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ANNUAL REPORT

15



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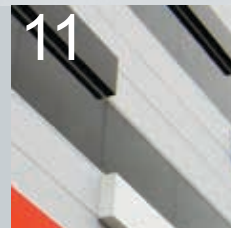
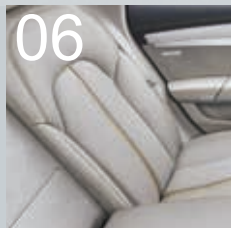
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**Review of Operations:**

Automotive Leather

Building Materials

Property



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## ABOUT SCHAFFER CORPORATION

# A DIVERSIFIED AUSTRALIAN INDUSTRIAL COMPANY

Schaffer Corporation Limited is a diversified industrial company with core operating divisions in Automotive Leather, Building Materials, Property and Investment. Originally incorporated in 1955, the company was first listed on the Australian Securities Exchange (ASX) in 1963 and currently employs approximately 1,300 employees in three countries.

The Automotive Leather division is a world-class, globally competitive automotive leather producer, supplying quality interior leather products to such household names as Land Rover, Audi, Mercedes, Nissan, Toyota and Ford. The division operates leather processing and finishing operations in the state of Victoria (Australia), and is currently set up to commence these same operations in Slovakia. Component cutting plants are located in China and Slovakia. Exports account for over 95% of sales.

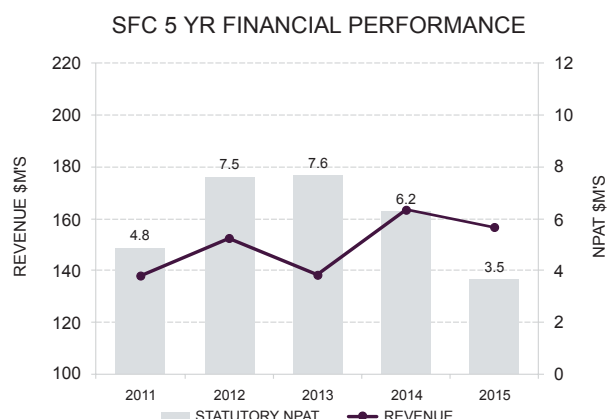
The Building Materials division is a niche Australian supplier of building, construction and landscaping products. The Building Products business unit manufactures and imports a premium range of paving, walling and landscaping products, which are sold direct to the trade and public through a national network of Urbanstone Central retail stores. Delta Corporation, the second business unit within the Building Materials division, manufactures a range of precast and prestressed concrete floor, beam and wall products, together with custom made precast panel and beams products for major infrastructure, building and resource projects.

The Property division has syndicated interests in commercial and retail properties in Western Australia. The division's assets also include an interest in a future industrial subdivision located at Neerabup, Western Australia, and property held for future development in the Western Australian suburb of Jandakot, as well as several other properties in Western Australia which are primarily occupied by the Building Materials division's manufacturing and operations.

Gosh Capital is a subsidiary investment company that seeks to maximise the value of the land asset on which the Gosh Leather business previously operated in North Coogee, Western Australia. Through reinvestment of profits the subsidiary now owns, in addition to the North Coogee land, a commercial property in Western Australia and investments with interests in Western Australia, New South Wales and South Australia.

Schaffer Corporation's key internal performance measure is Return on Average Capital Employed (ROACE\*), which reflects the earnings achieved in relation to the debt and equity capital invested in its businesses. The Company applies the ROACE measure in pursuing its long-term growth strategy to organically develop its core businesses and to acquire businesses or properties.

The company has a proud history of paying a dividend in every one of the 52 years since it was originally listed as Calsil Ltd way back in 1963. For the past 15 years the company has paid approximately \$115 million in fully franked dividends to shareholders.



## Board of directors



John Schaffer

Anton Mayer

Danielle Blain

David Schwartz

Michael Perrott AM

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## MANAGING DIRECTOR'S REPORT

### EXECUTIVE MANAGEMENT TEAM



**John Schaffer**

BCom(Hons), FCPA  
Age 65

*Mr Schaffer joined the Group in 1972 and has held the positions of Managing Director since 1987 and Chairman since 1988.*



**Anton Mayer**

Age 73

*Mr Mayer joined the Group in 1998. In 2001, Mr Mayer joined the Board of Schaffer Corporation Limited and he is currently Executive Chairman of Howe Automotive Limited.*



**Mike Falconer**

TEng, CEI, OMIEAust  
Age 61

*Mr Falconer joined the Group in 1985. Mr Falconer is Group General Manager of the Schaffer Building Products Group*



**Matt Perrella**

NPCAA  
Age 66

*Mr Perrella joined the Group in 1980. From 1989 until 2009 Mr Perrella was General Manager of Delta Corporation Limited. He is currently Executive Director of Delta Corporation.*



**Jason Cantwell**

B Bus(Acc), CPA, MBA,  
GIA(Cert)  
Age 43

*Mr Cantwell joined the Group in 2011 as Group Financial Controller and Company Secretary.*



**Nick Filipovic**

B Ec, CPA  
Age 55

*Mr Filipovic joined the Group in 1994. Mr Filipovic is Managing Director of Howe Automotive Limited.*



**Jason Walsh**

B Bus, MBA  
Age 45

*Mr Walsh joined the Group in 1999, and was promoted to the position of General Manager of Delta Corporation Limited in 2009.*



Key Financial Indicators	2015	2014	2013	2012	2011	2010
Revenue (\$ millions)	157.3	163.6	138.4	152.6	138.1	136.8
EBITDA* (\$ millions)	13.9	24.3	20.0	19.9	17.1	15.1
Net Profit after tax* (\$ millions)	3.5	6.2	7.6	7.5	4.8	4.5
Earnings per Share (\$)	\$0.25	\$0.44	\$0.54	\$0.53	\$0.34	\$0.32
Return on Average Capital Employed (ROACE*)	7%	16%	14%	14%	11%	8%
Ordinary Dividend per Share	\$0.25	\$0.25	\$0.23	\$0.21	\$0.20	\$0.40

# MAINTAINING FOCUS

Schaffer Corporation's primary focus is on creating long-term shareholder value.

## Financial Performance

For the 2015 financial year, Schaffer Corporation achieved net profit after tax (NPAT\*) of \$3.5 million. That NPAT result represented a 43% decrease from the previous financial year (\$6.2 million).

The Automotive Leather division is the greatest contributor to the revenue and profit of our Group. This division is commencing 16 new programs over the 2015 and 2016 financial years and the higher costs associated with program start-ups are affecting our short-term profitability.

Automotive Leather is impacted by foreign currency fluctuations, as its hide stock purchases are made in US dollars and the large majority of leather products are sold for export in Euros. During the 2015 financial year, Automotive Leather's profit was impacted by a weakening Euro, which negatively impacted our export revenue (reported in Australian dollars) and higher hide costs, which were magnified by a strengthening US dollar.

In comparison, the prior year benefitted from favourable foreign exchange movements and the profitable sale of lower cost hide stocks at the start of the year.

## Automotive Leather

The Automotive Leather division's revenue decreased by 2% to \$101.1 million, and earnings before interest and tax (EBIT\*) decreased to \$6.3 million from \$15.2 million.

Overall volumes were similar to the prior year with supply increasing in the second half. With the commencement of some new models late in the year, volumes will continue to increase during the 2016 financial year.

The main drivers of the profit result were start-up costs associated with new models, higher hide costs, and currency movements.

The start-up costs associated with the 16 new programs commencing over the 2015 and 2016 financial years are

lower cutting yields, extra development work, testing costs, customer visits, and often the program commencement can be subject to delays.

Excluding currency effects, US dollar hide costs were 6% higher than the previous year.

Regarding currency, the 2015 financial year average AUD:EUR exchange rate increased by 4% (from EUR0.67 to EUR0.70), which had a negative effect on our export revenues in Australian dollar terms. The 2015 financial year average AUD:USD exchange rate decreased by 9% (from USD0.91 to USD0.83), which further increased the Australian dollar costs of our imported hides.

Automotive Leather is commencing a number of awarded programs, which will have a significant impact on the volumes for the 2016 financial year. These programs include new supply to Mercedes Benz. Those program awards drove the investment decision to establish our new leather finishing and cutting facilities in Slovakia. Those facilities are on track to be commissioned and operational during the second quarter of the 2016 financial year.

Once the new 15,000 square metre facility ramps up its throughput, Automotive Leather will almost halve the current level of stock days due to shorter travel time through the supply chain from source to customer. Reducing stock days will significantly decrease the working capital required in the business and generate free cash flow. The extra cash generated will be applied to reducing the debt that Automotive Leather has used to fund the significant amount of stock (at higher cost due to currency) required to service the increasing volumes. The value of stock on hand increased by \$22 million over the year with a corresponding \$18 million increase in Automotive Leather's net debt.

Net debt also increased due to establishment and start up capital expenditure required for the new Slovakian facility. This has included the purchase of machinery and equipment, and also contingency stock in Australia to duplicate program supply whilst the Slovakian facility becomes established.

Movement in the AUD:USD exchange rate will impact the 2016 financial year profit as high cost stocks on hand at 30 June are sold. Accordingly, we estimate that the first half EBIT for Automotive Leather will be similar to previous year, subject to currency movements.

## Building Materials

The Building Materials division revenue decreased by 5% to \$49.1 million and EBIT decreased to \$1.4 million (pcp: \$1.8 million).

Delta Corporation produces and supplies precast and prestressed concrete products. During the 'resources construction' boom in Western Australia, Delta reported record order books and profits. As the boom has subsided over the last two financial years, Delta has experienced intensified competition and lower margins.

Delta is a market leader of highly specialised, higher margin work. However, Delta has also developed its product range to perform a diverse range of projects utilising specialised precast products. That versatility aids Delta's ability to win work in the current competitive environment. Delta is strongly positioned to both win additional work and improve margins when industry conditions improve.

The Building Products business unit supplies paving and walling products. Building Products maintained its revenue despite yet another difficult year of trading conditions. Spending on residential development and renovation continues to be low, resulting in intense competition between retailers.

However, commercial and government-funded projects are driving reasonable levels of sales for both manufactured and natural stone. Building Products has continued to focus on cost reductions, which have improved the profitability of this business unit. We continue to investigate and implement further reductions and efficiencies across production, retail and administration, whilst maintaining service and quality.

Order books in both businesses are higher than the beginning of the 2015 financial year. In addition, the number of current and prospective projects in Western Australia is improving. Across the division, we anticipate the first half of the 2016 financial year to show some moderate improvement over the prior period.

## Investment Property

The Investment Property division comprises SFC's interests in syndicated property investments. Revenue decreased by 2% to \$6.0 million and EBIT decreased by 22% to \$2.4 million. The 2015 result was affected by the level of incentives provided to maintain portfolio occupancy at around 95% in the midst of a weaker commercial office market.

SFC expects similar rental profits in the first half of the 2016 financial year.

## Gosh Capital

The Gosh Capital investment business seeks to maximise the value of the land asset on which the Gosh Leather business previously operated at 10 Bennett Avenue, North Coogee, Western Australia.

The conversion of the Cockburn Coast area to a high density residential precinct has enhanced the future development potential of the site. Gosh Capital will also reinvest profits earned to grow its available capital for investment.

Gosh Capital made the following investments during the year:

- Inghams Burton Property Trust (\$1 million) – a rented industrial property with an average 12% annual return expected.
- Yanchep Beach Road (\$0.5 million) – a residential subdivision with an expected internal rate of return of 20% and for which distributions are expected to be paid between 2019 and 2022.

SFC's 83% interest in Gosh's portfolio has a market value of \$22.7 million (\$17.4 million net of debt).

Gosh Capital forecasts a modest increase in profit for the first half of the 2016 financial year.

## Cash Flow and Net Debt

Surplus cash and debt has been used to fund a \$22 million increase in stock levels for the contracted increase in leather volumes. As noted above, the cost of that stock has been inflated by currency movements. The increase also includes contingent stock to duplicate the same programs in Australia, for a short period, whilst the Slovakian finishing operations are established. As a result, Group net debt has increased by \$24.5 million to \$62.0 million.

Net debt reflects four distinct debt 'pools' associated with:

- Syndicated Investment Property \$22.5 million
- Automotive Leather \$28.0 million
- Gosh Capital \$6.0 million
- Building Materials and Corporate \$5.5 million

Reflecting the structuring of those pools, the debts associated with the Syndicate Investment Property portfolio, Automotive Leather and Gosh Capital are primarily on a non-recourse basis to the other assets of the Group.

The Group net debt position as at 30 June 2015 is set out in more detail below:

	Automotive Leather	Building Materials and Corporate	Syndicate Investment Property	Gosh Capital	Total 30 June 2015
<i>All amounts in \$m</i>					
<b>Type of Debt</b>					
Bank debt – recourse	-	6.3	3.7	-	10.0
Bank debt – non-recourse	11.2	-	19.7	6.1	37.0
Govt. Loans – non-recourse	17.5	-	-	-	17.5
Equipment finance	0.6	1.1	-	-	1.7
	<b>29.3</b>	<b>7.4</b>	<b>23.4</b>	<b>6.1</b>	<b>66.2</b>
<b>Maturity Profile</b>					
FY16	3.2	0.5	-	-	3.7
FY17	5.7	0.5	7.1	-	13.3
FY18	10.4	6.4	16.3	-	33.1
FY19 and beyond	10.0	-	-	6.1	16.1
	<b>29.3</b>	<b>7.4</b>	<b>23.4</b>	<b>6.1</b>	<b>66.2</b>
<b>Net Debt Position</b>					
Gross debt	29.3	7.4	23.4	6.1	66.2
Cash and term deposits	(1.3)	(1.9)	(0.9)	(0.1)	(4.2)
<b>Net Debt</b>	<b>28.0</b>	<b>5.5</b>	<b>22.5</b>	<b>6.0</b>	<b>62.0</b>

SFC adopts a conservative accounting policy by carrying its property portfolio at book depreciated cost, rather than market values.

In large part, SFC has held its portfolio of company owned/operated and investment properties for many years. As a result, SFC has built up considerable unrealised capital gains within the portfolio. Those gains would be realised as the portfolio is ultimately sold. Applying reliable estimates of market value (from independent, accredited and current valuations), the current estimate of property value across all divisions is \$96.7 million, compared to a book value of \$41.7 million.

On the last ASX trading day of the financial year, Schaffer Corporation's shares closed at \$4.85. At 30 June 2015, the Group's net tangible assets at market value (NTA) were \$7.52 per share – a 55% premium to the year-end share price.

## People, Health, Safety and Environment

People underpin our growth and success. We have a proud history of loyal service from our employees all over the world. We have a 1,300-strong diverse and growing workforce that continues to respond to challenging environments with hard work and dedication.

Schaffer Corporation is committed to providing all our employees with a safe and healthy working environment. During the financial year, our businesses were able to maintain the same level of recorded Lost Time Injuries and workers compensation days as the previous year. SFC continues to review and improve occupational health and safety management to further improve outcomes.

Continuous improvement is also part of Schaffer Corporation's approach to its environmental responsibilities. The Automotive Leather division investigates on an ongoing basis plant technology that reduces chemical wastage and energy usage associated with leather finishing processes. Those technologies are being implemented at the new Slovakian facility. At Building Materials, we continue to recycle concrete waste for pad or road base use, eliminating handling and transportation and resulting in significant cost savings. These initiatives reduce Schaffer Corporation's carbon footprint.

## Dividends

Schaffer Corporation's long-standing policy is to pay the majority of earnings as dividends to its shareholders. On an ongoing basis, the directors manage the proportion of earnings paid out as dividends. The Board has regard to capital expenditure requirements, acquisition activity, liquidity needs and the availability of franking credits. We also reflect prevailing economic volatility and uncertainty in setting dividends.

For the 2015 financial year, Schaffer Corporation has declared fully franked dividends totalling \$0.25 per share, which is the same as the prior year.

## Outlook

As will be clear from the foregoing, the Group is exposed to the direction of unpredictable foreign currency movements. Those movements have been volatile and impacted both positively and negatively in recent years. We expect more local and global volatility, including evolving economic situations in Europe and China. This will continue to make forecasting difficult. Nonetheless, Schaffer Corporation anticipates that first half underlying performance will be

similar to the previous corresponding period, assuming current foreign exchange rates prevail.

That forecast reflects:

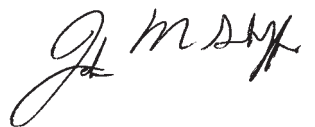
- A significant increase in volume and revenue for Automotive Leather, but similar profit to prior year as a result of high cost hide stocks and start-up costs of 16 new programs.
- A modest increase in profit for Building Materials.
- A modest increase in profit for Gosh Capital.

A key achievement to be delivered during the current year is the completion and operation of the new Slovakian leather finishing and expanded cutting facilities. Whilst the facility will dramatically decrease stock days, it will also realise freight and duty savings.

It is unfortunate that higher hide costs and currency movements in the 2015 financial year have impacted our ability to achieve higher profits in the 2016 financial year. However, we are confident that with further expected volume increases, Automotive Leather's profits should increase in the 2017 financial year.

As always, I look forward to seeing as many shareholders as possible at Schaffer Corporation's Annual General Meeting. This year's meeting will be held on Wednesday, 18 November 2015, at which time I will provide a further update on the outlook for the 2016 financial year.

JOHN SCHAFFER



Managing Director

\* Schaffer Corporation results are reported under Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company discloses certain non-IFRS financial measures. The non-IFRS measures should only be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with IFRS.

The following are non-IFRS measures that are important to management as additional means to evaluate the Group's performance:

1. Earnings before Interest and Tax (EBIT) is calculated as profit before tax, financial income, and finance costs for both continuing and discontinued operations.
2. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) is calculated as EBIT plus depreciation and amortisation.
3. Return on Average Capital Employed (ROACE) is calculated as EBIT divided by the average of total assets (excluding cash and cash equivalents, term deposits, and deferred income tax assets) less trade and other payables, and provisions over the period.
4. Net Profit After Tax (NPAT) is Profit/(loss) for the period attributable to owners of the parent.

Group EBIT and EBITDA (unaudited) are reconciled as follows:

EBITDA Reconciliation (\$000's)	June 2015	June 2014
<b>Profit before income tax</b>	<b>5,213</b>	12,148
Finance income	(102)	(202)
Finance costs	3,602	3,632
Impairment of Goodwill	-	3,696
<b>EBIT</b>	<b>8,713</b>	19,274
Depreciation and amortisation	5,214	5,057
<b>EBITDA</b>	<b>13,927</b>	24,331

The directors believe that the presentation of non-IFRS financial information is useful for investors as the measures are utilised by the Group for rewarding performance and they reflect the underlying performance of the businesses.

Non-IFRS financial information has been extracted from the audited financial statements



# AUTOMOTIVE LEATHER



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Revenue (\$million)	EBIT (\$million)
\$101.1	\$6.3

# A GLOBAL BUSINESS IN A GLOBAL INDUSTRY

Supplier of leather to automotive manufacturers  
in Europe, Asia and Australia.

[www.howe.com.au](http://www.howe.com.au)

Schaffer Corporation owns 83% of Howe Automotive Limited (Howe), which supplies high quality leather to the global automotive industry. From leather processing and finishing facilities in Victoria (soon to also include Slovakia) and offshore component cutting plants in China and Slovakia, Howe produces automotive leather for a strong and regionally diverse customer base including major motor vehicle manufacturers such as Land Rover, Audi, Mercedes, Nissan, Toyota and Ford.

The vast majority of Howe's product is exported and therefore currency fluctuations are an important factor for Howe as almost all of its revenues are generated in foreign currencies. Those revenues receive a partial hedge as most of our raw materials are being purchased in US dollars.

During the 2015 financial year, Automotive Leather profit was affected by start-up costs associated with the commencement of 16 new programs over the 2015 and 2016 financial years. Also, a weakening Euro that negatively impacted our export revenue, and a strengthening USD that increased the AUD cost of our hide stock, on top of increasing global hide prices. In contrast, the prior year benefited from abnormally high stock profits resulting from the Australian dollar weakening against foreign currencies prior to the beginning of the financial year. The impacts on both years combined resulted in a significant decrease in profit.

Howe operates from a low cost base and its global sites provide globally competitive labour costs, a local presence in the key automotive markets, and an ability to respond more efficiently to customer needs. These benefits provide Howe the opportunity to secure new supply programs from automotive manufacturers in Asia and Europe. Howe has been able to secure new supply to a large European car manufacturer which has the potential to increase volumes significantly. This should impact volumes from the 2016 financial year onwards. Howe is establishing new Slovakian leather processing and finishing facilities, operations that were previously only performed by Howe in Australia, to cater

for the increased volumes. The benefits of locating the new facilities abroad should halve the level of stock days, plus achieve freight and duty savings.

The outlook for the global automotive industry is cautious, particularly with continuing economic uncertainty in the global markets. In order to address these challenges, Howe is well positioned as a globally competitive low cost producer, is focused on higher-margin cut component sales, and has a well established track record for reliability and quality. Currencies are a factor over which we have no control and we still focus on our core strategies to ensure we realise the best possible result under any circumstances.

## FEATURE PROJECT THE 2016 AUDI Q7

*The seven-seat luxury SUV from Audi has been given a complete overhaul, the second generation Q7 is lighter and more efficient than its predecessor with a host of technological advancements. Audi's largest SUV has undergone some big changes with sharper horizontal lines, a redesigned 3D-hexagonal single frame grille, double arrow shaped daytime running lights and for the first time in a Q model, Matrix LED headlights.*

*Every element adds to the Q7's powerful and athletic appearance.*

*But while the all-new Q7 has gained many new features, it's also lost weight, the equivalent of a grand piano. It's more efficient too, with CO2 emissions from just 153g/km. And with quattro all-wheel the result is a drive that's incredibly agile and responsive.*

*The all-new Q7 isn't just powerful, it's also a very comfortable place to be. A new wraparound interior envelops the driver in luxury. More headroom makes the whole cabin more spacious and on S line models, 4-zone climate control and privacy glass provide additional comfort for rear passengers.*

*Howe has been chosen to supply the standard Twin Leather and the optional Valcona Leather in the new Q7 range of vehicles.*



## BUILDING MATERIALS

# PROFITABLE NICHE FOCUS

UrbanStone, Limestone Resources, Archistone and Delta deliver niche products and design solutions for the construction, resource and landscaping markets.







LIMESTONE RESOURCES  
AUSTRALIA PTY LTD



Revenue (\$million)	EBIT (\$million)
\$49.1	\$1.4

Schaffer Corporation's Building Materials division consists of Schaffer Building Products which manufacture, imports and retails a wide range of paving, walling and imported stone products, and Delta Corporation which is WA's pre-eminent manufacturer of precast and prestressed concrete products.

### Schaffer Building Products

[www.urbanstone.com.au](http://www.urbanstone.com.au)  
[www.urbanstonecentral.com.au](http://www.urbanstonecentral.com.au)  
[www.archistone.com.au](http://www.archistone.com.au)  
[www.limestone-resources.com.au](http://www.limestone-resources.com.au)

Strong infrastructure projects in the commercial sectors continued to drive natural stone and engineered product sales in most capital cities during the year. Economic recovery in New South Wales and positive sales enquiry in South Australia and Western Australia have boosted our order banks continuously throughout the year, allowing us to finish the financial year with some confidence moving into the coming year.

Market pressures, fuelled by imports, local competition and the scarcity of the expendable dollar have all continued to make the residential sales markets nationwide extremely difficult with no relief in sight for the foreseeable future. Our branding and customer service focus has, and continues to be, a priority for the residential division going forward in this very competitive environment.

Continuous process improvement, cost reduction and loss prevention in all areas of manufacture, quarrying and processing has yielded excellent results throughout the year, with additional restructuring necessary in the future to ensure sustainability in certain market segments.

Major projects of note completed during the year utilising UrbanStone commercial products are as follows:

#### WA

- Esperance Foreshore upgrade
- Mt Clarence Anzac Memorial – Albany
- Busselton Hospital
- Peel Hospital - Mandurah
- Rockingham City Streetscape upgrade
- Carnarvon Courthouse

#### SA

- City of Mount Gambier Town Centre
- Royal Adelaide Hospital
- Adelaide Convention Centre

#### Victoria

- Bluecross Livingstone Gardens Retirement Village
- Werribee Sports and Fitness Centre
- Hume GP Superclinic

#### NSW

- North Sydney CBD
- Willoughby City Council Streetscape
- Hurstville Council Streetscape
- Singleton City Centre

#### Queensland

- Mackay CBD
- Somerville House Girls School – Brisbane
- Jupiter's Casino- Gold Coast
- Queensland Country Credit Union Head Office – Townsville

The Archistone Besser Masonry division performed below expectation during the latter part of the year, due mainly to the timing of projects finishing, and new projects being delayed for various reasons.

Whilst the order bank is still reasonably healthy, the lack of large infrastructure project starts and private sector tendering has dampened this market segment. Additionally, alternate building products and methods being adopted on building sites, in an effort to reduce building time and onsite costs, has encroached into our traditional supply segments, further reducing our ability to supply standard block products to these projects.

