



Clover Corporation Limited

ABN 85 003 622 866

ASX ANNOUNCEMENT

31 July 2015

Market Update

As foreshadowed in the Company's Half Year Results announcement on 25th March 2015, the performance of Clover Corporation Limited (ASX: CLV) (**Clover**) has been, and continues to be, impacted by a slower than expected recovery in Chinese markets following the Fonterra incident in late 2013. In addition, the weakening Australian dollar (against the USD), a change in product sales mix and increased competition in the marketplace has placed considerable pressure on operating margins. As a result, Clover anticipates that revenue for the year ending 31 July 2015 will close at approximately \$29.9 million (2014: \$27.2 million), an increase of 10% on the prior year. However, given the difficult trading conditions and margin pressure, Net Profit after Tax for the year ending 31 July 2015 will be in the range of breakeven to \$0.3 million (2014: \$1.0 million).

Industry fundamentals have changed as China has introduced additional regulation amongst local suppliers driving the consolidation of the Chinese infant formula manufacturing industry. Chinese customers have moved to online ordering to access overseas product drawing supply from Europe and America and away from Clover's Asian customer base.

As a consequence the market is now experiencing a shift toward manufacturing in Australia and New Zealand with major Chinese manufacturers establishing Joint Venture operations or green field sites. The European regulators are also considering a change which would see the DHA Lipid content in Infant Formula increased which will provide Clover the opportunity to access the European market with its encapsulation technology.

Clover is well positioned to take advantage of these changes. As announced recently, Clover has made a significant investment in a new spray dryer facility in New Zealand. This new facility will provide Clover with the ability to commercialise new microencapsulated technologies and products which meet the changing needs of Clover's customers. This places Clover on the door step of an expanding New Zealand market and scope to access overseas markets. Clover's Driphorm encapsulation technology remains the market leader providing excellent sensory, oil loading and antioxidant properties.

Clover remains steadfast in its pursuit of new business opportunities. With this in mind, and the need to broaden its customer base, Clover has made the strategic appointment of two highly qualified commercial sales executives with excellent backgrounds in international sales, food, science and Omega 3 and 6. The organisation is actively working to expand its range of customers and move into new sectors where our products are in demand. However, it will take some time for our successes to be reflected in revenue given the time needed for customers to complete internal approval and qualification processes for new or changed product ingredients.

Clover's Medical Foods program remains on track. The Phase 3 clinical trial to test the effectiveness of Clover's DHA emulsion in reducing the incidence of Broncho-pulmonary Dysplasia (BPD) in infants born prematurely is nearing completion.

Despite the difficult trading conditions experienced during the current financial year, Clover continues to expense its Research and Development expenditure, reduce operating expenditure and maintain a strong Balance Sheet. The Directors' remain committed to the payment of a fully franked year end dividend.

Subject to matters outside the company's direct control, the outlook for FY16 is encouraging with revenue growth from new customers in New Zealand and Australia coupled with the introduction of new product offerings from the Waikato spray dryer.

Financial results for the year ending 31 July 2015 will be released on Wednesday 23rd September 2015.

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