

## **JUNE 2003 FINAL RESULT**

### **SCHAFFER CORPORATION ACHIEVES RECORD PROFIT, DECLARES 50¢ FINAL DIVIDEND AND 20¢ SPECIAL DIVIDEND**

Schaffer Corporation Limited ("SFC") earned a record net profit after tax of \$17.0m for the year ending 30-Jun-03 (FY03). This is an increase of 31% over last year's comparable result of \$13.0m. This result is in line with the \$17.1m forecast provided by the Company last February.

The Company also announced a final dividend for the 2003 financial year of 50 cents per share (fully franked), bringing the dividend for the year to \$1.00 per share (fully franked).

In addition SFC will pay a special dividend of 20 cents per share (fully franked), to reflect the Company's strong cash position and ongoing asset sales.

Share liquidity has again improved significantly. The aggregate volume of shares traded on ASX over the course of FY03 amounted to 28% of the Company's issued ordinary shares.

#### **FINANCIAL PERFORMANCE**

The 2003 financial year was another strong year for the Company:

	<b>FY03</b>	FY02	Change
Revenue (\$m)	<b>223</b>	213	+5%
Net Profit After Tax (\$m)	<b>17</b>	13	+31%
Earnings per Share	<b>\$1.25</b>	\$1.02	+22%
EBITDA (\$m)	<b>37</b>	29	+27%
Return on Capital Employed	<b>28%</b>	21%	+33%
Full Year Ordinary Dividend per share	<b>\$1.00</b>	\$0.60	+67%
Payout Ratio	<b>80%</b>	59%	+36%
Special Dividend	<b>\$0.20</b>	\$0.10	+100%

Revenue increased to \$223 million, up five percent from \$213 million in the previous year. Earnings per share increased to \$1.25 per share, 22% higher than in 2002, and return on capital employed improved to 28% from 21% in the previous year.

Australian Leather Holdings' (ALH) automotive division (Howe) was the engine for SFC's increased earnings and profitability. Efficiency improvements accounted for a large proportion of the division's earnings growth.

The Building Products division delivered strong cash flow and sustainable earnings on static revenue levels.

#### **FINAL ORDINARY DIVIDEND**

The Directors have declared a final dividend of 50 cents per share (fully franked), taking the total dividend for the year to \$1.00 per share (fully franked). That represents an increase of 67% from the total ordinary dividend in the 2002 financial year of 60 cents per share.



Given earnings per share of \$1.25 per share, the \$1.00 per share full year dividend represents a payout ratio of 80%, up from 59% in the 2002 financial year.

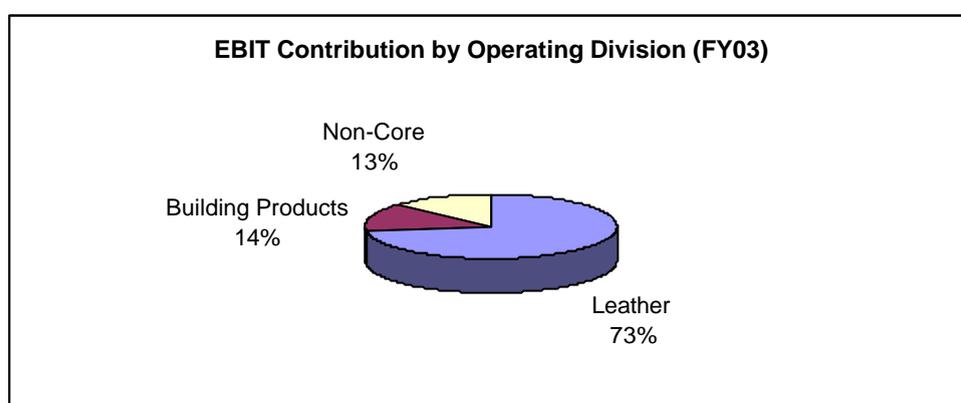
SFC shares will commence trading ex-dividend on 9 September 2003. The record date for the final dividend is 15 September 2003. The final dividend will be paid on 18 September 2003.

## **SPECIAL DIVIDEND**

Directors have also declared a special dividend of 20 cents per share (fully franked). The Directors' decided to declare the special dividend following ongoing asset sales and a partial sell down of SFC's investment property portfolio.

The ex-dividend, record and payment dates for the special dividend are the same as those set out above for the final dividend.

## **OPERATIONS SUMMARY**



### ***Leather***

The leather business achieved a strong first half but experienced a downturn in the second half of the financial year. Lower sales volume (as a result of program timing issues) at Howe and the strengthening of the Australian dollar against the US dollar were the main contributors to the downturn.