However, we have been successful in supplying most major Government and private sector large school, hospital and shopping centre projects, and our coloured and machine block products are gaining excellent penetration within this market segment.

Major projects that have utilised Besser Masonry block during the year are as follows:

- BHP South Tower Perth CBD
- Goldfields Prison Kalgoorlie
- Acacia Prison Perth
- Quatro Apartment's Port Headland
- Joondalup Shopping Centre
- Willetton Senior High School
- Butler High School Stage 2
- City of Perth Library



## FEATURE PROJECT RAILWAY SQUARE REDEVELOPMENT – MIDLAND WA

*Perth's Midland Railway Workshops and shunting yards is an area of exceptional historical significance within the Perth Metropolitan area, and as such the planning and development of this significantly important precinct comes under the control of the MRA (Midland Redevelopment Authority).*

*The design brief issued to the Principle Landscape Architect, Chris Byrne, was to create a public square and open space that would interpret and celebrate the history of this site, and additionally provide a major civic gathering and festival space for the town of Midland.*

*Recognition of the sites cultural heritage, and its significance, has shaped the vision and landscape planning that has enabled the designers to deliver a stunning and exciting project meeting all aspects of the original brief.*

*UrbanStone worked closely with the designers on the selection of engineered stone pavers and customised granite step treads to achieve a stunning finished product meeting the stringent design brief requirements in every respect.*

## DELTA CORPORATION

[www.deltacorp.com.au](http://www.deltacorp.com.au)

Delta achieved a satisfactory result for the year given the slowdown in the construction industry and the consequential increase in competition within the precast industry, as well as other construction methods.

Development of Delta's product range has led to involvement in a diverse range of projects throughout the year utilising our specialised precast products including Architectural Elements, TeeRoff bridge beams, prestressed beams and Deltacore flooring.

In line with our vision of being the preferred precast concrete supplier to the building and construction industry, Delta continues to partner and develop the relationships with those clients who build the essential infrastructure and facilities needed across the state. We are proud to have successfully completed all the projects we have undertaken to the highest of quality standards and in accordance with respective programs.

Major projects successfully completed during the year included:

- Gateway WA Project, Interchange Bridges, Perth Airport
- Butler College, Mindarie WA
- Seventh Avenue Bridge, Maylands WA
- Baldivis Shopping Centre, Baldivis WA
- Victoria Park Drive Bridges, Burswood WA
- Joondalup Multi Level Car Park, WA
- Bulkwest 20,000 tonne Grain Storage Cells, WA
- Austrak Level Crossings, Hamersley Iron & Rio Tinto, WA
- New Children's Hospital, Nedlands WA
- Lloyd Street Bridge Underpass Midland WA
- St Peters College Extensions, Adelaide SA

We anticipate further pressure from our competitors in the coming year, and accordingly we have reviewed our budget in line with the prevailing market conditions.

Delta shall continue to strive to maintain our preferred supplier status to the building and construction industry by remaining focused on safety, performance and quality. In this respect, we are well placed, confident and focused on achieving, if not exceeding, our budgeted targets.

## FEATURE PROJECT GATEWAY WA PERTH AIRPORT AND FREIGHT ACCESS PROJECT: INTERCONNECTING TONKIN, ROE, LEACH AND GREAT EASTERN HIGHWAYS



*Gateway WA Perth Airport and Freight Access Project is Western Australia's largest ever road project, at a cost of one billion dollars. Gateway WA aims to create an iconic gateway to the state, as well as improving the safety and efficiency of one of WA's most important transport hubs.*

*Once completed, it will deliver a suite of road networks to improve freight and passenger movements around the Perth Airport terminal and the nearby Kewdale and Forrestfield industrial estates.*

*The project incorporates, amongst other structures, eleven bridges. Precast concrete was an essential component of the build. Of the eleven bridges, seven have been constructed using TeeRoff precast prestressed concrete beams, while four used prestressed concrete planks.*

*Delta Corporation was contracted as the key supplier of precast concrete for this significant infrastructure project. Products supplied included the precast prestressed concrete TeeRoff beams, Deltacore planks, retaining wall panels and parapet panels.*

*Precast concrete was chosen for this project because of its structural quality, cost efficiency and speed of construction.*

*A total of 86 TeeRoff beams in varying sizes were manufactured for the project. The largest beam weighed in at 168 tonne, with dimensions of 39.5m long, 4.85m wide and 1.6m deep, making them the heaviest Delta has ever produced.*

*The TeeRoff beams were the main structural elements in seven of the bridges. Two of the major Gateway WA bridges support single point urban interchanges to ensure efficient movement of the large traffic volumes involved. The larger of these bridges utilises 26 TeeRoff beams for the major part of its width, and a combination of precast and in-situ concrete for the flared edges.*

*In addition Delta manufactured 1,916m<sup>2</sup> retaining wall panels, over 1000m<sup>2</sup> Deltacore floor planks and parapet panels to this project.*

*The Gateway WA project initially aimed to standardise design throughout the project as much as possible. However each bridge had distinctive design requirements that called for customisation due to the varying constraints across the project. Precast was ideal as it was able to accommodate the varying foundations and support conditions.*

*The delivery program for Gateway WA had been planned in a staged approach to minimise disruption to the community and road users. In order to maximise production efficiencies, and in-line with Gateways goal of the least amount of disruption, Delta completed delivery of the TeeRoff beams ten months ahead of schedule. Subsequently, the full scope of works is now due for completion by the middle of 2016 - well ahead of schedule.*



Revenue (\$million)	EBIT (\$million)
\$7.1	\$3.0

## PROPERTY

# A PORTFOLIO OF QUALITY INVESTMENTS

### Investment Property

As at 30 June 2015, Schaffer Corporation's Investment Property portfolio consisted of three office/retail syndicated properties located in Western Australia, plus a syndicated interest in an office property located in Melbourne.

Property name/location	Year acquired	Schaffer interest
IBM Centre, Hay St, West Perth	1995	22.1%
616 St Kilda Rd, Melbourne	1997	20.0%
Parks Shopping Centre, Bunbury	1999	16.7%
Hometown Shopping Centre, Albany Highway, Cannington	1998	25.0%

### Property Projects

Schaffer Corporation is part of a syndicate that has identified ongoing demand for industrial land in Western Australia. To that end, early in calendar 2006, Schaffer Corporation acquired a 20% interest in a 26 hectare property at Neerabup, north of Perth. The exercise is a land banking exercise and this property is likely to be developed as an industrial subdivision.

### Other Properties

Schaffer Corporation owns several other properties in Perth which are primarily occupied by various functions of the Building Materials division. The Directors believe several of these properties have significant redevelopment potential in the future, and the long term strategy remains to eventually redevelop these properties and maximise returns to shareholders.

### Gosh Capital

This separate 83% owned subsidiary within Schaffer Corporation was established as its own division in the 2014 financial year with a mandate to maximise the value of the land asset on which the Gosh Leather business previously operated at 10 Bennett Avenue, North Coogee, Western Australia. This also involves the reinvestment of profits to grow the available capital for investment. As at the date of this report the portfolio of investments has grown to:

- The land at 10 Bennett Ave, North Coogee WA
- A bulky goods retail centre located at 39 Dixon Rd, Rockingham WA
- Smaller diversified investments in five investment entities owning properties in NSW, WA and SA that span rented industrial, office and retail properties, as well as industrial and residential development projects.

As an investment company, Gosh Capital is actively evaluating further investment opportunities to maximise the value of its assets and grow the profits of this division.

The following table presents the entire property holdings of the Group:

Address	Description	Ownership structure	Land Size (sqm)	Current Lettable Area (sqm)	SFC Ownership %	SFC Share of Book Value (\$m)	SFC Share of Market Value (\$m)	SFC Share of Debt (\$m)	Tax on Capital Gain (\$m)	Net Equity Value (\$m)
<b>Property used by SFC operations</b>										
218 Campersic Road Herne Hill, WA	Delta	SFC Direct	134,305	-	100%	6.4	9.5		(0.9)	
Lot 101 Jandakot Road Jandakot, WA	Urbanstone	SFC Direct	64,090	-	100%	3.8	8.5		(1.3)	
1305 Hay Street West Perth, WA	Head Office	SFC Direct	413	-	100%	0.7	2.1		(0.4)	
50 Cutler Road Carabooda, WA	Quarry House	SFC Direct	72,808	-	100%	1.1	0.9		0.1	
						11.9	21.0			12.4
<b>Rental Properties</b>										
IBM Centre, 1060 Hay Street West Perth, WA	Office	Syndicate	5,797	8,466	22%	1.1	13.2	(7.1)	(3.6)	2.5
Hometown, 1480 Albany Hwy Cannington, WA	Retail	Syndicate	59,319	20,637	25%	5.6	13.2	(6.9)	(2.2)	4.0
Océ House, 616 St Kilda Road Melbourne	Office	Syndicate	4,634	13,419	20%	3.8	9.7	(4.6)	(1.8)	3.3
Parks Shopping Centre Bunbury, WA	Retail	Syndicate	30,804	10,622	17%	2.1	6.7	(3.8)	(1.4)	1.5
39 Dixon Road Rockingham, Western Australia	Bulky Goods	Gosh Direct	12,047	5,434	83%	7.5	8.4	(5.2)	(0.2)	3.0
Space 207 & Harbour Park NSW	Office	Gosh - Unit Trust	9,860	24,945	2%	0.9	0.9	-	-	0.9
Inghams, Port Wakefield Rd Burton, SA	Industrial	Gosh - Unit Trust	53,300	13,437	4%	0.8	0.8	-	-	0.8
Auburn Megamall 265 Paramatta Road, NSW	Bulky Goods	Gosh - Unit Trust	24,690	32,348	2%	0.4	0.4	-	-	0.4
						22.1	53.3	(27.6)	(9.2)	16.5
<b>Development sites</b>										
Lot 103 Jandakot Road Jandakot, WA	Vacant	SFC Direct	466,240	-	100%	3.0	4.4	-	(0.7)	3.7
Lot 104 Jandakot Road Jandakot, WA	Commercial	SFC Direct	42,680	500	100%	0.3	2.1	-	(0.3)	1.8
10 Bennett Avenue North Coogee, WA	Residential	Gosh Direct	21,035	-	83%	2.1	11.3	-	(2.9)	8.4
170 Flynn Drive Neerabup, WA	Industrial	Syndicate	26,000	-	20%	1.5	3.7	(1.0)	(0.7)	2.1
Lot 561 Paris Road Australind, WA	Commercial	Gosh - Unit Trust	12,000	-	4%	0.4	0.4	-	-	0.4
Part Lot 602 Yanchep Beach Road, WA	Residential	Gosh - Unit Trust	42,600	-	3%	0.4	0.4	-	-	0.4
						7.7	22.4	(1.0)	(4.6)	16.7
<b>Total SFC Property Value</b>						41.7	96.7	(34.6)	(16.5)	45.6



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# 2015

SCHAFFER CORPORATION LIMITED  
ABN 73 008 675 689

## FINANCIAL REPORT

*at 30 June 2015*

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2015

	Note	Consolidated	
		2015 \$'000	2014 \$'000
<b>Revenue</b>			
Sale of goods		130,071	134,367
Construction services		21,109	23,648
Rental income	3(a)	6,043	5,479
Finance income	3(b)	102	202
Dividends	3(c)	2	1
<b>Total revenue</b>		<b>157,327</b>	163,697
Cost of sales and services rendered		(129,951)	(124,361)
<b>Gross profit</b>		<b>27,376</b>	39,336
Impairment of goodwill		-	(3,696)
Other (losses)/income	3(d)	(262)	1,239
Marketing expenses		(6,631)	(7,688)
Administrative expenses		(11,668)	(13,411)
<b>Profit before tax and finance costs</b>		<b>8,815</b>	15,780
Finance costs	3(b)	(3,602)	(3,632)
<b>Profit before income tax</b>		<b>5,213</b>	12,148
Income tax expense	5	(1,049)	(4,172)
<b>Profit after income tax</b>		<b>4,164</b>	7,976
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value gains/(losses) on available-for-sale financial assets		(13)	31
Income tax on items of other comprehensive income		(7)	(10)
		(20)	21
Foreign currency translation gain/(loss) attributable to parent		935	(51)
		915	(30)
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Net fair value gains on available-for-sale financial assets attributable to non-controlling interest		2	2
Foreign currency translation gain/(loss) attributable to non-controlling interest		190	(10)
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>1,107</b>	(38)
<b>Total comprehensive income for the period</b>		<b>5,271</b>	7,938
<b>Profit for the period is attributable to:</b>			
Non-controlling interest		633	1,788
Owners of the parent		3,531	6,188
		4,164	7,976
<b>Total comprehensive income for the period is attributable to:</b>			
Non-controlling interest		825	1,780
Owners of the parent		4,446	6,158
		5,271	7,938
<b>Earnings per share (EPS)</b>			
Basic EPS attributable to owners of the parent		25.2¢	44.1¢
Diluted EPS attributable to owners of the parent		25.2¢	44.1¢

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
as at 30 June 2015

		Consolidated	
	Note	2015 \$'000	2014 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short term deposits	4	4,192	14,583
Trade and other receivables	7	30,229	22,588
Inventories	8	69,838	47,425
Prepayments and deposits	9	1,638	1,730
Derivative financial instruments	33	1,636	-
Other financial assets		-	60
<b>Total current assets</b>		<b>107,533</b>	<b>86,386</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	41,352	40,831
Investment properties	13	28,903	28,685
Deferred income tax asset	5	778	1,063
Goodwill	14	1,299	1,299
Other financial assets	15	3,532	2,020
<b>Total non-current assets</b>		<b>75,864</b>	<b>73,898</b>
<b>Total assets</b>		<b>183,397</b>	<b>160,284</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	16	30,997	21,235
Interest bearing loans and borrowings	17	3,765	21,307
Income tax payable		16	2,995
Provisions	18	6,811	6,415
Derivative financial instruments	33	313	192
<b>Total current liabilities</b>		<b>41,902</b>	<b>52,144</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	19	62,393	30,783
Deferred income tax liabilities	5	1,374	1,379
Provisions	20	1,352	1,425
<b>Total non-current liabilities</b>		<b>65,119</b>	<b>33,587</b>
<b>Total liabilities</b>		<b>107,021</b>	<b>85,731</b>
<b>Net assets</b>		<b>76,376</b>	<b>74,553</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital	21	16,583	16,593
Reserves	22	3,133	2,155
Retained earnings	22	48,330	48,300
<b>Total parent entity interest in equity</b>		<b>68,046</b>	<b>67,048</b>
Non-controlling interests	30	8,330	7,505
<b>Total equity</b>		<b>76,376</b>	<b>74,553</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2015

	Attributable to Equity Holders of the Parent							Total	Non-controlling interest	Total equity
	Issued capital	Retained earnings	Reserves				Total			
			Asset revaluation	Share-based payment EPU's	Share-based payment SFC options	Net unrealised gains/(losses)				
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>At 1 July 2013</b>	16,824	45,478	2,585	552	115	17	(1,117)	64,454	5,931	70,385
Profit for the year	-	6,188	-	-	-	-	-	6,188	1,788	7,976
Other comprehensive income	-	-	-	-	-	21	(51)	(30)	(8)	(38)
Total comprehensive income for the year	-	6,188	-	-	-	21	(51)	6,158	1,780	7,938
<b>Transactions with owners in their capacity as owners:</b>										
Shares acquired under buy-back scheme	(231)	-	-	-	-	-	-	(231)	-	(231)
Share-based payments	-	-	-	33	-	-	-	33	-	33
Equity dividends	-	(3,366)	-	-	-	-	-	(3,366)	(206)	(3,572)
<b>At 30 June 2014</b>	16,593	48,300	2,585	585	115	38	(1,168)	67,048	7,505	74,553
<b>At 1 July 2014</b>	16,593	48,300	2,585	585	115	38	(1,168)	67,048	7,505	74,553
Profit for the year	-	3,531	-	-	-	-	-	3,531	633	4,164
Other comprehensive income	-	-	-	-	-	(20)	935	915	192	1,107
Total comprehensive income for the year	-	3,531	-	-	-	(20)	935	4,446	825	5,271
<b>Transactions with owners in their capacity as owners:</b>										
Shares acquired under buy-back scheme	(10)	-	-	-	-	-	-	(10)	-	(10)
Share-based payments	-	-	-	63	-	-	-	63	-	63
Equity dividends	-	(3,501)	-	-	-	-	-	(3,501)	-	(3,501)
<b>At 30 June 2015</b>	16,583	48,330	2,585	648	115	18	(233)	68,046	8,330	76,376

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

For persons

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2015

		Consolidated	
		2015	2014
Note		\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	Receipts from customers	155,427	173,232
	Payments to suppliers and employees	(161,946)	(147,615)
	Other revenue	455	114
	Interest paid	(3,602)	(3,632)
	Income taxes paid	(3,865)	(2,908)
	Goods and services tax paid	(1,421)	(2,147)
4	<b>Net cash flows (used in)/from operating activities</b>	<b>(14,952)</b>	<b>17,044</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	Interest income	102	202
	Acquisition of property, plant and equipment	(3,968)	(4,743)
	Insurance proceeds on loss of property	-	1,157
	Proceeds on sale of property, plant and equipment	28	190
	Acquisition/improvements to investment properties	(858)	(10,115)
	Purchase of available-for-sale investments	(1,444)	(944)
	Deposits repaid/(acquired)	90	59
	Dividends received	2	1
	<b>Net cash flows used in investing activities</b>	<b>(6,048)</b>	<b>(14,193)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	Finance lease principal payments	(778)	(1,227)
6(a)	Dividends paid	(3,501)	(3,572)
	Proceeds from borrowings	20,014	11,650
	Repayment of borrowings	(6,243)	(7,491)
	Shares acquired under share buy-back scheme	(10)	(231)
	<b>Net cash flows from/(used in) financing activities</b>	<b>9,482</b>	<b>(871)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(11,518)</b>	<b>1,980</b>
	Net foreign exchange differences	1,127	(59)
	Cash and cash equivalents at the beginning of the period	14,583	12,662
4	<b>Cash and cash equivalents at the end of the period</b>	<b>4,192</b>	<b>14,583</b>

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

### NOTE 1 CORPORATE INFORMATION

The consolidated financial report of Schaffer Corporation Limited and its controlled entities (the Group or Consolidated Entity) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the Directors on 25 September 2015.

Schaffer Corporation Limited (SFC, the Parent or the Company) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The Company is domiciled in Australia.

The nature of the operations and principal activities of the Group are described in note 28.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### (b) New accounting standards and interpretations

##### Adoption of new accounting standards

The consolidated entity has adopted the following standards and interpretations as of 1 July 2014:

##### AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 includes guidance to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

The adoption of AASB 2012-3 had no effect on the financial position or performance of the Consolidated Entity.

##### AASB 2014-1 Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRSs 2010-2012 Cycle

AASB 2014-1 – AASB 2 includes clarification of the definition of ‘vesting conditions’ and ‘market condition’ and introduces the definition of ‘performance condition’ and ‘service condition’.

AASB 2014-1 – AASB 116 & 138 includes clarification that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.

The adoption of Annual Improvements to IFRSs 2010-2012 Cycle will not have an effect on the disclosures included in the financial statements of the Consolidated Entity.

The Consolidated Entity has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### New Accounting Standards and Interpretations not yet applicable

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2015.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.</p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>Amendments to AASB 9 (December 2009 &amp; 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p>	1 January 2018	1 July 2018



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
		<p>The main changes are described below.</p> <p>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>▶ The remaining change is presented in profit or loss</li> </ul> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>		
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	<p>AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <p>a. the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i>, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and</p> <p>b. the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.</p> <p>This Standard also makes an editorial correction to AASB 11</p>	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	<p>AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	1 July 2016

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15	Revenue from Contracts with Customers	<p>In May 2014, the IASB issued IFRS 15 <i>Revenue from Contracts with Customers</i>, which replaces IAS 11 <i>Construction Contracts</i>, IAS 18 <i>Revenue</i> and related Interpretations (IFRIC 13 <i>Customer Loyalty Programmes</i>, IFRIC 15 <i>Agreements for the Construction of Real Estate</i>, IFRIC 18 <i>Transfers of Assets from Customers</i> and SIC-31 <i>Revenue—Barter Transactions Involving Advertising Services</i>).</p> <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ol style="list-style-type: none"> <li>Step 1: Identify the contract(s) with a customer</li> <li>Step 2: Identify the performance obligations in the contract</li> <li>Step 3: Determine the transaction price</li> <li>Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ol> <p>Early application of this standard is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p> <p>The IASB has decided to defer the effective date of IFRS 15 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the AASB will make a corresponding amendment to AASB 15, which will mean that the application date of this standard for the Group will move from 1 July 2017 to 1 July 2018.</p>	1 January 2017	1 July 2017
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	<p>AASB 2014-9 amends AASB 127 <i>Separate Financial Statements</i>, and consequentially amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i>, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.</p> <p>AASB 2014-9 also makes editorial corrections to AASB 127.</p> <p>AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.</p>	1 January 2016	1 July 2016
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <ol style="list-style-type: none"> <li>a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and</li> <li>a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</li> </ol> <p>AASB 2014-10 also makes an editorial correction to AASB 10.</p> <p>AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.</p>	1 January 2016	1 July 2016

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><b>AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>:</b></p> <ul style="list-style-type: none"> <li>Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul> <p><b>AASB 7 <i>Financial Instruments</i>: Disclosures:</b></p> <ul style="list-style-type: none"> <li>Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.</li> <li>Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure–Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134.</li> </ul> <p><b>AASB 119 <i>Employee Benefits</i>:</b></p> <ul style="list-style-type: none"> <li>Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</li> </ul> <p><b>AASB 134 <i>Interim Financial Reporting</i>:</b></p> <ul style="list-style-type: none"> <li>Disclosure of information 'elsewhere in the interim financial report' -amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</li> </ul>	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	<p>The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.</p>	1 January 2016	1 July 2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 <i>Materiality</i>	<p>The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.</p>	1 July 2015	1 July 2015

\* Designates the beginning of the applicable annual reporting period unless otherwise stated.

The impact of the adoption of these new and revised standards and interpretations has not yet been assessed by the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Schaffer Corporation Limited and its subsidiaries (the Group) as at 30 June each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (ii) Exposure, or rights, to variable returns from its involvement with the investee, and
- (iii) The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (i) The contractual arrangement with the other vote holders of the investee
- (ii) Rights arising from other contractual arrangements
- (iii) The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Non-controlling interests represent the portion of profit or loss and net assets in Howe Automotive Limited and Gosh Holdings Pty Limited not held by the Group and are presented separately in the Consolidated Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position.

#### (d) Significant accounting judgments, estimates and assumptions

##### (i) Significant accounting judgments

In applying the Group's accounting policies, management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

##### Operating lease commitments – Group as Lessor

The Group has entered into commercial property leases on its Investment Property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

##### (ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

##### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 14.

##### Impairment of assets

Due to the continued difficult conditions affecting the Building Products industry the Group determined that a triggering event had occurred during the year. To assess the recoverable amount for Building Products, the Group used a value-in-use cash flow projection based on forecasts prepared by management. The forecast included average revenue growth of 3.7% per annum, including 2.5% inflation, for a five year period, followed by inflation based upon the expected CPI thereafter. A terminal value of 6 times EBITDA was determined from the final year of cash flows. A pre-tax discount rate of 14% was used. Management concluded that the assets of the Building Products unit were not impaired at 30 June 2015.

##### Share-based payment transactions

##### Share options

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the binominal formula, using the assumptions detailed as per note 26.

##### Employee participation units

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted, as discussed in the Directors' Report under directors and executives disclosures.

##### Construction contracts

Refer note 2(u).

##### Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. Management considers there is no such impairment at balance date.

#### (e) Joint arrangements

Joint arrangements are arrangements over which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or a joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent that the joint arrangement provides Schaffer with rights to the assets, and obligations for the liabilities arising from the joint arrangement, the arrangement is classified as a joint operation and as such, Schaffer recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of revenue from the sale of output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

#### (f) Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Both the functional and presentation currency of Schaffer Corporation Limited and its Australian subsidiaries is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences arising from the above procedures are taken to the Consolidated Statement of Comprehensive Income.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(f) Foreign currency translation (continued)**

As at the reporting date the assets and liabilities of overseas subsidiaries (refer note 11) are translated into the presentation currency of Schaffer Corporation Limited at the rate of exchange ruling at the balance date and the Consolidated Statement of Comprehensive Income is translated at the average exchange rates for the year.

The exchange differences arising on the translation are taken directly to other comprehensive income.

On disposal of a foreign entity, the deferred cumulative amount recognised in the component of other comprehensive income relating to that particular foreign operation and attributable to the parent entity is recognised in the Consolidated Statement of Comprehensive Income.

**(g) Investment properties**

Investment properties are measured at cost less accumulated depreciation.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Consolidated Statement of Comprehensive Income in the year of retirement or disposal.

Depreciation is calculated on a straight-line basis over the estimated useful life as follows:

- buildings over 40 years
- land is not depreciated
- improvements – over 5 to 15 years

**(h) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- land – not depreciated
- buildings – over 40 years
- leasehold improvements – the shorter of the lease term and the asset's useful life
- plant and equipment – over 5 to 15 years

**(i) Amortisation of Limestone Quarries**

Amortisation is provided on the units of production method with separate calculations made for each quarry location. The units of production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources.

