CLOVER INDUSTRIES LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED RESULTS

for the six months ended 31 December

2015

and cash dividend declaration

KEY FINANCIAL INDICATORS

7.9%

REVENUE
R5.0 BILLION

5.8%

OPERATING PROFIT
R340.3 MILLION

7.1%

HEPS
117.0 CENTS

7,1%

INTERIM DIVIDEND PER SHARE
24,2 CENTS

DIRECTORATE AND STATUTORY INFORMATION

DIRECTORS: NON-EXECUTIVE

WI Büchner (Chairman)
TA Wixley# (Lead Independent)
SF Booysen (Dr)#
JNS du Plessis#
NV Mokhesi#
B Ngonyama#
NA Smith
PR Griffin
#Independent

DIRECTORS: EXECUTIVE

JH Vorster (Chief Executive)
LJ Botha (Chief Financial Officer) (Resigned 2 January 2016)
ER Bosch (Chief Financial Officer) (Appointed 2 January 2016)
CP Lerm (Dr)

COMPANY SECRETARY

J van Heerden

ORDINARY SHARE CODE:

JSE: CLR, NSX:CLN

ISIN:

ZAE000152377

REGISTERED OFFICE:

200 Constantia Drive, Constantia Kloof, 1709

POSTAL ADDRESS:

PO Box 6161, Weltevredenpark, 1715
Telephone:
(011) 471 1400

REGISTRATION NUMBER:

2003/030429/06

TAX NUMBER:

9657/002/71/4

TRANSFER SECRETARY:

Computershare Investor Services Proprietary Limited
70 Marshall Street, Johannesburg, 2001

AUDITORS:

Ernst & Young Inc.

BANKERS:

The Absa Group, First National Bank, Investec Bank

SPONSOR:

Rand Merchant Bank (a division of FirstRand Bank Limited) (JSE)
IJG Securities (NSX)

COMMENTARY

OVERVIEW

Clover's Board is pleased to report improved results for the six months ended 31 December 2015 ("the reporting period").

These improved results are particularly encouraging, considering that the corresponding six month period to 31 December 2014 set new performance records for Clover.

The achievement was set against a backdrop of much higher national milk flow in South Africa in the 2015 calendar year, compared to prior year periods (except for December 2015). Clover's unique milk procurement system (CUMPS) successfully maintained a balance between the Company's milk intake and market demand (sales). Industry selling prices subsequently remained low throughout the annual peak milk production period as inventories increased substantially. To protect its market shares, Clover did not increase its dairy selling prices during the reporting period.

The loss of a major principal's income was largely mitigated by increased sales of existing and new products, as well as income from a new principal contract entered into. Consequently, the Group reported lower income from services rendered, and higher income from the sale of products for the reporting period.

The Group had to lower its selling prices to successfully defend its market share in some categories. Inflationary costs were predominantly offset by extensive cost cutting initiatives and increased efficiencies across the Group, especially with regard to categories where no selling price increases were achieved during the reporting period.

To maintain market share in certain categories, the Group's gross margin contracted slightly from 31% in the corresponding period, to 29% for this reporting period. The Group's operating margin also decreased from 6,9% in the corresponding period, to 6,8% for this reporting period. This situation was anticipated, given the national milk flow surplus.

Overall, Clover's brands traded in line with expectations, buoyed by solid demand during the Festive Season and volumes and market shares were maintained for most product categories. The severe heat wave conditions towards the end of the reporting period resulted in an exceptional performance by the beverage portfolio. The majority of Clover's newly launched products traded above expectations, with value added products not exposed to dairy price fluctuations performing especially well.

The higher milk flow restored inventory levels as opposed to the previous year, and overall sales volumes increased by 15,6% compared to the corresponding period in 2014.

Product group sales volume changes were as follows:

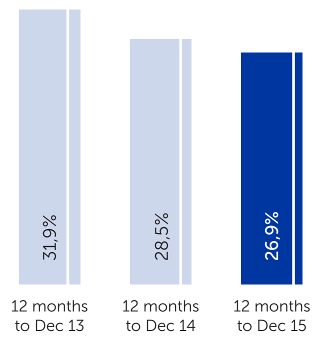
• Dairy fluids	+6,0%
• Concentrated products	+12,6%
• Ingredients	+10,6%
• Non-alcoholic beverages	+14,5%
• Fermented products and desserts (Yoghurt launched in January 2015)	+391,3%

The international oil price reduced considerably from the last reporting period and there has been a delayed reduction in domestic fuel prices albeit not to the same extent. As Clover hedged its diesel costs, it did not benefit from this cost reduction during the latter part of the reporting period. The Group continues to roll the hedge (monthly) at these low prices as the benefits of the hedged prices are anticipated to be realised in future.

