CLOVER INDUSTRIES LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED RESULTS AND CASH DIVIDEND DECLARATION

for the six months ended 31 December 2018

KEY FINANCIAL INDICATORS

REVENUE ▲ 4,1% R4,21 BILLION TO R4,39 BILLION

REVENUE FROM SALES OF PRODUCTS ▲ 4,6%
R3,29 BILLION TO R3,44 BILLION

HEPS ▲ 5,0% 117,6 CENTS TO 123,5 CENTS

HEADLINE EARNINGS ▲ 5,1% R224,4 MILLION TO R235,9 MILLION

INTERIM DIVIDEND PER SHARE ▲ 5.0% 26,56 CENTS TO 27,89 CENTS

OPERATING PROFIT ▼ 7,3% R370,4 MILLION TO R343,5 MILLION

EPS ▲ 0,2% 123,3 CENTS TO 123,5 CENTS

EARNINGS ▲ 0,2% R235,3 MILLION TO R235,9 MILLION

DIRECTORATE AND STATUTORY INFORMATION

Directors: Non-executive

WI Büchner (Chairman)

SF Booysen (Dr)# (Lead Independent)

NV Mokhesi#

B Ngonyama#

NA Smith

JW Basson#

JFM Morgan#^

#Independent

^British national

Directors: Executive

JH Vorster (Chief Executive)

FF Scheepers (Chief Financial Officer)

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

Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Auditors

Ernst & Young Inc.

Bankers

The Absa Group, Rand Merchant Bank, Investec Bank

Sponsor

Rand Merchant Bank (a division of FirstRand Bank Limited) (JSE)

Merchantec Capital Namibia Proprietary Limited (NSX)

COMMENTARY

Overview

Consumer confidence remained constrained throughout the trading period as a combination of higher taxes and record high fuel prices negatively impacted on buying power.

The ongoing deterioration in disposable household income has had an adverse effect on consumer goods companies and consensus amongst analysts are that tough times lie ahead for South Africa's food producers.

Clover's early implementation of its strategic focus contributed to a stable performance despite pressure on consumer spending. The Group reported increases in volumes and moderate improvements in prices of selective products, whilst remaining focused on:

- growth through product and brand development;
- volume growth and market share recovery;
- distribution effectiveness and reach;
- cost management and production efficiencies; and
- win-win stakeholder relationships.

Selected product group sales volumes were as follows:

• Non-alcoholic beverages	+7,4%
• Concentrated products	-18,9%
• Value-added dairy fluids	+1,6%
• Fermented products and desserts	+73,1%

Volume increases have however not flowed to the bottom line to the same extent, primarily due to additional promotions and rebates that were required to support volume growth.

Clover continued with its strategy of investing savings back into pricing and have built on initiatives previously implemented. Project Sencillo (asset optimisation and efficiencies), Project Meglio (recipe reformulations to reduce product unit costs), the ongoing roll-out of Project Masakhane (township distribution), as well as new product launches and product reformulations that resulted in lower ingredient and sugar costs, continue to yield encouraging results.

The Board's strategic decision to offset selling price increases against savings from the abovementioned efficiency drives, is another contributing factor to the overall volume increase of 5,6% and market share growth across a number of product categories.

The Group's gross profit margin has increased to 37,5% as at 31 December 2018 from 36,3% as at 31 December 2017. The main reason for the 1,2% increase is the implementation of IFRS 15 (Revenue from contracts with customers) in the current reporting period. The full impact of IFRS 15 is discussed in more detail in note 9 of the accounting policies and notes.

The Group's operating margin decreased from 8,8% as at 31 December 2017 to 7,8% as at 31 December 2018. The decrease can be attributed to the introduction of the health promotion levy ("Sugar Tax") which amounted to circa R42,3 million for the period ended 31 December 2018. In addition, the sharp increase in fuel prices during the latter part of the 2018 calendar made it difficult to contain distribution costs which could not be passed on to the consumer. During the reporting period, Clover invested significantly in human capital to ensure a sales force that will drive ongoing high-quality service delivery to the trade. The Group expects these investments to provide a platform for better volume growth in the future.

Financial performance

Headline earnings increased by 5,1% to R235,9 million as at 31 December 2018. Headline earnings per share ("HEPS") of 123,5 cents reflect an increase of 5,0% when compared to HEPS of 117,6 cents for the period ended 31 December 2017.

At 31 December 2018, operating profit is 7,3% lower at R343,5 million and headline operating profit decreased by 3,9% to R343,4 million. For the same period, attributable profit was 0,2% higher at R235,9 million. Earnings per share ("EPS") of 123,5 cents at 31 December 2018 was 0,2% above EPS of 123,3 cents at 31 December 2017.

The effective tax rate was 26,5% at 31 December 2018 compared to 28,7% at 31 December 2017. The difference is mainly because of Botswana's lower tax rate of 22% and the share of profits from joint ventures that is a net of tax number included in profit before tax.

Revenue

Revenue from the sales of products increased by R150,5 million or 4,6% to R3 435,6 million at 31 December 2018, whilst revenue from rendering of services increased by R21,0 million for the same period. The increase is attributable to an increase in volumes of 5,6% and prices of 3,1%. The combined increase of 8,7% was however offset by charges against sales amounting to R135 million due to adoption of IFRS 15.

