

APPENDIX 4E

Preliminary final report

1. Name of entity

SCHAFFER CORPORATION LIMITED	
ACN	Financial year ended ('current period')
008 675 689	30 JUNE 2020
	Previous corresponding period
	30 JUNE 2019

2. Results for announcement to the market

2.1	Revenues from continuing operations	down 24% to	\$'000 155,573
2.2	Net profit for the period attributable to members	up 3% to	23,550
2.3	Dividends (see note 7)	Amount per security	Franked amount per security
	Final – Ordinary Dividend	down 13% to	35¢
	Interim – Ordinary Dividend	up 50% to	45¢
	Total	up 14% to	80¢
2.4	Record date for determining entitlements to the dividend	8 September 2020	

3. Consolidated Statement of Comprehensive Income for the year ended 30 June 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
Revenue from continuing operations			
Revenue from contracts with customers	3.1	148,703	196,586
Rental income	3.2(a)	5,422	5,875
Finance income	3.2(b)	513	681
Distribution revenue		935	481
Total revenue		155,573	203,623
Cost of sales and services rendered		(111,679)	(143,701)
Gross profit		43,894	59,922
Impairment reversal/(loss) - investment property	3.2(d)	1,221	(1,221)
Impairment loss - property, plant and equipment	3.2(d)	(1,448)	-
Share of profit of associate		11	-
Other income	3.2(c)	9,722	2,126
Marketing expenses		(623)	(628)
Administrative expenses		(11,607)	(19,198)
Profit before tax and finance costs		41,170	41,001
Finance costs	3.2(b)	(2,640)	(2,433)
Profit before income tax		38,530	38,568
Income tax expense		(11,377)	(10,868)
Net profit for the period		27,153	27,700
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation gain attributable to parent		420	631
		420	631
Items that may not be reclassified subsequently to profit or loss			
Foreign currency translation gain attributable to non-controlling interest		58	92
		478	723
Other comprehensive income for the period, net of tax		478	723
Total comprehensive income for the period		27,630	28,423
Profit for the period is attributable to:			
Non-controlling interest		3,603	4,801
Owners of the parent		23,550	22,899
		27,153	27,700
Total comprehensive income for the period is attributable to:			
Non-controlling interest		3,661	4,893
Owners of the parent		23,969	23,530
		27,630	28,423
Earnings per share (EPS)			
Basic EPS	9	171.9¢	165.6¢
Diluted EPS	9	170.6¢	164.2¢
Dividends paid per share		80.0¢	70.0¢

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

3.1 Revenue from Contracts with Customers

	Consolidated	
	2020 \$'000	2019 \$'000
Revenue from contracts with customers	148,703	196,586
Total revenue from contracts with customers	148,703	196,586

For the year ended 30 June 2020

Segments	Automotive Leather \$'000	Group Investments \$'000	Building Materials \$'000	Total \$'000
Type of goods or service				
Sale of automotive leather components	130,141	-	-	130,141
Construction services	-	-	13,675	13,675
Transport services	-	-	4,083	4,083
Sale of goods - hospitality business	-	804	-	804
Total revenue from contracts with customers	130,141	804	17,758	148,703

Geographical Markets

Europe	98,445	-	-	98,445
Asia	31,696	-	-	31,696
Australia	-	804	17,758	18,562
Total revenue from contracts with customers	130,141	804	17,758	148,703

Timing of revenue recognition

Goods transferred at a point in time	130,141	804	-	130,945
Services transferred over time	-	-	17,758	17,758
Total revenue from contracts with customers	130,141	804	17,758	148,703

For the year ended 30 June 2019

Segments	Automotive Leather \$'000	Group Investments \$'000	Building Materials \$'000	Total \$'000
Type of goods or service				
Sale of automotive leather components	176,251	-	-	176,251
Construction services	-	-	15,542	15,542
Transport services	-	-	3,985	3,985
Sale of goods - hospitality business	-	808	-	808
Total revenue from contracts with customers	176,251	808	19,527	196,586

Geographical Markets

Europe	136,802	-	-	136,802
Asia	39,449	-	-	39,449
Australia	-	808	19,527	20,335
Total revenue from contracts with customers	176,251	808	19,527	196,586

Timing of revenue recognition

Goods transferred at a point in time	176,251	808	-	177,059
Services transferred over time	-	-	19,527	19,527
Total revenue from contracts with customers	176,251	808	19,527	196,586

