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Clover Corporation Limited

ASX Appendix 4E
Preliminary Final Report
31 July 2016

Lodged with the ASX under Listing Rule 4.3A

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The reporting period is the financial year ended 31 July 2016 with the corresponding period being the financial year ended 31 July 2015.

Results for Announcement to the Market

- Total revenue increased 44% to \$43.2m;
- Net profit after tax is \$2.2m (2015: profit of \$0.1m);
- 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	Up	44%	13,198	to	43,198
Profit/(Loss) from ordinary activities after tax attributable to members	Up	2213%	2,113	to	2,213
Net Profit/(Loss) for the period attributable to members	Up	2581%	1,985	to	2,065

Dividends/distributions	Amount per security	Franked %
This period		
Final dividend	0.50 cent	100%
Interim dividend	0.25 cent	100%
Previous corresponding period		
Final dividend	0.50 cent	100%
Interim dividend	0.00 cent	N/A

Record date for determining entitlements to the final dividend: **28 October 2016**

Payment date for determining entitlements to the final dividend: **21 November 2016**

Dividend reinvestment plans

There is no dividend reinvestment plan as at 31 July 2016.

Explanation of Operating Results

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

NTA Backing

	2016	2015
Net tangible asset backing per ordinary share after tax	17.14 cents	16.63 cents

EPS

	2016	2015
Basic Earnings per Share	1.34 cent	0.06 cent
Diluted Earnings per Share	1.34 cent	0.06 cent

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 financial statements that have been audited by Company auditors PKF, whom have issued an unqualified audit report.

Review of Operations

Clover Corporation Limited (Clover) has reported a net profit after tax (NPAT) of \$2.2m for the 12 months ended 31st July 2016 (2015: NPAT of \$0.1m).

Sales revenue in FY2016 was \$42.9m (2015: \$29.9m) an increase of 43.4%.

	2016 Statutory \$000's	2015 Statutory \$000's
Sales Revenue	42,920	29,921
EBIT	2,830	(72)
Profit before tax	3,108	4
Profit after tax	2,213	100

Sales for the year increased by 43% with traditional customers expanding their orders and new customers delivering strong revenue growth. Whilst the Cost of Goods rate remained unchanged the volume increase with reduced operating expense resulted in an improved profit result. The majority of customers have now moved to purchasing in US\$ which provides a natural hedge for the business reducing risk of fluctuating input prices.

Commercial

Clover has put in place a new commercial team focused on business development into new territories, markets and products. This has delivered new business with a pipeline of other opportunities in place. Clover has moved to expand its market reach, looking outside the traditional infant formula market business to provide growth opportunities. However, many of these applications will take time to deliver as the company works with customers on product development and trials. The infant formula market remains a key growth opportunity as new customers are presented with Clover's unique product, regulations specify increased levels of Clover's DHA ingredient and volume expands to meet the increasing China and Asian market demand.

China

Chinese demand for infant formula has increased, with Chinese consumers demanding imported product. This has moved Clover's customer base into new opportunities in Europe, Australia, and New Zealand, who are fulfilling the increased demand into China. Recent Chinese regulatory change requires manufacturers to only provide three brands of infant formula with three distinctly different formulations within each brand. Whilst the regulations take effect in October 2016, most of Clover's current customers are well positioned to be ready for the change in regulations with the potential for DHA to be used as a differentiator in the formula changes. However, the Chinese market may take some time to adapt to the new regulations as the distribution channel prepares to manage the change and manufacturers re-apply for Chinese accreditation to supply product.

Europe

The EU has released new infant formula regulations which apply to product sold within the EU. A significant change is that all infant formula in the EU must contain a minimum of 20 mg of DHA, an increase from the previous requirement (average of 10%), by the year 2020. EU customers are now preparing for the change which represents an opportunity for Clover as its key products are DHA encapsulated powders and DHA oils suitable for inclusion in infant formula. Clover's patented

technology, licensed from CSIRO, protects DHA oil from oxidation, the principal cause of unpleasant smell or taste in oils. Clover's products, which have a much longer shelf life than competing products, help customers to achieve the increased DHA inclusion without impacting on the sensory aspects of their products.