Charges against sales are deducted from sales of products in the current reporting period ending 31 December 2018 whereas in the reporting period 31 December 2017 charges against sales amounting to R96,0 million was included as part of Cost of Sales. If the charges against sales are excluded in the current year, revenue from sales of products would have increased by R285,5 million (8,7%) as opposed to the 4,6%.

Cost of sales

Cost of sales increased by R56,6 million (2,1%) as at 31 December 2018 when compared to 31 December 2017. The most significant factor affecting cost of sales was the introduction of Sugar Tax in April 2018. Sugar Tax contributed approximately R42,3 million (1,6%) to the increase in Cost of Sales. Cost of sales did not increase in line with the increase in revenue primarily due to adoption of IFRS 15 discussed earlier. If charges against sales are included as part of cost of sales, it would have increased by R191,6 million (7,1%). The period to period increase (excluding Sugar Tax) is 5,5%, which corresponds with the increase in volumes of 5,6%.

Other operating income

The decrease of R9,6 million (18,3%) at 31 December 2018 in other operating income when compared to 31 December 2017 is mainly as a result of a R8,0 million profit on disposal of assets recognised in that period. Other operating income consist mainly of:

- Royalty income of R31,0 million from DFSA;
- Canteen income of R3,2 million;
- Discounts received of R2,0 million and
- Fair value adjustment on the share appreciation rights hedge of R1,2 million.

Operating costs

Selling costs consist mainly of advertising, promotions, sales and marketing costs. At 31 December 2018, selling costs amounted to R530,3 million (31 December 2017: R460,4 million). The increase of R69,9 million (15,2%) is attributable to aggressive marketing and selling campaigns to increase volume sales which is evident from the 5,6% increase in volumes as indicated above. In line with Clover's commitment to deliver and maintain high quality service levels in retail stores, sales force spend increased by R72,6 million or 25,0%. This also supported volume increases.

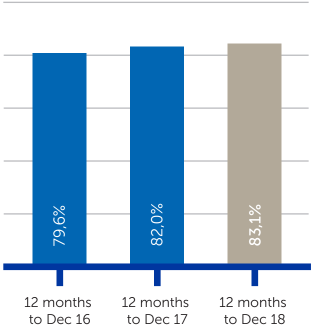
Distribution costs consist mainly of personnel expenses, collection and delivery costs. At 31 December 2018, distribution costs amounted to R652,5 million (31 December 2017: R596,1 million). The increase of R56,4 million (9,5%) is mainly attributable to the following:

- an increase in personnel expenses due to wage increases of 7,5%;
- an increase in container expenses due to increased volumes; and
- an increase in collection and delivery charges mainly as a result of the increases in fuel prices.

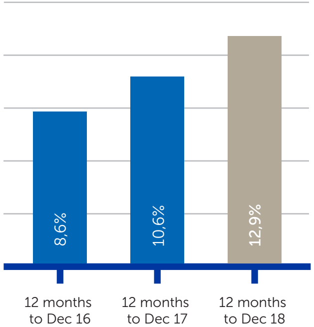
Clover's continued focus on new brands and new market development saw these expenses increase by R12,0 million (9,0%) when compared to 31 December 2017. The increase is as a result of higher research and development costs (R&D) which was offset against savings realised through cost initiatives implemented. The increase in R&D costs is mainly attributable to research on sugary beverage reformulations to reduce the sugar content as well as new product developments.