**(ii) Impairment**

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

The recoverable amount of property, plant and equipment is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

**(i) Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed in this circumstance is measured on the basis of the relative values of the operation disposed and the portion of the cash-generating unit retained.

Impairment losses for goodwill are not subsequently reversed.

**(j) Impairment of non-financial assets other than goodwill**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(k) Investments and other financial assets**

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets.

When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(k) Investments and other financial assets (continued)****(i) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in current assets unless the Group intends to dispose of the investment longer than 12 months after the balance sheet date.

After initial recognition, these financial assets are measured at fair value. Gains or losses are recognised as a separate component of equity until the financial asset is sold, collected or otherwise disposed, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Consolidated Statement of Comprehensive Income.

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability.

Dividends or distributions on available-for-sale equity instruments are recognised in the Consolidated Statement of Comprehensive Income when the Group's right to receive payments as dividends or distributions is established.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**(iii) Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Consolidated Statement of Comprehensive Income. The losses arising from impairment are recognised in the Consolidated Statement of Comprehensive Income in finance costs.

**(l) Inventories**

Inventories are valued at the lower of cost and net realisable value except for contract work in progress.

Costs incurred in bringing each product to its present location and condition, are accounted for as follows:

- Raw materials - purchase cost on a first-in, first-out basis.
- Finished goods - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Costs are assigned on the first-in first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Contract work in progress**

Contract work in progress for the construction of precast concrete elements within the Building Materials segment is stated at cost plus profit recognised to date calculated in accordance with the percentage of completion method, less a provision for foreseeable losses and progress payments received to date.

A contract is not considered complete until the defects liability period has expired and monies withheld have been received. Any expected losses on a contract are recognised immediately in the period the loss becomes foreseeable. That is, when it becomes probable that total contract costs will exceed total contract revenues.

Cost includes all variable and fixed costs directly related to specific construction contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Also included are costs expected to be incurred under penalty clauses and rectification provisions.

The gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings, is generally presented as an asset. Progress billings not yet paid by customers and retention are included within the "Trade and Other Receivables" balance.

The gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses) are presented as current liabilities.

**(m) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. The carrying amount approximates fair value.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectable are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment. The amount of the impairment loss is the portion of the individual receivable carrying amount estimated to be uncollectable.

**(n) Cash and short-term deposits**

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

**(o) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

**(p) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**Restructure provisions**

Provisions relating to restructures are recognised when:

- the Group has a detailed formal plan for the restructuring; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement it or by announcing its main features to those affected.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(q) Employee entitlements**

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of employee entitlements expected to be settled within twelve months of the reporting date are measured at the amounts expected to be settled. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

In determining the present value of future cash outflows, the interest rates attaching to national corporate bonds which have terms to maturity approximating the terms of the related liability are used. Employee entitlements, expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements;
- other types of employee entitlements;

are charged against profit or loss on a net basis in their respective categories.

Contributions to defined contribution superannuation plans are expensed when incurred.

**(r) Executive share option arrangement**

The Directors of Schaffer Corporation Limited may grant in their absolute discretion, without payment, share options to employees under an employee share scheme approved by shareholders at the Annual General Meeting in November 1999. Each option is convertible into one ordinary share of Schaffer Corporation Limited on payment of the exercise price, after a vesting period, but prior to the expiry date.

The exercise price is determined at the grant date at the absolute discretion of the Directors but not less than the greater of:

- (1) the weighted average of the last sale price on the Australian Stock Exchange Limited of the shares in the Company for each of the five trading days on which a sale of the Company's shares was effected immediately preceding the date on which any options are issued to any participant; and
- (2) 20 cents.

The options hold no voting or dividend rights, and are not transferable. Schaffer Corporation Limited does not provide any loans or guarantees to enable executives to finance the exercise of their options. When an executive ceases to be employed by the entity any unexercised options automatically lapse and are forfeited.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Schaffer Corporation Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Consolidated Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer note 31).

**(s) Employee participation units**

A controlled entity Howe Automotive Limited (Howe) may grant employee participation units (EPU) in accordance with its Employee Incentive Plan adopted by Howe shareholders on 20 December 2001. For conditions refer to note 26.

An EPU provides an employee with a right on termination of employment under certain conditions and in certain other circumstances to receive a cash payment from Howe. Schaffer Corporation Limited has the option to compel the employee to use the whole or part of that cash payment to subscribe for Schaffer Corporation Limited shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Schaffer Corporation Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Consolidated Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

EPU's are cancelled once they are paid out. EPU's are also cancelled if the employee ceases to be an employee prior to the third anniversary of the grant date for any reason other than death or permanent disablement, if the employee acts in competition with Howe after the third anniversary but prior to pay out, or if the employee is a director or general manager and does not provide a minimum of 90 days notice of intention to terminate employment.

Howe may at any time amend this plan but amendments cannot prejudice the accrued rights of an employee without consent of not less than 75% in the number of employees who hold EPU's at the time of the amendment.

**(t) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangements is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**(i) Group as Lessee**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Consolidated Statement of Comprehensive Income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(t) Leases (continued)***(ii) Group as Lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income.

**(u) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of Goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time control of the goods has passed to the customer.

*Interest income*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

*Dividends*

Revenue is recognised when the shareholders' right to receive the payment is established.

*Rental income*

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

*Sale of land*

Revenue on the sale of land is brought to account when the sale is unconditional.

*Construction contracts*

For construction contracts, revenues and expenses are recognised on an individual contract basis using the percentage of completion method. Once the outcome of a construction contract can be estimated reliably based on a review of the terms and conditions applicable to each individual contract, contract revenues and expenses are recognised in the Consolidated Statement of Comprehensive Income in proportion to the stage of completion of the contract. The stage of completion is measured by reference to actual costs incurred to date as a percentage of estimated total costs for each contract. The Group has determined that the outcome of its construction contracts can usually be reliably estimated at the commencement of the contract. Where the outcome of a contract cannot be reliably determined, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise from a construction contract, the excess of total expected costs over revenue is recognised as an expense immediately.

**(v) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- where taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- where the deductible temporary differences is associated with investments in subsidiaries, or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

The Company and all its wholly-owned Australian resident subsidiaries are part of a tax consolidated group. The Company, being the head entity in a tax consolidated group, assumes the current tax liability and any deferred tax assets arising from tax losses and other unused tax credits of the subsidiaries in the tax consolidated group. Deferred tax balances of the subsidiaries in the tax consolidated group are not assumed by the Parent entity.

The Group allocates the tax balances for the period using the Group allocation approach, and a tax funding arrangement is in place to reimburse the parent entity for any liabilities of the subsidiaries it assumes and conversely, for the parent entity to reimburse the subsidiaries for any recognised tax losses it assumes.

**(w) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(x) Derivative financial instruments**

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to manage its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Group has determined that these derivatives do not qualify for hedge accounting and as such, any gains or losses arising from changes in fair value are taken directly to the Consolidated Statement of Comprehensive Income.

*Forward exchange contracts*

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

*Interest rate swaps*

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

**(y) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(z) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the Parent adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares outstanding during the period, adjusted for any bonus element. Diluted earnings per share, is calculated as net profit attributable to members adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares outstanding during the period and dilutive potential ordinary shares, adjusted for any bonus element.

**(aa) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**(ab) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group become obliged to make future payments in respect of the purchase of these goods and services. The carrying amount approximates fair value.

**(ac) Research costs**

Research costs are expensed as incurred.

**(ad) Business combinations***Subsequent to 1 July 2011*

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the Consolidated Statement of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

**(ae) Discontinued operations**

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the Consolidated Statement of Comprehensive Income and the assets and liabilities are presented separately on the face of the Consolidated Statement of Financial Position.

**(af) Non-current assets held for sale**

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs of disposal. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

	Consolidated	
	2015	2014
	\$'000	\$'000
<b>NOTE 3</b>		
<b>REVENUES AND EXPENSES</b>		
<b>(a) Net rental income</b>		
Rental property income	6,043	5,479
	<u>6,043</u>	<u>5,479</u>
Rental property expenses	(3,361)	(2,978)
Net rental income	<u>2,682</u>	<u>2,501</u>
<b>(b) Finance (costs)/income</b>		
Bank and other loans and overdrafts – interest	(3,527)	(3,557)
Finance charges payable under finance leases	(75)	(75)
Total finance costs	<u>(3,602)</u>	<u>(3,632)</u>
Bank interest revenue	102	202
Total finance income	<u>102</u>	<u>202</u>
<b>(c) Dividends</b>		
Dividends received	2	1
	<u>2</u>	<u>1</u>
<b>(d) Other (losses)/income</b>		
Insurance proceeds on loss of property	-	1,157
Profit/(loss) on disposal of property, plant and equipment	24	(494)
Net gain/(loss) on derivatives	1,636	(62)
Net foreign currency (loss)/gain	(2,412)	524
Realised gains on available-for-sale investments	35	-
Other	455	114
	<u>(262)</u>	<u>1,239</u>
<b>(e) Depreciation, amortisation and impairment included in the consolidated statement of comprehensive income</b>		
Depreciation and amortisation included in:		
Cost of sales	4,281	4,141
Rental property expenses	640	590
Marketing and administrative expenses	293	326
	<u>5,214</u>	<u>5,057</u>
<b>(f) Lease payments included in the consolidated statement of comprehensive income</b>		
Included in cost of sales:		
Minimum lease payments – operating lease	1,632	1,540
Included in marketing and administrative expenses:		
Minimum lease payments – operating lease	1,530	1,733
	<u>3,162</u>	<u>3,273</u>
<b>(g) Employee benefit expense</b>		
Wages and salaries	39,944	38,401
Post employment benefit provision	-	25
Long service leave provisions	284	204
Worker's compensation costs	699	667
Superannuation costs	2,153	2,145
Expense of share-based payments	63	33
	<u>43,143</u>	<u>41,475</u>
<b>(h) Other expenses/(gains)</b>		
(Write back of)/additional allowance for doubtful debts	(19)	57
	<u>(19)</u>	<u>57</u>

	Consolidated	
	2015	2014
	\$'000	\$'000
<b>NOTE 4</b>		
<b>CASH AND SHORT-TERM DEPOSITS</b>		
<b>(a) Reconciliation of cash</b>		
Cash balance comprises:		
Cash at bank and on hand	4,192	14,583
Closing cash balance per Consolidated Statement of Cash Flows	<u>4,192</u>	<u>14,583</u>
<b>(b) Reconciliation of operating profit after income tax to the net cash flows from operations</b>		
Net profit	4,164	7,976
Adjustment for:		
Depreciation and amortisation	5,214	5,057
Interest received	(102)	(202)
Dividends received	(2)	(1)
Share-based payments expense	63	33
Proceeds on disposal of equity securities	(35)	(6)
Insurance proceeds on loss of property	-	(1,157)
Loss on disposal of property, plant and equipment	(24)	494
Net loss/(gain) on foreign exchange	1,072	(152)
Impairment of goodwill	-	3,696
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(7,641)	3,105
(Increase)/decrease in inventories	(22,413)	(4,515)
(Increase)/decrease in prepayments	2	85
(Increase)/decrease in available-for-sale investments	7	(8)
(Increase)/decrease in deferred income tax asset	285	(350)
Increase/(decrease) in trade and other payables	8,634	491
Increase/(decrease) in employee entitlement provisions	323	812
Increase/(decrease) in income tax payable	(2,979)	1,163
Increase/(decrease) in deferred tax liability	(5)	461
(Increase)/decrease in derivatives	(1,515)	62
<b>Net cash flows (used)/from operating activities</b>	<u>(14,952)</u>	<u>17,044</u>
<b>(c) Bank facilities (refer note 19).</b>		
<b>(d) Non-cash financing activities</b>		
During the current financial year plant costing \$1,076,000 (2014 - \$1,040,000) was acquired under finance leases.		



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

	Consolidated	
	2015	2014
Note	\$'000	\$'000

**NOTE 6  
DIVIDENDS PROVIDED FOR OR PAID****(a) Dividends paid**

Final 2014 – 13¢ per share paid in September 2014 (2013 - 12¢)	1,821	1,685
Interim 2015 – 12¢ per share paid in March 2015 (2014 - 12¢)	1,680	1,681
Fully franked dividends paid by the Parent	3,501	3,366
Dividend paid by controlled entity to minority shareholder fully franked	30	206
Total fully franked dividends paid	3,501	3,572

**(b) Not recognised as a liability as at 30 June 2015**

Dividends on ordinary shares		
Final franked dividend for 2015 - 13¢ (2014 - 13¢)	34	1,821
The dividends were declared subsequent to 30 June 2014		

**(c) The tax rate at which dividends have or will be franked is interim 30% (2014 - 30%), final 30% (2014 - 30%)**

Franking account balance

The amount of franking credits available for the subsequent financial year are detailed below:

The franking account balance disclosures have been calculated using the franking rate at 30 June 2015

Franking account balance brought forward	5,206	4,405
Fully franked dividends paid	(1,501)	(1,443)
Tax (refunded)/paid	(195)	1,465
Franked dividends received from other corporations	1	779
Franking account balance at the end of the financial year	3,511	5,206
Franking credits that will (reduce)/arise from the (refund)/payment of income tax (refundable)/payable as at the end of the financial year by the parent	(15)	(158)
Franking credits that will be available on (refund)/payment of income tax (refundable)/payable as at the end of the financial year by the parent	3,496	5,048
The above franking account is expressed on a tax paid basis		
Fully franked dividends which can be paid from the above franking credits available amount	8,157	11,779

	Consolidated	
	2015	2014
Note	\$'000	\$'000

**NOTE 7  
TRADE AND OTHER RECEIVABLES  
(CURRENT)**

Trade debtors	(i)	27,075	19,071
Allowance for doubtful debts	(i)	(309)	(136)
		26,766	18,935
Sundry debtors	(ii)	3,463	3,653
		30,229	22,588

Terms and conditions relating to the above financial instruments:

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified.

- (i) Trade debtors are non-interest bearing and generally on 30 days terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. Financial difficulties of the debtor, default payments or debts more than 120 days overdue are considered objective evidence of impairment. An allowance of \$309,000 (2014 - \$136,000) has been recognised for the current year for specific debtors for which such evidence exists. The amount of the allowance has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors. Refer note 32(d) for credit risk disclosure.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

	Consolidated	
	2015	2014
	\$'000	\$'000
Movement in allowance for doubtful debts		
At 1 July	136	79
Provided/(written back) during the year	173	57
At 30 June	309	136

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

Note	Consolidated	
	2015 \$'000	2014 \$'000
<b>NOTE 8 INVENTORIES</b>		
Work in progress – at cost	31,179	17,720
Contract work in progress (a)	548	782
Finished goods – at cost	9,797	9,440
Finished goods – at net realisable value	9	10
Raw materials – at cost	28,305	19,473
	<b>69,838</b>	<b>47,425</b>
Inventories recognised as an expense for the year ended 30 June 2015 totalled \$107,538,000 (2014 - \$119,846,000) for the Group.		
Inventory write downs recognised as an expense totalled \$1,111,000 (2014 - \$335,000).		
<b>(a) Contract work in progress</b>		
Construction costs incurred to date:		
Gross cost plus profit recognised to date	18,219	19,886
Less: Progress billings	(18,508)	(20,119)
Net construction work in progress	(289)	(233)
Represented by:		
Amounts due to customers – trade and other payables	(837)	(1,015)
Amounts due from customers	548	782
	<b>(289)</b>	<b>(233)</b>

**NOTE 9  
PREPAYMENTS AND DEPOSITS**

Prepayments	1,638	1,640
Deposits	-	90
	<b>1,638</b>	<b>1,730</b>

Prepayments relate to insurance, raw materials and interest.

**NOTE 10  
PARENT ENTITY INFORMATION****Information relating to  
Schaffer Corporation Limited:**

	2015 \$'000	2014 \$'000
Current assets	852	895
Total assets	48,027	45,017
Current liabilities	1,436	11,233
Total liabilities	27,516	23,524
Issued capital	15,847	15,857
Retained earnings	2,266	3,212
Share-based payments reserve – SFC options	115	115
Net unrealised gains reserve	-	26
Asset revaluation reserve	2,283	2,283
Total shareholders' equity	20,511	21,493
Profit of the parent entity	2,555	5,601
Total other comprehensive income of the parent entity	(15)	7

The parent entity has entered into Deeds of Cross Guarantee with controlled entities as disclosed in note 12.

**Tax consolidation**

The Company and its wholly-owned Australian resident subsidiaries have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Schaffer Corporation Limited.

Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

**Tax consolidation contributions by (or distributions to) equity participants**

The net amount recognised for the period under tax consolidation contributions by (or distributions to) equity participants, its major components and the accounts affected are as follows:

	2015 \$'000	2014 \$'000
<b>Major components of tax consolidation contributions by (or distributions to) equity participants</b>		
Net assumptions of tax liabilities of members of the tax-consolidated group	645	742
Tax funding contribution receivable from controlled entities	(645)	(742)
Excess of tax funding contributions over tax liabilities assumed	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

NOTE 11  
CONTROLLED ENTITIES

Controlled entity	Beneficial percentage held by the Group		Place of incorporation and business
	2015 %	2014 %	
Schaffer Properties Pty Ltd*	100	100	Australia
Delta Corporation Limited*	100	100	Australia
Urbanstone Pty Ltd*	100	100	Australia
Gosh Holdings Pty Ltd	83.17	83.17	Australia
Gosh Capital Pty Ltd	83.17	83.17	Australia
Howe Automotive Limited**	83.17	83.17	Australia
Rosedale Leather Pty Ltd**	83.17	83.17	Australia
Australian Leather Upholstery Pty Ltd**	83.17	83.17	Australia
Howe & Company Pty Ltd**	83.17	83.17	Australia
Howe Slovensko S.R.O.	83.17	83.17	Slovakia
Howe Leather (Shanghai) Co. Ltd.***	83.17	83.17	People's Republic of China
Howe Hong Kong Pty Limited	83.17	83.17	Hong Kong

\* Pursuant to Class Order 98/1418 relief has been granted to various controlled entities from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Schaffer Corporation Limited and the controlled entities subject to the Class Order (the Schaffer 'Closed Group') entered into Deeds of Cross Guarantee at various dates. The effect of the deeds is that Schaffer Corporation Limited has guaranteed to pay any deficiency in the event of winding up of the controlled entities. The controlled entities have also given a similar guarantee in the event that Schaffer Corporation Limited is wound up.

\*\* Pursuant to Class Order 98/1418 relief has been granted to various controlled entities from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Howe Automotive Limited and the controlled entities subject to the Class Order (the Howe Automotive 'Closed Group') entered into Deeds of Cross Guarantee at various dates. The effect of the deeds is that Howe Automotive Limited has guaranteed to pay any deficiency in the event of winding up of the controlled entities. The controlled entities have also given a similar guarantee in the event that Howe Automotive Limited is wound up.

\*\*\* Howe Leather (Shanghai) Co. Ltd has a 1 January to 31 December financial year to coincide with local tax and statutory reporting requirements. Financial statements for this subsidiary are prepared and audited for the year to 30 June for the purposes of Group consolidation. All other entities have 1 July to 30 June financial years.

The loan from the Government of Australia to Howe Automotive Limited and Howe & Company Pty Ltd (refer note 19(c)) contains a financial undertaking that limits the annual dividends that can be paid by Howe Automotive Limited to 50% of the consolidated net profit after tax of Howe Automotive Limited for each financial year of the loan period.

The Consolidated Statement of Financial Performance and Consolidated Statement of Financial Position of the entities which are members of the Schaffer 'Closed Group' are as follows:

	Schaffer Closed Group	
	2015 \$'000	2014 \$'000
<b>CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AND RETAINED EARNINGS RECONCILIATION</b>		
Profit from continuing operations before income tax	272	(1,479)
Income tax expense	132	(156)
Net profit for the year	404	(1,635)
Other comprehensive income	(15)	7
Total comprehensive income	389	(1,628)
Retained earnings at the beginning of the year	25,391	30,392
Net profit for the year	404	(1,635)
Dividends provided for or paid	(3,501)	(3,366)
Retained earnings at the end of the year	22,294	25,391
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term deposits	2,820	4,024
Trade and other receivables	7,190	4,807
Income tax refundable	-	158
Inventories	9,263	8,869
Other financial assets	-	60
Prepayments and deposits	617	902
<b>Total current assets</b>	<b>19,890</b>	<b>18,820</b>
<b>Non-current assets</b>		
Other financial assets	14,598	14,598
Property, plant and equipment	31,160	31,518
Investment properties	17,479	17,640
Goodwill	84	84
Deferred income tax assets	716	627
<b>Total non-current assets</b>	<b>64,037</b>	<b>64,467</b>
<b>Total assets</b>	<b>83,927</b>	<b>83,287</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	5,919	6,405
Interest bearing loans and borrowings	563	18,639
Derivative financial instruments	313	192
Provisions	3,877	3,585
<b>Total current liabilities</b>	<b>10,672</b>	<b>28,821</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	30,208	8,275
Provisions	1,258	1,269
<b>Total non-current liabilities</b>	<b>31,466</b>	<b>9,544</b>
<b>Total liabilities</b>	<b>42,138</b>	<b>38,365</b>
<b>Net assets</b>	<b>41,789</b>	<b>44,922</b>
<b>EQUITY</b>		
Issued capital	16,795	16,805
Reserves	2,700	2,726
Retained profits	22,294	25,391
<b>Total equity</b>	<b>41,789</b>	<b>44,922</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 11

## CONTROLLED ENTITIES (CONTINUED)

	Howe Automotive Ltd	Gosh Holdings Pty Ltd
	\$'000	\$'000
<b>MATERIAL PARTLY-OWNED SUBSIDIARIES</b>		
<b>Accumulated balances of material non-controlling interest:</b>		
2015	7,110	1,280
2014	6,221	1,238
<b>Profit allocated to material non-controlling interest:</b>		
2015	700	40
2014	1,577	150
<b>Summarised statement of profit or loss for the year ended 30 June 2015</b>		
Revenue	101,120	1,059
Profit before tax and finance costs	7,139	577
Finance costs	(1,622)	(275)
<b>Profit before tax</b>	<b>5,517</b>	<b>302</b>
Income tax	(1,359)	(67)
<b>Profit for the year</b>	<b>4,158</b>	<b>235</b>
Other comprehensive income/(loss)	1,125	8
<b>Total comprehensive income</b>	<b>5,283</b>	<b>243</b>
Attributable to non-controlling interests	890	42
Dividends paid to non-controlling interests	-	-
<b>Summarised statement of profit or loss for the year ended 30 June 2014</b>		
Revenue	103,459	542
Profit before tax and finance costs	14,674	1,407
Finance costs	(1,837)	(130)
<b>Profit before tax</b>	<b>12,837</b>	<b>1,277</b>
Income tax	(3,463)	(383)
<b>Profit for the year</b>	<b>9,374</b>	<b>894</b>
Other comprehensive income/(loss)	(61)	14
<b>Total comprehensive income</b>	<b>9,313</b>	<b>908</b>
Attributable to non-controlling interests	1,567	152
Dividends paid to non-controlling interests	206	-
<b>Summarised statement of financial position at 30 June 2015</b>		
Current assets	87,591	447
Non-current assets	12,715	14,654
Current liabilities	(30,759)	(43)
Non-current liabilities	(27,305)	(7,457)
<b>Total equity</b>	<b>42,242</b>	<b>7,601</b>
Attributable to:		
Equity holders of parent	35,132	6,321
Non-controlling interest	7,110	1,280
<b>Summarised statement of financial position at 30 June 2014</b>		
Current assets	67,414	465
Non-current assets	12,453	12,949
Current liabilities	(23,492)	(24)
Non-current liabilities	(19,415)	(6,033)
<b>Total equity</b>	<b>36,960</b>	<b>7,357</b>
Attributable to:		
Equity holders of parent	30,739	6,119
Non-controlling interest	6,221	1,238

**Summarised cash flow information for the year ending 30 June 2015**

	Howe Automotive Ltd	Gosh Holdings Pty Ltd
	\$'000	\$'000
Operating	(16,047)	444
Investing	(3,068)	(2,056)
Financing	8,801	1,615
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(10,314)</b>	<b>3</b>

**Summarised cash flow information for the year ending 30 June 2014**

	Howe Automotive Ltd	Gosh Holdings Pty Ltd
	\$'000	\$'000
Operating	12,469	(277)
Investing	(1,943)	(9,350)
Financing	(4,089)	4,770
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>6,437</b>	<b>(4,857)</b>

**Consolidated**

2015	2014
\$'000	\$'000

## NOTE 12

## PROPERTY, PLANT AND EQUIPMENT

	Howe Automotive Ltd	Gosh Holdings Pty Ltd
	\$'000	\$'000
Freehold land		
At cost	2,986	2,986
Buildings on freehold land		
At cost	17,587	17,554
Accumulated depreciation	(5,819)	(5,405)
	11,768	12,149
Leasehold quarries		
At cost	5,250	5,250
Accumulated depreciation	(330)	(304)
	4,920	4,946
Leasehold improvements		
At cost	1,216	1,200
Accumulated amortisation	(825)	(786)
	391	414
Net carrying amount of land and buildings	20,065	20,495
Plant and equipment		
At cost	64,589	61,676
Accumulated depreciation	(46,196)	(43,194)
Net carrying amount	18,393	18,482
Plant and equipment under lease and hire purchase		
At cost	4,436	2,974
Accumulated amortisation	(1,542)	(1,120)
	2,894	1,854
Net carrying amount of plant and equipment	21,287	20,336
Total property, plant and equipment		
At cost	96,064	91,640
Accumulated depreciation and amortisation	(54,712)	(50,809)
Total net carrying amount of property, plant and equipment	41,352	40,831

The Directors do not consider there is any impairment loss on property, plant or equipment at 30 June 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

NOTE 12  
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## Assets pledged as security

Included in the balances of property, plant and equipment are assets over which charges have been granted as security over a government loan and bank facilities (refer notes 17 and 19). The terms of the charges preclude the assets being sold or being used as security for further charges without the permission of the charge holders. The charges also require buildings that form part of the security to be fully insured at all times. Assets under lease are pledged as security for the associated lease liabilities (refer notes 17 and 19).