3.2 Significant Other Income and Expenses

	Consolidated	
	2020 \$'000	2019 \$'000
(a) Net rental income		
Rental property income	5,422	5,875
Rental property expenses	(3,260)	(2,751)
Net rental income	<u>2,162</u>	<u>3,124</u>
(b) Finance (costs)/income		
Bank and other loans and overdrafts – interest	(1,820)	(2,277)
Finance charges payable under lease agreements	(820)	(156)
Total finance costs	<u>(2,640)</u>	<u>(2,433)</u>
Bank interest received	513	681
Total finance income	<u>513</u>	<u>681</u>
(c) Other income/(losses)		
Gain on sale of property, plant and equipment	192	5
Net (loss)/gain on derivatives	(1,460)	1,111
Foreign currency losses	(2,900)	(1,950)
Foreign currency gains	2,469	1,714
Realised (losses)/gains on other financial assets at fair value through profit or loss	(370)	261
Unrealised gains on other financial assets at fair value through profit or loss	10,835	985
Government subsidies	956	-
	<u>9,722</u>	<u>2,126</u>
(d) Depreciation, amortisation and impairment included in Statement of Comprehensive Income		
<i>Depreciation included in:</i>		
Cost of sales	7,013	3,793
Rental property expenses	717	587
Marketing and administrative expenses	63	290
Total depreciation	<u>7,793</u>	<u>4,670</u>
<i>Impairment included in:</i>		
Impairment loss - property, plant and equipment	1,448	-
Impairment (reversal)/loss - investment property	(1,221)	1,221
Total impairment	<u>227</u>	<u>1,221</u>
Total depreciation includes depreciation on right-of-use assets first recognised on the adoption of AASB 16 on 1 July 2019 - \$2,944,000 (2019: \$nil)		
(e) Employee benefit expense		
Wages, salaries and bonuses	34,515	40,494
Post-employment benefit provision	(1,091)	3,614
Long service leave provisions	160	75
Worker's compensation costs	287	296
Superannuation costs	1,021	994
Expense of share-based payments	89	68
	<u>34,981</u>	<u>45,541</u>

4. Consolidated Statement of Financial Position as at 30 June 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	6.2	35,016	17,371
Trade and other receivables		17,496	29,310
Inventories		40,909	40,062
Contract assets		2,589	3,553
Prepayments and deposits		2,075	4,976
Derivative financial instruments		166	131
Other financial assets		-	19,336
Total current assets		98,251	114,739
Non-current assets			
Property, plant and equipment		13,637	26,766
Investment properties		31,794	29,576
Right-of-use assets		37,834	-
Investment in associate		311	-
Deferred income tax asset		5,075	7,552
Goodwill		1,299	1,299
Other financial assets		54,957	28,278
Total non-current assets		144,907	93,471
Total assets		243,158	208,210
Liabilities			
Current liabilities			
Trade and other payables		12,485	27,000
Contract liabilities		277	415
Interest-bearing loans and borrowings		13,499	15,255
Lease liabilities		5,438	3,075
Income tax payable		-	4,827
Provisions		6,804	8,895
Derivative financial instruments		1,762	711
Total current liabilities		40,265	60,178
Non-current liabilities			
Interest-bearing loans and borrowings		39,834	13,996
Lease liabilities		28,186	5,916
Deferred income tax liabilities		2,235	2,107
Provisions		8,839	9,969
Total non-current liabilities		79,094	31,988
Total liabilities		119,359	92,166
Net assets		123,799	116,044
Equity			
Equity attributable to equity holders of the parent			
Issued capital		11,227	13,991
Reserves		3,488	2,978
Retained earnings	5	100,522	88,643
Total parent entity interest in equity		115,237	105,612
Non-controlling interests		8,562	10,432
Total equity		123,799	116,044

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

5. Consolidated Statement of Changes in Equity for the year ended 30 June 2020

	Attributable to equity holders of the parent								
	Issued capital	Reserve retained earnings	Reserve asset re-valuation	Reserve share based payments	Net unrealised gains/(losses)	Reserve foreign currency translation	Total	Non-controlling Interest	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2019	13,991	88,643	2,585	(882)	-	1,275	105,612	10,432	116,044
Profit for the year	-	23,550	-	-	-	-	23,550	3,603	27,153
Other comprehensive income	-	-	-	-	-	420	420	58	478
Total comprehensive income for the year	-	23,550	-	-	-	420	23,970	3,661	27,631
Transactions with owners in their capacity as owners:									
Shares acquired under buy-back scheme	(3,166)	-	-	-	-	-	(3,166)	-	(3,166)
Employee share options exercised	402	-	-	-	-	-	402	-	402
Share-based payments	-	-	-	90	-	-	90	-	90
Equity dividends	-	(11,671)	-	-	-	-	(11,671)	(5,531)	(17,202)
At 30 June 2020	11,227	100,522	2,585	(792)	-	1,695	115,237	8,562	123,799
At 1 July 2018	14,540	72,101	2,585	(950)	1,942	644	90,862	11,724	102,586
Reclassification on adoption of AASB 9	-	1,942	-	-	(1,942)	-	-	-	-
At 1 July 2018 (restated)	14,540	74,043	2,585	(950)	-	644	90,862	11,724	102,586
Profit for the year	-	22,899	-	-	-	-	22,899	4,801	27,700
Other comprehensive income	-	-	-	-	-	631	631	92	723
Total comprehensive income for the year	-	22,899	-	-	-	631	23,530	4,893	28,423
Transactions with owners in their capacity as owners:									
Shares acquired under buy-back scheme	(719)	-	-	-	-	-	(719)	-	(719)
Employee share options exercised	170	-	-	-	-	-	170	-	170
Share-based payments	-	-	-	68	-	-	68	-	68
Equity dividends	-	(8,299)	-	-	-	-	(8,299)	(6,185)	(14,484)
At 30 June 2019	13,991	88,643	2,585	(882)	-	1,275	105,612	10,432	116,044