MARKET SHARES

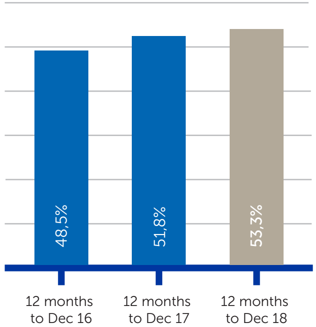
DAIRY FRUIT MIX



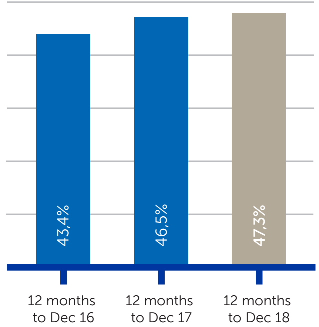
TOTAL YOGHURT



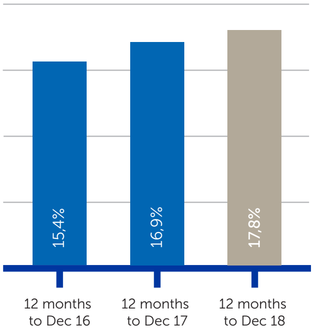
TOTAL SHORT LIFE FRUIT JUICE



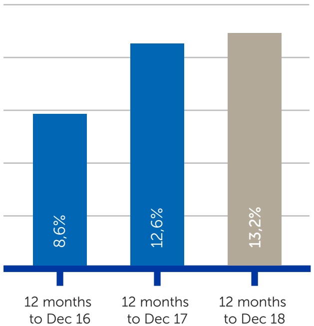
SHORT LIFE FRUIT JUICE



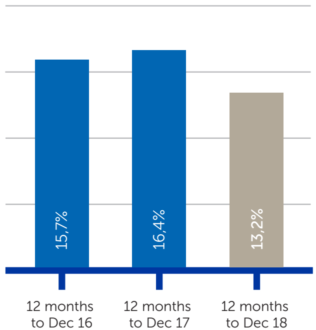
NECTAR SHORT LIFE FRUIT JUICE



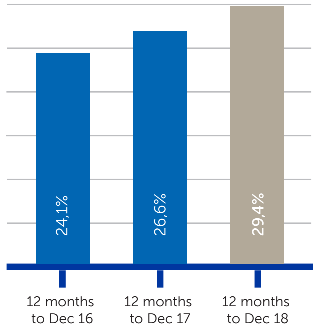
IWS PROCESSED CHEESE



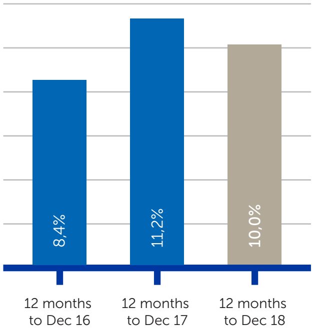
NATURAL CHEESE



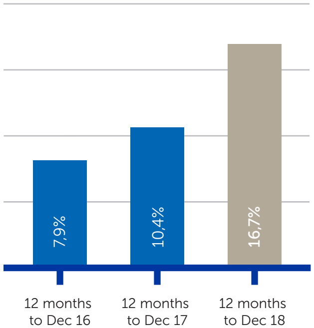
FETA CHEESE



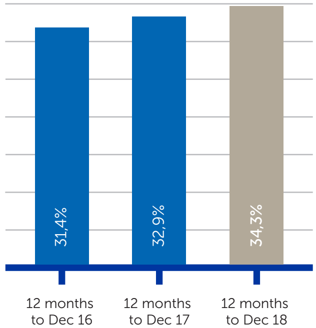
CUSTARD



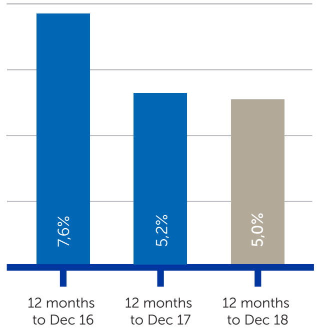
MAAS



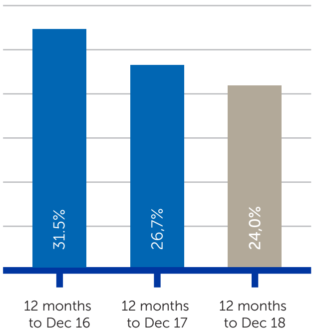
FLAVOURED MILK



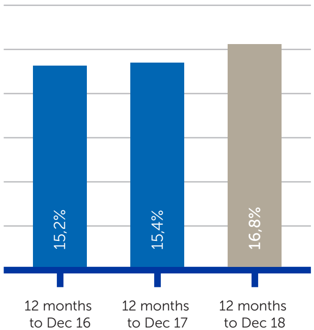
WATER



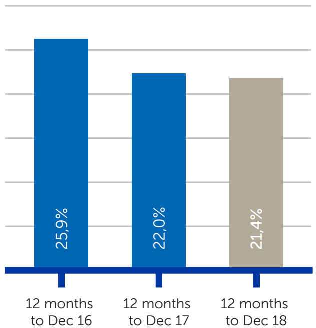
BUTTER



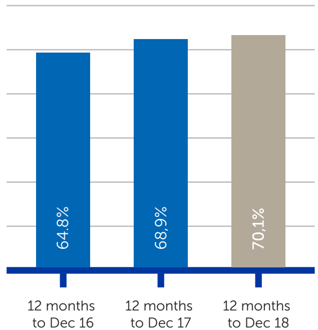
CONDENSED MILK



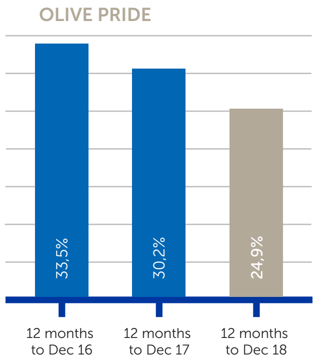
CREAM

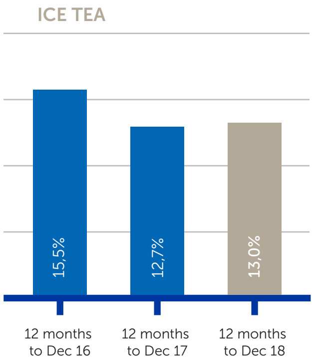


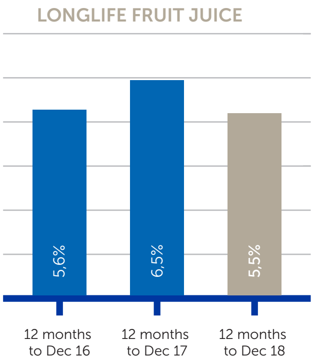
SOY MILK



MARKET SHARES continued







The decrease of R7,2 million (32,7%) in other operating expenses is mainly as a result of the difference in the fair value adjustment on the SAR hedge of R8,6 million which was an expense as at 31 December 2017 and a gain as at 31 December 2018.

Net finance cost reduced from R53,2 million at 31 December 2017 to R40,4 million at 31 December 2018. This decrease is mainly as a result of an increase in the average cash on hand. The average interest-bearing borrowings were also marginally lower than in the prior comparative period.