	Consolidated	
	2015	2014
	\$'000	\$'000
The carrying values of assets pledged as security are:		
Property, plant and equipment	41,352	40,831
<b>Reconciliations of the carrying amounts</b>		
Freehold land		
Carrying amount at beginning	2,986	2,986
Buildings on freehold land		
Carrying amount at beginning	12,149	11,656
Additions	37	888
Depreciation expense	(418)	(395)
	11,768	12,149
Leasehold quarries		
Carrying amount at beginning	4,946	4,971
Amortisation expense	(26)	(25)
	4,920	4,946
Leasehold improvements		
Carrying amount at beginning	414	462
Additions	16	-
Amortisation expense	(39)	(48)
	391	414
Net carrying amount of land and buildings	20,065	20,495
Plant and equipment		
Carrying amount at beginning	18,482	18,394
Additions	3,935	3,855
Transfers from leased plant	(347)	441
Depreciation expense	(3,727)	(3,655)
Foreign currency translation adjustment	54	89
Disposals	(4)	(642)
	18,393	18,482
Plant and equipment under lease		
Carrying amount at beginning	1,854	1,674
Additions	1,056	1,040
Transfer to plant and equipment	347	(441)
Depreciation expense	(364)	(381)
Foreign currency translation adjustment	1	4
Disposals	-	(42)
	2,894	1,854
Total carrying amount of plant and equipment	21,287	20,336

NOTE 13  
INVESTMENT PROPERTIES

	Consolidated	
	2015	2014
	\$'000	\$'000
Land and buildings		
At cost	29,880	29,735
Accumulated depreciation	(3,614)	(3,188)
Total carrying amount	26,266	26,547
Improvements		
At cost	5,438	4,724
Accumulated depreciation	(2,801)	(2,586)
	2,637	2,138
Total		
At cost	30,989	34,459
Accumulated depreciation	(5,849)	(5,774)
Net carrying amount of investment properties	25,140	28,685

Investment properties are recognised at cost less accumulated depreciation. The fair value of the investment property as estimated by Directors at 30 June 2015 is \$76,783,000 (2014 \$69,553,000) based on valuations by certified independent valuers who hold recognised and relevant professional qualifications and licenses, and who specialise in valuing these types of investment properties. Valuers have carried out inspections of the properties and undertaken market research with respect to available sales and rental evidence.

Valuers used the following approaches when assessing properties in accordance with the specific characteristics of the property and availability of market evidence:

For leased offices and retail properties – a combination of the capitalisation and discounted cash flow (DCF) approach.

The capitalisation approach capitalises the assessed net market income at an appropriate market yield to establish the fully leased value of the property. Appropriate adjustments are then made to reflect the specific cash flow profile and the general characteristics of the property.

The DCF approach involves the discounting of the net cash flows over an assumed cash flow period of 10 years at an appropriate rate to reflect risk to derive a market value. Inputs to the calculations are discount rate percentage (range 8.5% to 10.5%), terminal yield percentage, acquisition costs, disposal costs, market rental escalation percentage (range 2.0% per annum to 4.5% per annum), ongoing capital expenditure, tenant retention profile, and lease renewal fees. Where relevant, valuers have used a combination of the capitalisation and discounted cash flow approach when assessing the Group's investment properties.

For vacant land - the market comparison approach which involves the analysis of the comparable sales evidence on a rate per square metre of land area, making adjustments for any varying points of difference in order to assess an appropriate market value. The valuation takes into account current zoning, approved uses and the potential for a higher use/zoning.

The approaches for the valuation of the Group's investment properties are classified as Level 3 as the fair value is estimated using inputs that are not based on observable market data.

Valuation approach	Valuation technique non-market observable inputs (Level 3)
	\$'000
Capitalisation and discounted cash flow	52,943
Market comparison	23,840
	76,783

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

**NOTE 13  
INVESTMENT PROPERTIES (CONTINUED)****Assets pledged as security**

Included in the balances of investment properties are assets over which first mortgages have been granted as security over bank loans (refer note 19). The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder. The mortgage also requires investment properties that form part of the security to be fully insured at all times.

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
The carrying values of assets pledged as security are:		
Investment properties	27,110	26,948

**Reconciliations of the carrying amounts**

Land and buildings		
Carrying amount at beginning	26,547	17,292
Additions	144	9,598
Depreciation expense	(425)	(343)
Total carrying amount	26,266	26,547
Net investment property classified as held for sale	(3,763)	-
	(22,503)	26,547
Improvements		
Carrying amount at beginning	2,138	1,831
Additions	714	517
Depreciation expense	(215)	(210)
Total carrying amount	2,637	2,138
Total carrying amount of investment properties	25,140	28,685

**NOTE 14  
GOODWILL**

Goodwill at cost	1,299	1,299
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**(a) Carrying amount of goodwill, allocated to each of the cash generating units**

	Automotive Leather	Investment Properties	Total
Consolidated	\$'000	\$'000	\$'000
2015	1,215	84	1,299
2014	1,215	84	1,299

Goodwill is not amortised but is subject to impairment testing.

**(b) Impairment testing of goodwill**

Goodwill acquired through business combinations has been allocated to two individual cash generating units, which are reportable segments, for impairment testing as follows:

- Automotive Leather
- Investment Property

**Automotive Leather**

The recoverable amount of the Leather unit has been determined based on a value in use calculation using both historical performance and future cash flow projections based on budgets approved by senior management.

In the opinion of management, the goodwill is typically supported by less than one year's trading from Howe Automotive hence discounting is not necessary.

**Investment Property**

The recoverable amount of the Investment Property portfolio has been determined based on a fair value less costs of disposal, supported by independent property valuations of the underlying properties, which are typically reviewed at least every three years (refer to note 13).

**NOTE 14  
GOODWILL (CONTINUED)****(c) Movement of Goodwill**

	Note	<b>Consolidated</b>	
		<b>2015</b>	<b>2014</b>
		<b>\$'000</b>	<b>\$'000</b>
Balance at the beginning of the financial period		1,299	4,995
Impairment of Building Products goodwill		-	(3,696)
<b>Balance at end of the financial period</b>		<b>1,299</b>	<b>1,299</b>

**NOTE 15  
OTHER FINANCIAL ASSETS  
(NON CURRENT)**

Available for sale investments at fair value			
Units and shares in property investments	(a)	3,532	2,020

(a) Available-for-sale investments consist of units in four property unit trusts, and shares in an unlisted residential land development company, each with no fixed rate of return. Fair value of the units and shares is determined by the calculation of the Group's percentage ownership multiplied by the total net assets of the unit trust or company at fair value.

		<b>Consolidated</b>	
		<b>2015</b>	<b>2014</b>
		<b>\$'000</b>	<b>\$'000</b>
	Note		

**NOTE 16  
TRADE AND OTHER  
PAYABLES (CURRENT)**

Trade creditors		29,503	19,756
Goods and services tax (net)		292	67
Other creditors		365	397
Amounts due to customers – contract work in progress	8	837	1,015
		<b>30,997</b>	<b>21,235</b>

The carrying value of all trade and other payables approximates their fair values.

Terms and conditions relating to the above financial instruments:

All current payables are non-interest bearing and are normally settled on 30 day terms.

		<b>Consolidated</b>	
		<b>2015</b>	<b>2014</b>
		<b>\$'000</b>	<b>\$'000</b>
	Note		

**NOTE 17  
INTEREST BEARING LOANS AND  
BORROWINGS (CURRENT)**

Lease liability – secured	(b)	765	488
Revolving loan facility – secured	(a)	500	-
Cash advances – secured	(e)	-	3,000
Bank loans – secured	(c)	-	15,319
Government loan – secured	(d)	2,500	2,500
		<b>3,765</b>	<b>21,307</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

**NOTE 17  
INTEREST BEARING LOANS AND BORROWINGS  
(CURRENT) (CONTINUED)**

The fair value of the above is the same as the carrying value.

**(a) Revolving loan facility**

During the financial year, Howe Automotive increased and extended a Revolving Loan facility to a maturity date of 30 September 2017, to be available for working capital requirements. The facility limit is \$16,000,000 and the interest rate is bank bill rate plus a margin. The amount available to draw down is limited to 80% of total working capital of all Howe Automotive subsidiaries, excluding Howe Shanghai, and also excluding all receivables past 30 days overdue, uninsured receivables, and obsolete inventory.

Under the facility agreement, Howe Automotive has granted first priority security up to \$20,000,000 over all of its assets and undertakings, with the exclusion of Howe Shanghai. At 30 June 2015, drawings from this facility amounted to \$11,219,000 (2014 – Nil).

(b) Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 5.25% per annum (2014 – 6.19% per annum).

(c) Bank loans (refer note 19(a)).

(d) Government loan (refer note 19(c)).

(e) Cash advances (refer note 19(d)).

For details of financing facilities available refer to note 19.

	Consolidated	
Note	2015 \$'000	2014 \$'000

**NOTE 18  
PROVISIONS (CURRENT)**

Employee entitlements	26(a)	<b>6,811</b>	6,415
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**NOTE 19  
INTEREST BEARING LOANS AND  
BORROWINGS (NON-CURRENT)**

Lease liability – secured	(b)	<b>989</b>	583
Government loan – secured	(c)	<b>15,000</b>	17,500
Bank loans – secured	(a)	<b>23,375</b>	8,050
Cash advances – secured	(d)	<b>6,250</b>	-
Commercial bills – secured	(e)	<b>6,060</b>	4,650
Revolving loan facility – secured	(f)	<b>10,719</b>	-
		<b>62,393</b>	30,783

The fair value of the above approximates the carrying value.

**NOTE 19  
INTEREST BEARING LOANS AND BORROWINGS  
(NON-CURRENT) (CONTINUED)****(a) Bank loans**

The bank loans are secured by a first registered mortgage over all the assets and undertakings of joint operations. Included in bank loans is the consolidated entity's share of joint operations' borrowings.

Maturity Date	Interest Rate	Group's Share of Loan at 30 June 2015		Carrying Value of Assets pledged as Security \$'000
		Current \$'000	Non-current \$'000	
October 2016	3.90% Variable		<b>7,072</b>	<b>1,546</b>
July 2017	5.70% Variable		<b>984</b>	<b>1,543</b>
December 2017	5.61% Fixed		<b>3,841</b>	<b>2,601</b>
February 2018	3.40% Variable		<b>3,750</b>	
February 2018	4.70% Fixed		<b>3,178</b>	<b>6,230</b>
April 2018	3.39% Variable		<b>3,750</b>	
April 2018	4.75% Fixed		<b>800</b>	<b>3,957</b>
			<b>23,375</b>	<b>15,877</b>

Maturity Date	Interest Rate	Group's Share of Loan at 30 June 2014		Carrying Value of Assets pledged as Security \$'000
		Current \$'000	Non-current \$'000	
December 2014	6.56% Fixed	3,841		2,645
January 2015	4.97% Variable	1,470		
January 2015	6.36% Fixed	2,280		
January 2015	5.70% Fixed	800		3,991
February 2015	5.01% Variable	3,750		
February 2015	5.80% Fixed	3,178		6,298
July 2015	5.82% Variable		978	1,545
October 2016	4.41% Variable		7,072	1,518
		<b>15,319</b>	<b>8,050</b>	<b>15,997</b>

**(b) Finance leases**

Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 5.25% per annum (2014 - 6.19% per annum). The lease liability is secured by a charge over the leased assets.

**(c) Government loan**

During the 2012 financial year, the Government of Australia entered into a new Loan Agreement with Howe Automotive Ltd and Howe & Company Pty Ltd, controlled entities of Schaffer Corporation Limited, to the value of \$25,000,000. The loan was drawn down on 1 February 2012 which coincided with the expiry of the previous Government Loan agreements. The loan is repayable in equal instalments over 10 years and is subject to an interest rate of 425 basis points above the indicator rate for 10 year Commonwealth bonds. The loan is secured by a second ranking charge over assets and undertakings of Howe with first ranking security capped at \$20,000,000.

**(d) Cash advances**

The facility has an expiry date of 31 August 2017. The effective interest rate is 3.19% (2014 - 3.74%).

The cash advances are subject to an interest rate of BBSY plus margin.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

**NOTE 19**  
**INTEREST BEARING LOANS AND BORROWINGS**  
**(NON-CURRENT) (CONTINUED)**
**(e) Commercial bills**

During the 2014 financial year, the Group established a commercial bill facility to fund the acquisition of an investment property by the Gosh Capital division. The facility is 100% secured by the property acquired and has an expiry date of 31 December 2019. The effective interest rate is 3.64% (2014 - 4.51%).

**Financing facilities available***Bank overdrafts*

The bank overdrafts are secured by a floating charge over certain of the Group's assets, including its land and buildings.

Subject to the continuance of satisfactory credit ratings, the bank overdraft facilities may be drawn at any time and have an average maturity of 2 years (2014 - 1 year).

Interest is at the rate of 6.82% per annum (2014 - 7.32%).

**(f) Revolving loan facility (refer note 17(a))**

	Note	Consolidated	
		2015 \$'000	2014 \$'000
<i>Financing facilities used and available</i>			
At reporting date, the following financing facilities had been negotiated and were available:			
Total facilities			
- bank overdraft		500	500
- banker's undertakings		9,450	5,885
- cash advances		8,000	8,000
- finance leases		2,743	2,765
- bank loans		23,375	23,369
- revolving loan facility		16,000	7,000
- government loan		17,500	20,000
- commercial bills		6,060	4,650
		<b>83,628</b>	<b>72,169</b>
Facilities used at reporting date			
- bank overdraft		-	-
- banker's undertakings	25(c)	5,234	3,551
- cash advances		6,250	3,000
- finance leases		1,754	1,071
- bank loans		23,375	23,369
- revolving loan facility		11,219	-
- government loan		17,500	20,000
- commercial bills		6,060	4,650
		<b>71,392</b>	<b>55,641</b>
Facilities unused at reporting date			
- bank overdraft		500	500
- banker's undertakings		4,216	2,334
- cash advances		1,750	5,000
- finance leases		989	1,694
- bank loans		-	-
- revolving loan facility		4,781	7,000
- government loan		-	-
- commercial bills		-	-
		<b>12,236</b>	<b>16,528</b>
Total facilities			
Facilities used at reporting date		<b>71,392</b>	<b>55,641</b>
Facilities unused at reporting date		<b>12,236</b>	<b>16,528</b>
		<b>83,628</b>	<b>72,169</b>

The Group has complied with all covenants in relation to the above facilities at all times during the year.

	Note	Consolidated	
		2015 \$'000	2014 \$'000

**NOTE 20**  
**PROVISIONS (NON-CURRENT)**

Employee entitlements	26(a)	<b>1,352</b>	1,425
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**NOTE 21**  
**CONTRIBUTED EQUITY**
**a) Issued and paid up capital**

As at 30 June 2015

14,005,373 ordinary fully paid shares  
(2014 - 14,007,050)

	<b>16,583</b>	16,593
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	2015		2014	
	Number of shares	\$'000	Number of shares	\$'000

**b) Movement in ordinary shares on issue**

At the beginning of the financial year	<b>14,007,050</b>	<b>16,593</b>	14,052,652	16,824
Shares acquired under a share buy-back scheme	<b>(1,677)</b>	<b>(10)</b>	(45,602)	(231)
At the end of the financial year	<b>14,005,373</b>	<b>16,583</b>	14,007,050	16,593

For details of movement in options and details of employee share options plan refer to note 24 and 26.

**(c) Terms and conditions of contributed equity***Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

*Share options*

The Company has a share-based payment option scheme under which options to subscribe for the company's shares have been granted to certain executives and other employees (refer note 26).

The share option holders carry no rights to dividends and no voting rights

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

NOTE 22  
RESERVES AND RETAINED PROFITS

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Reserves</b>		
Asset revaluation	2,585	2,585
Share-based payment – EPU's	648	585
Share-based payment – SFC options	115	115
Net unrealised gains reserve	18	38
Foreign currency translation reserve	(233)	(1,168)
	<b>3,133</b>	<b>2,155</b>

## Nature and purpose of reserve

## Asset revaluation

The asset revaluation reserve was used to record increments and decrements in the value of non-current assets prior to the adoption of Australian Equivalents to International Reporting Standards with effect from 1 July 2005. Currently the accounting policy is to record all assets at cost. The reserve can be used to pay dividends in limited circumstances.

## Share-based payment – EPU's

This reserve is used to record the value of EPU's provided to employees and directors as part of their remuneration. Refer to note 26(c) for further details of this plan.

## Share-based payment – SFC options

This reserve represents the amount expensed for the value of options issued. Refer to note 26(b) for further details of this plan.

## Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## Net unrealised gains reserve

The net unrealised gains reserve is used to record increments and decrements in the fair value of available-for-sale investments net of tax.

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Retained profits</b>		
Balance 1 July	48,300	45,478
Net profit attributable to members of the parent entity	3,531	6,188
Dividends provided for or paid	(3,501)	(3,366)
Balance 30 June	<b>48,330</b>	<b>48,300</b>

	Consolidated	
	2015 \$	2015 \$

NOTE 23  
AUDITORS REMUNERATION

Amounts received or due and receivable by Ernst & Young (Australia) for an audit or review of the financial report of the parent and any other entity in the consolidated group.

	190,962	185,400
Other services – tax compliance, research and development claims.	116,345	108,832
	<b>307,307</b>	<b>294,232</b>

Amounts received or due and receivable by non-Ernst & Young audit firms for audit services.

	41,533	36,860
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NOTE 24  
DIRECTORS AND EXECUTIVES DISCLOSURES

## (a) Details of Key Management Personnel (KMP)

- (i) Remuneration of Key Management Personnel  
Refer to Remuneration Report in the Directors' Report
- (ii) Remuneration by category: Key Management Personnel

	Consolidated	
	2015 \$	2014 \$
Short term	3,025,595	3,347,014
Post employment	230,365	243,535
Long term incentives	49,318	22,209
Share based payments	3,476	8,857
	<b>3,308,754</b>	<b>3,621,615</b>

## (b) Option holdings of Key Management Personnel

## 30 June 2015

No options are currently held by key management personnel.

## 30 June 2014

No options are currently held by key management personnel.

Change in directors' shareholdings is the result of on or off market transactions.

There have been no other transactions concerning shares between entities in the reporting entity and directors of the reporting entity or their director related entities.

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

NOTE 25  
CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS

## (a) Commitments under lease agreements

The Group has entered into commercial leases on certain motor vehicles and also office, factory and retail premises. These leases have a life of between 1 and 10 years with renewal options of between 5 to 10 years included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. In the case of motor vehicles, a fully maintained vehicle is provided.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated	
	2015 \$'000	2014 \$'000
Operating leases – office, factory and retail premises		
– payable not later than 1 year	3,298	3,135
– later than 1 year and not later than 5 years	10,928	7,341
– later than 5 years	6,730	3,367
– aggregate lease expenditure contracted for at balance date	<b>20,956</b>	<b>13,843</b>
Operating leases – motor vehicles		
– payable not later than 1 year	65	63
– later than 1 year and not later than 5 years	71	145
– aggregate lease expenditure contracted for at balance date	<b>136</b>	<b>208</b>

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have a purchase option but no terms of renewal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

**NOTE 25  
CONTINGENT LIABILITIES AND EXPENDITURE  
COMMITMENTS (CONTINUED)**

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the minimum lease payments are as follows:

	Consolidated			
	2015		2014	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	\$'000	\$'000	\$'000	\$'000
Within one year	784	784	533	533
After one year but not more than five years	1,084	1,084	613	613
Total minimum lease payments	1,868	1,868	1,146	1,146
Less amounts representing future finance costs	(114)	(114)	(75)	(75)
Present value of minimum lease payments	1,754	1,754	1,071	1,071

Finance leases have an average lease term of 4 years and an average implicit interest rate of 5.25% per annum. Assets that are the subject of finance leases include motor vehicles and large items of plant and machinery (refer notes 17 and 19).

**(b) Expenditure commitments**

Estimated expenditure contracted for at balance date but not provided for:

	Consolidated	
	2015	2014
	\$'000	\$'000
payable not later than 1 year	4,184	456

**(c) Banker's undertakings**

First mortgages have been registered over the assets and undertakings of controlled entities by banks which have issued performance guarantees to third parties on behalf of the consolidated entity.

The aggregate of the performance guarantees issued by the banks amounted to

	5,234	3,551
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**NOTE 26  
EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS****(a) Employee entitlements and superannuation commitments**

The consolidated entity has established certain defined contribution superannuation plans. Employees contribute to these plans at various percentages of their wages and salaries and the end benefit is determined by accumulation of contributions and earnings of the plans.

The consolidated entity also contributes to the plan, generally at the rate of 9.5% of gross salaries and wages.

These contributions are not legally enforceable other than those payable in terms of a ratified award obligation or to comply with the Superannuation Guarantee Charge.

At balance date the assets of the plans are sufficient to satisfy all accumulated benefits that have vested under the plan in the event of termination of the plan and voluntary or compulsory termination of each employee.

	Note	Consolidated	
		2015	2014
		\$'000	\$'000
The aggregate employee entitlement liability is comprised of:			
Accrued wages, salaries and on costs		162	323
Provisions (current)	18	6,811	6,415
Provisions (non-current)	20	1,352	1,425
		8,325	8,163

The amount of superannuation expense for the year ended 30 June 2015 is \$2,153,000 (2014 - \$2,145,000).

**NOTE 26  
EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS  
(CONTINUED)****(b) Employee share option plan**

An employee share option plan has been established. The plan was approved by shareholders at the Annual General Meeting in November 1999. The plan permits the granting of options (at the absolute discretion of the Board) to Group employees to acquire ordinary shares in Schaffer Corporation Limited. The options issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of Schaffer Corporation Limited. The options cannot be transferred and will not be quoted on the ASX. The number of options which can be issued is limited to 5% of the number of shares on issue.

Options may be exercised as follows:

- during the first 12 months of each option period and including each date of issue, no more than 25% of the options issued to that participant on that date of issue;
- during the period of 24 months from and including each date of issue exercise no more than 50% of the options issued to that participant on that date of issue;
- during the period of 36 months from and including each date of issue exercise no more than 75% of the options issued to that participant on that date of issue;
- after 36 months 100% of the options may be exercised.

Options issued over ordinary shares as part of an employee share scheme are as follows.

There were no options on issue at 30 June 2015 (2014 - Nil). No options were issued during the year ended 30 June 2015 (2014 - Nil).

**(c) Employee participation units**

A controlled entity, Howe Automotive Limited, has established a Howe Automotive Limited shareholder approved employee incentives plan which permits the granting of employee participation units (EPUs) at the discretion of its shareholders' up to an EPU limit. The EPU limit is 10% of the fully diluted share capital of Howe Automotive Limited, which is calculated as if each EPU already issued was deemed to be one issued Howe Automotive Limited share.

An EPU provides an employee with a right to receive a cash payment from Howe Automotive Limited in the following circumstances:

- If an employee dies or becomes permanently disabled at any time after the grant date.
- If an employee ceases employment after the three year initial vesting period.
- Upon a liquidity event (trade sale or listing on an Australian or overseas stock exchange).
- On issue of a compulsory payment notice by Schaffer Corporation Limited.

The amount of the cash payment is dependent on vesting and the financial performance of Howe Automotive Limited (refer to remuneration report for details). The vesting requirements are:

- up to 3 years - nil
- 3 years to 4 years - 33.3%
- 4 years to 5 years - 66.7%
- over 5 years - 100%

Note: Employees are ineligible to receive any payment in the following circumstances:

- termination due to misconduct;
- failure to provide 90 days written notice of intention to terminate employment;
- acting in competition prior to the payment date (payment date is at least 12 months after termination).

The amount of payment is calculated in accordance with an equity valuation formula based on 5.5 times Howe Automotive Limited's earnings before interest and tax minus net debt. The formula uses a three year average including one full year following termination.