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

6. Consolidated Statement of Cash Flows for the year ended 30 June 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers		164,701	208,962
Payments to suppliers and employees		(133,128)	(162,570)
Interest received		422	681
Distributions received		624	224
Rental income		5,040	5,875
Government subsidies		956	-
Interest paid		(2,640)	(2,433)
Income taxes paid		(15,374)	(17,791)
Goods and services tax paid		(191)	(81)
Proceeds from exercise of employee share options		402	170
Net cash flows from operating activities	6.1	20,812	33,037
Cash flows from investing activities			
Investment in term deposits		(6,000)	(42,515)
Proceeds on maturity of term deposits		22,515	32,000
Acquisition of property, plant and equipment		(5,494)	(5,049)
Proceeds on sale of property, plant and equipment		413	425
Improvements to investment properties		(1,841)	(394)
Acquisition of financial assets at fair value through profit or loss		(17,258)	(17,158)
Investment in associate		(300)	-
Deposit paid on acquisition of financial asset at fair value		-	(425)
Proceeds on disposal of financial assets at fair value		4,400	1,360
Capital distribution from financial assets at fair value through profit or loss		469	-
Net cash flows used in investing activities		(3,096)	(32,116)
Cash flows from financing activities			
Lease principal payments		(5,182)	(2,479)
Lease principal receipts		1,450	3,347
Dividends paid		(17,202)	(14,484)
Proceeds from borrowings		31,273	19,267
Repayment of borrowings		(7,191)	(15,143)
Shares acquired under share buy-back scheme		(3,166)	(719)
Net cash flows used in financing activities		(18)	(10,211)
Net increase/(decrease) in cash and cash equivalents			
		17,698	(9,290)
Net foreign exchange differences		(53)	723
Cash and cash equivalents at the beginning of the period		17,371	25,938
Cash and cash equivalents at the end of the period	6.2	35,016	17,371

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

6.1 Reconciliation of the net profit after tax to the net cash flows from operations

	Consolidated	
	2020	2019
	\$'000	\$'000
Net profit	27,153	27,700
Adjustment for -		
Depreciation and amortisation	7,793	4,670
Impairment of assets (net)	227	1,221
Proceeds from exercise of employee share options	402	170
Share-based payments expense	90	68
Allowance for expected credit losses	110	-
Profit of equity accounted associate	(11)	-
Profit on sale of property, plant & equipment	(192)	(5)
Realised losses/(gains) on other financial assets at fair value through profit or loss	370	(261)
Unrealised gains on other financial assets at fair value through profit or loss	(10,835)	(985)
Distributions reinvested	(310)	(193)
Foreign currency translation loss/(gain)	210	(656)
Changes in assets and liabilities:		
Decrease in trade and other receivables	11,555	13,452
Increase in inventories	(853)	(458)
Increase in interest-bearing loan receivable	(91)	-
Increase/(decrease) in contract assets	964	(3,553)
Decrease in trade and other payables	(13,873)	(1,894)
(Decrease)/increase in contract liabilities	(138)	415
(Decrease)/increase in employee entitlement provisions	(2,651)	809
Decrease in income tax payable	(4,827)	(5,165)
Increase/(decrease) in deferred tax liability	128	(283)
Decrease/(increase) in deferred income tax asset	2,471	(1,476)
Decrease/(increase) in prepayments	2,104	(2,486)
Decrease in derivatives	1,016	1,947
Net cash flows from operating activities	20,812	33,037

6.2 Reconciliation of cash

	Consolidated	
	2020	2019
	\$'000	\$'000
Cash on hand and at bank	35,016	17,371
Total cash at end of period	35,016	17,371

6.3 Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows.