Financial position and cash flow

Property, Plant and Equipment decreased by R35,2 million compared to the period 1 January 2018 to 31 December 2018. This was mainly as a result of disposals amounting to R26,2 million, capital expenditure of R203,4 million balanced by depreciation of R196,0 million. Major capital projects undertaken for the period ended 31 December 2018 include:

- Bloemfontein yoghurt capacity expansion — R33 million
- Lichtenburg processed cheese — R9 million
- Milnerton capacity expansion — R9 million
- Cape Town central distribution centre upgrade — R8 million
- Numel capacity expansion — R7 million
- Queensburgh milk flow optimisation — R6 million
- Lichtenburg AFE filler — R6 million

Capital expenditure was funded primarily from operating cash flows and interest-bearing borrowings.

Clover maintained its intangible assets and investments in joint ventures in line with the period ended 31 December 2017. "Investment in associate and credit facility" relates to Dairy Farmers of South Africa (Pty) Ltd ("DFSA"), which was impaired during the previous financial year. This impairment is currently in excess of the carrying amount and further discussed in Note 7 of the accounting policies and notes.

The increase of R16,9 million (1,7%) in inventory when compared to 31 December 2017 is due to the increase in the cost of goods and services purchased to manufacture products which was offset by a decrease in inventory volumes.

Other non-current financial assets are comprised of the call options to acquire the remaining shares in Clover Pride (Pty) Ltd and Clover Goodhope (Pty) Ltd.

Trade and other receivables increased by R6,3 million due to an increase of R83,2 million (5,6%) in normal trade receivables when compared to the prior comparative period which correlates with the increase in revenue. The increase in trade receivables was however offset by a decrease of R76,8 million in the trade account receivable from DFSA for the same period.

The increase in cash and short-term deposits from 1 July 2018 to 31 December 2018 is largely attributable to cash generated from operations of R193,0 million, cash outflow from capital expenditure of R79,0 million, cash outflow from investment in DFSA of R90,0 million, cash outflow due to dividend payments of R92,0 million and a net increase in loans and borrowings of R244,0 million.

Trade and other payables decreased by R40,6 million when compared to the prior comparative period. There was a 7,7% increase in normal trade payables of R19,7 million. The increase in normal trade payables was however offset by a decrease of R60,3 million in the trade payable to DFSA when compared to 31 December 2017.

Total interest-bearing loans and borrowings as at 31 December 2018 amounted to R1 594,6 million compared to R1 498,0 million as at 31 December 2017. The increase is due to timing differences in when drawdowns on facilities were made, and when repayments were made on the call accounts. The impact is evident from the increase in cash and cash equivalents discussed above.

Gearing at 31 December 2018 was 53,7%. Gearing net of cash improved to 19,3% from 25,5% compared to 31 December 2017.

Prospects

Consumer spending is expected to remain under pressure with continued strict credit conditions and persistently high unemployment.The financial health of state owned entities ("SOEs") and specifically the financing of Eskom may have an adverse impact on the country's credit rating. Furthermore, the uncertainty in anticipation of the upcoming general elections may also have an influence on consumer confidence.

An improved outlook on inflation (if supported by a stronger rand) should provide some relief to consumers with private consumption expanding as wages increase moderately and food prices stabilise.

As long as pressure on consumer spending prevails, Clover's strategic focus on:

- growth through product and brand development;
- volume growth and market share recovery;
- distribution effectiveness and reach;
- cost management and production efficiencies; and
- win-win stakeholder relationships,

remains the cornerstone for future performance.

An extension of Project Sencillo (asset optimisation and efficiencies) and Project Meglio (recipe reformulations to reduce product unit costs) as well as the ongoing roll-out of Project Masakhane (township distribution), new product launches and product reformulations will position Clover to support cash strapped consumers with nutritious products at the optimal price points.

Clover remains optimistic that ongoing delivery against its strategic focus will ensure that its operations are sustainable despite the current stagnation in the economy and that it will be well positioned to take advantage of an economic upswing.

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 27,89 cents (22,312 cents net of dividend withholding tax) per ordinary share for the six months ended 31 December 2018, payable in South African currency on Monday, 01 April 2019.

The dividend represents a 5,0% increase over the interim dividend of 26,56 cents paid in April 2018.

The dividend has been declared from income reserves.

A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 191 911 737 ordinary shares.

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

The salient dates will be as follows:	2019
Last day to trade "*cum*" the ordinary share dividend	Tuesday, 26 March
Shares commence trading "*ex*" the ordinary share dividend	Wednesday, 27 March
Record date on	Friday, 29 March
Payment date on	Monday, 01 April

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 March 2019 and Friday, 29 March 2019, both days inclusive.

On behalf of the Board

WI Büchner
Chairman

JH Vorster
Chief Executive

4 March 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	For the six months ended 31 December 2018 Unaudited R'000	For the six months ended 31 December 2017 Unaudited R'000	For the year ended 30 June 2018 Audited R'000
Sales of products	4,6%	3 435 568	3 285 114	6 435 663
Rendering of services	2,3%	948 384	927 382	1 873 581
Sale of raw milk	11,0%	372	335	335
Rental income	36,1%	1 930	1 418	2 898
Revenue	4,1%	4 386 254	4 214 249	8 312 477
Cost of sales	2,1%	(2 740 421)	(2 683 786)	(5 357 424)
Gross profit	7,5%	1 645 833	1 530 463	2 955 053
Other operating income	-18,3%	42 826	52 387	82 913
Selling and distribution costs	12,0%	(1 182 765)	(1 056 452)	(2 117 936)
Administrative expenses	8,9%	(145 897)	(133 912)	(273 310)
Restructuring expenses		(1 722)	(118)	(4 123)
Other operating expenses	-32,7%	(14 815)	(22 005)	(31 548)
Operating profit	-7,3%	343 460	370 363	611 049
Impairment related to DFSA		–	–	(439 042)
Finance income	55,4%	30 870	19 870	47 618
Finance cost	-2,6%	(71 248)	(73 115)	(141 880)
Share of profit of a joint venture	26,3%	13 094	10 365	21 104
Profit before tax	-3,5%	316 176	327 483	98 849
Taxes	-11,2%	(83 720)	(94 275)	(139 509)
Profit for the period	-0,3%	232 456	233 208	(40 660)