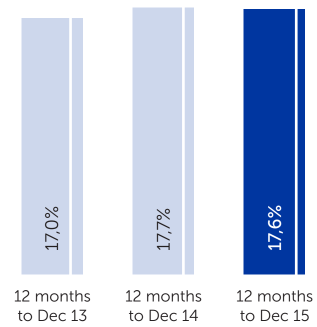
The impact of continued Rand weakness on input costs, and general inflationary increases in the industry will necessitate price increases to be passed on to the consumer. Clover is cognisant of the plight of the consumer, and the Group will continue to identify and exploit cost efficiencies across its value chain to the benefit of consumers, and to defend and maintain its existing market shares.

MARKET SHARES

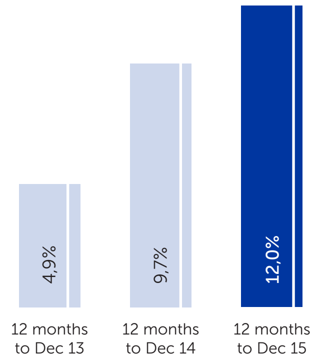
FRESH AND UP MILK



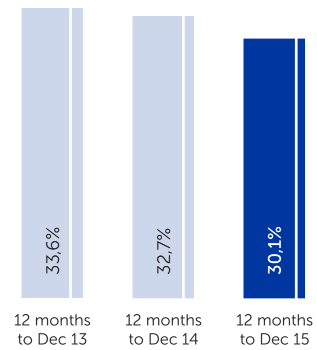
UHT MILK



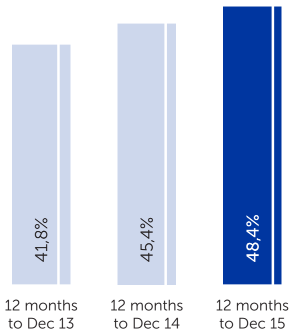
PROCESSED CHEESE SLICES



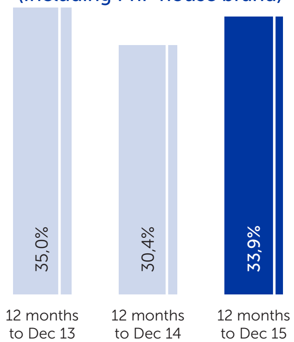
CREAM



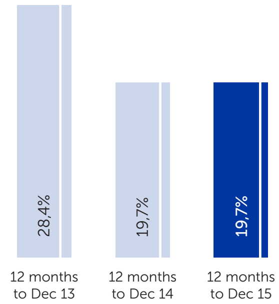
PURE JUICES



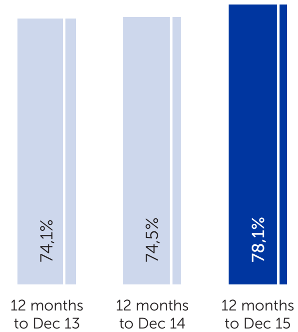
FETA CHEESE (Including PnP house brand)