Howe responded to these challenges by achieving efficiency gains through improved cutting utilisation and restructuring its cost base. An unfortunate consequence of the restructure was staff redundancies, which were necessary to maintain Howe's ongoing competitive position.

The furniture leather business (Gosh) continued to trade profitably in an extremely competitive market.

### ***Building Products***

The Building Products division followed its typical seasonal nature, with a strong first half followed by a quieter second half of the 2003 financial year.

Revenue decreased marginally compared to the previous year. However, the division achieved strong cash flow and continues to maintain healthy margins, an excellent result in a highly competitive market.

### ***Property (non core)***

During the 2003 financial year, SFC continued the orderly realisation of its non-core property assets.

SFC has reached agreement to sell its interest in five of its 13 investment property joint ventures. Those sales will generate approximately \$1.5 million in net profit, \$3.1 million in net cash and reduce SFC's debt levels by \$5.4 million.

Based on current valuations, over the next three to five years, realisation of the balance of SFC's investment property portfolio should deliver net profit of \$5.7 million and net cash of \$8.2 million. It should also decrease debt by \$17.3 million.

SFC expects the gradual sell down of its property development interests over the next four years to generate an additional \$2.7 million in net profit, \$3.9 million in net cash and reduce debt by \$1.8 million.

### **OUTLOOK**

The Directors expect Howe to experience ongoing difficult market conditions for the balance of calendar 2003 with first half leather earnings forecast to be lower than last year's record first half.

However, in the short to medium term significant opportunities exist to win new programs in a global market that is forecast to grow at seven percent a year.

Howe is also examining the feasibility of establishing additional cutting plants in China and Eastern Europe to reduce costs and improve customer response times.

The Directors expect the Building Products division to provide stable earnings. The UrbanStone and Delta facilities have minimal capital expenditure requirements and should continue to deliver a strong return on capital employed.

The Directors expect to maintain a full year dividend of at least \$1.00 per share (fully franked). In addition, over the next three to five years, the Board anticipates paying a total of \$1.00 per share (fully franked) in special dividends as SFC realises its property portfolio.

JM SCHAFFER  
20<sup>th</sup> August 2002

# APPENDIX 4E

## Preliminary final report

### 1. Name of entity

SCHAFFER CORPORATION LIMITED
------------------------------

ABN

008 675 689
-------------

Financial year ended ('current period')

30 JUNE 2003
--------------

Previous corresponding period

30 JUNE 2002
--------------

### 2. For announcement to the market

*Results for announcement to the market:*

2.1	Revenues from ordinary activities	up	5%	to	223,133	\$'000
2.2	Profit from ordinary activities after tax attributable to members	up	31%	to	17,020	
2.3	Net profit for the period attributable to members	up	31%	to	17,020	
2.4	<b>Dividends (see section 6)</b>					
					Amount per security	Franked amount per security
	Final dividend				50¢	50¢
	Special Dividend				20¢	20¢
	Interim period				50¢	50¢
2.5	Record date for determining entitlements to the dividend				15 SEPTEMBER 2003	

**3. Condensed consolidated statement of financial performance**

	Notes	2003 \$'000	2002 \$'000
<b>REVENUES FROM ORDINARY ACTIVITIES</b>		<b>223,133</b>	212,785
Cost of sales – manufactured goods and property		<b>(162,591)</b>	(149,709)
Cost of sales – equity securities		<b>(1,087)</b>	(1,361)
Depreciation and amortisation expenses	1	<b>(5,031)</b>	(4,428)
Borrowing costs expense	1	<b>(4,380)</b>	(3,987)
Share of net profits (losses) of associate and joint venture accounted for using the equity method		-	(577)
Salaries, Wages and On-costs		<b>(13,335)</b>	(12,788)
Other expenses from ordinary activities		<b>(9,329)</b>	(19,352)
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		<b>27,380</b>	20,583
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>		<b>7,981</b>	5,774
<b>PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE</b>		<b>19,399</b>	14,809
<b>NET PROFIT ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST</b>		<b>2,379</b>	1,772
<b>NET PROFIT ATTRIBUTABLE TO THE MEMBERS</b>		<b>17,020</b>	13,037
<b>NON-OWNER TRANSACTION CHANGES IN EQUITY</b>		-	-
<b>Total transactions and adjustments recognised directly in equity</b>		-	-
<b>TOTAL CHANGES IN EQUITY NOT RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>		<b>17,020</b>	<b>13,037</b>
<b>Earnings per security (EPS) (see section 14.1 )</b>			
Basic EPS		<u>125.0¢</u>	<u>102.4¢</u>
Diluted EPS		<u>122.0¢</u>	<u>97.3¢</u>