	Notes	For the six months ended 31 December 2018 R'000 Unaudited	For the six months ended 31 December 2017 R'000 Unaudited	For the year ended 30 June 2018 R'000 Audited
Profit for the period (carried forward from the previous page)		232 456	233 208	(40 660)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translations of foreign operations, net of tax	6	2 123	(3 437)	7 523
Exchange differences on translations of foreign operations		2 123	(3 437)	7 523
Reclassified to profit or loss		–	–	–
Income tax effect		–	–	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		2 123	(3 437)	7 523
Total comprehensive income for the period, net of tax		234 579	229 771	(33 137)
Profit for the period attributable to:				
Equity holders of the parent		235 895	235 335	(38 021)
Non-controlling interests		(3 439)	(2 127)	(2 639)
		232 456	233 208	(40 660)
Total comprehensive income attributable to:				
Equity holders of the parent		238 018	231 898	(30 498)
Non-controlling interests		(3 439)	(2 127)	(2 639)
		234 579	229 771	(33 137)

	% change	For the six months ended 31 December 2018 R'000 Unaudited	For the six months ended 31 December 2017 R'000 Unaudited	For the year ended 30 June 2017 R'000 Audited
Headline earnings calculation				
Profit for the period attributable to equity holders of the parent company		235 895	235 335	(38 021)
Gross remeasurements excluded from headline earnings		(48)	(12 725)	(6 709)
Profit on sale and scrapping of property, plant and equipment		(48)	(8 042)	(1 273)
Non-controlling interest portion in loss on sale of property, plant and equipment		–	–	(753)
Profit on the disposal of investment in Lactolab		–	(200)	(200)
Profit on the unbundling of Dairy Farmers South Africa (Pty) Ltd		–	(4 483)	(4 483)
Taxation effects of remeasurements		10	1 802	542
Headline earnings attributable to shareholders of the parent company	5,1%	235 857	224 412	(44 188)
Issued ordinary shares		191 911 737	190 835 364	190 835 364
Number of ordinary shares used in the calculation of:				
Earnings per share – weighted average		191 014 961	190 835 364	190 835 364
Diluted earnings per share – weighted average		193 921 575	192 012 075	192 680 105
Earnings per share attributable to ordinary equity holders of the parent				
Earnings per share (cents)	0,2%	123.5	123.3	(19.9)
Diluted earnings per share (cents)	-0,8%	121.6	122.6	(19.7)
Headline earnings per share (cents)	5,0%	123.5	117.6	(23.1)
Diluted headline earnings per share (cents)	4,0%	121.6	116.9	(22.9)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

	31 December 2018 Unaudited R'000	31 December 2017 Unaudited R'000	30 June 2018 Audited R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**2 394 943**	2 430 145	2 417 791
Investment properties	**9**	9	9
Intangible assets	**614 238**	639 223	626 671
Investment in joint venture	**59 129**	49 311	46 035
Investment in associate and credit facility	**–**	391 702	–
Other non-current financial assets	**4 452**	1 565	5 781
Deferred tax assets	**21 432**	35 365	30 203
	3 094 203	3 547 320	3 126 490
Current assets			
Inventories	**1 007 172**	990 314	869 091
Trade and other receivables	**1 804 646**	1 798 293	1 479 090
Prepayments	**48 989**	14 137	16 829
Income tax receivable	**–**	–	3 702
Cash and short-term deposits	**1 020 052**	703 477	760 693
	3 880 859	3 506 221	3 129 405
Assets classified as held-for-sale	**–**	–	2 719
	3 880 859	3 506 221	3 132 124
Total assets	**6 975 062**	7 053 541	6 258 614

	31 December 2018 Unaudited R'000	31 December 2017 Unaudited R'000	30 June 2018 Audited R'000
EQUITY AND LIABILITIES			
Equity			
Issued capital	**9 596**	9 542	9 542
Share premium	**911 952**	892 692	892 692
Other reserves	**101 508**	84 105	105 689
Retained earnings	**1 950 842**	2 139 736	1 817 322
Foreign currency translation reserve	**19 283**	6 200	17 160
Equity attributable to equity holders of the parent	**2 993 181**	3 132 275	2 842 405
Non-controlling interests	**(21 257)**	(17 306)	(17 818)
Total equity	**2 971 924**	3 114 969	2 824 587
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	**917 917**	523 405	665 059
Investment in associate and credit facility	**28 521**	–	–
Non-controlling interest put liability	**23 226**	57 088	23 226
Employee-related obligations	**71 932**	80 230	75 424
Deferred tax liability	**268 894**	248 067	260 309
Trade and other payables	**11 451**	16 494	11 448
Other non-current financial liabilities	**–**	8 234	2 776
	1 321 941	933 518	1 038 242
Current liabilities			
Trade and other payables	**1 954 803**	1 995 421	1 676 176
Interest-bearing loans and borrowings	**676 691**	974 556	685 691
Other current financial liabilities	**8 807**	12 975	13 639
Income tax payable	**21 557**	13 679	–
Employee-related obligations	**19 339**	8 423	20 279
	2 681 197	3 005 054	2 395 785
Total liabilities	**4 003 138**	3 938 572	3 434 027
Total equity and liabilities	**6 975 062**	7 053 541	6 258 614