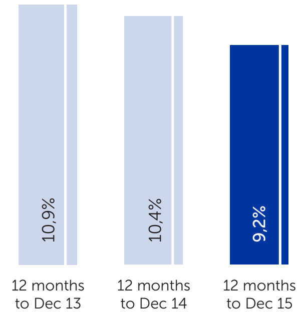
NATURAL PRE-PACKED CHEESE



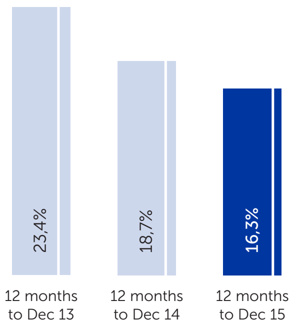
DAIRY FRUIT MIX



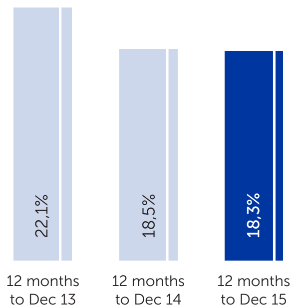
WATER BRANDS



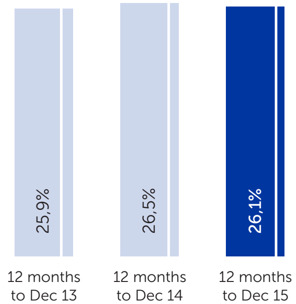
FRUIT DRINK/NECTAR



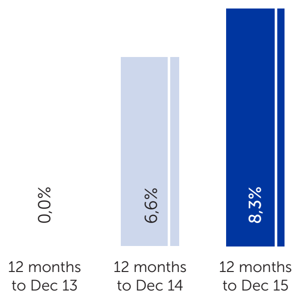
ICE TEA



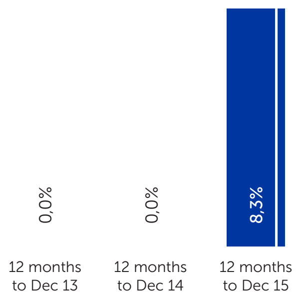
FLAVOURED MILK



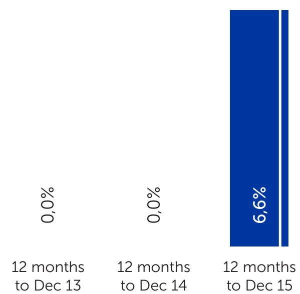
MAAS



YOGHURT



CUSTARD



COMMENTARY (continued)

FINANCIAL PERFORMANCE

Headline earnings improved by 10,2% to R219,7 million for the reporting period.

Headline earnings per share ("HEPS") of 117,0 cents for the reporting period are 7,1% higher than HEPS of 109,2 cents for the corresponding period. Revenue increased by 7,9 % to R5 025.4 million, and operating profit was 5,8% higher at R340,3 million. Headline operating profit increased by 13,0% to R342,5 million.

Profit for the reporting period ended 4% higher at R218,9 million. Earnings per share ("EPS") of 116,1 cents for the reporting period was 1,4% below EPS of 117,8 cents reported for the corresponding period. HEPS and EPS are less than headline earnings and earnings, due to the increase in the weighted number of shares as a result of equity settled share appreciation rights that were exercised by management, during the previous financial year.

Higher inventory levels contributed to increased working capital requirements and net finance costs were correspondingly R 24.5 million higher than the previous corresponding period.

The effective tax rate was 25,5% compared to 29,1% during the corresponding period. The rand devalued against African subsidiaries' currencies, and the currency gains were taxable at lower tax rates. Clover Botswana also has a lower tax rate.

Revenue

Revenue from the sale of products increased by 14.4% to R4 643.3 million on an overall volume increase of 15,6%.

Revenue from principals for services rendered at R363.8 million was 19.7% lower than the corresponding period. This was predominantly due to the cessation of income from one principal. The full extent of the anticipated reduction in revenue were however largely mitigated by increased sales of existing and new products, as well as income from a new principal contract entered into.

A long term raw milk supply contract was systematically phased out at the end of 31 December 2014, and raw milk sales (at cost) declined by 90,8% to R13,5 million.

Cost of sales

Cost of sales increased by 10,7%.

New product launches necessitated increased cooperative advertising and hence charges against sales increased by R20 million or 25,6% to R97,7 million.

Raw material costs increased by 9,8% predominantly as a result of the higher sales volumes, inflationary increases and the weakening rand.

As a results of inflationary costs, a weaker rand, and the higher sales volumes, packaging costs also increased by 18,3%.

Milk collection costs declined by 3,4% despite annual inflationary cost increases, mostly as a result of the phasing out of a raw milk supply contract that led to more efficient route utilisation.

The higher milk flow resulted in increased factory throughput for the six months to December 2015. Production unit costs were lower for the period, but given the additional investments in new products and increased volumes, manufacturing costs increased 14,4% or R71,4 million.

Primary distribution costs benefitted from greater route and cost efficiency, resulting in a 2,4% or R5,4 million reduction in primary distribution costs.

Other operating income

Other operating income declined by 1,3% to R30,8 million as the corresponding period included a net capital gain of R18,5 million, mostly resulting from a R24 million gain on the change in ownership of the Group's head office building. Higher foreign exchange gains in Clover West Africa and Clover Botswana contributed to other operating income for December 2015.

Operating costs

As a result of the effective cost management across the value chain, selling and distribution expenses were 1,1% or R11 million less than the corresponding period. Inflationary cost increases were absorbed by savings across the value chain, and amongst others, in advertising and marketing costs. To maintain and protect existing market shares, the Group still spent considerably on marketing and advertising.