Australia & New Zealand

Clover has started manufacturing its product at the New Zealand Waikato facility, in which the company invested in FYs14 and 15. The first production run took place in July 2016 with much of the expected output from this facility already pre-sold.

Both Australia and New Zealand have benefited from increased Chinese demand for imported infant formula product. New Zealand has experienced significant Chinese investment into new facilities and joint ventures established over the past eighteen months, with Clover working to develop these customers for future growth. Infant formula manufactured for export has also increased in Australia, with Clover benefiting from expanding sales to existing and new customers who are meeting the increased demand.

Americas

Clover is working with a new distributor in the USA to develop opportunities into the growing sports nutrition, food and wellbeing markets. The South American business has continued to grow with improved sales into infant formula products.

Research & Development

Clover has restructured its Research and Development team, employed two experienced PhD's to add relevant expertise and complement the existing staff. The two additional staff are experts in the encapsulation and nutrition areas and represent an investment in the future of the organisation. During 2016 Clover has released two new products; an encapsulated oil targeting the hypoallergenic market which represents 20% of the infant formula market and a food grade DHA oil, which is aimed at the competitive direct oil inclusion market.

Preterm Clinical Trial

Clover previously conducted a clinical trial to test the effectiveness of Clover's DHA emulsion in reducing the incidence of Broncho-pulmonary Dysplasia (BPD) in infants born prematurely. Clover licensed the development and commercialisation of the DHA emulsion product to Premneo Pharmaceuticals Pty Ltd in October 2015, thereby ceasing its active involvement in the project. The trial finished in May 2016 with initial analysis indicating that the trial had not met the targeted end point. As a result, the relationship with the trial and Premneo has now concluded.

Expenditure

Clover has contained operating expenses in 2016 to \$5.8 million (2015 \$6.1 million) despite the major increase in production levels. At the same time, the Company has made changes to personnel and production processes, assisting the improved profit result and simultaneously establishing resources for the future.

Inventories at year end were 2016: \$13.6m (2015: \$14.2m), with the company maintaining its focus on inventory reduction, balanced against long lead times for delivery in the EU and fulfilling fluctuating customer demand. The overall cash position of the business at year end was \$8.2m (2015: \$9.5m). Clover continues to fund its business from operating cash flows without any bank debt. The business continues to review investment opportunities for expansion into aligned markets, processes and products.

Dividend

Based on the performance of Clover in FY16 the Directors have decided to declare a fully franked final dividend for FY16 of 0.50 cents per share. The record date for this dividend will be 28 October 2016, with payment due on 21 November 2016.



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PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 JULY 2016

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JULY 2016**

	Notes	31-Jul-16 \$'000	31-Jul-15 \$'000
Sale of goods	1	42,920	29,921
Cost of goods sold		(34,257)	(23,878)
Gross profit		8,663	6,043
% of revenue		20.2%	20.2%
Other income	1	278	79
Sales and marketing expenses		(2,217)	(1,972)
Administration and corporate expenses		(2,454)	(2,548)
Research and development expenses		(1,162)	(1,598)
Profit before income tax		3,108	4
Income tax (expense)/credit		(895)	96
Profit after tax for the period		2,213	100
Other comprehensive loss			
Foreign currency translation adjustment, net of 30% tax		(148)	(20)
Other comprehensive (loss)/profit for the period		(148)	(20)
Total comprehensive (loss)/income for the period		2,065	80
Earnings per share (EPS)			
Basic earnings per share (cents per share)		1.34	0.06
Diluted earnings per share (cents per share)		1.34	0.06

