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Clover Corporation Limited

ASX Appendix 4E
Preliminary Final Report
31st July 2013

Lodged with the ASX under Listing Rule 4.3A

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The reporting period is the financial year ended 31 July 2013 with the corresponding period being the financial year ended 31 July 2012.

Results for Announcement to the Market

- Total revenue from sale of goods increased 16.1% to \$44.9m;
- Net profit after tax is \$6.1m (2012: profit of \$4.4m);

		% Change	Amount of Change \$'000		\$'000
Revenue from ordinary activities	Up	16.1%	6,234	to	44,914
Profit/(Loss) from ordinary activities after tax attributable to members	Up	39.1%	1,708	to	6,078
Net profit/(loss) for the period attributable to members	Up	39.1%	1,708	to	6,078

Dividends/distributions	Amount per security	Franked %
This Period		
Final dividend	1.50 cents	100%
Interim dividend	0.50 cents	100%
Previous corresponding period		
Final dividend	1.75 cents	100%
Interim dividend	Nil	Nil

Record date for determining entitlements to the final dividend: **31 October 2013**

Payment date for determining entitlements to the final dividend: **21 November 2013**

Dividend/distribution reinvestment plans

There are no dividend or distribution reinvestment plans as at 31 July 2013.

Explanation of Operating Results

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

NTA Backing

	2013	2012
Net tangible asset backing per ordinary share after tax	18.41 cents	16.87 cents

EPS

	2013	2012
Basic Earnings per Share	3.77 cents	2.60 cents
Diluted Earnings per Share	3.77 cents	2.60 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 2013 of \$6.1m (2012: profit of \$4.4m). The FY2012 result included an impairment associated with the former joint venture Future Food Ingredients Pty Ltd of \$1.2 million. After taking this into account, the FY2013 result represents an increase in NPAT due to operations of 8.7%.

Sales revenue in FY2013 was \$44.1m (2012: \$38.4m) an increase of 14.9%. This result demonstrated continued organic growth principally by increased sales in the Oceania region. This growth is associated with infant formula and related applications.

	2013 Statutory \$000's	2012 Statutory \$000's	2012 Underlying ¹ \$000's
Sales Revenue	44,098	38,387	38,387
EBIT	8,300	6,151	7,371
Profit before tax	8,511	6,357	7,577
Profit after tax	6,078	4,371	5,591

1. The 2012 underlying profit excludes the \$1.22 million of FFI related costs.

Based on the performance of Clover in FY13 and the future prospects of the company the Directors have declared a fully franked final dividend of 1.50 cents per share in respect of the period ended 31 July 2013. The record date for this dividend will be the 31 October 2013, with payment due on the 21 November 2013. Together with the interim dividend of 0.5 cents per share declared in March 2013 the total dividend paid in respect to FY2013 is 2.00 cents per share, an increase of 0.25 cents compared with the total dividend for FY2012.

A number of items of note occurred during the financial year, including:

- There was continued focus on sales of products for use in infant formula and children's food (FY2013: 98% of total sales revenue). There has been competitive pressure on product margins for our established products during the past year and these forces will continue for the foreseeable future.
- Clover re-signed a 5 year supply agreement with a multi-national infant formula company.
- Sales in the Oceania region increased by 67% during the year demonstrating the continued development of value added dairy products with a domestic and export focus in the region.
- An increase in working capital, in particular through increased levels of inventory was required to meet Clover's contractual obligations. Timing of manufacturing campaigns and the program to qualify and secure additional sources of raw materials to meet future requirements also contributed to the rise in working capital. The additional stock will be utilised in FY2014
- The increase in Trade Receivables was due to the timing of supply and the trading terms with a number of major customers.
- The exposure to the depreciating Australian Dollar was minimized through foreign exchange contracts which will help stabilise raw material costs until the end of FY2014.