Administrative expenses increased by 10,7% to R153,6 million. This was predominantly as a result of profit targets that have been achieved, and therefore the corresponding provision for profit based short-term incentives was raised. In addition, given the increased focus on new brands and new market development, the Group increased research and development cost by 11,7% to R21,3 million.

FINANCIAL POSITION AND CASH FLOW

There was a R217,5 million increase in property, plant and equipment net of the depreciation charge from December 2014. Major projects included in the capital expenditure were:

- Clayville chilled capacity expansion R111 million
- Bloemfontein yoghurt capacity extension R35 million
- Beverages R45 million

The Group spent R128,1 million cash on capital expenditure on tangible assets, and the balance was funded by the increase in interest bearing borrowings.

Intangible assets increased by 28,2% or R133,2 million from December 2014 because of recent acquisitions. The Group is also investing in considerable new IT collaboration infrastructure to enhance sales.

The peak milk production season during the reporting period allowed Clover to restore its inventory levels which, combined with the normal seasonal increase in inventory, increased inventory by 20,2 % or R198,3 million compared to the corresponding reporting period.

Trade and other receivables were 11,3% higher than at December 2014, in line with the overall sales performance of the Group.

Higher inventory levels, price inflation, and higher volumes all contributed to the increase of R31,9 million in trade and other payables from December 2014.

Clover generated R183.3 million more net cash from operations compared to December 2014. The higher inventory levels as at June 2015 required 21.8% less working capital compared to December 2014.

Capital expenditure, taxation and finance charges were funded partly from cash resources and short-term interest bearing debt. Cash as a result increased by R41,7 million from June 2015, while interest bearing debt increased by R421,7 million compared to December 2014.

Gearing at the end of the period was 52.2% compared to 41.3% at 31 December 2014.

PROSPECTS

The low selling prices experienced in the first six months are likely to continue, and it will in all likelihood result in a second six months with lower gross margins than those achieved in the first six months.

The weakened global economy and the impact of low economic growth forecasts and commodity prices has had a significant impact on the risks facing Clover in the rest of Africa. The current financial crisis experienced in Nigeria which is fueled by the low oil price is a further cause of concern, thus the Group has decided to withdraw from future investments in Nigeria. The Group will continue to expand its operations within the Botswana, Namibia, Lesotho and Swaziland region, and will continue to pursue export opportunities in Africa where the currency risks can be mitigated. The capital previously earmarked for Africa will no longer be spent.

It is anticipated that planned selling price increases will absorb anticipated inflationary cost increases in the second half of the year, as not all selling price increases were realised in the first half. Should the low selling prices continue for the first quarter of 2016, and cost increases exceed inflation, it will lead to a reduction in the margins achieved during the first six months.

The increasing effects of a protracted drought across some areas of the country resulted in a shortage of feed and an increase in on-farm costs. Notwithstanding the severe heat wave and drought conditions, the Group is comfortable with its inventory levels for the winter and spring.

Clover's redesigned strategy since listing and management's ability to rapidly adapt to market changes will enable the Company to employ numerous levers to mitigate the major effects of cyclicality in the business for the next six months. As a result Clover remains optimistic for the full year results.

The Company continues its focus on fully utilising its capacities and the asset base that was heavily invested in during the last five years. In addition, it remains focused on continued investment in and support of newly launched products in order to grow a portfolio that is not exposed to dairy price fluctuations. Clover will therefore continue to explore local consolidation opportunities to leverage its existing value chain.

Any reference to future performance included herein has not been reviewed and reported on by the company's auditors and does not constitute an earnings forecast.

DIVIDEND DECLARATION

Notice is hereby given that the directors have declared an interim gross cash dividend of 24,21000 cents (20,57850 cents net of dividend withholding tax) per ordinary share for the six months ended 31 December 2015, payable in South African currency on Tuesday, 29 March 2016.

The dividend represents a 7,1% increase over the interim dividend of 22.60 cents paid in April 2015 in line with the growth in headline earnings per share. The board will apply its stated dividend policy in determining a final dividend for the 2015/16 financial year.

The dividend has been declared from income reserves.

A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 188 448 464 ordinary shares.

The company's income tax number is 9657/002/71/4.