Schaffer Corporation Limited has the option to compel the employee to use the whole or part of that cash payment in subscribing for Schaffer Corporation Limited shares based on the average Schaffer Corporation Limited share price for the same three year period

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 26

## EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

EPU Tranche	Issue number	Grant date	Number issued	Number redeemed	Number cancelled	Balance of EPU's outstanding	Balance as a % of Howe's capital	Number vested
Series 1		4 October 2000	3,383,634	(1,883,556)	(958,696)	541,382	0.9%	541,382
Series 2	Issue 1	21 December 2001	2,884,434	(334,209)	(2,003,338)	546,887	0.9%	546,887
	Issue 2	1 July 2002	120,000	-	(60,000)	60,000	0.1%	60,000
	Issue 3	1 July 2003	245,000	(65,000)	(110,000)	70,000	0.1%	70,000
	Issue 4	1 July 2004	57,672	-	(32,672)	25,000	0.0%	25,000
	Issue 5	16 May 2005	150,000	-	(150,000)	-	0.0%	-
	Issue 6	1 July 2005	1,350,000	(250,000)	(500,000)	600,000	1.0%	600,000
	Issue 7	21 August 2006	500,000	-	-	500,000	0.8%	500,000
	Issue 8	1 July 2007	200,000	-	-	200,000	0.3%	200,000
Series 3	Issue 1	1 January 2008	1,150,000	(33,333)	(216,667)	900,000	1.6%	900,000
	Issue 2	1 July 2009	100,000	-	-	100,000	0.2%	100,000
	Issue 3	1 January 2011	250,000	-	-	250,000	0.4%	166,667
	Issue 4	1 July 2013	1,075,000	-	-	1,075,000	1.9%	-
	Issue 5	1 July 2014	200,000	-	-	200,000	0.3%	-
			<b>11,665,740</b>	<b>(2,566,098)</b>	<b>(4,031,373)</b>	<b>5,068,269</b>		<b>3,709,936</b>

During the year 200,000 EPUs were issued and no EPU's were redeemed or cancelled.

The Company has calculated the value at the respective grant dates of all EPUs issued to directors, executives and employees pursuant to the Company's Employee Incentive Plan pursuant to the methodology set out in AASB 2 Share-based Payments. To do this the Company has used the Black-Scholes options valuation method. Inputs into the Black-Scholes model applied include:

- (1) the calculated unit price on the grant date;
- (2) the exercise price of the EPUs;
- (3) the volatility on Howe Automotive Limited shares over the 12 months ended immediately prior to the grant date;
- (4) the options expected life;
- (5) zero dividend yield as EPUs participate in dividends paid by Howe Automotive Limited; and
- (6) the risk-free rate over the life of the option, estimated from the yield of 5 year and 10 year Commonwealth Government Bonds on the grant date, and extrapolating to a 7 year term.

The historical volatility measure of Schaffer Corporation Limited is used in the absence of any exchange-traded options issued by Howe Automotive Limited from which the market's assessment of future volatility can be inferred.

The table below summarises, for each issue made since the plans were instituted, the inputs into the model used this year to assess the options' values.

Grant date	Expiry date (estimated)	Current price	Exercise price	Volatility	Risk free rate (estimated)	Valuation
4 October 2000	4 October 2007	\$0.26	\$0.26	36%	6.16%	\$0.13
20 December 2001	20 December 2008	\$0.33	\$0.26	33%	5.51%	\$0.18
1 July 2002	1 July 2009	\$1.19	\$0.26	33%	5.88%	\$1.02
1 July 2003	1 July 2010	\$1.33	\$0.26	31%	4.83%	\$1.14
15 January 2004	15 January 2011	\$0.90	\$0.26	25%	5.45%	\$0.72
16 May 2005	16 May 2012	\$0.19	\$0.26	40%	5.24%	\$0.08
1 July 2005	1 July 2012	\$0.13	\$0.26	39%	5.06%	\$0.04
21 August 2006	21 August 2013	\$0.00	\$0.26	39%	5.89%	\$0.00
1 July 2007	1 July 2014	\$0.00	\$0.26	24%	6.02%	\$0.00
1 January 2008	1 January 2015	\$0.36	\$0.19	20%	6.50%	\$0.24
1 July 2009	1 July 2016	\$0.37	\$0.19	38%	5.35%	\$0.25
1 January 2011	1 January 2018	\$0.00	\$0.19	38%	5.43%	\$0.00
1 July 2013	1 July 2020	\$0.16	\$0.19	65%	3.43%	\$0.10
1 July 2014	1 July 2021	\$1.08	\$0.19	65%	3.25%	\$0.96

The weighted average fair value of EPU's as at 30 June 2015 was:

Vested	3,709,936	EPU's at 16¢ each
Unvested	1,358,333	EPU's at 9¢ each



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

**NOTE 27  
INTERESTS IN JOINT OPERATIONS***Investment properties*

Schaffer Properties Pty Ltd and Schaffer Corporation Limited have interests in a number of joint operations in Western Australia and Victoria. The main activity of the following joint operations is the acquisition, disposal and leasing of discrete office and commercial properties.

	% Interest	
	2015	2014
The IBM Building Partnership Syndicate	22.10	22.10
"616 St Kilda Joint Venture"	20.00	20.00
Hometown Cannington Property Syndicate	25.00	25.00
Crosslands Property Syndicate	16.70	16.70

*Property developments*

The following joint operations were established for the purposes of redeveloping, constructing and resale of residential and commercial properties in Western Australia.

	% Interest	
	2015	2014
"Mindarie Keys Joint Venture"	-	15.00
Neerabup Syndicate	20.00	20.00

	Consolidated	
	2015	2014
	\$'000	\$'000
The interest in the joint operations is included in the financial statements as follows:		
Cash and cash equivalents	923	777
Trade and other receivables	200	131
Prepayments	495	704
Inventories	58	43
<b>Total current assets</b>	<b>1,676</b>	<b>1,655</b>

The interest in the joint operations is included in the financial statements as follows:

Cash and cash equivalents	923	777
Trade and other receivables	200	131
Prepayments	495	704
Inventories	58	43
<b>Total current assets</b>	<b>1,676</b>	<b>1,655</b>

**Non-current assets**

Investment properties	14,125	14,311
Goodwill	84	84
<b>Total non-current assets</b>	<b>14,209</b>	<b>14,395</b>

**Total assets**

<b>Total assets</b>	<b>15,885</b>	<b>16,050</b>
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**Current liabilities**

Trade and other payables	344	350
Interest bearing loans and borrowings	-	15,319
Derivative financial instruments	313	192
<b>Total current liabilities</b>	<b>657</b>	<b>15,861</b>

**Non-current liabilities**

Interest bearing loans and borrowings	23,375	8,050
Deferred income tax liabilities	219	318
<b>Total non-current liabilities</b>	<b>23,594</b>	<b>8,368</b>

**Total liabilities**

<b>Total liabilities</b>	<b>24,251</b>	<b>24,229</b>
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**Net assets/(liabilities)**

<b>Net assets/(liabilities)</b>	<b>(8,366)</b>	<b>(8,179)</b>
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The joint operations have contributed to the after tax result of the consolidated entity as follows:

Profit after tax	\$750,000	(2014 - \$1,221,000)
Revenue	\$5,962,000	(2014 - \$7,615,000)

There are no contingent liabilities in respect of the joint operations.

The Group's share of joint operations capital expenditure commitments at balance date was nil (2014 - nil)

**NOTE 28  
SEGMENT INFORMATION****Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance in determining the allocations of resources.

The operating segments are identified by management based on the nature of the product and customer supplied, and services provided and the identity of service line manager. Discrete financial information about each of these operating businesses is reported to the executive management team on a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of economic characteristics, the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

The Group comprises the following reportable segments:

The Automotive Leather segment is a manufacturer and supplier of leather in the automotive industries.

The Building Materials segment comprises Delta Corporation Limited and Urbanstone Pty. Ltd. and produces and sells concrete paving, pre-cast and pre-stressed concrete elements and natural and reconstituted limestone products.

The Investment Property segment includes the Group's share of syndicated property investments and the 100% owned investment property of the Group, excluding those investments and property owned by Gosh Capital. The activities of the segment include the leasing of office and retail properties, and the development and sale of property assets.

The Gosh Capital segment manages the assets of the previously operated Gosh Leather business, and invests profits earned from those assets in investment opportunities.

**Major customers**

The Group has a number of major clients to which it provided both products and services. There was one customer within the Automotive Leather segment which individually accounted for more than 10% of Group revenue (2014 - one customer).

**Sales to major customers**

	2015		2014	
	\$'000	% of total revenue	\$'000	% of total revenue
Customer 1	40,703	26%	46,802	29%
Sales to major customers	40,703	26%	46,802	29%
Revenue	157,327		163,697	

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period. There are no inter-segment transactions.

**Allocation of assets**

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

**Business segments**

The following table presents revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2015 and 30 June 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

NOTE 28  
SEGMENT INFORMATION (CONTINUED)

## Business segments

The following table presents revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2015 and 30 June 2014.

	Automotive Leather		Building Materials		Investment Property		Gosh Capital		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Business segment Information</b>										
<b>Revenue</b>										
Total revenue from ordinary activities external customers	101,120	103,459	49,094	51,974	6,043	7,692	1,059	542	157,316	163,667
Unallocated interest and dividend revenue									11	30
Total Revenue									157,327	163,697
<b>Results</b>										
Earnings before goodwill impairment	6,261	15,208	1,376	1,760	2,435	3,131	577	1,407	10,649	21,506
Goodwill Impairment				(3,696)					-	(3,696)
Segment results	6,261	15,208	1,376	(1,936)	2,435	3,131	577	1,407	10,649	17,810
Finance income and dividends									11	29
Finance costs									(3,602)	(3,632)
Corporate overheads									(1,845)	(2,059)
Operating profit before income tax									5,213	12,148
Income tax expense									(1,049)	(4,172)
Profit after tax from continuing operations									4,164	7,976
<b>Assets</b>										
Total segment non-current assets	11,469	10,963	30,641	31,049	17,430	17,495	14,956	13,065	74,496	72,572
Unallocated									1,368	1,326
Total non-current assets									75,864	73,898
Total segment assets	99,060	78,377	48,345	47,557	19,104	19,163	15,403	13,530	181,912	158,627
Unallocated									1,485	1,657
Total assets									183,397	160,284
<b>Liabilities</b>										
Segment liabilities	57,478	41,506	15,754	12,076	24,033	23,912	7,476	6,053	104,741	83,547
Unallocated									2,281	2,184
Total liabilities									107,022	85,731
Other segment information										
Segment capital expenditure	3,068	2,889	1,952	2,751	298	495	557	9,622	5,875	15,757
Unallocated									27	141
Total capital expenditure									5,902	15,898
Segment depreciation and amortisation	2,243	1,961	2,298	2,473	462	472	178	80	5,181	4,986
Unallocated									33	71
Total depreciation and amortisation									5,214	5,057
Other non-cash expenses/(revenues)	1,240	500	119	175	121	62	-	-	1,480	737

Each segment result is a measure of the segment profit from continuing operations before tax and finance costs.

	Consolidated		Non-current assets	Australia	Asia	Europe	Total
	2015	2014					
Unallocated assets and liabilities including the following material items:	\$'000	\$'000	2015	\$'000	\$'000	\$'000	\$'000
<b>Non-current assets</b>							
Plant and equipment				33,611	391	3,587	41,352
Property plant and equipment	769	777	Investment properties	28,903	-	-	25,140
Deferred income tax asset	599	549	Goodwill	1,299	-	-	1,299
	1,368	1,326	Other financial asset	3,532	-	-	3,532
				67,345	391	3,587	71,323
<b>Liabilities</b>							
Trade creditors	276	435	2014				
Income tax (refundable)/payable	-	(158)	Plant and equipment	37,961	419	2,451	40,831
Provision for employee entitlements	2,005	1,907	Investment properties	28,685	-	-	28,685
	2,281	2,184	Goodwill	1,299	-	-	1,299
			Other financial asset	2,020	-	-	2,020
				69,965	419	2,451	72,835

Revenue from external customers by geographical locations is detailed below.

Revenue is attributed to geographic location based on the location of the customers.

Australia	57,728	62,468
Asia	18,315	19,344
Europe	81,284	81,885
Total revenue	157,327	163,697

Non-current assets (excluding deferred tax assets) by geographic location comprise:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 29

## RELATED PARTY DISCLOSURES

The following related party transactions occurred during the financial year within the consolidated entity.

## (a) Transactions with related parties

Schaffer Corporation Limited holds 83.17% (2014 - 83.17%) of the share capital of Howe Automotive Limited of which Mr J M Schaffer and Mr A K Mayer are Directors. Dividends were received during the year amounting to Nil (2014 - \$1,020,500).

## (b) EPU holdings of Key Management Personnel

30 June 2015						Vested as at 30 June 2015	
Directors / Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested	Not vested
N Filipovic	1,320,627	-	-	-	1,320,627	1,170,627	150,000
Total	1,320,627	-	-	-	1,320,627	1,170,627	150,000

30 June 2014						Vested as at 30 June 2014	
Directors / executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested	Not vested
N Filipovic	1,170,627	150,000	-	-	1,320,627	1,170,627	150,000
Total	1,170,627	150,000	-	-	1,320,627	1,170,627	150,000

For details of terms and conditions for each grant refer to note 26.

<b>2015</b>	<b>2014</b>
<b>\$'000</b>	<b>\$'000</b>

## NOTE 30

## NON-CONTROLLING INTEREST

Reconciliation of non-controlling interest in controlled entities:

At 1 July 2014	7,505	5,931
- Add share of operating profit/(loss)	633	1,788
- Share of foreign currency translation reserve movement	190	(10)
- Share of unrealised gains reserve movement	2	2
- Dividends paid (refer note 11)	-	(206)
At 30 June 2015	<b>8,330</b>	<b>7,505</b>

## NOTE 31

## EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year (in cents).

	25.2¢	44.1¢
Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares (in cents).	25.2¢	44.1¢
	<b>\$'000</b>	<b>\$'000</b>

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

Net profit attributable to ordinary equity holders of the parent from continuing operations	3,531	6,188
	<b>Number of Shares 2015</b>	<b>Number of Shares 2014</b>
Weighted average number of ordinary shares for basic earnings per share	14,005,612	14,018,074
Weighted average number of ordinary shares adjusted for the effect of dilution	14,005,612	14,018,074

There have been no other transactions involving ordinary shares.

## NOTE 32

## FINANCIAL INSTRUMENTS

## Financial risk management, objectives and policies

The Group's financial instruments comprise bank loans, commonwealth government loans and overdrafts, finance leases and hire purchase contracts, foreign exchange contracts, interest rate swaps, cash and short-term deposits, trade and other payables, and trade and other receivables.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally interest rate swaps, and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. Trading in derivatives has also been undertaken, specifically in forward currency contracts. These derivatives do not qualify for hedge accounting and are based on limits set by the Board. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed.

These include monitoring by the Board of levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

## (a) Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The \$17,500,000 loan from the Commonwealth Government to Howe Automotive Limited attracts interest at 4.25% above the long-term bond rate. This is set until maturity in February 2022.

In respect of the Group's syndicated property borrowings, the funding and interest rate decision are managed externally by unanimous consent amongst the joint operators (refer note 33(ii)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

At balance date the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated cash flow hedges:

	Consolidated	
	2015	2014
	\$'000	\$'000
<b>Financial Assets</b>		
Cash and short-term deposits	4,192	14,583
	<b>4,192</b>	<b>14,583</b>
<b>Financial Liabilities</b>		
Bank loans	(15,556)	(13,270)
Cash advances	(6,250)	(3,000)
Commercial bills	(6,060)	(4,650)
Government loan	(17,500)	(20,000)
Revolving Loan	(11,219)	-
	<b>(56,585)</b>	<b>(40,920)</b>
Net exposure	<b>(52,393)</b>	<b>(26,337)</b>

Cash not required immediately is used to either reduce cash advances or invested on the short term money market.

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. At 30 June 2015 approximately 14.3% of the Group's borrowings are at a fixed rate of interest (2014 – 21.4%).

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date. At 30 June 2015, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	2015	2014
	\$'000	\$'000
Judgements of reasonably possible movements:		
<b>CONSOLIDATED</b>		
+0.25 (25 basis points)	(92)	(46)
-0.25 (25 basis points)	92	46

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity is higher in 2015 than 2014 because of the maturity of interest rate swaps on bank loans, an increase in variable rated cash advances, variable rated commercial bills and variable rated revolving loans

For 2014 the sensitivity was based on an increase/decrease of 25 basis points as management felt at this time there would not be any large movement in interest rates in the current year.

For 2015 the sensitivity has been based on an increase/decrease of 25 basis points and this is management's best estimate of movement in interest rates in the forthcoming year.

## (b) Assets pledged as security

The carrying amount of assets pledged as security for current and non-current interest bearing liabilities are:

		Consolidated	
	Note	2015	2014
		\$'000	\$'000
<b>Current</b>			
<i>Floating charges</i>			
Cash and cash equivalent	4	4,156	14,550
Receivables	7	30,208	22,585
Inventories	8	69,838	47,425
Other financial assets		-	60
Total current assets pledged as security		<b>104,202</b>	<b>84,620</b>
<b>Non-current</b>			
<i>First mortgages</i>			
Freehold land and buildings	12	14,754	15,135
Investment properties	13	27,110	26,948
Leasehold quarries	12	4,920	4,946
		<b>46,784</b>	<b>47,029</b>
<i>Finance leases and hire purchases</i>			
Plant and equipment	12	2,894	1,854
<i>Floating charges</i>			
Plant and equipment	12	18,393	18,482
Leasehold improvements	12	391	414
Total non-current assets pledged as security		<b>18,784</b>	<b>18,896</b>

The terms and conditions relating to the financial assets are as follows:

Cash and cash equivalents, inventories, receivables, freehold land and buildings, available-for-sale financial assets, held-to-maturity investments, and plant and equipment are pledged against the bank overdraft facility, cash advance facility and revolving loan facility on an ongoing floating basis (refer notes 17 and 19 for more details).

Investment properties are pledged as security for bank loans (refer note 19(a)) and commercial bills (refer note 19(e)).

## (c) Net fair values

Foreign exchange contracts, available for sale investments, and interest rate swaps are carried on the balance sheet at fair value.

The carrying values of all other financial assets and liabilities have been recognised at the balance date at amounts which approximate fair value.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of the financial instruments carried at fair value, as well as the methods used to estimate the fair value, are summarised in the table below:

	Quoted market price (Level 1)	Valuation technique market observable inputs (Level 2)	Valuation technique non-market observable inputs (Level 3)	Total
	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2015</b>				
<b>Consolidated</b>				
<b>Financial Assets</b>				
Available-for-sale Investments				
Unlisted investments	-	-	3,532	3,532
Derivative instruments				
Foreign exchange contracts	-	1,636	-	1,636
	-	1,636	3,532	5,168
<b>Financial liabilities</b>				
Derivative instruments				
Interest rate swaps	-	313	-	313
<b>Year ended 30 June 2014</b>				
<b>Consolidated</b>				
<b>Financial Assets</b>				
Available-for-sale Investments				
Listed investments	60	-	-	60
Unlisted investments	-	-	2,020	2,020
	60	-	2,020	2,080
<b>Financial liabilities</b>				
Derivative instruments				
Interest rate swaps	-	192	-	192

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For unlisted investments the fair value is determined by the calculation of the Group's percentage ownership in the investment entity multiplied by the total net assets of the investment entity at fair value (refer note 15).

**Reconciliation of the fair value measurement of unlisted investments**

	\$'000
Balance as at 1 July 2014	2,020
Purchase of units in unlisted unit trusts	1,500
Re-measurement recognised in other comprehensive income	12
<b>Balance as at 30 June 2015</b>	<b>3,532</b>

**(d) Credit risk exposures**

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the Group and arises from cash and cash equivalents, derivative financial instruments and deposits with financial institutions and particularly from credit exposures to customers relating to outstanding receivables.

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the Consolidated Statement of Financial Position.

**Concentrations of credit risk**

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers within the specified industries both within Australia and overseas.

The consolidated entity minimises concentration of credit risk in relation to cash by investing only in reputable banking facilities.

Refer also to note 28 – Segment Information.

Concentration of credit risk on trade receivables arises in the following industry:

	Maximum credit risk exposure			
	Consolidated			
	Trade debtors		Trade debtors	
	2015	2014	2015	2014
	%	%	\$'000	\$'000
Industry				
Automotive leather	76	71	20,695	10,768
Building materials	24	29	6,380	4,505
<b>Total</b>	<b>100</b>	<b>100</b>	<b>27,075</b>	<b>15,273</b>

There are no trade debtors held in the parent entity.

Credit risk in trade receivables is managed in the following ways:

**Automotive Leather and Building Materials**

The Group has a credit policy, approved by the Chief Financial Officer that is designed to ensure that consistent processes are in place throughout the Group to measure and control credit risk. Credit risk is considered as part of the risk-reward balance of doing business. On entering into any business contract the extent to which the arrangement exposes the Group to credit risk is considered. Key requirements of the policy are formal delegated authorities to the divisional accountant to incur credit risk to a specialised credit function to set counterparty limits; the establishment of credit systems and processes to ensure that counterparties are rated and limits set; and systems to monitor exposure against limited and report regularly on those exposures, and immediately on any excesses, and to track and report credit losses.

Before trading with a new counterparty can start, its creditworthiness is assessed by referring to a credit reporting agency. The assessment process takes into account all available qualitative and quantitative information about the counterparty and the Group, if any, to which the counterparty belongs. The counterparty's business activities, financial resources and business risk management processes are taken into account in the assessment, to the extent that this information is publicly available or otherwise disclosed to the Group by the counterparty, together with external credit ratings, if any. Creditworthiness continues to be evaluated after transactions have been initiated and a watch list of higher-risk counterparties is maintained. Once assessment is complete each counter-party is allocated a maximum exposure limit.

A balance is maintained of providing sufficient credit so as not to jeopardise potential sales but at the same time not put the company to undue risk. In addition, the Leather division purchases insurance to cover the estimated credit risk exposure of the division's individual debtors.

**Property subdivision**

Amounts outstanding represent unconditional sales but are subject to completion of the project or the issue of Certificate of Title. Title does not pass to the purchaser until payment is received in full.

The maximum credit risk exposure for the Group does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. The only security provided is in the form of director's personal guarantees from debtors, which cannot be quantified due to the continual changing circumstances of the guarantee provider.

At 30 June the ageing analysis of trade receivables is as follows:

	Consolidated	
	2015	2014
	\$'000	\$'000
<b>Trade receivables at 30 June</b>		
Neither impaired nor past due – 30 days or less	15,638	10,768
Not impaired and past due in the following periods:		
31 to 60 days	9,213	6,578
61 to 90 days	923	1,220
Over 90 days	1,301	505
Impaired debtors over 90 days	(309)	(136)
	<b>26,766</b>	<b>18,935</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)

## (e) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group's liquidity is managed centrally with operating units forecasting their cash and currency requirements. Unless restricted by location regulations, subsidiaries pool their cash surpluses which can be used to fund other subsidiaries' requirements or invest any net surplus in the market or arrange for necessary external borrowings, while managing the Group's overall net currency positions.

In managing its liquidity risk, the Group has access to a wide range of funding at competitive rates through capital markets and banks. The Group centrally co-ordinates relationships with banks, borrowing requirements, foreign exchange requirements and cash management. The Group believes it has access to sufficient funding through the commercial paper markets and by using undrawn committed borrowing facilities to meet foreseeable borrowing requirements.

Prudent liquidity risk management implies maintaining sufficient, cash and marketable securities, as well as the availability of funding through an adequate amount of committed credit facilities to meet expected future payment liabilities. The Group's liquidity management plan includes the preparation of annual cash flow forecasts, which are updated monthly, and the establishment and maintenance of adequate credit facilities to meet all expected future cash liabilities identified in these cash flow forecasts.

At 30 June 2015 the Group has the following undrawn borrowing facilities available (refer note 19).

	2015		2014	
	\$'000	Expiry	\$'000	Expiry
<i>Australian Banks</i>				
Bank overdraft	500	2015	500	2014
Bankers' undertaking	4,216	2015/17	2,334	2014
Cash advances	1,750	2017	5,000	2014
Finance leases	989	2017	1,694	2014
<i>Global Finance Company</i>				
Revolving loan facility	4,781	2017	7,000	2015
	<u>12,236</u>		<u>16,528</u>	

In addition, there are the following banker's undertakings issued at 30 June 2015 (refer note 19).

Performance guarantees to third parties (refer note 25(c))	1,422	< 1 year	2,926	< 1 year
	<u>3,812</u>	> 1 year	<u>625</u>	> 1 year
	<u>5,234</u>		<u>3,551</u>	

The table below shows the timing of cash outflows relating to trade and other payables. The amounts shown for bank loans in the table below include interest payments resulting from recognised financial liabilities over the term of the loan and the future minimum lease payments with respect to finance leases. Derivative financial instruments consist of interest rate swaps (refer note 33(ii))

Cash advances and commercial bills are shown in the period when the facility expires.

Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at balance date.