**Notes to the condensed consolidated statement of financial performance**

	2003 \$'000	2002 \$'000
<b>1. EXPENSES AND LOSSES/(GAINS)</b>		
<b>(a) Expenses</b>		
Cost of sales – manufactured goods and property	162,591	149,709
Cost of sales – equity securities	<u>1,087</u>	<u>1,361</u>
Depreciation of non-current assets		
Plant and equipment	4,260	3,763
Leasehold improvements	65	60
Buildings	<u>385</u>	<u>298</u>
Total depreciation of non-current assets	<u>4,710</u>	<u>4,121</u>
Amortisation of non-current assets		
Goodwill	132	99
Plant and equipment under lease	<u>189</u>	<u>208</u>
Total amortisation of non-current assets	<u>321</u>	<u>307</u>
<b>Total depreciation and amortisation expenses</b>	<b><u>5,031</u></b>	<b><u>4,428</u></b>
Borrowing costs expense		
Interest expense		
Finance lease	182	177
Other	<u>4,096</u>	<u>3,719</u>
Other borrowing costs	<u>102</u>	<u>91</u>
<b>Total borrowing costs expensed</b>	<b><u>4,380</u></b>	<b><u>3,987</u></b>
Bad and doubtful debts – trade debtors	<u>(700)</u>	<u>(1,155)</u>
<b>(b) Losses/(Gains)</b>		
Loss/(gain) on disposal of investment in listed and unlisted shares	<u>186</u>	<u>(354)</u>
Loss on disposal of property, plant and equipment	<u>115</u>	<u>423</u>
Net foreign currency (gains)/losses	<u>(268)</u>	<u>483</u>
Gain on disposal of joint venture interest	<u>(122)</u>	<u>-</u>

**4. Condensed consolidated statement of financial position**

	2003 \$'000	2002 \$'000
<b>CURRENT ASSETS</b>		
Cash assets	21,072	5,606
Receivables	27,536	36,676
Inventories	37,380	41,932
Other	1,428	2,377
<b>TOTAL CURRENT ASSETS</b>	<b>87,416</b>	<b>86,591</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	71,038	71,289
Deferred tax assets	3,678	4,247
Intangible assets	1,431	1,563
<b>TOTAL NON-CURRENT ASSETS</b>	<b>76,147</b>	<b>77,099</b>
<b>TOTAL ASSETS</b>	<b>163,563</b>	<b>163,690</b>
<b>CURRENT LIABILITIES</b>		
Payables	18,638	25,927
Interest-bearing liabilities	477	496
Current tax liabilities	3,882	4,431
Provisions	6,451	11,511
<b>TOTAL CURRENT LIABILITIES</b>	<b>29,448</b>	<b>42,365</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing liabilities	64,117	63,235
Deferred tax liabilities	2,904	2,731
Provisions	2,457	2,535
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>69,478</b>	<b>68,501</b>
<b>TOTAL LIABILITIES</b>	<b>98,926</b>	<b>110,866</b>
<b>NET ASSETS</b>	<b>64,637</b>	<b>52,824</b>
<b>EQUITY</b>		
Parent entity interest		
Contributed equity	14,738	13,386
Reserves	2,585	2,585
Accumulated losses	41,905	31,803
Total parent entity interest in equity	59,228	47,774
Total outside equity interest	5,409	5,050
<b>TOTAL EQUITY</b>	<b>64,637</b>	<b>52,824</b>

**5.1 Condensed consolidated statement of cash flows**

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	236,016	233,180
Payments to suppliers and employees	(195,640)	(182,981)
Disposal of equity securities	1,265	866
Dividends received	10	61
Interest received	634	193
Borrowing costs paid	(4,380)	(3,896)
Income tax paid	(7,411)	(4,324)
Goods and services tax refunded/(paid)	2,443	(114)
Other	(442)	941
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>32,495</b>	<b>43,926</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	168	821
Purchase of property, plant and equipment	(4,931)	(7,703)
Payment of deferred acquisition price of controlled entity	(1,427)	(6,101)
Other	592	(300)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(5,598)</b>	<b>(13,283)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issues of ordinary shares	1,352	5,680
Payment for share buy-back	-	(91)
Proceeds from borrowings	1,359	-
Repayments of borrowings	(496)	(28,172)
Dividends Paid	(13,646)	(4,725)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(11,431)</b>	<b>(27,308)</b>
<b>NET INCREASE IN CASH HELD</b>	<b>15,466</b>	<b>3,335</b>
Add opening cash brought forward	5,605	2,270
<b>CLOSING CASH CARRIED FORWARD</b>	<b>21,071</b>	<b>5,605</b>