The salient dates will be as follows:

Last day to trade "cum" the ordinary share dividend	Wednesday, 16 March 2016
Shares commence trading "ex" the ordinary share dividend	Thursday, 17 March 2016
Record date on	Thursday, 24 March 2016
Payment date on	Tuesday, 29 March 2016

Share certificates may not be dematerialised or rematerialised between Thursday, 17 March 2016 and Thursday, 24 March 2016, both days inclusive.

On behalf of the Board

WI Büchner	**JH Vorster**
Chairman	Chief Executive
2 March 2016	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	For the six months ended 31 December 2015 Unaudited R'000	For the six months ended 31 December 2014 Unaudited R'000	For the year ended 30 June 2015 Audited R'000
Sale of products	14.4	4 643 261	4 057 758	8 272 084
Rendering of services	(19.7)	363 831	453 275	838 112
Sale of raw milk	(90.8)	13 477	146 553	152 822
Rental income	173.5	4 896	1 790	3 233
Revenue	7.9	5 025 465	4 659 376	9 266 251
Cost of sales	(9.7)	(3 560 689)	(3 217 051)	(6 482 147)
Gross profit	1.6	1 464 776	1 442 325	2 784 104
Other operating income	(1.3)	30 842	31 260	58 039
Selling and distribution costs	1.1	(984 716)	(995 761)	(1 996 467)
Administrative expenses	(9.7)	(153 609)	(138 723)	(309 041)
Restructuring expenses	(75.0)	(2 352)	(589)	(8 472)
Other operating expenses	14.5	(14 667)	(16 796)	(19 091)
Operating profit	5.8	340 274	321 716	509 072
Finance income	(18.9)	4 781	5 896	9 041
Finance cost	(41.6)	(58 880)	(34 376)	(83 105)
Share of profit of a joint venture	103.6	7 926	3 893	10 939
Profit before tax	(1.0)	294 101	297 129	445 947
Taxes	15.2	(75 162)	(86 621)	(100 286)
Profit for the period	4.0	218 939	210 508	345 661

	Notes	For the six months ended 31 December 2015 Unaudited R'000	For the six months ended 31 December 2014 Unaudited R'000	For the year ended 30 June 2015 Audited R'000
Profit for the period		218 939	210 508	345 661
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translations of foreign operations, net of tax	5	7 426	478	3 268
Exchange differences on translations of foreign operations		7 426	478	3 268
Income tax effect		–	–	–
Net loss on cash flow hedges, net of tax	5	(13 352)	–	–
Net loss on cash flow hedges		(18 544)	–	–
Income tax effect		5 192		
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(5 926)	478	3 268
Total comprehensive income for the period, net of tax		213 013	210 986	348 929
Profit for the period attributable to:				
Equity holders of the parent		218 044	214 890	350 345
Non-controlling interests		895	(4 382)	(4 684)
		218 939	210 508	345 661
Total comprehensive income attributable to:				
Equity holders of the parent		212 118	215 368	353 613
Non-controlling interests		895	(4 382)	(4 684)
		213 013	210 986	348 929

	% change	For the six months ended 31 December 2015 Unaudited R'000	For the six months ended 31 December 2014 Unaudited R'000	For the year ended 30 June 2015 Audited R'000
Headline earnings calculation				
Profit for the period attributable to equity holders of the parent company		**218 044**	214 890	350 345
Gross remeasurements excluded from headline earnings		**2 191**	(18 542)	(38 950)
Loss/(Profit) on sale and scrapping of property, plant and equipment		**2 191**	5 816	(38 950)
Gain on change of ownership of leased buildings		**–**	(24 358)	–
Taxation effects of remeasurements		**(519)**	2 948	7 948
Headline earnings attributable to shareholders of the parent company		**219 716**	199 296	319 343
Issued ordinary shares		**188 448 464**	182 478 589	187 731 138
Number of ordinary shares used in the calculation of:				
Earnings per share				
– weighted average		**187 848 093**	182 478 589	183 989 596
Diluted earnings per share				
– weighted average		**192 352 995**	192 434 066	192 466 775
Earnings per share attributable to ordinary equity holders of the parent				
Earnings per share (cents)	(1.4)	**116.1**	117.8	190.4
Diluted earnings per share (cents)	1.5	**113.4**	111.7	182.0
Headline earnings per share (cents)	7.1	**117.0**	109.2	173.6
Diluted headline earnings per share (cents)	10.2	**114.2**	103.6	165.9