## Consolidated

	Trade and other payables	Finance leases	Cash advances	Commercial bills	Bank loans	Government loan	Revolving loan	Derivative financial instruments
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2015</b>								
Within 1 year	30,997	784	199	239	856	3,778	724	132
1 to 2 years	-	676	199	239	7,746	3,595	3,214	132
2 to 3 years	-	401	6,284	239	16,665	3,413	7,758	115
3 to 4 years	-	7	-	6,420	-	3,230	-	44
4 to 5 years	-	-	-	-	-	3,048	-	-
Over 5 years	-	-	-	-	-	5,548	-	-
	<u>30,997</u>	<u>1,868</u>	<u>6,682</u>	<u>7,137</u>	<u>25,267</u>	<u>22,611</u>	<u>11,696</u>	<u>423</u>
<b>2014</b>								
Within 1 year	21,235	533	3,023	210	16,149	4,058	-	112
1 to 2 years	-	309	-	210	1,234	3,863	-	88
2 to 3 years	-	272	-	210	7,178	3,669	-	88
3 to 4 years	-	32	-	210	-	3,474	-	78
4 to 5 years	-	-	-	4,756	-	3,279	-	31
Over 5 years	-	-	-	-	-	8,669	-	-
	<u>21,235</u>	<u>1,146</u>	<u>3,023</u>	<u>5,596</u>	<u>24,561</u>	<u>27,012</u>	<u>-</u>	<u>397</u>

Debt associated with Automotive Leather, Investment Property, and Gosh Capital divisions represents 89% (2014 - 93%) of Group borrowings. At 30 June, 83% (2014 - 86%) of Group debt was non-recourse to the Parent.

\$17,500,000 of Group debt is by way of a Commonwealth Government Loan to Howe Automotive Limited. The loan terms require 10 principal repayments of \$2,500,000 per annum commencing February 2012. The Government loan is non-recourse to the Parent.

Debt associated with the Investment Property division totals \$23,375,000 at 30 June 2015 (2014 - \$23,369,000). SFC's minority property interests are managed external to the Group. Accordingly SFC does not control the funding structure. SFC's objective is for property borrowing to predominantly be non-recourse to SFC. At 30 June 2015, 84% (2014 - 84%) of the property borrowings were non-recourse to the Parent.

## (f) Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, RMB and EUR. Foreign exchange risk arises from commercial transactions for the purchase of unfinished leather hides, and the processing, finishing and cutting of these hides, as well as foreign exchange risk from the sale of leather products in USD, EUR and RMB.

Approximately 97% of the Automotive Leather division's sales are denominated in foreign currencies, consistent with the operating unit making the sale, whilst approximately 81% of costs are denominated in foreign currencies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

To manage the foreign exchange risk arising from future commercial transactions the entity regularly considers the use of forward foreign exchange contracts, with reference to currency exposure levels, sensitivity, and financial capacity to tolerate rate fluctuations. The foreign exchange risk management policy allows up to 50% of net future foreign exchange exposure to the USD and EUR to be managed using forward foreign exchange contracts, up to a rolling 12 month basis.

## Consolidated (AUD)

2015	2014
\$'000	\$'000

At 30 June 2015 the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

## Financial assets

Cash and cash equivalents	86	1,008
Trade and other receivables	943	12
Forward rate agreements	31,678	-
	<u>32,707</u>	<u>1,020</u>

## Financial liabilities

Trade and other payables	(19,547)	(8,064)
	<u>(19,547)</u>	<u>(8,064)</u>
Net exposure	<u>13,160</u>	<u>(7,044)</u>

At 30 June 2015 the Group had the following exposure to EUR foreign currency that is not designated in cash flow hedges:

## Financial assets

Cash and cash equivalents	756	3,620
Trade and other receivables	18,138	12,765
	<u>18,894</u>	<u>16,385</u>

## Financial liabilities

Trade and other payables	(3,876)	(3,023)
Revolving loan	(11,219)	-
Forward rate agreements	(33,271)	-
	<u>(48,366)</u>	<u>(3,023)</u>
Net exposure	<u>(29,472)</u>	<u>13,362</u>

At 30 June 2015 the Group had the following exposure to RMB foreign currency that is not designated in cash flow hedges.

## Financial assets

Cash and cash equivalents	307	2,552
Trade and other receivables	3,481	2,930
	<u>3,788</u>	<u>5,482</u>

## Financial liabilities

Trade and other payables	(777)	(1,417)
	<u>(777)</u>	<u>(1,417)</u>
Net exposure	<u>3,011</u>	<u>4,065</u>

At 30 June 2015 the Group had the following exposure to HKD foreign currency that is not designated in cash flow hedges.

## Financial assets

Cash and cash equivalents	7	1
---------------------------	---	---

## Financial liabilities

Trade and other payables	(17)	(3)
Net exposure	<u>(10)</u>	<u>(2)</u>

At 30 June 2015 had the Australian dollar moved as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

## Judgments of reasonably possible movements

	Change in foreign exchange rate		Effect on profit after tax	
	2015	2014	2015	2014
			\$'000	\$'000
<b>Consolidated</b>				
AUD/USD	US\$0.09	US\$0.09	(969)	429
AUD/USD	(US\$0.09)	(US\$0.09)	1,227	(520)

Sensitivity has reversed and increased due to Forward Exchange Contracts entered into to partially offset the impact of future foreign exchange movements on the AUD value of our net USD imports.

AUD/EUR	€0.07	€0.07	1,900	(861)
AUD/EUR	(€0.07)	(€0.07)	(2,329)	1,055

Sensitivity has reversed and increased due to Forward Exchange Contracts entered into to partially offset the impact of future foreign exchange movements on the AUD value of our net EUR exports.

AUD/RMB	¥0.57	¥0.57	(192)	(254)
AUD/RMB	(¥0.57)	(¥0.57)	236	310

Net RMB financial assets decreased because of a decrease in RMB working capital.

Currency movements used above are what management considers as representative of any likely movement in the next 12 months based on historical movements and economic forecasters' expectations.

Net unhedged foreign currency assets and liabilities:

	USD	EUR	RMB	HKD
	000's	000's	000's	000's
<b>2015</b>				
Cash and bank balances	66	522	1,437	43
Trade and other receivables	722	12,517	16,282	-
Trade and other payables	(14,967)	(2,675)	(3,634)	(102)
Revolving loan	-	(7,742)	-	-
Forward rate agreements	24,256	(22,960)	-	-
Net FX exposure	<u>10,077</u>	<u>(20,338)</u>	<u>14,085</u>	<u>(59)</u>
Year end exchange rates	<u>0.7657</u>	<u>0.6901</u>	<u>4.6771</u>	<u>5.9347</u>
<b>2014</b>				
Cash and bank balances	951	2,500	14,809	6
Trade and other receivables	11	8,817	17,000	-
Trade and other payables	(7,607)	(2,088)	(8,222)	(20)
Net FX exposure	<u>(6,645)</u>	<u>9,229</u>	<u>23,587</u>	<u>(14)</u>
Year end exchange rates	<u>0.9433</u>	<u>0.6907</u>	<u>5.8028</u>	<u>7.3046</u>

## (g) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Group's total capital is defined as Schaffer Corporation Limited's shareholders' funds plus amounts attributable to non-controlling shareholders plus net debt and amounted to \$138,342,000 at 30 June 2015 (2014 - \$112,060,000).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2015

NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Schaffer Corporation Limited does not have a target debt/equity ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

The Group maintains back up liquidity by way of bank overdrafts, cash advance facilities and a revolving loan facility. Facilities undrawn at 30 June 2015 amounted to \$8,237,000 (2014 - \$16,528,000). The Group's committed and standby credit facilities contain financial undertakings relating to interest cover and equity level. A compliance certificate must be produced quarterly attesting to compliance with the covenants.

During 2015, the Company paid dividends of \$3,501,000 (2014 - \$3,366,000). The Board maintains its payout ratio policy of balancing returns to shareholders with the need to fund growth and to maintain financial strength and capacity during uncertain and volatile economic conditions.

In line with that policy, the Company has paid a final dividend of \$0.13 per share (fully franked), bringing the dividends for the 2015 financial year to \$0.25 per share (fully franked).

Management monitor capital through the gearing ratio (net debt/total capital).

The target for the Group's gearing ratio is discussed in note (i) below. The gearing ratios based on continuing operations at 30 June 2014 and 2015 were as follows:

	Consolidated	
	2015	2014
	\$'000	\$'000
Total borrowings*	66,158	52,090
Less cash and cash equivalents	(4,192)	(14,583)
Net debt	61,966	37,507
Total equity	76,376	74,553
Total capital	138,342	112,060
Gearing ratio	45%	33%

\* Includes interest bearing loans and borrowings

The Group is subject to the following capital management requirements imposed by its Bankers.

- Shareholders' funds to be not less than \$45,000,000, or 85% of the Shareholders' funds for the previous financial year, at all times.
- Group debt service cover of no less than 1.2 times reported on a quarterly basis, based on results for the 12 months to the end of each quarter.
- Group interest cover of no less than 2.0 times reported on a quarterly basis, based on results for the 12 months to the end of each quarter.

The Group has complied with the above covenants at all times during the current and previous financial period.

NOTE 33  
DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	2015	2014
	\$'000	\$'000
<b>Current assets</b>		
Forward foreign exchange contracts – classified as held for trading	1,636	-
<b>Current liabilities</b>		
Interest rate swap contracts – classified as held for trading	313	192

## Instruments used by the Group

Derivative financial instruments are occasionally used by the Group in the normal course of business in order to protect exposure to fluctuations in interest and foreign exchange rates.

NOTE 33  
DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(i) Forward currency contracts – classified as held for trading

The Group has the following contracts outstanding at balance date:

	2015	2014	2015	2014
	000's	000's	Average Exchange Rate	Average Exchange Rate
<b>Sell Euro € / Buy US \$</b>				
Maturity 0-12 months	29,639	-	1.1738	-
Sell Euro € / Buy Australian \$				
Maturity 0-12 months	3,801	-	0.6841	-

Such contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in the Consolidated Statement of Comprehensive Income in the period they occur. The net fair value gain on foreign currency derivatives during the year was \$1,636,000 for the Group (2014 - nil).

(ii) Interest Rate Swaps

Interest bearing loans of the Group currently bear an average variable interest rate of 3.77% (2014 - 5.37%). In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 33% (2014 - 43%) of the principal outstanding. The fixed interest rates are from 4.70% to 5.61% (2013 - 5.70% to 6.56%) and the variable rates between 1.70% and 3.00% (2014 - 1.70% and 3.00%) above the 30 day bank bill rate, which at balance date averaged 2.09% (2014 - 2.72%).

At 30 June 2015, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	Consolidated	
	2015	2014
	\$'000	\$'000
0 – 1 years	-	2,280
1 – 2 years	-	-
2 – 3 years	3,853	-
3 – 4 years	3,841	3,978
4 – 5 years	-	3,841
	7,694	10,099

The Group has entered into interest rate swaps which do not satisfy the requirements for hedge accounting.

The fair value of interest rate swaps at 30 June 2015 is a liability of \$313,019 (2014 - \$192,049 liability) which is recorded on the Consolidated Statement of Financial Position.

NOTE 34  
SIGNIFICANT EVENTS AFTER BALANCE DATE

On 4 September 2015, SFC concluded the negotiation on an offer it had received for the sale of its 20% share in the "616 St Kilda Joint Venture". The share in the syndicate was not sold to the interested party.

Following the end of the reporting period, a final fully franked dividend of 13¢ per share to shareholders has been declared payable on 18 September 2015.



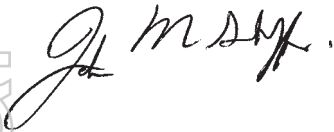
## DIRECTORS' DECLARATION

*year ended 30 June 2015*

In accordance with a resolution of the Directors of Schaffer Corporation Limited, we state that:

1. In the opinion of the Directors:
  - a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
    - ii. complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and
  - c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2015.
3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 11 will be able to meet any obligation or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



**J M Schaffer**  
Chairman and Managing Director  
Perth, 25 September 2015

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INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF SCHAFFER CORPORATION LIMITED  
year ended 30 June 2015



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCHAFFER CORPORATION LIMITED

*Report on the financial report*

We have audited the accompanying financial report of Schaffer Corporation Limited which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101

*Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Director's Report.

*Opinion*

In our opinion:

- (a) the financial report of Schaffer Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in note 2.

*Report on the remuneration report*

We have audited the Remuneration Report included in pages 52 to 56 of the Directors' Report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion the Remuneration Report of Schaffer Corporation Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Darren Lewsen

Partner

Perth

25 September 2015

## DIRECTORS' REPORT

year ended 30 June 2015

### DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2015 made in accordance with a resolution of the Directors.

### DIRECTORS

Details of the Directors of the company during the financial year and up to the date of this report are:

<b>J M SCHAFFER</b> BCom(Hons) FCPA Managing Director Executive Director since 6/9/1972	Mr John Schaffer joined the company in 1972. Mr Schaffer has held the position of Managing Director since 1987.
<b>D E BLAIN, BA</b> Non-executive Director Appointed 5/6/1987	Mrs Danielle Blain joined the company in 1987. Mrs Blain served as Managing Director of Gosh Leather Pty Ltd from 1993 to 2001. Mrs Blain has diverse experience serving on a number of government and not-for-profit boards and is also a past Pro Chancellor of Edith Cowan University.
<b>A K MAYER</b> Executive Director Appointed 21/11/2001	Mr Anton Mayer is the Executive Chairman of Howe Automotive Limited. Mr Mayer has over 45 years of international leather experience, broad business skills and a global business perspective.
<b>M D PERROTT AM</b> BCom FAIM FAICD Independent Director Appointed 23/2/2005	Mr Michael Perrott AM joined the Board as an independent director in February 2005. Mr Perrott AM has over 35 years experience in the construction and contracting industry. During the past three years Mr Perrott AM has also served as a director of the following other listed companies: GME Resources Ltd 21 November 1996 – Current VDM Group Ltd 2 July 2009 – 7 August 2014
<b>D J SCHWARTZ</b> Independent Director Appointed 29/6/1999	Mr David Schwartz joined the Board as an independent director in June 1999. He has over 30 years experience in manufacturing and distribution businesses. During the past three years Mr Schwartz has served as a director of the following listed companies: Clime Investment Management Ltd 1 October 1999 – 28 February 2015 ADG Global Supply Ltd 1 May 2008 - Current

Directors were in office for the entire period unless otherwise stated.

### COMPANY SECRETARY

J M CANTWELL (BBus(Acc) CPA MBA GIA(Cert))  
Mr Jason Cantwell joined the company in 2011 and has over 20 years experience in senior financial management roles within both private and publicly listed companies. Mr Cantwell is a Member of CPA Australia and a Certificated Member of the Governance Institute of Australia.

### ATTENDANCE AT BOARD MEETINGS

During the year, nine directors meetings were held. The number of meetings attended by each director is as follows:

	Meetings eligible to attend	Meetings attended
J M Schaffer	9	9
D E Blain	9	9
A K Mayer	9	8
M D Perrott AM	9	9
D J Schwartz	9	8

In accordance with the Articles of Association:

At the SFC Annual General Meeting scheduled for 18 November 2015, Mr A K Mayer and Mrs D E Blain will retire by rotation and being eligible, will offer themselves for re-election.

### ATTENDANCE AT AUDIT COMMITTEE MEETINGS

During the year, two audit committee meetings were held. Mr D J Schwartz, Mr M D Perrott AM and Mrs D E Blain attended both meetings. All the above committee members are also directors of the company.

### ATTENDANCE AT NOMINATION AND REMUNERATION COMMITTEE MEETINGS

The SFC Board established the Nomination and Remuneration Committee on 23 February 2005. The members of this Board sub-committee are Mrs D E Blain, Mr M D Perrott AM and Mr D J Schwartz. The Nomination and Remuneration Committee held one meeting during the year with all committee members attending.

### INTERESTS IN THE SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

On 25 September 2015 the economic interest of the Directors, including their related parties, in the shares of the Company were:

	Schaffer Corporation Limited	
	Ordinary shares	Options over ordinary shares
J M Schaffer	2,655,927	–
D E Blain	1,562,360	–
A K Mayer	347,185	–
M D Perrott AM	1,000	–
D J Schwartz	585,726	–

### PRINCIPAL ACTIVITIES

The principal activities of the entities within the consolidated entity, in the course of the financial year were automotive leather, paving, concrete and limestone product manufacture, and property investment and leasing.

### RESULTS

The consolidated entity's operating profit after tax for the financial year was a profit of \$4,164,000 (2014 - \$7,976,000).

### OPERATING AND FINANCIAL REVIEW

Please refer to Managing Director's report for details.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors of the consolidated entity there has not arisen during the financial year, or in the interval between the end of the financial year and the date of this report, any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

### DIVIDENDS

The following dividends have been paid or declared by the company since the commencement of the financial year.

Dividends paid for the year ended 30 June 2015:

	\$'000
On ordinary shares	
- 13¢ per share final, paid on 20 September 2014	1,821
- 12¢ per share interim, paid on 21 March 2015	1,680
	<u>3,501</u>
Dividends paid for the year ended 30 June 2014	
On ordinary shares	
- 12¢ per share final, paid on 20 September 2013	1,685
- 12¢ per share interim, paid on 21 March 2014	1,681
	<u>3,366</u>
Not recognised as a liability as at 30 June 2015	
Final franked dividend for 2015 - 13¢ (2014 - 12¢)	<u>1,821</u>

The amount payable for the proposed final dividend may reduce dependant on the further purchase of shares under the current share buy-back scheme prior to the dividend record date.

## DIRECTORS' REPORT

year ended 30 June 2015

### REVIEW OF OPERATIONS

The consolidated entity's revenue from continuing operations decreased by 4% to \$157,327,000 from \$163,697,000 this year. This resulted in a pre tax operating profit from continuing operations of \$5,213,000 compared to \$12,148,000 for last year. The consolidated entity's net profit after tax, excluding non-controlling interests, decreased by 43% to \$3,531,000 from \$6,188,000.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than the discussion of the Company's operations and outlook already set out from pages 1-15 of this Annual Report, the Directors have no further comment to make on likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

Schaffer Corporation Limited is subject to a range of environmental regulations. During the financial year Schaffer Corporation Limited met all reporting requirements under any relevant legislation. There were no incidents which required reporting. The Company aims to continually improve its environmental performance.

### SIGNIFICANT EVENTS AFTER BALANCE DATE

On 4 September 2015, SFC concluded the negotiation on an offer it had received for the sale of its 20% share in the "616 St Kilda Joint Venture". The share in the syndicate was not sold to the interested party.

Following the end of the reporting period, a final fully franked dividend of 13¢ per share has been declared payable on 18 September 2015.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS

During or since the financial year, the company has agreed to indemnify directors against a liability for costs and expenses incurred in defending proceedings brought against them for a liability incurred in their role as directors of the company other than in respect of any wilful misconduct. The total amount of insurance contract premiums paid is not disclosed due to a confidentiality clause within the insurance policy.

### INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

### REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

#### Details of Key Management Personnel

##### Directors

J M Schaffer	Managing Director
D E Blain	Director (non-executive)
A K Mayer	Director (executive)
M D Perrott AM	Director (non-executive/independent)
D J Schwartz	Director (non-executive/independent)

##### Executives

J Cantwell	Group Financial Controller and Company Secretary
M Falconer	Group General Manager, Schaffer Building Products Business Unit
N Filipovic	Managing Director, Howe Automotive Limited
M Perrella	Executive Director, Delta Corporation Limited
J Walsh	General Manager, Delta Corporation Limited

This report outlines the remuneration arrangements in place for directors and executives of the Schaffer Corporation Limited Group of companies.

### Remuneration philosophy

SFC's remuneration policy is directed at attracting, motivating and retaining quality directors and executives. SFC's key internal performance measures at the business unit and consolidated levels are earnings before interest and tax (EBIT) and return on average capital employed (ROACE). EBIT and ROACE have been chosen by the Group as measures of executive performance because they align the interests of management with those of all SFC shareholders.

### Remuneration committee

The SFC Board operates a Nomination and Remuneration Sub-Committee to support and advise the SFC Board in fulfilling its responsibility to shareholders to ensure that the company has remuneration policies and practices which enable it to attract and retain directors and executives who will best contribute towards achieving positive outcomes for shareholders. The committee determines the remuneration and other conditions of service of the chief executive officer and executive directors, if any. The committee makes recommendations to the Board on the remuneration of non-executive directors within the aggregate approved by shareholders in general meeting from time to time. The committee considers individual performance, company performance, internal relativity and fairness in setting levels of remuneration and may seek appropriate independent external advice to assist in its decision making. The structure of non-executive director and executive remuneration are separate and distinct.

### SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

#### Objective

SFC's remuneration policy aims to remunerate executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group.

#### Structure

The remuneration of SFC's senior executive consists of fixed remuneration and variable remuneration (annual and long term incentives). The company aims to reward executives for Company, business unit and individual performance, align executive remuneration with the interests of shareholders, link rewards with the strategic goals such as profitability or return on capital employed and ensure that total remuneration is effective in retaining and motivating senior executives and executive directors.

#### Fixed remuneration

This includes base salary and the statutory Superannuation Guarantee Contribution (SGC) which comprises the cash component, and other non-cash benefits such as a motor vehicle. Where non-cash benefits are elected, it is intended that the cost to the company is not greater than the cost that would otherwise have been incurred had that portion of the salary been provided as cash. The Schaffer Corporation Limited Superannuation Fund is available to executives for superannuation contributions and life insurance. Premiums for life insurance are deducted from member accounts. Executives can elect to have the company contribute superannuation beyond the statutory SGC level by way of a salary sacrifice in lieu of cash salary. Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee in respect of each executive director. The fixed remuneration of executives is reviewed annually by the SFC Managing Director in the case of the Building Materials and Corporate divisions and by the Howe Automotive Limited Managing Director in the case of the Automotive Leather division. The review process considers companywide, business unit and individual performance in the context of any annual change during the preceding twelve month period to the consumer price index and wages cost index as published by the Australian Bureau of Statistics. For the year beginning 1 July 2014, an increase of 3% per annum was applied for Senior Executives.

#### Variable remuneration – Short Term Incentive

The Group has performance-based incentive plans in place at each of its operations in which management and the labour force participate. The level of remuneration payable to participating executives is linked to the financial performance of their business. Executives are provided with cash incentives provided profitability thresholds are met. A summary of the annual incentive schemes for the Automotive Leather, Building Materials and Corporate divisions is provided below:



## DIRECTORS' REPORT

year ended 30 June 2015

### *Automotive Leather Division - Profit Participation Scheme*

Howe Automotive Limited operates a profit participation scheme for the staff and management of the Automotive Leather division. Prior to the commencement of each financial year, the division management submits an annual budget for consideration and approval by the Howe Automotive Limited Managing Director and the SFC Board. The scheme provides for a bonus pool of 5% of actual EBIT, which becomes payable provided actual EBIT exceeds budgeted EBIT and a specified return on capital employed (ROCE) has been achieved as at 30 June balance date. The profit participation bonus is subject to audited financials of each business unit and approval by the shareholders of Howe Automotive Limited. A full year 2015 bonus was not approved (2014 – approved 17 May 2014). Actual EBIT performance versus Budgeted EBIT performance and a threshold ROCE have been chosen as the relevant performance conditions as these performance measures are readily monitored and available and EBIT and ROCE performance aligns the interest of management with those of shareholders. The scheme has been designed to incentivise a wide range of the Automotive Leather division workforce from top executive management to factory floor personnel.

### *Building Materials Division - Management Bonus Incentive Scheme*

The Company operates a Management Bonus Incentive Scheme (MBIS) for the management group of the Building Materials division. Prior to the commencement of each financial year the Building Materials division management submits an annual budget for consideration by SFC's Managing Director and the SFC Board. Upon approval of the budget by the Board, a cash bonus (as a percentage of each participant's fixed remuneration) is payable on a tiered basis provided actual EBIT profitability thresholds are met/exceeded as at 31 December and 30 June balance dates. The MBIS payment for EBIT performance is subject to reviewed/audited financial statements of each business unit and is payable at the discretion of the Managing Director in the following period. Neither a half-year bonus nor full-year bonus were approved for the year ended 30 June 2015 (2014 – half-year approved 31 January 2014, full-year not approved). A bonus is forfeited for a financial year where an employee has ceased employment prior to the end of that financial year. Actual EBIT performance versus Budgeted EBIT performance has been chosen as the relevant performance condition as this performance measure is readily monitored and available, and EBIT performance aligns the interest of management with those of shareholders. The scheme may be discontinued at any time by the SFC Managing Director without prior notice.