- Expenditure on Innovation and Research was in line with the business strategy. There was an increase in the R&D spend to \$1.8m (FY2012: \$1.5m) reflecting the increase in research associated with new products and the Medical Foods initiative.
- A number of new encapsulated products released in FP2011 are under evaluation by a variety of potential customers. The evaluation and approval of new products by customers usually takes between 2 to 4 years. Initial sales of two new products are expected in FY2014.
- The CSIRO Australian Growth Partnership program was terminated during the year due to it not meeting technical or commercial milestones.
- The Preterm product and delivery system developed by Clover is currently in a Phase 3 clinical study in Australia and overseas involving approximately 1250 infants. The clinical trial is due to be completed by the end of 2014 with the results of the trial to be available by mid 2015. The regulatory, manufacturing and commercial plans associated with the initial medical food product are currently under development. It is expected that there will be additional R&D expenditure associated with this project in FY2014 of approximately \$1.0m.
- Mr Graeme Billings replaced Mr David Wills as a non-executive director and Chair of the Audit & Risk Committee.

In the past month the identification of the production of contaminated milk powder in New Zealand has been widely reported in the media. Milk powder is an important component of most infant formula preparations. Although infant formula companies have extensive product safety protocols and enacted precautionary product recalls it is unknown at this time what impact this incident will have on Clover's sale of ingredients to infant formula manufacturers. As the situation becomes clearer information will be released to the market.

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

During the 2013-2014 financial year the contract of employment for the Managing Director will conclude. Dr Brown has advised the board that he will not be seeking to renew his contract beyond 26 June 2014. A search to replace Dr Brown has commenced and until then Dr Brown will continue in his existing role as Managing Director.

Mr Robinson, Chairman of Clover Corporation, acknowledged Dr Brown's substantial contribution to the success of Clover since joining the company in 2006. "Ian has been instrumental in Clover's success in bringing innovative new products to commercialisation. Clover is now a significant supplier of microencapsulated powders to the global infant formula market with sales increasing from \$17.2m in 2006 to \$44.1m in 2013. During this period Clover's NPAT increased from \$0.5m to \$6.1m".

During Dr Brown's tenure, Clover has increased market capitalisation from \$21.4m in 2006 to \$92.5m in 2013. Clover is now well positioned as a result of the advances made during the past seven years for the future continued development of the company.

Dividend

Given the performance of the Company, the Directors have declared a fully franked final dividend of 1.50 cents per share in respect of the year ended 31 July 2013. The record date for this dividend will be 31 October 2013 with payment due on 21 November 2013. This final dividend will bring the total fully franked dividend for FY2013 to 2.00 cents per share, compared with 1.75 cents per share in FY2012.



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PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 JULY 2013

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JULY 2013**

	Notes	31-Jul-13 \$'000	31-Jul-12 \$'000
Sale of goods	1	44,098	38,387
Cost of goods sold		<u>(28,622)</u>	<u>(23,206)</u>
Gross profit		15,476	15,181
Other income	1	816	293
Sales and marketing expenses		(2,674)	(3,192)
Administration and corporate expenses		(3,261)	(3,204)
Research and development expenses		(1,846)	(1,501)
Other Expenses	1	<u>-</u>	<u>(1,220)</u>
Profit before income tax		8,511	6,357
Income tax expense		<u>(2,433)</u>	<u>(1,986)</u>
Profit after tax for the period		<u>6,078</u>	<u>4,371</u>
Other comprehensive income			
Foreign currency translation adjustment, net of 30% tax		<u>148</u>	<u>(63)</u>
Other comprehensive income for the period		<u>148</u>	<u>(63)</u>
Total comprehensive income for the period		<u>6,226</u>	<u>4,308</u>
Earnings per share (EPS)			
Basic earnings per share (cents per share)		3.77	2.60
Diluted earnings per share (cents per share)		3.77	2.60