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 31 December 2018 Unaudited R'000	For the six months ended 31 December 2017 Unaudited R'000	For the year ended 30 June 2018 Audited R'000
Balance at 1 July	2 824 587	2 879 683	2 879 683
Profit for the period	232 456	233 208	(40 660)
Other comprehensive income	2 123	(3 437)	7 523
Total comprehensive income	234 579	229 771	(33 137)
Ordinary shares issued	19 314	–	–
Share-based payment reserve accrued/(reversal)	1 875	5 463	(2 593)
Share appreciation rights exercised	(15 601)	–	(2 636)
Non-controlling interest put option movement	–	–	33 863
Dividends declared and paid	(92 899)	–	(50 686)
Dividends forfeited	69	52	93
Balance at end of the period	2 971 924	3 114 969	2 824 587
Consists of:			
Share capital and premium	921 548	902 234	902 234
Other capital reserves	101 508	84 105	105 689
Retained earnings	1 950 842	2 139 736	1 817 322
Other components of equity	19 283	6 200	17 160
Shareholder equity	2 993 181	3 132 275	2 842 405
Non-controlling interest	(21 257)	(17 306)	(17 818)
Total equity	2 971 924	3 114 969	2 824 587

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 December 2018 Unaudited R'000	For the six months ended 31 December 2017 Unaudited R'000	For the year ended 30 June 2018 Audited R'000
OPERATING ACTIVITIES			
Profit before tax	**316 176**	327 483	98 849
Adjustment for non-cash items	**131 751**	155 424	755 100
Working capital adjustments	**(217 171)**	231 585	348 207
Income tax paid	**(37 681)**	(37 628)	(84 424)
Net cash flows from operating activities	**193 075**	676 864	1 117 732
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	**6 241**	16 511	32 965
Interest received	**30 870**	19 870	47 618
Unbundling of DFSA	**–**	–	(2 020)
Revolving credit facility repaid by/(granted to) DFSA	**118 521**	(391 702)	(439 042)
Investment in associate - DFSA	**(90 000)**	–	–
Disposal of shares held in Lactolab	**–**	200	–
Capital expenditure: Tangible and intangible assets	**(79 226)**	(106 736)	(218 168)
Net other investing activities	**–**	1 364	–
Net cash flows used in investing activities	**(13 594)**	(460 493)	(578 647)
FINANCING ACTIVITIES			
Interest paid	**(71 248)**	(73 115)	(112 362)
Dividends (paid)/forfeited	**(92 830)**	52	(50 593)
Net movement in borrowings	**243 857**	16 037	(163 333)
Net cash flows from/(used in) financing activities	**79 779**	(57 026)	(326 288)
Net increase in cash and cash equivalents	**259 260**	159 345	212 797
Net foreign exchange difference	**99**	(731)	3 033
Cash and cash equivalents at the beginning of the period	**760 693**	544 863	544 863
Cash and cash equivalents at the end of the period	**1 020 052**	703 477	760 693

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, except for new standards adopted as noted below.

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 value-added dairy fluids products is focused on providing the market with quality value- added dairy fluid products.
- The 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
- The olive oil and soy products consist of olive oil, olive related products and soy based beverages.

	For the six months ended 31 December 2018 Unaudited R'000	For the six months ended 31 December 2017 Unaudited R'000	For the year ended 30 June 2018 Audited R'000
External revenue from sales of products and services rendered			
Non-alcoholic beverages	1 321 243	1 205 417	2 409 724
Concentrated products	705 364	762 998	1 492 849
Value-added dairy fluids	656 780	643 707	1 230 831
Fermented products and desserts	632 689	481 952	998 847
Ingredients	55 530	113 851	176 484
Olive oil and soya	63 962	77 189	126 928
Revenue from rendering of services	948 384	927 382	1 873 581
	4 383 952	4 212 496	8 309 244
Margin on material#			
Non-alcoholic beverages	757 030	659 386	1 364 817
Concentrated products	283 339	291 392	545 152
Value-added dairy fluids	331 273	270 430	488 000
Fermented products and desserts	238 663	180 726	356 935
Ingredients	15 684	37 223	64 916
Olive oil and soya	20 676	28 344	38 608
Revenue from rendering of services	948 384	927 382	1 873 581
	2 595 049	2 394 883	4 732 009

Margin on material consist of sales of products less: charges against sales, cost of material and packaging and milk collection cost and services rendered.

The Group operates mainly in the geographical area of South Africa. The revenue and assets of the operations outside South Africa are insignificant. As mentioned in note 7 below, the results of DFSA are no longer consolidated into the Group's result however, the Group retained the revenue from Dairy Fluids for value-added milk products as well as milk products sold in Botswana, Namibia, Swaziland and other export countries.

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 R77,9 million and also acquired intangible assets at a cost of R1,3 million.

5. Assets classified as held-for-sale

At 30 June 2018, the balance of R2,7 million represented a property situated in Bethlehem (including movable items forming part of the sale). The property was sold in July 2018.