\$Nil (2019 - \$Nil)

6.4 Financing facilities available

The consolidated entity had financing facilities available at balance date to the extent of \$77,416,000 (2019 - \$67,045,000). The unutilised facility for the consolidated entity at balance date was \$12,219,000 (2019 - \$23,672,000).

7. Dividends

Date the dividend is payable

18 September 2020

Record date to determine entitlements to the dividend (i.e. on the basis of security holding balances established by 5:00pm or such later time permitted by SCH Business Rules - securities are CHESS approved).

8 September 2020

If it is a final dividend, has it been declared?

YES

7.1 Amount per security

	Amount per security	Franked amount per security at 30% tax
Final dividend:		
Current year	35¢	35¢
Previous year	40¢	40¢
Final special dividend:		
Current year	-	-
Previous year	-	-
Interim dividend:		
Current year	45¢	45¢
Previous year	30¢	30¢
Interim special dividend:		
Current year	-	-
Previous year	-	-

7.2 Total dividend per security (interim plus final and special)

	Current year	Previous year
Ordinary securities	80¢	70¢
Preference securities	-	-

7.3 Preliminary final report – dividend on all securities

	Consolidated	
	2020 \$'000	2019 \$'000
Ordinary securities - final	4,765	5,518
- interim	6,153	4,148
Preference securities	-	-
Other equity securities	-	-
	10,918	9,666

7.4 Dividend Plans

The company does not have a dividend reinvestment plan.

8. Consolidated retained profits

Retained profits at the beginning of the financial period	88,643	72,101
Reclassification on adoption of AASB 9	-	1,942
Net profit attributable to members of the parent entity	23,550	22,899
Dividends and other equity distributions paid or payable	(11,671)	(8,299)
Retained profits at end of financial period	100,522	88,643

9. Earnings per security (EPS)

Details of basic and diluted EPS reported separately in accordance with *AASB 133: Earnings Per Share* are as follows.

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

	Consolidated	
	2020 \$'000	2019 \$'000
Basic Earnings	23,550	22,899
Diluted Earnings	23,550	22,899
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic EPS	13,698,858	13,826,955
Weighted average number of ordinary shares used in the calculation of diluted EPS	13,801,399	13,946,188
Basic EPS	171.9¢	165.6¢
Diluted EPS	170.6¢	164.2¢

10. NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	\$8.37	\$7.55

11. Foreign entities

For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).

International Financial Reporting Standards (IFRS).

12. Controlled gained/lost over entities having material effect

N/A

13. Significant events after balance date

The company will pay a fully franked final dividend of 35¢ per share on 18 September 2020.

14. Segment information

	Automotive Leather		Group Investments		Building Materials		Consolidated	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Revenue								
Revenue from contracts with customers	130,141	176,251	804	808	17,758	19,527	148,703	196,586
Other revenue	11	2	6,854	7,024	5	11	6,870	7,037
Total Revenue							155,573	203,623
Results								
Underlying net profit after tax	21,152	28,183	9,262	2,736	(565)	(8)	29,849	30,911
Impairment of assets after tax	-	-	855	(855)	(1,014)	-	(159)	(855)
Net profit after tax	21,152	28,183	10,117	1,881	(1,579)	(8)	29,960	30,056
Less profit attributable to non-controlling interests	(3,560)	(4,743)	(43)	(58)	-	-	(3,603)	(4,801)
Profit attributable to owners of the parent	17,592	23,440	10,074	1,823	(1,579)	(8)	26,087	25,255
Unallocated items:								
Finance costs							(47)	(31)
Corporate overheads							(3,698)	(3,231)
Profit of equity accounted associates							11	-
Income tax benefit							1,197	906
Net Profit for the period							23,550	22,899
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Segment Assets	118,292	104,219	109,828	83,798	12,541	16,411	240,661	204,428
Unallocated items:								
Property, plant and equipment							738	752
Other financial assets							311	-
Prepayments							29	452
Receivables							24	88
Deferred income tax assets							1,395	2,490
Total assets							243,158	208,210

15. Other significant information

All other significant information other than in this Appendix 4E, is disclosed in the press release and letter to shareholders released on the same date as this Appendix 4E.

16. Commentary on results

For a commentary on the results see the press release and letter to shareholders released on the same date as this 4E.

17. Status of audit or review

This report is based on accounts to which one of the following applies.

- The accounts have been audited.
- The accounts have been subject to review.
- The accounts are in the process of being audited or subject to review.
- The accounts have *not* yet been audited or reviewed.

18. Dispute or qualification – accounts not yet audited or subject to review

If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.

N/A

19. Dispute or qualification – accounts audited or subject to review

If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification.

N/A

Sign here: Date: 19 AUGUST 2020
Company Secretary

Print Name: JASON MARK CANTWELL

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