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

	31 December 2015 Unaudited R'000	31 December 2014 Unaudited R'000	30 June 2015 Audited R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**2 192 226**	1 974 652	2 153 451
Investment properties	**18**	28	23
Intangible assets	**605 676**	472 427	567 557
Share of investment in a joint venture	**40 409**	38 959	31 625
Deferred tax assets	**36 837**	8 631	32 696
	2 875 166	2 494 697	2 785 352
Current assets			
Inventories	**1 182 280**	983 938	940 181
Trade and other receivables	**1 499 690**	1 349 497	1 215 579
Prepayments	**38 079**	11 012	17 530
Income tax receivable	**–**	599	40 330
Other current financial assets	**771**	706	–
Cash and short-term deposits	**517 371**	445 984	475 436
	3 238 191	2 791 736	2 689 056
Assets classified as held-for-sale	**12 912**	5 516	429
	3 251 103	2 797 252	2 689 485
Total assets	**6 126 269**	5 291 949	5 474 837

	31 December 2015 Unaudited R'000	31 December 2014 Unaudited R'000	30 June 2015 Audited R'000
EQUITY AND LIABILITIES			
Equity			
Issued capital	9 422	9 124	9 387
Share premium	851 741	734 414	838 363
Other reserves	79 578	291 579	72 880
Retained earnings	1 799 438	1 412 150	1 653 022
Other components of equity	(8 240)	(5 104)	(2 314)
Equity attributable to equity holders of the parent	2 731 939	2 442 163	2 571 338
Non-controlling interests	20 755	13 811	13 510
Total equity	2 752 694	2 455 974	2 584 848
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	934 705	661 605	681 601
Employee-related obligations	78 303	64 947	74 901
Deferred tax liability	193 954	178 320	188 253
Trade and other payables	21 459	5 139	21 459
Other non-current financial liabilities	–	–	2 716
	1 228 421	910 011	968 930
Current liabilities			
Trade and other payables	1 582 929	1 544 269	1 330 385
Interest-bearing loans and borrowings	502 191	353 608	573 576
Other current financial liabilities	36 172	4 477	2 670
Income tax payable	12 791	–	–
Employee-related obligations	11 071	23 610	14 428
	2 145 154	1 925 964	1 921 059
Total liabilities	3 373 575	2 835 975	2 889 989
Total equity and liabilities	6 126 269	5 291 949	5 474 837

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 31 December 2015 Unaudited R'000	For the six months ended 31 December 2014 Unaudited R'000	For the year ended 30 June 2015 Audited R'000
Balance at 1 July	2 584 848	2 272 741	2 272 741
Profit for the period	218 939	210 508	345 661
Other comprehensive income	(5 926)	478	3 268
Total comprehensive income	213 013	210 986	348 929
Ordinary shares issued	13 414	–	104 212
Share-based payment reserve accrued	9 976	9 159	18 080
Share appreciation rights exercised	(10 576)	(2 624)	(82 600)
Acquisition of non-controlling interest in Lactolab Proprietary Limited	–	(5 500)	(5 500)
Non-controlling interest allocated in Clover Frankies Proprietary Limited	6 350	–	–
Dividends	(64 397)	(29 197)	(71 624)
Dividends forfeited	66	409	610
Balance at end of the period	2 752 694	2 455 974	2 584 848
Consists of:			
Share capital and premium	861 163	743 538	847 750
Other capital reserves	79 578	291 579	72 880
Retained earnings	1 799 438	1 412 150	1 653 022
Other components of equity	(8 240)	(5 104)	(2 314)
Shareholder equity	2 731 939	2 442 163	2 571 338
Non-controlling interest	20 755	13 811	13 510
Total equity	2 752 694	2 455 974	2 584 848