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

This Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 JULY 2013

	Notes	31-Jul-13 \$'000	31-Jul-12 \$'000
Current Assets			
Cash and cash equivalents		8,315	9,741
Trade and other receivables		12,001	10,148
Inventories		14,006	12,343
Other current assets		425	85
		34,747	32,317
Non-Current Assets			
Financial assets		6	5
Property, plant and equipment		3,262	3,491
Deferred tax assets		1,474	1,217
Intangible assets		1,995	2,029
		6,737	6,742
Total Assets		41,484	39,059
Current Liabilities			
Trade and other payables		7,730	8,063
Current tax liabilities		274	-
Borrowings		-	300
Short-term provisions		661	567
		8,665	8,930
Non-Current Liabilities			
Deferred tax liabilities		346	167
Long-term provisions		64	62
		410	229
Total Liabilities		9,075	9,159
Net Assets		32,409	29,900
Equity			
Issued Capital		32,920	32,920
Foreign Currency Translation Reserves		(60)	(208)
Accumulated Losses		(451)	(2,812)
Total Equity		32,409	29,900

This 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 2013**

Consolidated	Issued Capital \$'000	Accumulated Losses \$'000	Foreign Currency Translation Reserve \$'000	Total \$'000
Balance at 31 July 2011	32,920	(4,705)	(145)	28,070
Profit for the period	-	4,371	-	4,371
Dividend Paid	-	(2,478)	-	(2,478)
Foreign Currency Translation Reserve	-	-	(63)	(63)
Balance at 31 July 2012	32,920	(2,812)	(208)	29,900
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

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 2013**

	31-Jul-13 \$ '000	31-Jul-12 \$ '000
Cash flows from operating activities		
Receipts from customers	43,149	39,956
Payments to suppliers and employees	(38,424)	(30,157)
Interest received	211	293
Income tax paid	(2,110)	(2,414)
Net cash inflow from operating activities	2,826	7,678
Cash flows from investing activities		
Purchases of plant and equipment	(235)	(1,894)
Net cash outflow from investing activities	(235)	(1,894)
Cash flows from financing activities		
Dividends paid	(3,717)	(2,478)
Settlement of FFI loan under guarantee	-	(1,290)
Borrowings	(300)	300
Net cash outflow from financing activities	(4,017)	(3,468)
Net increase / (decrease) in cash held	(1,426)	2,316
Cash at the beginning of the year	9,741	7,425
Cash at the end of the year	8,315	9,741

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2013**

	31-Jul-13 \$'000	31-Jul-12 \$'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	44,098	38,387
Interest revenue	211	293
Other	605	-
Total Revenue	44,914	38,680
Depreciation and Amortisation expenses	(498)	(509)
Other Expenses		
The company's contribution under bank guarantees and holding costs in relation to the closure of Future Food Ingredients Pty Limited and associated realisation of its residual assets	-	(1,220)

2. Dividends

		Amount per security CPS
Final dividend		
Final dividend not recognised in accumulated losses expected to be paid on 21 November 2013	(2,477,725)	1.50c
Final dividend for previous corresponding year, paid on 22 November 2012	(2,890,680)	1.75c
Interim dividend		

An interim dividend of 0.5 cents per share was declared in respect of the current financial year ended 31 July 2013 (2012: nil).

Dividend declared after balance date

The Directors have declared a final dividend for the financial year ended 31 July 2013 of 1.50 cents per share (2012: final 1.75 cents per share) fully franked at 30%, payable on 21 November 2013, but not recognised as a liability at the end of the financial period. The record date for this dividend will be 31 October 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2013 (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. Soy products ceased operations in October 2010 and the Joint Venture was dissolved in 2012. 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 2013.

Primary Reporting – Business Segments

	Soy products		Tuna oil and microencapsulated powders		Investment/Treasury		Economic Entity	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Revenue								
Sales Revenue	-	-	44,098	38,387	-	-	44,098	38,387
Other Revenue	-	-	-	-	816	293	816	293
Total segment revenue	-	-	44,098	38,387	816	293	44,914	38,680
Total revenue consolidated							44,914	38,680
Results								
Operating profit	-	(1,220)	7,695	7,284	816	293	8,511	6,357
Profit before income tax							8,511	6,357
Income tax expense							(2,433)	(1,986)
Profit for the year							6,078	4,371

4. Audit

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