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Clover Corporation Limited

ASX Appendix 4E
Preliminary Final Report
31st July 2017

Lodged with the ASX under Listing Rule 4.3A

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The reporting period is the financial year ended 31 July 2017 with the corresponding period being the financial year ended 31 July 2016.

Results for Announcement to the Market

- Total revenue increased 11.5% to \$47.9m;
- Net profit after tax is \$3.6m (2016: profit of \$2.2m);
- 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	11.5%	4,944	to	47,864
Profit/(Loss) from ordinary activities after tax attributable to members	Up	64.4%	1,426	to	3,639
Net profit/(loss) for the period attributable to members	Up	74.4%	1,536	to	3,601

Dividends/distributions	Amount per security	Franked %
This Period		
Final dividend	0.75 cent	100%
Interim dividend	0.25 cent	100%
Previous corresponding period		
Final dividend	0.50 cent	100%
Interim dividend	0.25 cent	100%

Record date for determining entitlements to the final dividend: **30 October 2017**

Payment date for determining entitlements to the final dividend: **20 November 2017**

Dividend reinvestment plans

There is no dividend reinvestment plan as at 31 July 2017.

Explanation of Operating Results

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

NTA Backing

	2017	2016
Net tangible asset backing per ordinary share after tax	18.21 cents	17.14 cents

EPS

	2017	2016
Basic Earnings per Share	2.20 cent	1.34 cent
Diluted Earnings per Share	2.20 cent	1.34 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 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) of \$3.6m for the 12 months ended 31st July 2017 (2016: NPAT of \$2.2m).

Sales revenue in FY2017 was \$47.9m (2016: \$42.9m) an increase of 11.5%.

	2017 Statutory \$000's	2016 Statutory \$000's
Sales Revenue	47,864	42,920
EBIT	5,488	2,830
Profit before tax	5,012	3,108
Profit after tax	3,639	2,213

Revenue for the year increased by 11.5% due to improved orders to existing customer base and the successful diversification of our customer base. Improved product mix, good plant efficiencies, and tight cost control combined to deliver improved gross margin and as a result, much improved profit result.

Commercial

The revitalised commercial team has been in place for most of the financial year and is focused on business development into new territories, markets and products. Clover has worked with its distributors to introduce its unique products and collaborated with potential customers on product applications to meet their specific market requirements. Whilst some of these opportunities have already delivered revenues, the longer term work of product development, shelf life and market testing has created a good pipeline of opportunities that have the potential to deliver the next phase of Clover's growth plans.

China

Chinese demand for infant formula had flattened in the first half of the financial year, with uncertainty in the market around new Chinese infant formula regulations. In March 2017 it was clarified that the Cross Border Electronic Commerce (CBEC) channel would remain in place. As a result, demand improved markedly in the second half of the year.

Europe

In the EU new regulations require that all infant formula in the EU must contain a minimum of 20 mg of DHA (docosahexaenoic acid) per 100k/cal (an increase from the previous requirement which averages 10mg) by the year 2020, continue to drive collaboration with our customers. This has started to translate into increased demand for our products, with sales in this region improving by 65% as compared to the prior year, albeit from a low base.

Australia & New Zealand

Clover has benefited from changed Chinese regulations allowing the CBEC to continue, which has provided Australian and New Zealand manufacturers the opportunity to deliver improved trade with China. The Waikato facility is now fully operational with batch production on a regular basis. This facility has enabled the production of Clover's new products in niche applications such as the hypoallergenic and the concentrated DHA product for sports nutrition and health applications.

Both Australia and New Zealand have benefited from infant formula company investment in increased capacity, focused on Asian market supply from the high quality dairy inputs. Clover is working with these suppliers to secure future business.

Americas

Clover has developed a strong relationship with a new distributor in the USA with a focus on opportunities into the growing sports nutrition, food and wellbeing markets. There is long lead time on commercialising these opportunities, however we are encouraged by the collaborative engagement to date. Our underlying infant formula business in this region has shown consistent growth.

Research & Development

Clover has resourced its Research & Development team with an in-house bench top spray dryer to accelerate the development of new products and technology. Clover continues to be a leader in global lipid research, applying for a patent on new technology to encapsulate polar lipids in April 2017 that allows phospholipids from krill and tuna to be encapsulated. Phospholipids are lipids in a more bioavailable form to increase the take up in the human body.

Expenditure

Clover has contained operating expenses in 2017 to \$6.1 million (2016 \$5.8 million) despite the increase in production levels. The new commercial and research teams are now well established and are developing the platform for future success.

Working Capital

Inventories at 2017 year end were \$18.8m (2016: \$13.6m), with the company building up stock levels upon improved customer order patterns. Receivables are also up on the prior year, in line with the year on year improvement in sales. The business continues to review investment opportunities for expansion into aligned markets, processes and products.

Dividend

Based on the performance of Clover in FY17 the Directors have declared a fully franked final dividend for FY17 of 0.75 cent per share. The record date for this dividend will be 30 October 2017, with payment due on 20 November 2017.