### *Corporate – Short Term Incentive Plan*

SFC has implemented a formal Short Term Incentive (STI) Plan for the Group Managing Director and Chief Financial Officer (CFO) approved by the Nomination and Remuneration Committee. These executives can earn a cash bonus with a value of up to 30% of their base annual remuneration, based on actual performance against defined objectives. This equates to a maximum of \$246,081 for the Group Managing Director, and \$60,564 for the CFO, for the year ended 30 June 2015. The minimum possible award for both the Group Managing Director and the CFO is nil. 60% of any STI award is based on financial performance against the annual budget, however no STI bonus is payable if the annual net profit after tax (NPAT) is less than the prior year. The members of the Nomination and Remuneration Committee have the discretion to adjust the NPAT for STI purposes to eliminate the financial impact of "one off" abnormal issues which may positively or negatively affect NPAT, including adjustments related to accounting judgments on factors which may or may not eventuate and that are not reflective of management performance. 40% of any STI award is based on performance against pre-agreed KPI's which are critical to the company's future success. STI awards for the 2015 year were not paid at management's recommendation (2014 – Managing Director 85% of maximum award, CFO 85% of maximum award).

### **Variable remuneration - Long Term Incentive**

Long term incentive grants are typically made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance. Howe Automotive Limited operates the Employee Participation Unit (EPU) Plan for its executives. SFC's senior executives (other than Mr Schaffer and Mr Mayer) can participate in SFC's Employee Share Option Plan (ESOP). The Howe Automotive Limited EPU and SFC ESOP plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders. A summary of the long-term incentive schemes is provided below:

#### *Howe Automotive Limited Employee Participation Units Plan*

Howe Automotive Limited operates an employee incentives plan which permits the granting of employee participation units (EPUs) at the discretion of its shareholders' up to an EPU limit. The EPU limit is 10% of the fully diluted share capital of Howe Automotive Limited, which is calculated as if each EPU already issued was deemed to be one issued Howe Automotive Limited share. Howe Automotive Limited dividends are applied on a fully diluted basis to the unpaid portion of each EPU's until the unpaid portion is reduced to nil. Once fully paid up,

each EPU participates in Howe Automotive Limited dividend payments on a fully diluted basis.

An EPU provides an employee with a right to receive either, at the discretion of SFC, a cash payment from Howe Automotive Limited or shares in SFC in the following circumstances:

- (a) If an employee dies or becomes permanently disabled at any time after the grant date.
- (b) If an employee ceases employment after the three year initial vesting period.
- (c) Upon a liquidity event (trade sale or listing on an Australian or overseas stock exchange).
- (d) On issue of a compulsory payment notice by SFC.

The amount of the payment is dependent on vesting and the financial performance of Howe Automotive Limited. The vesting requirements are:

- (a) up to 3 years – nil
- (b) 3 years to 4 years – 33.3%
- (c) 4 years to 5 years – 66.7%
- (d) over 5 years – 100%

Note: Employees are ineligible to receive any payment in the following circumstances:

- (i) termination due to misconduct.
- (ii) failure to provide 90 days written notice of intention to terminate employment.
- (iii) acting in competition prior to the payment date (payment date is at least 12 months after termination).

The performance hurdle to be eligible for a payment is a positive equity valuation for Howe Automotive Limited. The eligibility and amount of payment is calculated in accordance with an equity valuation formula based on 5.5 times Howe Automotive Limited's earnings before interest and tax minus net debt. The formula uses a three year average including one full year following termination. This formula is designed to incentivise EPU holders in respect of building the long term value of Howe Automotive Limited and provides a fair and readily calculable means for valuing that long term interest.

SFC has the option to compel the employee to use the whole or part of that cash payment in subscribing for SFC shares based on the average SFC share price for the same three year period.

#### *SFC Employee Share Option Plan (ESOP)*

An employee share option plan has been established. The plan was approved by shareholders at the Annual General Meeting in November 1999. The plan permits the granting of options (at the absolute discretion of the Board) to Group employees to acquire ordinary shares in SFC. The options issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of SFC. The options cannot be transferred and will not be quoted on the ASX. The number of options which can be issued is limited to 5% of the number of shares on issue. At the date of this report there were no ESOP options on issue.

Options may be exercised as follows:

- (1) during the first 12 months of each option period and including each date of issue, no more than 25% of the options issued to that participant on that date of issue;
- (2) during the period of 24 months from and including each date of issue exercise no more than 50% of the options issued to that participant on that date of issue; and
- (3) during the period of 36 months from and including each date of issue exercise no more than 75% of the options issued to that participant on that date of issue.

After 36 months 100% of the options may be exercised.

While ESOP contains vesting conditions, the exercising of ESOP options is not dependent on a performance condition because: ESOP options have been issued with an exercise price at or above the share price on the issue date; ESOP options do not participate in dividends; and are not transferable or saleable. Accordingly, ESOP options only provide an economic benefit to the recipient in the event the share price (which adjusts for dividends paid) significantly exceeds the exercise price (which is not adjusted for dividends paid) over the option vesting period thereby aligning the interests of management with those of all shareholders.

There are currently no share options on issue, and no options under this scheme have been granted since 15 July 2003.

## DIRECTORS' REPORT

year ended 30 June 2015

## SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION (CONTINUED)

The following table details the proportion of fixed remuneration and variable remuneration paid for the year ended 30 June 2015 as detailed in this report:

## 2015 Remuneration Structure

	% Fixed	% Variable
<b>Specified Directors</b>		
J M Schaffer	100	-
D E Blain	100	-
A K Mayer	100	-
M D Perrott AM	100	-
D J Schwartz	100	-
<b>Specified Executives</b>		
J Cantwell	100	-
M Falconer	100	-
N Filipovic	100	-
M Perrella	96	4
J Walsh	94	6

## Non-executive Director Remuneration

SFC's non-executive directors receive fees for their services (including statutory superannuation) and the reimbursement of reasonable expenses. The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding that amount is then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting held 19 November 2003 when shareholders approved an aggregate remuneration limit of \$250,000 per annum. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is to be apportioned amongst the non-executive directors is reviewed annually. This limit is not currently fully utilised. The fee pool is payable only to non-executive directors. The amount payable to non-executive directors is set by the Board after having taken regard to the size of the Company and Board, the responsibilities, demands and accountabilities faced by those directors in discharging their duties and after seeking external advice to ensure the fees are in line with market standards. All three non-executive directors are members of the Audit Committee and the Nomination and Remuneration Committee and the fixed annual fee received by non-executive directors is inclusive of these sub-committee commitments. It is current SFC policy that non-executive directors do not receive shares, options or other securities and are not eligible to participate in SFC's Employee Share Option Plan. Payment of fees (including statutory superannuation) and the reimbursement of reasonable expenses are the only remuneration payable to Mrs Blain, Mr Schwartz and Mr Perrott AM.

Non-executive directors appointed prior to July 2003 are entitled to a retirement benefit equivalent to one year's annual director's fees. The retirement benefit was reduced from three years' to one year's annual director's fees in July 2003 (a three year retirement benefit was in place at the time Mrs Blain and Mr Schwartz accepted their appointment to the Board). SFC considers the reduced benefit modest and appropriate given the benefit which historically existed. It is SFC's policy that no retirement benefit apply to new directors appointed after July 2003. It is not a requirement of the Constitution of the Company that directors hold shares in the Company.

## Relationship of Company Performance to Shareholder Wealth

## Total Shareholder Return

Total shareholder return (TSR) is an accepted and understood measure of performance. SFC calculates TSR as follows:

- movement in Share Price (including bonus issues)
- plus Dividends Paid
- plus Dividend Imputation Credits

The chart below itemises the constituents to SFC's TSR by year for each of the past five years. SFC's average TSR for the past five years is 10%.

	Sept 2011	Sept 2012	Sept 2013	Sept 2014	Sept 2015
Tax Rate	30%	30%	30%	30%	30%
Share Price	\$3.26	\$4.05	\$5.06	\$6.00	\$4.81
Ord Dividends	\$0.20	\$0.21	\$0.23	\$0.25	\$0.25
Imputation Credit	\$0.09	\$0.09	\$0.10	\$0.11	\$0.11
<b>TSR</b>	<b>(\$1.30)</b>	<b>\$1.09</b>	<b>\$1.34</b>	<b>\$1.30</b>	<b>(\$0.83)</b>
<b>TSR</b>	<b>(27%)</b>	<b>33%</b>	<b>33%</b>	<b>26%</b>	<b>(14%)</b>

At the date of this report, on an aggregate dollars paid basis, SFC paid to shareholders \$3.5 million fully franked dividends in respect of 2015 and a total of \$16.0 million has been paid in fully franked ordinary and special dividends over the past 5 years.

## Earnings Per Share (EPS)

SFC's average EPS over the past five years has been 42.2¢.

	Year Ended				
	June 2011	June 2012	June 2013	June 2014	June 2015
EPS	34.1¢	53.4¢	54.0¢	44.1¢	25.2¢

## Remuneration of Key Management Personnel for the year ended 30 June 2015

30 June 2015	Short term		Post employment		Long term benefits		Total \$	Performance related
	Salary & fees \$	Cash bonus### \$	Superannuation \$	Termination benefit \$	Long service leave### \$	Share-based payment-EPU's# \$		
<b>Directors</b>								
J M Schaffer	816,541	-	35,000	-	20,256	-	871,797	-
D E Blain	41,680	-	35,000	1,932	-	-	78,612	-
A K Mayer	474,408	-	-	-	-	-	474,408	-
M D Perrott AM	76,680	-	-	-	-	-	76,680	-
D J Schwartz	76,680	-	-	5,918	-	-	82,598	-
<b>Executives</b>								
J Cantwell	186,550	-	17,515	-	3,719	-	207,784	-
M Falconer	464,353	-	35,000	-	9,956	-	509,309	-
N Filipovic	362,571	-	35,000	-	(1,958)	3,476	399,089	-
M Perrella	198,948	10,000	35,000	-	7,265	-	251,213	3.98%
J Walsh	277,184	20,000	30,000	-	10,080	-	337,264	5.93%
	<b>2,975,595</b>	<b>30,000</b>	<b>222,515</b>	<b>7,850</b>	<b>49,318</b>	<b>3,476</b>	<b>3,288,754</b>	

# Includes the value of employee participation units (EPUs) using the Black-Scholes model.

### Cash bonuses for M Perrella and J Walsh approved and paid in August 2014 are not related to the MBIS.

#### Net of long service leave taken during the period.

The amounts included in the table below represent the entire bonus earned by the following Key Management Personnel:

	Percentage paid during the year	Percentage payable subsequent to year end
M Perrella	100%	-
J Walsh	100%	-

The portion of bonus accrued at 30 June 2015 was Nil.

## DIRECTORS' REPORT

year ended 30 June 2015

## SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION (CONTINUED)

The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

Executives are those directly accountable for the operational management and strategic direction of the company and the consolidated entity.

## Remuneration of Key Management Personnel for the year ended 30 June 2014

30 June 2014	Short term		Post employment		Long term benefits		Total \$	Performance related
	Salary & fees \$	Cash bonus \$	Superannuation \$	Termination benefit \$	Long service leave### \$	Share-based payment-EPU's# \$		
<b>Directors</b>								
J M Schaffer	759,094	203,077	35,000	25,206	16,532	-	1,038,909	19.55%
D E Blain	39,447	-	35,000	2,168	-	-	76,615	-
A K Mayer	435,635	-	-	-	-	-	435,635	-
M D Perrott AM	74,447	-	-	-	-	-	74,447	-
D J Schwartz	74,447	-	-	5,244	-	-	79,691	-
<b>Executives</b>								
J Cantwell	189,846	45,657	20,917	-	3,355	-	259,775	19.24%
M Falconer	448,947	-	35,000	-	7,273	-	491,220	-
N Filipovic	387,371	176,589	25,000	-	(18,275)	8,857	579,542	30.47%
M Perrella	188,465	24,455	35,000	-	6,938	-	254,858	9.60%
J Walsh	273,102	26,435	25,000	-	6,386	-	330,923	8.85%
	<b>2,870,801</b>	<b>476,213</b>	<b>210,917</b>	<b>32,618</b>	<b>22,209</b>	<b>8,857</b>	<b>3,621,615</b>	

# Includes the value of employee participation units (EPU's) using the Black-Scholes model.

### Net of long service leave taken during the period.

The amounts included in the table below represent the entire bonus earned by the following Key Management Personnel:

	Percentage paid during the year	Percentage payable subsequent to year end
J M Schaffer	100%	-
J Cantwell	100%	-
N Filipovic	100%	-
M Perrella	100%	-
J Walsh	100%	-

The portion of bonus accrued at 30 June 2014 was Nil.

The following information is provided in relation to s300A(1)(e)(ii) – (vi) of the Corporations Act:

## SHAREHOLDING OF KEY MANAGEMENT PERSONNEL

Economic interests in the shares of Schaffer Corporation Limited held by Directors of the reporting entity and their related parties are as follows:

As at 30 June 2015	Balance at beginning of year	Net change other	Balance at end of year
<b>Specified directors</b>			
D E Blain	1,562,360	-	1,562,360
A K Mayer	347,185	-	347,185
M D Perrott AM	1,000	-	1,000
J M Schaffer	2,655,927	-	2,655,927
D J Schwartz	585,726	-	585,726
<b>Specified executives</b>			
J Cantwell	450	-	450
M Falconer	20,000	-	20,000
M Perrella	59,834	-	59,834
Total	<b>5,232,482</b>	<b>-</b>	<b>5,232,482</b>

## DIRECTORS' REPORT

year ended 30 June 2015

### SHARE OPTIONS

No options were issued or forfeited, vested or exercised during the course of neither the financial year under review nor the preceding year. There are no options currently on issue.

#### EPU's held by Key Management Personnel

##### 30 June 2015

Directors /Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested as at 30 June 2015	
						Vested	Not vested
N Filipovic	1,320,627	-	-	-	1,320,627	1,170,627	150,000
<b>Total</b>	<b>1,320,627</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,320,627</b>	<b>1,170,627</b>	<b>150,000</b>

No EPU's were granted to key management personnel during the year to 30 June 2015. No EPU's held by key management personnel vested during the year.

##### 30 June 2014

Directors /Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested as at 30 June 2014	
						Vested	Not vested
N Filipovic	1,170,627	150,000	-	-	1,320,627	1,170,627	150,000
<b>Total</b>	<b>1,170,627</b>	<b>150,000</b>	<b>-</b>	<b>-</b>	<b>1,320,627</b>	<b>1,170,627</b>	<b>150,000</b>

150,000 EPU's were granted to N Filipovic during the year ended 30 June 2014. The EPU's were granted on 1 July 2013 with an issue price of \$0.19 and a calculated valuation of \$0.10 each using a Black Scholes model with a volatility assumption of 65% and a risk-free rate of 3.43%. No EPU's held by key management personnel vested during the year.

#### Shares issued on exercise of compensation options and EPU's

No shares were issued during the current or previous year.

#### Employment contracts

Mr Schaffer, SFC's Managing Director is employed under a Service Agreement. The service agreement was entered into on 18 July 1984. Mr Schaffer's employment continues until terminated by Mr Schaffer or the Company. Under the terms of the service agreement, the agreement may be terminated by the Company or Mr Schaffer after the expiration of one month's notice in writing given to one of them by the other. Upon termination of this agreement Mr Schaffer is entitled to receive from the Company a lump sum equal to the annual remuneration paid immediately preceding that termination except if the termination is for reasons of gross misconduct, fraud or dishonesty resulting in a material loss or injury to the Company or if Mr Schaffer is found guilty of wilful disobedience or any other conduct resulting in a material prejudice to the Company or such as to bring the Company into disrepute.

Mr Mayer provides management services to the Automotive Leather division pursuant to a Consultancy Agreement. The agreement has been renewed for the period 1 July 2015 to 30 June 2018. The Consultancy Agreement may be terminated sooner:

- by the consultee without prior notice for cause (i.e. wilful misconduct, wilfully wrongful act, gross negligence, criminal act or a prohibition by law in company management);
- by either party for any reason upon 90 days prior written notice to the other party;
- by the consultee 30 days after giving notice of termination to Mr Mayer for reason of his physical or mental incapacity on a permanent basis;
- on the death of Mr Mayer.

The Consultancy Agreement with Mr Mayer does not provide for a termination payment upon termination of the agreement.

All other senior executives are employed under standard employment contracts that define the role, duties, remuneration and benefits, leave entitlements, dismissal and confidentiality of information conditions of employment. Notice periods are typically one month.

### END OF REMUNERATION REPORT

### TAX CONSOLIDATION

Effective 1 July 2003, for purposes of income tax, Schaffer Corporation Limited and its 100% owned subsidiaries have formed a tax consolidated group.

Effective 1 July 2003 for purposes of income tax, Howe Automotive Limited and its 100% owned Australian resident subsidiaries for tax purposes have formed a tax consolidated group.

### ROUNDING

The amount contained in this report and in the financial statements has been rounded to the nearest \$1,000 under the option available to the company under ASIC class order 98/0100.

### CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Schaffer Corporation Limited support the principles contained in the company's corporate governance statement in the corporate governance section of this annual report.

### AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the following declaration from the auditor of Schaffer Corporation Limited



## DIRECTORS' REPORT

year ended 30 June 2015



Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

### AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF SCHAFFER CORPORATION LIMITED

In relation to our audit of the financial report of Schaffer Corporation Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Darren Lewsen  
Partner

Perth  
25 September 2015

### NON-AUDIT SERVICES

The following non-audit services were provided by the entity's Auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance, research and development claims    \$116,345

Signed in accordance with a resolution of the directors.

J M Schaffer  
Chairman and Managing Director  
Perth  
25 September 2015

For personal use only

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2015

ASX Corporate Governance Council issued its third edition of the Corporate Governance Principles and Recommendations on 27 March 2014 with effect from 1 July 2014.

*"Corporate Governance is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. Different entities may legitimately adopt different governance practices, based on a range of factors, including their size, complexity, history and corporate culture." (ASX Corporate Governance Principles and Recommendations, March 2014).*

The Board of SFC is committed to best practice in corporate governance where the Board considers these practices are appropriate and add shareholder value to a company and board of SFC's size and structure.

This Corporate Governance Statement outlines the main corporate governance practices of Schaffer in the context of the Principles adopted by the ASX Corporate Governance Council (Council). Unless otherwise stated below, the Company has complied with the Council's Recommendations.

### LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The strategic control of the business of the Group is vested with the Board. The Board's objective to create, build and sustain shareholder value is carried out in accordance with their duties and obligations to act honestly, fairly, diligently as are imposed upon them by the Constitution, regulatory authorities and ethical standards. Key matters reserved for the Board include the following:

- Approval of the Strategic Business Plan
- Approval of the Annual Budgets
- Review of the operating results and approval of the financial accounts
- Setting the Corporate Governance practices within the Group
- Determining SFC's dividend policies
- Approval of the Group financial policies
- Approval of the Group risk management strategies
- Review of Board nominations and composition
- Determining the terms and conditions for and evaluate the performance of the Managing Director
- Delegation of authority to the Managing Director and senior management on operational matters, or approval of matters in excess of any discretion which may have been delegated from time to time
- Acquisition, establishment, disposal or cessation of any significant business of SFC
- Approving the issue of any securities in SFC
- Approving the capital management strategy of SFC
- Approving the appointment of SFC's External Auditor

The Board has delegated authority for the management of the Group through the Managing Director to executive management. Accordingly the Group's executive management team are charged with implementing Board directives and the day-to-day management and reporting of the Group's activities. The Board has a formal Charter setting out the roles of Board and Management. Consistent with Council Principle 1, the Board Charter has been posted to the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

SFC has written agreements with each director and senior executive setting out the terms of their appointment.

### STRUCTURE THE BOARD TO ADD VALUE

The Schaffer Board currently consists of five directors: two independent; one non-executive; and two executive directors namely the Executive Chairman of the Leather division and the Group Managing Director and Chairman. The Board considers that between them, the directors bring the range of skills, knowledge and experience (both local and international) necessary to successfully direct the Group's operations. SFC undertakes appropriate checks before appointing a person to the Board. SFC provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director

The Board of Directors consists of:

**John Schaffer** *Chairman and Managing Director*

(Age 65)

John joined the Company in 1972 and has held the positions of Managing Director since 1987 and Chairman since 1988. John holds a Bachelor of Commerce degree with honours from the University of Western Australia and is an FCPA.

**Danielle Blain** *Non-executive Director*

(Age 71)

Danielle joined the Board in 1987. Mrs Blain served as a director of Howe Automotive Limited from 1993 to 2005 and as Managing Director of Gosh Leather Pty Ltd (the furniture division) from 1993 to 2001. Mrs Blain holds a Bachelor of Arts degree from the University of Western Australia. Mrs Blain is a member of the Board's Audit Committee and the Nomination and Remuneration Committee.

**Michael Perrott AM** *Independent Director*

(Age 69)

Michael joined the Board as an independent director in February 2005 and is a member of the Board's Audit Committee and the Nomination and Remuneration Committee. Mr Perrott AM has been involved in industries associated with construction, contracting, mining and land development since 1969. He is currently Chairman of GME Resources Limited. Mr Perrott AM is also a member of the Board of Notre Dame University and SANE Australia.

**Anton Mayer** *Executive Director*

(Age 73)

Anton joined the Board in 2001. Anton is the Executive Chairman of Howe Automotive Limited, and held the position of Howe Automotive Limited Managing Director from 1998 to June 2007. Anton is also a director of a number of the Howe Automotive Limited Group subsidiaries. Anton has over 45 years of international leather experience, broad business skills and a global business perspective.

**David Schwartz** *Independent Director*

(Age 61)

David joined the Board in 1999 and is independent Chairman of the Board's Audit Committee and the Nomination and Remuneration Committee. David has many years experience in successfully managing manufacturing and distribution businesses in Australia and South Africa. Mr Schwartz is Chairman of Pascoes Pty Limited and Stefani Pure Water Australasia Pty Limited, and a director of Primewest Management Ltd, Betts Group Pty Ltd and ADG Global Supply Ltd.

The names of Schaffer's current directors, their year of appointment, status as non-executive, executive or independent directors, their economic interest in SFC and whether they retire at the next Annual General Meeting is summarised in the table below.

Director	Year appointed	Classification	Audit Committee	Nomin. & Remun. Committee	Economic Interest in SFC	Retiring at next AGM	Seeking Re-election
J M Schaffer	1972	Chairman/Executive	–	–	19.0%	No	N/A
D E Blain	1987	Non-executive	Member	Member	11.2%	Yes	Yes
A K Mayer	2001	Executive	–	–	2.5%	Yes	Yes
M D Perrott AM	2005	Independent	Member	Member	–	No	N/A
D J Schwartz	1999	Independent	Chairman	Chairman	4.2%	No	N/A

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2015

### BOARD COMMITTEES

The Board may from time to time establish committees where the Board is of the belief that the establishment of such a committee will improve the performance of the Board in accomplishing its duties.

The Board operates an Audit Committee and a Nomination and Remuneration Committee. Both committees comply with Council guidelines. The Charter of each committee is summarised later in this section. Full details of SFC Audit Committee and Nomination and Remuneration Committee can be found on the Company's website. The Board does not believe the Board is of sufficient size to warrant the establishment of additional dedicated Board Committees.

### BOARD MEETINGS

Management provides the Board with information in a form, timeframe and quality that facilitates the Board in effectively discharging its duties. The Board meets at least 8 times per year. Board papers are where possible provided to directors at least four days prior to the relevant meeting. The non-executive Board members are joined at Board meetings by the Group's Managing Director, the Executive Chairman of Howe Automotive Limited and the Company's Chief Financial Officer/ Company Secretary.

### BOARD AND MANAGEMENT EVALUATION

Under the Board Charter, the Chairman is responsible for ensuring that board meetings are conducted competently and ethically and that Directors individually and as a group have opportunities to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and Company. In this context, the Chairman undertakes a continuous review of the performance and contribution of individual Directors, whilst the Board as a whole conducts an ongoing evaluation of its performance and that of its committees.

The Nomination and Remuneration Committee annually assess the performance of the Managing Director. The Managing Director conducts annual reviews of all Senior Executives. Annual reviews were conducted during the reporting period.

Directors are advised of appropriate professional development opportunities to develop and maintain the skills and knowledge needed to perform their roles as Directors effectively.

### DIRECTOR INDEPENDENCE

The Board applies the Council's independence criteria in assessing director independence. Mr Schwartz and Mr Perrott AM are considered by the Board to be independent directors. In analysing Mr Schwartz's independence, the Board considered the materiality of Mr Schwartz's minority interests in the relevant syndicated property interests of the Company. Accordingly the Board confirms Mr Schwartz's independence on the basis that (i) operating revenue from SFC's property interests represents less than 10% of Group revenue; and (ii) no interest held by Mr Schwartz represents a controlling interest in any single property. While the Board considers Mr Schwartz independent for the above reasons, standard Board meeting procedures and governance principles apply whereby in respect of any property business where Mr Schwartz has an interest, Mr Schwartz does not receive the relevant Board papers and does not attend that part of the Board meeting where the matter is being discussed or considered. In addition, the mere fact that Mr Schwartz and Mr Perrott AM have served on the Board for a substantial period does not mean that they have become too close to management to not be considered independent. Mr Schwartz and Mr Perrott AM contribute unbiased and differing ideas and wisdom to the Board generated from their individual and independent experience across numerous other businesses and industries.

