$ '000
Cash flows from operating activities		
Receipts from customers	33,140	42,849
Payments to suppliers and employees	(28,024)	(38,424)
Interest received	118	211
Income tax paid	(2,036)	(2,110)
Net cash inflow from operating activities	3,198	2,526
Cash flows from investing activities		
Purchases of plant and equipment	(180)	(235)
Net cash outflow from investing activities	(180)	(235)
Cash flows from financing activities		
Dividends paid	(3,304)	(3,717)
Sale of remaining FFI assets	-	300
Borrowings	-	(300)
Net cash outflow from financing activities	(3,304)	(3,717)
Net (decrease) in cash held	(286)	(1,426)
Cash at the beginning of the year	8,315	9,741
Cash at the end of the year	8,029	8,315

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2014**

	31-Jul-14 \$'000	31-Jul-13 \$'000
1. Operating Result		
Profit before income tax expense includes the following items of income and expense which, together with other disclosures in this report are relevant in explaining the financial performance for the year:		
Revenue		
Sale of goods	27,190	44,098
Interest revenue	118	211
Other	-	605
Total Revenue	27,308	44,914
 Depreciation and Amortisation expenses	 (498)	 (498)

2. Dividends

		Amount per security CPS
Final dividend		
Final dividend not recognised in accumulated losses expected to be paid on 20 November 2014	\$ 825,908	0.50c
Final dividend for previous corresponding year paid on 21 November 2013	\$2,477,725	1.50c

Interim dividend

An interim dividend of 0.50 cents per share was declared in respect of the current financial year ended 31 July 2014 (2013: 0.50 cents).

Dividend declared after balance date

The Directors have declared a final dividend for the financial year ended 31 July 2014 of 0.50 cents per share (2013: final 1.50 cents per share) fully franked at 30%, payable on 20 November 2014, but not recognised as a liability at the end of the financial period. The record date for this dividend will be 31 October 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2014 (continued)

3. Segment information

Identification of reportable segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors in assessing performance and in determining the allocation of resources.

The Company operates in the industry of manufacturing tuna oil and encapsulated products in Australia. The operating segments have been identified by management as tuna oil and microencapsulated powders. Financial information about each of these segments is reported to the Chief Executive Officer and Board of Directors on a monthly basis.

The following represents profit and loss information for reportable segments for the financial year ended 31 July 2014.

Primary Reporting – Business Segments

	Tuna oil and microencapsulated powders		Investment/Treasury		Economic Entity	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Revenue						
Sales revenue	27,190	44,098	-	-	27,190	44,098
Other revenue	-	-	118	816	118	816
Total segment revenue	27,190	44,098	118	816	27,308	44,914
Total revenue consolidated					27,308	44,914
Results						
Operating profit	1,114	7,695	118	816	1,232	8,511
Profit before income tax	1,114	7,695	118	816	1,232	8,511
Income tax expense					(265)	(2,433)
Profit for the year					967	6,078

4. Audit

This report is based on financial statements that are in the process of being audited.