6. Other components of equity

Other comprehensive income, net of tax:

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

Foreign currency translation reserve	31 December 2018 Unaudited R'000	31 December 2017 Unaudited R'000	30 June 2018 Audited R'000
Foreign exchange translation differences	2 123	(3 437)	(14 510)
	2 123	(3 437)	(14 510)

7. Unbundling of DFSA

With effect from 1 July 2017 Clover only holds 26% of the shares in DFSA and as a consequence the results from DFSA are no longer consolidated into the Group's results.

Previously, when DFSA was a subsidiary of the Clover Group, all intercompany balances would have been eliminated on a group consolidated basis. However, with the unbundling of DFSA, the balances owing to and from the Group now reflect as part of "trade and other receivables", "trade and other payables" and "investment in associate and credit facility" respectively as follows:

Trade and other receivables	31 December 2018 Unaudited R'000	31 December 2017 Unaudited R'000	30 June 2018 Audited R'000
Trade and other receivables (excluding DFSA)	1 579 212	1 496 025	1 299 150
DFSA trade account	225 434	302 268	179 940
Total	1 804 646	1 798 293	1 479 090

Trade and other payables	R'000	R'000	R'000
Trade and other payables (excluding DFSA)	1 560 397	1 540 709	1 260 738
DFSA trade account	394 406	454 712	426 886
Total	1 954 803	1 995 421	1 687 624

Investment in associate and credit facility	R'000	R'000	R'000
Investment in associate	90 000	-	-
Credit facility	320 521	391 702	439 042
Impairment	(439 042)	-	(439 042)
Total	(28 521)	391 702	-

As at 31 December 2017 the carrying value of the revolving credit facility ("RCF") approximated the fair value due to the rolling nature of the facility and interest being charged. The RCF was however subsequently impaired to Rnil at 30 June 2018 for reasons set out in the 2018 annual report.

Effective 1 July 2017, Clover Industries indirectly holds a 26% voting rights (0% economic interest) in Dairy Farmers of South Africa (DFSA) through Clover SA. The Group has made an assessment in terms of IFRS 10 and has concluded that it does not exercise control over DFSA and accordingly has classified the interest in DFSA as an investment in associate due to the Group having significant influence over the associate. The Group's investments in associate is accounted for using the equity method.

Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Clover will not share in any distributions of DFSA in relation to its shares originally acquired and accordingly no portion of the profits or equity will be attributed to the Group. However, should DFSA resolve to reduce its restricted reserve by way of a distribution, Clover will share in the same proportion. Accordingly, the investment will be held at cost less accumulated impairment.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as "Share of profit of an associate" in the statement of profit or loss.

As disclosed above, the investment in associate is R90,0 million and the RCF advanced is R320,5 million as at 31 December 2018. Due to the nature of the facility (i.e. working capital financing facility), the balance can go up and down and may be drawn up to a maximum of R571,0 million in terms of an agreement between Clover and DFSA.

In terms of IFRS 9, an entity must consider all facts and circumstances including the value of any undrawn loan commitments. The provider of the commitment needs to estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment. As mentioned above, the RCF can be drawn to a maximum of R571,0 million for the remaining part of the financial year. The maximum amount available to DFSA will increase with CPI at each financial year-end and is available to DFSA until 31 March 2037. The Group does not have the right to recall the facility at its discretion.

Given the short space of time since the Group released its results during September 2018 and the recent appointment of the DFSA CEO, the Group has resolved that the impairment of R439 million will not be adjusted. As at 31 December 2018, the impairment has not been specifically allocated between the investment in associate and the credit facility and due to its material nature has been assessed on a combined basis. The Group will reassess the impairment at 30 June 2019 when more information is available.

8. Fair value of financial instruments

The Group measures derivative forward share purchase contracts, investment in cell captive and call and put options at fair value.

The fair value of forward share purchase contracts and the investment in a cell captive is determined based on inputs as described in level 2 of the fair value hierarchy being quotes from financial institutions. Similar contracts are traded in an active market and the quotes reflect the actual transactions on similar instruments.

The forward purchase of Clover Industries Limited's shares is shown at a fair value liability of R8,8 million as at 31 December 2018. This fair value is within level 2 of the fair value hierarchy and is determined using NAV with the key inputs being share price and yield curves.

The Group had an investment in ordinary shares in the Guardrisk Cell Captive with the purpose of the policy to cover milk producers should inhibitors be detected in the milk. As Clover no longer deals with the milk producers, the cell captive was liquidated in September 2018.

The call option to acquire remaining shares in Clover Good Hope (Pty) Ltd is shown at a fair value asset of R2,7 million as at 31 December 2018. This fair value is within level 3 of the fair value hierarchy and is determined using DCF with the key inputs being free cash flow forecast and market interest rates. There was no material movement in the fair value during the current reporting period.

The call option to acquire remaining shares in Clover Pride (Pty) Ltd is shown at a fair value asset of R1,8 million as at 31 December 2018. This fair value is within level 3 of the fair value hierarchy and is determined using DCF with the key inputs being free cash flow forecast and market interest rates. There was no material movement in the fair value during the current reporting period.

There were no transfers between levels 1, 2 or 3 of the fair value hierarchy during the period ended.

Long-term fixed-rate and variable-rate borrowings are evaluated by the Group based on parameters such as interest rates and repayment periods as at year-end, the carrying amounts of the borrowings are not materially different from the calculated fair value.