Directors classified as not being independent directors are Mrs Blain, Mr Schaffer and Mr Mayer on the basis that:

- Mr Schaffer is an executive director, a substantial shareholder of SFC (with an economic interest of 19.0%) and has served on the Board in since 1972;
- Mrs Blain is a substantial shareholder of SFC (with an economic interest of 11.2%), served as an executive director of Howe from 1993 to 2001 and has served on the SFC Board since 1987; and
- Mr Mayer is an executive director of SFC by virtue of his role as Executive Chairman of Howe Automotive Limited.

The Board does not currently comply with Council guidelines in respect of majority independence, Chairman independence and separation of the Chairman and Managing Director roles. However, the Board is currently of the view that having a competent, cohesive and functioning Board whose members have a balance of practical experience and skills relevant to SFC's business is more beneficial to maximising returns to shareholders than it would be to expand the

Board by an two additional members simply for the purpose of achieving majority independence pursuant to the Council's definition. Further, the Board is not in entire agreement with the definition of independence as defined by the Council's guidelines. In the Board's view, independence is about having individuals on the Board whose interests are directly aligned with shareholders (i.e. they have a significant stake in the company) and have the capability to question and challenge management's decision making process. On this basis your Board is independent. Collectively the Board has a financial interest in approximately 37% of SFC's issued capital representing a large proportion of each director's personal asset base. When the shareholders gain, so does the Board; when shareholders lose, the Board loses significantly.

Similarly, based on the strong alignment of shareholders with the Chairman, it is not considered that having an Independent Chairman and separating the roles of Chairman and Managing Director would add shareholder value at this stage.

As a result of the Company's departure from the Council Recommendations contained in this Principle, governance practices employed by the Board to support its objective and competent operation are:

#### Disclosure of interests and conflicts

A director is required to disclose to all directors any material personal interest they may have, or may reasonably be perceived to have, in a matter which relates to the affairs of the Company. A director is expected to disclose their interest as soon as practicable after the director becomes aware of that interest.

In the event a potential material conflict of interest arises, the director concerned does not receive the relevant Board papers and leaves the Board meeting while the matter is discussed and considered. Directors must keep the Board advised on an ongoing basis of any interests which could cause, or may reasonably be perceived to cause, a conflict with the interests of the Company.

The minutes of the meeting should record the decision taken by those directors who do not have an interest in the matter.

#### Independent legal advice

With the consent of the Chairman, individual directors may seek independent professional advice at the Company's expense on any matter connected with the discharge of their responsibilities. The Chairman requires the submission of a cost estimate by a director in order to establish the reasonableness of the projected fee. The Chairman's consent will not be unreasonably withheld.

#### Period of office

Shareholders are given the opportunity to vote on the composition of the Board such that at each Annual General Meeting, one third of the Directors (excluding the Managing Director) must retire but may stand for re-election. Each director who is required by the Constitution to retire cannot hold office for more than three years without retiring within that time frame and standing for re-election. Any director who is appointed to the Board to fill a casual vacancy during a year may only hold office until the next Annual General Meeting but may stand for re-election at that meeting.

### PROMOTE RESPONSIBLE AND ETHICAL DECISION MAKING

#### Conduct and ethics

The Company operates under a Code of Conduct a copy of which is posted to the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

The Company's Code of Conduct describes how SFC relates to its employees, customers, suppliers, shareholders and the community. SFC is committed to promoting integrity and maintaining the highest standard of ethical conduct in all of its activities.

Our business success is dependent on the development and maintenance of trusting relationships, underpinned by the continuous demonstration of corporate integrity.

The purpose of this Code of Conduct is to provide a common behavioural framework for all SFC personnel which recognises social responsibility, complies with applicable laws and standards, and is in keeping with the spirit and rules of the Australian and international markets in which SFC operates. This Code of Conduct applies to SFC and its controlled affiliates.

SFC's directors and management team lead by example, demonstrating their commitment to this Code of Conduct at all times through their personal behaviour and through guidance provided to our personnel.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2015

### Securities trading policy

SFC's Securities Trading Policy regulates dealing by SFC Directors and senior executives in SFC securities. Restrictions imposed by law on prohibiting anyone dealing in SFC's securities if in possession of unpublished SFC price-sensitive information have been supplemented by Board imposed restrictions specific to SFC Directors and senior executives. Price sensitive information is information a reasonable person would expect to have a material effect on the price or value of SFC securities.

This policy provides that in addition to Directors and senior executives being prohibited from trading in the Company's securities at any time if they possess any unpublished price sensitive information, Directors and senior executives may buy or sell the Company's securities only within limited trading windows.

The periods within which a Director or senior executive may buy or sell SFC securities is:

- from 24 hours to 4 weeks after the Company has made any Scheduled Announcement. A scheduled announcement refers to the announcement by SFC of its (i) results for the half year, (ii) preliminary final year result, (iii) Chairman's Address to the Annual General Meeting;
- from 24 hours to 4 weeks after the Company has made any Unscheduled Announcement. An unscheduled announcement refers to any other announcement of new information made by SFC pursuant to ASX Listing Rule 3.1; and
- during the period when a prospectus for securities is released by SFC until the last day for acceptance of securities issued pursuant to that prospectus.

- SFC Directors and senior executives are prohibited from trading at all other times. For the purposes of clarity, any unscheduled ASX Listing Rule 3.1 announcement made within 4 weeks prior to a Scheduled Announcement does not enable SFC Directors and senior executives to trade SFC securities. The senior executives Group to which these restrictive trading periods apply includes all General Manager personnel at Howe & Company Pty Ltd, UrbanStone Pty Ltd and Delta Corporation Limited, and SFC's Chief Financial Officer/Company Secretary and Group Chief Accountant.

The policy also requires that Directors and senior executives do not buy or sell the Company's securities on a short-term basis.

These rules also apply to trading by a related party of any SFC Director or senior executive. This Policy does not restrict participation by SFC senior executives in SFC's Employee Share Options Plan (ESOP), but applies in respect of the trading of SFC's securities to which plan participants become entitled under the ESOP.

A copy of the Company's Securities Trading Policy can be accessed from the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

### Diversity policy

SFC recognises the benefits to be gained from a variety of skills, backgrounds and experiences being applied to specific work objectives. Therefore, SFC is committed to diversity throughout our workforce.

SFC has established a diversity policy which includes the requirement for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. The copy of the Company's Diversity Policy can be accessed from the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

Our commitment to diversity will be supported by:

**Communication** – SFC will maintain an inclusive workplace culture via the organisation-wide awareness of workplace diversity principles and benefits. Management will ensure ongoing communication of these principles to the workforce.

**Human Resource strategies** – SFC Human Resource strategies and policies including recruitment, promotion and employee development will incorporate diversity principles to encourage a diverse workforce at all levels of the organisation. Where appropriate opportunities exist, and strong candidates are available for recruitment or promotion, diversity will be a consideration.

**Action against inappropriate workplace behaviour** – SFC does not tolerate discrimination, harassment, bullying, victimisation and/or vilification in the workplace. Action will be taken against these types of behaviour that do not value diversity.

**Flexible work practices** – where appropriate, flexible work practices will be accepted to meet the differing needs of a diverse workforce.

The table below outlines the gender diversity objectives established by the Board and the progress against each objective.

Objectives	Progress
Comply with the Workplace Gender Equality Agency Act as determined by the Workplace Gender Equality Agency (WGEA)	Annual compliance notification was received on 23 June 2015 from WGEA.
Ensure reporting systems satisfy the reporting requirements as stipulated by the WGEA	The monthly Board reporting includes statistics on the numbers of each gender represented in senior executive positions and the total workforce at various business units and locations. Reporting systems are established to collate Group-wide information for reporting on the gender equality indicators stipulated by the WGEA
Provide ongoing communication, education and updates on issues related to equal opportunity in the workplace.	Staff memorandums have been distributed and displayed at various SFC business unit locations presenting SFC's policy on diversity, and encouraging contribution and communication on diversity within the workplace.
Implement and revise Business Unit specific diversity plans.	Business Unit specific plans are being continually developed, reviewed and revised according to the specific circumstances of each Business Unit.

At 30 June 2015, women represented 47% of the Group's workforce, 14% of senior executive positions, and 20% of the Board.

Senior executives are defined as general and regional managers, and their direct reports.

## SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Written declaration by management

SFC's Managing Director and CFO report in writing to the Audit Committee that the consolidated financial statements of SFC and its controlled entities for any accounting period are based on a sound system of risk management and present a true and fair view in all material respects of the Group's financial condition and that operational results are in accordance with accounting standards. This statement is in turn supported by written statements provided by the senior management of all subsidiary companies within the Group.

### Audit Committee

The SFC Audit Committee was established by the Board in 1996. The Audit Committee has adopted a formal Charter, a copy of which can be accessed from the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

The Audit Committee's purpose is to provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the company's financial reporting, risk management systems and the external audit functions. In doing so, it is the responsibility of the Audit Committee to maintain free and open communication between the Committee, external auditors and management of the Company.

In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

Council guidelines require the Audit Committee to consist of at least three directors and have an independent Chairperson who is not Chairperson of the Board.

The members of the SFC's Audit Committee are Mr Schwartz (Independent Chairman), Mrs Blain (Non-executive Director) and Mr Perrott AM (Independent Director). Accordingly SFC's Audit Committee complies with the Council's Audit Committee structure guidelines.

## MAKE TIMELY AND BALANCED DISCLOSURE

### Continuous disclosure policy

The Board is committed to ensuring that information that is expected to have a material effect on the price or value of SFC's shares is immediately notified to the ASX for dissemination to the market in accordance with the ASX Listing Rules. The Company's Continuous Disclosure Policy sets out the key obligations of the Board and senior management to ensure that SFC complies with its disclosure obligations pursuant to the ASX Listing Rules and the Corporations Act. In fulfilling its obligations of continuous disclosure SFC has adopted and adheres to the following practices.



## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2015

- SFC's Managing Director and Chief Financial Officer/Company Secretary constitute the executive team charged with management of all elements of the Company's activities. This team is responsible for assessing the materiality of information and drafting all disclosures. For administrative convenience, SFC's Company Secretary is the nominated officer of the Company responsible for communications with the ASX.
- Information is released firstly via electronic means via the ASX. Further dissemination to analysts and investors does not occur until after ASX confirms the information has been released to the market.
- The information is posted to SFC's website at [www.schaffer.com.au](http://www.schaffer.com.au) in order to make the information accessible to the widest audience. Investor information is posted to an area on SFC's website separate from any promotional material about the Company or its products.
- SFC's Managing Director and Chief Financial Officer, and Howe Automotive Limited's Executive Directors are the officers authorised to speak on SFC's behalf at investor briefings and to the media. These officers understand that when speaking on behalf of the Company it is in respect of explanation and clarification of information previously released via the ASX. As these officers have knowledge of all information previously released to the ASX (they form part of the executive team responsible for the information disclosures), the risk of inadvertent disclosure of price sensitive information when speaking to investor briefings and the media is minimised. Presentations used in briefings which may have content which would trigger a continuous disclosure obligation are lodged with ASX prior to the briefing. All presentations are posted to SFC's website.
- Comments on analysts' financial projections are confined to errors in factual information and underlying assumptions. The Company will not provide price sensitive information or earnings forecast guidelines to analysts unless it has already done so to the market via the ASX.
- Unless the executive team responsible for information disclosures believes it has an obligation to make a statement on a particular matter, SFC's policy is not to respond to market rumours or speculation.
- SFC's senior management meets regularly to consider its continuous disclosure obligations and assess the appropriateness of its policy in the context of any legislative amendments to the disclosure regime. Unless SFC has an obligation to make a statement on a particular matter, the Company's policy is not to respond to market rumours and media speculation.

### RECOGNISE AND MANAGE RISK

#### Risk management

The Board has formal written policies on risk oversight and management. SFC's risk management policy provides the framework to manage the risks associated with SFC's business activities.

The purpose of the policy is to identify, assess, monitor and manage risk with the objective of minimising losses and maximising shareholder value.

SFC prepares risk profiles including a description of material risks, both financial and non-financial. SFC reviews and updates its risk profile as required.

SFC implements a systematic process to assist in the identification, assessment, treatment and monitoring of risks.

SFC provides the necessary tools and resources to management and staff to support the effective management of risks.

SFC ensures that the Board is adequately informed of significant risk management issues and the actions undertaken to manage risks in a timely manner.

The Board has considered the need for an internal audit function and concluded that the size and nature of the Group's operations do not warrant such a function as present. Responsibility for implementation and effective conduct of SFC's risk management system rests with the Board, Chief Executive Officer, Chief Financial Officer, General Managers and all employees. The Managing Director and the Chief Financial Officer are required to state in writing to the Board in respect of any accounting period that:

- The statement given in accordance with the ASX Corporate Governance Council's Best Practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- SFC's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The SFC Board are able to oversee the entity's risk management system efficiently and effectively without establishing a separate risk committee. Executive management report to the Board on the effectiveness of our management of material business risks and they are satisfied that the risk management process enables material risks to be appropriately identified, prioritised, monitored and managed. Strategic risks are reported to the board on an ongoing basis.

The Automotive Leather division of SFC is materially exposed to the economic risk of foreign exchange fluctuations. To manage the foreign exchange risk arising from future commercial transactions the entity regularly considers the use of natural hedges and forward foreign exchange contracts, with reference to currency exposure levels, sensitivity, and financial capacity to tolerate rate fluctuations.

SFC does not have any material environmental or social sustainability risks.

### REMUNERATE FAIRLY AND RESPONSIBLY

#### Executive remuneration

SFC's Nomination and Remuneration Committee operates to support and advise the Board in fulfilling its responsibility to shareholders to ensure that the company has remuneration policies and practices which enable it to attract and retain directors and executives who will best contribute towards achieving positive outcomes for shareholders. The committee determines the remuneration and other conditions of service of the chief executive officer and executive directors, if any. The committee makes recommendations to the Board on the remuneration of non-executive directors within the aggregate approved by shareholders in general meeting from time to time. The committee considers individual performance, company performance, internal relativity and fairness in setting levels of remuneration and may seek appropriate independent external advice to assist in its decision making.

SFC's remuneration policy is directed at attracting, motivating and retaining quality people.

### RESPECT THE RIGHTS OF SHAREHOLDERS

#### Shareholder communications strategy

SFC aims to ensure that investors and the market are kept informed of all major developments affecting the Company.

Information is communicated to investors and the market in accordance with SFC's periodic and continuous disclosure obligations pursuant to the ASX Listing Rules and the Corporations Act. SFC's disclosure practices are aimed at ensuring timely access for all investors to Company information.

To achieve these objectives and to satisfy regulatory requirements, SFC provides information to investors and the market in a number of ways:

- SFC's principal communication with investors is by provision of the Annual Report and financial statements, the Interim Report and the Annual General Meeting.
- Periodic and continuous disclosure announcements are released directly to the market via the ASX using ASX's electronic lodgement service. These announcements are immediately placed on the Company's website, at [www.schaffer.com.au](http://www.schaffer.com.au) and typically mailed to shareholders.
- The release of Interim and Final results is typically followed by investor briefings and road shows. The purpose of the investor briefings/road shows is for explanation and clarification of previously released information and non-material company or industry specific information. Site visits are also arranged to give those who advise investors a better understanding of the Groups operating facilities.
- SFC's website contains further information about the Group and its activities, including copies of recent Annual and Interim Reports, the full text of notices of meetings and explanatory notes and copies of road-show presentations and presentations to brokers/analysts.
- The Annual General Meeting provides an opportunity for the Board to communicate with shareholders and investors through the presentation of the Chairman's Address and shareholders, through the Chairman, are given the opportunity to ask general questions of directors. SFC's external auditor attends each Annual General Meeting and is available to answer any questions shareholders may have, that are relevant to the conduct of the audit. The meeting, when possible, is held at the same convenient location on the same weekday and time each year in order to encourage shareholder participation.
- SFC provides shareholders the option to receive communications from, and send communications to, the entity and its security registry electronically.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2015

The remuneration of SFC's senior executive consists of fixed remuneration and annual and long term incentives.

*Fixed Remuneration* - This includes base salary and the statutory Superannuation Guarantee Contribution (SGC) which comprises the cash component; and other non-cash benefits such as a motor vehicle.

The Schaffer Corporation Limited Superannuation Fund is available to executives for superannuation contributions and life insurance. Premiums for life insurance are deducted from member accounts. Executives can elect to have the company contribute superannuation beyond the statutory SGC level by way of a salary sacrifice in lieu of cash salary.

*Annual Incentive* - The Company has performance-based incentive plans in place at each of its operations in which management and the labour force participate. The level of remuneration payable to participating executives is linked to the financial performance of their business. Executives are provided with cash incentives provided profitability thresholds are met.

*Long Term Incentive* - SFC's senior executives (other than Mr Schaffer and Mr Mayer) participate in SFC's Employee Share Option Plan (ESOP). Howe Automotive Limited operates the Employee Participation Unit (EPU) Plan for its executives. These incentive plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders.

### **Non-executive Director remuneration**

SFC's non-executive directors receive fees for their services (including statutory superannuation) and the reimbursement of reasonable expenses. The amount payable to non-executive directors is set by the Board after having taken regard to the size of the Company and Board, the responsibilities, demands and accountabilities faced by those directors in discharging their duties and after seeking independent advice to ensure the fees are in line with market standards. It is current SFC policy that non-executive directors do not receive shares, options or other securities and are not eligible to participate in SFC's Employee Share Option Plan.

A directors' pool limit of \$250,000 per annum was approved by shareholders at SFC's 2003 Annual General Meeting. This limit is not currently fully utilised. The fee pool is payable only to non-executive directors. Non-executive directors were paid annual fees for the 2015 financial year of \$76,494 each from the fee pool (inclusive of superannuation). Non-executive directors appointed prior to July 2003 are entitled to a retirement benefit equivalent to one year's annual director's fees. The retirement benefit was reduced from three years' to one year's annual director's fees in July 2003 (a three year retirement benefit was in place at the time Mrs Blain and Mr Schwartz accepted their appointment to the Board). SFC considers the reduced benefit modest and appropriate given the benefit which historically existed. It is SFC's policy that no retirement benefit apply to new directors appointed after July 2003.

## ASX ADDITIONAL INFORMATION

year ended 30 June 2015

Additional information required by the Australian Securities Exchange is as follows.

### TOTAL SHARE CAPITAL

Issued as at 1 September 2015 – 14,005,373 ordinary fully paid shares.

### SHARE REGISTRY ADDRESS

C/o Computershare Investor Services Pty Ltd  
Level 11  
172 St George's Terrace  
Perth WA 6000  
Australia

Postal Address:  
GPO Box D182  
Perth WA 6840  
Australia

### SECURITIES EXCHANGE LISTING

The shares of the Company are listed on the Australian Securities Exchange. The home exchange is Perth.

### VOTING RIGHTS

Subject to any restrictions from time to time being attached to any class or classes of shares at general meetings of Members or classes of Members:

- (1) each Member entitled to vote may vote in person or by proxy, attorney or representative;
- (2) on a show of hands, every person present who is a Member or a proxy, attorney or representative of a Member has one vote;
- (3) on a poll, every person present who is a Member or a proxy, attorney or representative of a Member shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, shall have a fraction of a vote for each partly paid share. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call are ignored when calculating the proportion.

### DISTRIBUTION OF HOLDINGS AS AT 1 SEPTEMBER 2015

Shareholdings	Shareholders
1 – 1,000	678
1,001 – 5,000	545
5,001 – 10,000	108
10,001 – 100,000	105
100,001 – and over	17

Number of shareholders holding less than a marketable parcel i.e. less than 102 shares: 102.

### SUBSTANTIAL SHAREHOLDERS

As at 1 September 2015, the substantial shareholders of the company summarised below, were

	Number of shares	Economic interest as a percentage of issued ordinary shares
Mr J M Schaffer & Associates	2,003,240	14.30%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.66%
	2,655,927	18.96%
Mrs D E Blain & Associates	909,673	6.50%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.66%
	1,562,360	11.16%
*Combined interest of Mr J M Schaffer & Mrs D E Blain	4,218,287	30.12%
Jobling Investments Pty Ltd	507,812	
Estate of Mr A E Jobling Deceased	286,504	
	794,316	5.67%
Sterling Equity Pty Limited and subsidiaries	1,301,352	9.29%
Perpetual Limited and subsidiaries	716,290	5.11%

\*Pursuant to the Corporation Act (2001), by virtue of the Swan Holdings Pty Ltd Voting Deed conferring on J M Schaffer the power to vote all Swan Holdings Pty Ltd's interest in Schaffer Corporation Limited's shares, J M Schaffer is also deemed to have an interest in all the Schaffer Corporation Limited shares held by D E Blain and her associates, and vice versa. The consequence of this is that each of the Substantial Shareholder notices lodged with the Regulatory Authorities by J M Schaffer and D E Blain show J M Schaffer's and D E Blain's combined interest at 30%, not their individual economic interests of 19% and 11% respectively.

### TWENTY LARGEST SHAREHOLDERS

As at 1 September 2015

	Number of shares	Percentage of issued ordinary shares
Swan Holdings Pty Ltd	1,305,374	9.32
Schaffer Nominees Pty Ltd <JM Schaffer No 2 A/C>	980,482	7.00
Mrs Danielle Eva Blain	907,570	6.48
National Nominees Limited	890,520	6.36
Mr John Michael Schaffer	799,554	5.71
Jobling Investment Pty Ltd	507,812	3.63
Mr Kenneth John Beer <Beer Super Fund A/C>	494,139	3.53
RBC Investor Services Australia Nominees <PICREDIT>	437,402	3.12
JP Morgan Nominees Pty Ltd	428,578	3.06
Mr David Schwartz <David Schwartz Fam Hlds A/C>	359,170	2.56
Mr Christopher Stephan Mayer	344,263	2.46
Estate Late Albert Edward Jobling	286,504	2.05
The Sports Café (Australia)	226,072	1.61
RBC Investor Services Australia Nominees Pty Limited <PI POOLED>	207,704	1.48
Mirrabooka Investments Limited	162,963	1.16
Frederick Bruce Wareham	140,020	1.00
Ago Pty Ltd <Superannuation Fund A/C>	107,785	0.77
Mr Peter Canaway <Superannuation Fund A/C>	100,000	0.71
Debra Ruth Schaffer	92,870	0.66
Citicorp Nominees Pty Limited	74,210	0.53
	8,852,992	63.21

### ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 18 November 2015 at 11:30am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.

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## Corporate Timetable

Final 2015 dividend record date	4 September 2015
Final 2015 dividend payment date	18 September 2015
Despatch of 2015 Annual Report and notice of AGM	12 October 2015
Annual General Meeting	18 November 2015
2016 half-year earnings release and dividend announcement	February 2016
Interim 2016 dividend payment date	March 2016

# SHAREHOLDER INFORMATION

## Annual General Meeting

Schaffer Corporation will hold its Annual General Meeting on Wednesday 18 November 2015 at 11:30am at Esplanade River Suites, 112 Melville Parade, Como, Western Australia.

## Direct Credit of Dividends

Schaffer Corporation provides shareholders with the option to have dividends paid electronically to a nominated bank, building society or credit union account. Payments are credited electronically on the dividend date and confirmed by a payment advice by mail.

The Company encourages shareholders not already using this facility to contact Computershare Investor Services Pty Limited, who can arrange for an instruction advice to be sent to shareholders for completion.

## Change of addresses/provide or update banking details

Shareholders who have changed their address or banking particulars should advise our share registry of their new details:

Computershare Investor Services Pty Limited  
GPO Box D182  
Perth WA 6840  
Australia  
Telephone: 1300 787 272 (in Australia)  
or +61 8 9323 2000  
Facsimile: +61 8 9323 2033  
Website: [www.computershare.com/au](http://www.computershare.com/au)

## Corporate Directory

Schaffer Corporation Limited  
ABN 73 008 675 689

ASX Code: **SFC**

## Board of Directors

### Executive Directors

JM Schaffer BCom(Hons), FCPA  
(Chairman and Managing Director)  
AK Mayer (Executive Chairman –  
Howe Automotive Ltd)

### Non-executive Directors

DE Blain BA  
MD Perrott AM, BCom, FAIM FAICD  
DJ Schwartz

### Group Financial Controller and Company Secretary

J Cantwell B Bus(Acc), CPA,  
MBA, GIA(Cert)

### Head Office and Registered Office

1305 Hay Street  
West Perth WA 6005  
Australia  
Telephone: +61 8 9483 1222  
Facsimile: +61 8 9481 0439  
Website: [www.schaffer.com.au](http://www.schaffer.com.au)

### Share Registry

Computershare Investor  
Services Pty Limited  
GPO Box D182  
Perth WA 6840  
Australia  
Telephone: 1300 787 272 (in Australia)  
or +61 8 9323 2000  
Facsimile: +61 8 9323 2033  
Website: [www.computershare.com/au](http://www.computershare.com/au)

### Auditors

Ernst and Young  
11 Mounts Bay Road  
Perth WA 6000  
Australia  
Telephone: +61 8 9429 2222  
Facsimile: +61 8 9429 2436

### Solicitors

Ashurst  
Level 32 Exchange Plaza  
2 The Esplanade  
Perth WA 6000  
Australia  
Telephone: +61 8 9366 8000  
Facsimile: +61 8 9366 8111

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