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 2016

	Notes	31-Jul-16 \$'000	31-Jul-15 \$'000
Current Assets			
Cash and cash equivalents		8,230	9,551
Trade and other receivables		10,865	5,453
Inventories		13,632	14,177
Other current assets - prepayments		374	293
		33,101	29,474
Non-Current Assets			
Available for sale financial assets		7	8
Property, plant and equipment		2,695	3,087
Deferred tax assets		2,111	2,084
Intangible assets		1,907	1,907
		6,720	7,086
Total Assets		39,821	36,560
Current Liabilities			
Trade and other payables		8,453	6,322
Current tax liabilities		468	-
Short-term provisions		505	654
		9,426	6,976
Non-Current Liabilities			
Deferred tax liabilities		146	172
Long-term provisions		35	24
		181	196
Total Liabilities		9,607	7,172
Net Assets		30,214	29,388
Equity			
Issued capital		32,920	32,920
Foreign currency translation reserves		(166)	(18)
Accumulated losses		(2,540)	(3,514)
Total Equity		30,214	29,388

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 2016**

Consolidated	Issued Capital \$'000	Accumulated Losses \$'000	Foreign Currency Translation Reserve \$'000	Total \$'000
Balance at 1 August 2014	32,920	(2,788)	2	30,134
Profit for the period	-	100	-	100
Dividend paid	-	(826)	-	(826)
Foreign currency translation reserve	-	-	(20)	(20)
Balance at 31 July 2015	32,920	(3,514)	(18)	29,388
Balance at 1 August 2015	32,920	(3,514)	(18)	29,388
Profit for the period	-	2,213	-	2,213
Dividend paid	-	(1,239)	-	(1,239)
Foreign currency translation reserve	-	-	(148)	(148)
Balance at 31 July 2016	32,920	(2,540)	(166)	30,214

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 2016**

	31-Jul-16 \$ '000	31-Jul-15 \$ '000
Cash flows from operating activities		
Receipts from customers	37,338	32,127
Payments to suppliers and employees	(37,397)	(29,534)
Interest received	76	76
Income tax received / (paid)	(80)	437
Net cash inflow / (outflow) from operating activities	(63)	3,106
Cash flows from investing activities		
Purchases of plant and equipment	(19)	(758)
Net cash outflow from investing activities	(19)	(758)
Cash flows from financing activities		
Dividends paid	(1,239)	(826)
Net cash outflow from financing activities	(1,239)	(826)
Net increase / (decrease) in cash held	(1,321)	1,522
Cash at the beginning of the year	9,551	8,029
Cash at the end of the year	8,230	9,551

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 2016**

	31-Jul-16 \$'000	31-Jul-15 \$'000
1. Operating Result		
Profit before income tax 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	42,920	29,921
Interest revenue	76	76
Other	202	3
Total Revenue	43,198	30,000
 Depreciation and Amortisation expenses	 (431)	 (649)

2. Dividends

		Amount per security CPS
Final dividend		
Final dividend not recognised in accumulated losses expected to be paid on 21 November 2016	\$825, 908	0.50c
Final dividend for previous corresponding year paid on 20 November 2015	\$ 825,908	0.50c
Interim dividend		
Interim dividend paid on 2 May 16	\$ 412,955	0.25c
No Interim dividend for previous corresponding year		

Dividend declared after balance date

The Directors have declared a final dividend for the financial year ended 31 July 2016 of 0.50 cent per share (2015: final 0.50 cent per share) fully franked at 30%, payable on 21 November 2016, but not recognised as a liability at the end of the financial period. The record date for this dividend will be 28 October 2016.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2016 (continued)**

3. Segment information

Identification of reportable segments

The consolidated entity operates in the industry of manufacturing tuna oil and encapsulated products in Australia. Whereas in the previous financial year, a treasury segment was separately disclosed, the Chief Executive Officer and the Board of Directors consider that there is no true separation of the treasury function from the primary business and operating segment of the company, nutritional oil and microencapsulated powders. Financial information about the business as a whole is reported to and reviewed by the Chief Executive Officer and Board of Directors on a monthly basis, in order to assess performance and determine the allocation of resources.

Geographical information

Revenues from external customers by domestic and export location of operations and information about its non-current assets by location of assets is shown in the following table.

	Revenue from external customers		Non-current assets	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Australia / New Zealand	22,596	11,876	6,720	7,086
Asia	16,198	13,256	-	-
Europe	1,933	2,377	-	-
Americas	2,193	2,412	-	-
Total	42,920	29,921	6,720	7,086