The carrying values of all other financial assets or liabilities, which include trade receivables, trade payables, as well as cash and cash equivalents, approximate their fair values based on the nature or maturity period of the financial instrument.

9. New standards and amendments to standards adopted in the current period

IFRS 9 Financial instruments

IFRS 9 combines the classification and measurement of financial assets and liabilities, the expected credit loss impairment model ('ECL model') for financial assets measured at amortised cost and fair value through other comprehensive income and hedge accounting that is to replace the current accounting under IAS 39.

The ECL model applies to debt instruments accounted for at amortised cost. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

The Group is of the view that except for the revolving credit facility (RCF) advanced to DFSA, due to the limited types and short life spans of financial instruments entered into by the Group, the disclosure is expected to impact only items such as the allowance for impairment in relation to bad debts for which it already provides detailed disclosures on the credit risk associated with the underlying trade receivables in the annual financial statements. The incurred loss model under IAS 39 over time has shown that the level of risk taken by the Group is minimal and generally losses actually written off would be less than 0,5% of the total trade receivables balance whereas the provision will typically also be less than 0,5%. To put this into perspective, 0,5% of the Group's trade receivables represents between R6,7 million and R7,4 million. The low level of risk is further substantiated by the fact that independent credit valuation agencies rate the underlying customers to be of a high quality (zaAA credit ratings). Due the relatively small value of the impairment allowance and immaterial movement between reporting periods, it has not been separately disclosed in the statement of comprehensive income.

As at 31 December 2018, the Group has assessed and concluded that no change is required in the debtors' allowance for impairment and as a result had no impact on the interim results. In addition, the Group does not expect the standard to have a significant impact on performance of the DFSA RCF as the RCF has already been adequately impaired under IFRS 9 as discussed in note 7.

As previously indicated, the Group has elected to apply the modified retrospective (cumulative catch-up) transition method in its adoption of the standard with the effect disclosed in the 31 December 2018 interim condensed consolidated results while the comparative figures for the 31 December 2017 interim condensed consolidated results and 30 June 2018 annual financial statements will not be adjusted. The new standard is effective for annual periods beginning on or after 1 January 2018, and therefore came into effect on 1 July 2018 for the Group.

IFRS 15 Revenue from contracts with customers

IFRS 15 is effective for Clover from 1 July 2018 and replaces the previous revenue standard in place. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling the contract.

Application guidance is provided in the standard to assist entities in applying its requirements to determining the consideration paid to a customer, variable consideration, common arrangements, including licenses, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services, and breakage.

The Group has assessed the criteria and requirements of the new revenue standard and concluded that the following areas will be impacted by the new revenue standard:

Charges against sales – This relates to co-op advertising spend with customers which in the past have been included as part of cost of sales in the financial results. The Group's assessment of the requirements of IFRS 15 indicated that this type of spend will have to be disclosed as a reduction of revenue and not be disclosed as a component of cost of sales. This change will impact the gross profit margin when compared to previous reporting periods since sales of products and consequently revenue will be reduced by this spend. As a result, the gross profit margin is expected to increase when compared year on year. In the current reporting period, this change resulted in a 1,1% improvement in gross profit margin.

Rebates which is just another term for a discount or reduction of the original selling price must be disclosed as a deduction from revenue. The Group has in the past deducted rebates from revenue and therefore no change is required in the disclosure of rebates. Therefore, the new standard has no impact in relation to rebates.

Principal income (services rendered) – In terms of IFRS 15 the Group is required to assess whether it is acting as an agent or a principal in relation to income earned from service contracts. If the Group is acting in its capacity as an agent, the service income must be recorded net (which has been the approach under the previous revenue standard). If the Group is acting as a principal, the Group would need to determine and record the gross sales and related cost of sales of the products sold on behalf of third parties. The net effect of the latter approach will result in the same amount of income under the former, however revenue and cost of sales will be entirely different. The Group reviewed and concluded that in all contracts with third parties, the Group is acting as an agent and therefore the current accounting treatment of services income is in line with IFRS 15 and remain unchanged from the previous revenue standard.

Right of return assets – In terms of IFRS 15 the Group is required to assess the value of product returns and whether the products returned are reasonably expected to be resalable. For those items a right of return asset needs to be recognized together with a return liability i.e. an accrual for credit notes. The Group has assessed that due to the nature of the Group's products, most products that are returned from customers are not feasible for resale. A very small percentage of product returns can be sold again and as such the Group concluded that no right of return asset will be recognised. The current accounting treatment for accrual of credit notes will remain unchanged.

As previously indicated, the Group has elected to apply the modified retrospective (cumulative catch-up) transition method in its adoption of the standard with the effect disclosed in the 31 December 2018 interim condensed consolidated results while the comparative figures for the 31 December 2017 interim condensed consolidated results and 30 June 2018 annual financial statements will not be adjusted. The new standard is effective for annual periods beginning on or after 1 January 2018, and therefore came into effect on 1 July 2018 for the Group.

10. Events after the reporting period

As communicated in a recent announcement on the Stock Exchange News Service ("SENS") of the JSE, there is a firm intention by Milco SA Proprietary Limited ("Milco") to acquire all the issued shares of Clover. For more information, refer to the detailed SENS announcement dated 4 February 2019 on Clover's website. Other than this, no significant events occurred subsequent to the end of the period.

11. 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.

12. Preparation of unaudited interim condensed consolidated results

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

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

Notes

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