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 December 2015 Unaudited R'000	For the six months ended 31 December 2014 Unaudited R'000	For the year ended 30 June 2015 Audited R'000
OPERATING ACTIVITIES			
Profit before tax	**294 101**	297 129	445 947
Adjustment for non-cash items	**153 483**	89 130	227 031
Working capital adjustments	**(296 987)**	(380 131)	(406 539)
Income tax paid	**(14 648)**	(53 518)	(106 254)
Net cash flows from/(used in) operating activities	**135 949**	(47 390)	160 185
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	**337**	30 843	61 684
Interest received	**4 780**	5 897	9 041
Acquisition of Frankies Olde Soft Drinks Business	**(6 610)**	–	–
Acquisition of Dairybelle UHT Milk Business	**–**	(30 000)	(30 000)
Acquisition of Dairybelle Yoghurt Business	**–**	–	(107 131)
Acquisition of Nkunzi Milkyway Business	**–**	–	(48 684)
Government grant received recognised against property, plant and equipment	**16 097**	–	38 055
Capital expenditure: Tangible and intangible assets	**(174 712)**	(244 630)	(489 753)
Net other investing activities	**7 427**	7 591	9 966
Net cash flows used in investing activities	**(152 681)**	(230 299)	(556 822)
FINANCING ACTIVITIES			
Interest paid	**(58 877)**	(34 374)	(83 105)
Dividends paid	**(64 397)**	(29 197)	(71 624)
Acquisition of non-controlling interest in Lactolab Proprietary Limited	**–**	(5 500)	(5 500)
Net increase in borrowings	**181 719**	138 362	378 326
Net cash flows from financing activities	**58 445**	69 291	218 097
Net increase/(decrease) in cash and cash equivalents	**41 713**	(208 398)	(178 540)
Net foreign exchange difference	**222**	493	87
Cash and cash equivalents at the beginning of the period	**475 436**	653 889	653 889
Cash and cash equivalents at the end of the period	**517 371**	445 984	475 436

ACCOUNTING POLICIES AND NOTES

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), its interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, presentation and disclosure as required by IAS 34 Interim Financial Reporting, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies are consistent in all material respects with those of the previous financial period.

2. SEGMENT REPORTING

The Group's manufacturing, distribution, other assets and liabilities are totally integrated between the different product groups. The Chief Executive Officer (the Chief Operating Decision Maker) is of the opinion that the operations for individual manufacturing, distribution and product groups are substantially similar to one another and that the risks and returns are likewise similar. As a result thereof, the business of the Group is considered to be a single segment, namely Clover Industries Limited ("CIL").

Group operations outside of South Africa are insignificant and therefore not disclosed separately.

The following information regarding the Group's product groups, for which no discrete financial information is available, are presented on a voluntary basis. The Group comprises the following main product groups:

- The dairy fluids products is focused on providing the market with quality dairy fluid products.
- The dairy concentrated products consist of cheese, butter, condensed milk and retail milk powders.
- The ingredients products consist of bulk milk powders, bulk butter, bulk condensed milk, bulk creamers, calf feed substitutes, whey powder and buttermilk powder.
- The non-alcoholic beverages products focus on the development and marketing of non-alcoholic, value-added branded beverages products.
- The fermented products and desserts consist of yoghurt, maas and desserts
- Other consists of Clover Industries Limited holding company and Lactolab Proprietary Limited that renders laboratory services.

ACCOUNTING POLICIES AND NOTES (continued)

	For the six months ended 31 December 2015 Unaudited R'000	For the six months ended 31 December 2014 Unaudited R'000	For the year ended 30 June 2015 Audited R'000
External revenue from sale of products*			
Dairy fluids	**2 211 262**	2 227 827	4 396 169
Dairy concentrated products	**719 963**	632 135	1 259 208
Ingredients	**125 733**	146 342	274 860
Non-alcoholic beverages	**1 206 875**	1 047 547	2 065 101
Fermented products and desserts	**375 990**	–	269 782
Other	**3 438**	3 907	6 964
	4 643 261	4 057 758	8 272 084
Margin on material			
Dairy fluids	**882 573**	897 660	1 738 282
Dairy concentrated products	**200 977**	205 961	403 070
Ingredients	**16 902**	45 663	88 480
Non-alcoholic beverages	**669 817**	553 577	1 099 622
Fermented products and desserts	**108 161**	–	68 296
Other	**2 617**	3 205	5 332
	1 881 047	1 706 066	3 403 082

* External revenue excludes revenue from the sale of raw milk.

The Group operates mainly in the geographical area of South Africa. The revenue and assets of the operations outside South Africa are insignificant.

3. Earnings per share

The difference between earnings per share and diluted earnings per share is due to the impact of equity settled unexercised share appreciation rights.

4. Property, plant and equipment and intangible assets

During the six months under review the Group acquired property, plant and equipment to the value of R128,1 million and also acquired intangible assets at a cost of R46,6 million.

Certain items of property, plant and equipment and investment property have been recognised as assets classified held-for-sale. It is those assets that are expected to be disposed of within the next 12 months.