The outlook for FY18 remains positive, with order patterns for the first quarter consistent with the second half of last year and business development activities in new markets and segments delivering positive testing results.



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PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 JULY 2017

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JULY 2017**

	Notes	31-Jul-17 \$'000	31-Jul-16 \$'000
Sale of goods	1	47,864	42,920
Cost of goods sold		(36,279)	(34,257)
Gross profit		11,585	8,663
% of revenue		24.2%	20.2%
Other income / (expenses)	1	(476)	278
Sales and marketing expenses		(2,163)	(2,217)
Administration and corporate expenses		(2,821)	(2,454)
Research and development expenses		(1,113)	(1,162)
Profit before income tax		5,012	3,108
Income tax credit/(expense)		(1,373)	(895)
Profit after tax for the period		3,639	2,213
Other comprehensive loss			
Foreign currency translation adjustment, net of 30% tax		(38)	(148)
Other comprehensive (loss)/profit for the period		(38)	(148)
Total comprehensive (loss)/income for the period		3,601	2,065
Earnings per share (EPS)			
Basic earnings per share (cent per share)		2.20	1.34
Diluted earnings per share (cent per share)		2.20	1.34

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 2017

	31-Jul-17	31-Jul-16
	\$'000	\$'000
Current Assets		
Cash and cash equivalents	5,916	8,230
Trade and other receivables	12,125	10,865
Inventories	18,811	13,632
Other current assets - prepayments	763	374
	37,615	33,101
Non-Current Assets		
Available for sale financial assets	5	7
Property, plant and equipment	2,262	2,695
Deferred tax assets	852	2,111
Intangible assets	1,907	1,907
	5,026	6,720
Total Assets	42,641	39,821
Current Liabilities		
Trade and other payables	9,243	8,453
Current tax liabilities	148	468
Short-term provisions	526	505
	9,917	9,426
Non-Current Liabilities		
Deferred tax liabilities	120	146
Long-term provisions	28	35
	148	181
Total Liabilities	10,065	9,607
Net Assets	32,576	30,214
Equity		
Issued capital	32,920	32,920
Foreign currency translation reserves	(204)	(166)
Accumulated losses	(140)	(2,540)
Total Equity	32,576	30,214

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 2017**

Consolidated	Issued Capital \$'000	Accumulated Losses \$'000	Foreign Currency Translation Reserve \$'000	Total \$'000
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
Balance at 1 August 2016	32,920	(2,540)	(166)	30,214
Profit for the period	-	3,639	-	3,639
Dividend paid	-	(1,239)	-	(1,239)
Foreign currency translation reserve	-	-	(38)	(38)
Balance at 31 July 2017	32,920	(140)	(204)	32,576

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 2017**

	31-Jul-17 \$ '000	31-Jul-16 \$ '000
Cash flows from operating activities		
Receipts from customers	46,081	37,338
Payments to suppliers and employees	(46,270)	(37,397)
Interest received	47	76
Income tax received / (paid)	(453)	(80)
Net cash inflow / (outflow) from operating activities	(595)	(63)
Cash flows from investing activities		
Purchases of plant and equipment	(480)	(19)
Net cash outflow from investing activities	(480)	(19)
Cash flows from financing activities		
Dividends paid	(1,239)	(1,239)
Net cash outflow from financing activities	(1,239)	(1,239)
Net increase / (decrease) in cash held	(2,314)	(1,321)
Cash at the beginning of the year	8,230	9,551
Cash at the end of the year	5,916	8,230

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 2017**

	31-Jul-17 \$'000	31-Jul-16 \$'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	47,864	42,920
Interest revenue	47	76
Net exchange gains / (losses)	(523)	202
Total Revenue	47,388	43,198
 Depreciation and Amortisation expenses	 (568)	 (430)
 2. Dividends		 Amount per security CPS
 Final dividend		
Final dividend not recognised in accumulated losses expected to be paid on 20 November 2017	\$ 1,238,863	0.75c
Final dividend for previous corresponding year paid on 21 November 2016	\$ 825,908	0.50c
 Interim dividend		
Interim dividend paid on 1 May 17	\$ 412,955	0.25c
Interim dividend for previous corresponding year paid on 2 May 16	\$412,955	0.25c
 Dividend declared after balance date		

The Directors have declared a final dividend for the financial year ended 31 July 2017 of 0.75 cent per share (2016: final 0.50 cent per share) fully franked at 30%, payable on 20 November 2017, but not recognised as a liability at the end of the financial period. The record date for this dividend will be 30 October 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2017 (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	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Australia / New Zealand	24,032	22,596	5,026	6,720
Asia	18,260	16,198	-	-
Europe	3,195	1,933	-	-
Americas	2,377	2,193	-	-
Total	47,864	42,920	5,026	6,720

4. Audit

This report is based on financial statements that have been audited by Company auditors PKF, who have issued an unqualified audit report.