ACCOUNTING POLICIES AND NOTES (continued)

5. Other components of equity

The Group purchases diesel on an ongoing basis as its operating activities in the distribution division require a continuous supply of diesel for the transport of its own products and those of its principals. Due to the recent fluctuations in the commodities market specifically relating to the international price of oil and the effect it had on the price of diesel locally the Group entered into a diesel hedge with RMB in the form of a long-futures contract and as a result this is the first financial year the Group apply hedge accounting. The futures contract does not result in physical delivery of diesel.

During the period under review the Group hedged 1 650 000 litres of diesel per month at a price of R11,76 per litre. As at 31 December 2015 the Group has hedged its diesel usage until the end of September 2016 at 1 650 000 litres per month. The contracted prices are R11,76 per litre for the first six months and R11,69 per litre for the last three months. Hedging the price volatility of forecast diesel purchases is in accordance with the risk management strategy outlined by the Board of Directors.

As at 31 December 2015, the fair value of the diesel long-futures contract amounted to a liability of R29,1 million (R20,9 million net of tax). This fair value was based on the quoted price from RMB for an item with the same expiry date and a similar value taking into account the ruling diesel price at year end and the forecasted change in Brent crude prices until expiry of the instrument. The realised portion of the diesel long-futures contract recognised in other operating expenses in the statement of profit or loss for the period was R10,5 million (R7,6 million net of tax). The unrealised portion of R18,6 million (R13,4 million net of tax) is reflected in other comprehensive income and will affect the profit or loss in the remaining nine months of the 2016 calendar year depending on the move in the diesel price.

Other comprehensive income, net of tax:

The disaggregation of changes of other comprehensive income by each type of reserve in equity is shown below:

As at 31 December 2015	Cash flow hedge reserve R'000	Foreign currency translation reserve R'000	Total R'000
Diesel forward contracts	(20 921)		(20 921)
Reclassified to statement of profit or loss	7 569		7 569
Foreign exchange translation differences		7 426	7 426
	(13 352)	**7 426**	**(5 926)**

6. Acquisition of interest in Clover Frankies Proprietary Limited

Clover entered into an agreement with Frankies Olde Soft Drinks cc ("Seller") to form a new entity, Clover Frankies Proprietary Limited ("Clover Frankies") that acquired the Frankies business, effective 1 November 2015. According to the "Sale of Business Agreement" Clover Frankies has bought all of the consumables, raw materials, finished goods, equipment and material contracts of the Seller in relation to the Frankies business on the effective date. Clover effectively holds 51% of the shares in Clover Frankies and Frankies Olde Soft Drinks cc holds the remaining 49%.

The Group has elected to measure the non-controlling interest in Clover Frankies Proprietary Limited at fair value on initial recognition.

The discounted cash flow valuation of the intangible assets were based on the following inputs; estimated annual free cash flow of R1,2 million; free cash flow growth per annum of between 11% to 16% and a discount rate of 18,2%.

ACCOUNTING POLICIES AND NOTES (continued)

The fair values allocated to the assets and liabilities are based on a provisional assessment of their fair values. According to IFRS 3.45, the Company is allowed a measurement period, not exceeding one year, to retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of the effective date.

The fair values of the identifiable assets, liabilities, goodwill and non-controlling interest of the Frankies business as at the date of acquisition were:

	R'000
Assets	
Equipment	463
Inventory	1 019
Intangible assets	6 636
Deferred tax liability	(675)
Total identifiable net assets at fair value	7 443
Goodwill arising at acquisition	5 517
Total value of the Frankies business	12 960
Non-controlling interest measured at fair value	6 350
Total consideration, settled in cash	6 610

Goodwill arising on acquisition represents the value paid for the Frankies business in excess of the fair value of its net assets at acquisition date. Synergies are expected from the combination of operations and Clover's extended distribution network.

7. Fair value of financial instruments

The carrying value of financial assets and liabilities approximate fair value due to either the short-term nature of these items, or the fact that they are priced at variable interest rates.

8. Events after the reporting period

No significant events occurred subsequent to the end of the period.

9. Going concern

The Directors are satisfied that the Group is a going concern and has therefore continued to adopt the going-concern basis in preparing the interim condensed consolidated financial statements.

10. Preparation of unaudited interim condensed consolidated results

The interim condensed consolidated financial statements set out above were prepared under the supervision of Elton Ronald Bosch, CA(SA), in his capacity as Chief Financial Officer of the Group.

11. Independent audit by auditors

The interim condensed consolidated financial statements have not been audited or reviewed by the Group's independent auditors.

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