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

	2003 \$'000	2002 \$'000
<b>Net profit after tax</b>	<b>19,399</b>	14,809
<b>Non-cash items:</b>		
Depreciation of non-current assets	4,710	4,121
Amortisation of non-current assets	321	307
Recoverable amount write down of non-current assets	-	1,910
Net (profit)/loss on disposal of property, plant and equipment	115	423
Profit on disposal of controlled entity	-	(294)
Share of associates' net (profits)/losses	-	577
Dividends received from associates	-	180
Income/(reversal) of provision for currency loss	548	(1,284)
Reversal of provision for quality claims	(900)	(1,600)
Reversal of other provisions	(33)	-
Decrease in other final assets	1,451	153
(Reversal of)/provision for diminution in value of investments	(276)	1,029
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	8,171	14,841
(Increase)/decrease in inventory	4,552	12,221
(Increase)/decrease in future income tax benefit	569	2,291
(Increase)/decrease in prepayments	(226)	134
(Decrease)/increase in trade and other creditors	(5,862)	(6,693)
(Decrease)/increase in tax provision	(172)	2,209
(Decrease)/increase in deferred income tax liability	173	(3,050)
(Decrease)/increase in employee entitlements	(45)	1,642
<b>Net cash flow from operating activities</b>	<b>32,495</b>	<b>43,926</b>

## 5.3 Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

Cash on hand and at bank	21,072	5,606
Bank overdraft	(1)	(1)
<b>Total cash at end of period</b>	<b>21,071</b>	<b>5,605</b>

#### 5.4 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.

NONE

#### 5.5 Financing facilities available

The consolidated entity has bank facilities available to the extent of \$67,769,000 (2002 - \$71,376,000). The unutilised facility for the consolidated entity at balance date was \$41,829,000 (2002 - \$46,299,000)

#### 5.6 Acquisition of controlled entity

NONE

## 6.1 Dividends

Date the dividend is payable	18 SEPTEMBER 2003
Record date to determine entitlements to the dividend (ie, on the basis of security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules - securities are CHESSE approved)	15 SEPTEMBER 2003
If it is a final dividend, has it been declared?	YES

## 6.2 Amount per security

	Amount per security	Franked amount per security at 30% tax
<b>Final dividend:</b> Current year	50¢	50¢
Previous year	35¢	35¢
<b>Special dividend:</b> Current year	20¢	20¢
Previous year	10¢	10¢
<b>Interim dividend:</b> Current year	50¢	50¢
Previous year	25¢	25¢

## 6.3 Total dividend per security (interim *plus* final and special)

	Current year	Previous year
Ordinary securities	120¢	70¢
Preference securities	-	-

## 6.4 Preliminary final report - final dividend on all securities

	Current period \$'000	Previous corresponding period \$'000
Ordinary securities	9,519	4,708
Preference securities	-	-
Other equity instruments	-	-
<b>Total</b>	<b>9,519</b>	<b>4,708</b>

**7. Dividend plan**

The company does not have a dividend reinvestment plan.

**8. Consolidated retained profits**

	Current period \$'000	Previous corresponding period \$'000
Retained profits at the beginning of the financial period	31,803	27,894
Net profit attributable to members	17,020	13,037
Dividends and other equity distributions paid or payable	(6,918)	(9,128)
<b>Retained profits at end of financial period</b>	<b>41,905</b>	<b>31,803</b>

<b>9. NTA backing</b>	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	\$4.40	\$3.44

**10. Control gained/lost over entities having material effect**

There has been no changes in control of entities.

## 11. Details of aggregate share of profits (losses) of associates and joint venture entities

	Current period	Previous corresponding period
11.1	Percentage Interest	Percentage Interest
<b>Joint Ventures</b>		
IBM Centre Joint Venture	22.10	22.10
St. Kilda Road Joint Venture	20.00	20.00
Gledden Arcade Joint Venture	22.10	22.10
South Hedland Shopping Centre JV	18.75	18.75
Hometown Joint Venture	25.00	25.00
GHD House Joint Venture	18.00	18.00
Queens Road Joint Venture	9.00	9.00
Bourke Street Joint Venture	12.10	12.10
401 Great Eastern Highway JV	25.00	25.00
Crosslands Shopping Centre JV	16.70	16.70
Perpetual Trustees Joint Venture	20.00	20.00
Gateway Central Joint Venture	12.50	25.00
BBC Hardware Innaloo	6.50	6.50
Alvito House	6.50	6.50
380A Scarborough Beach Road	6.50	-
382 Scarborough Beach Road	6.50	-
Mindarie Keys Joint Venture	15.00	15.00
Majestic Quay Joint Venture	25.00	25.00
11.2	\$'000	\$'000
<b>Group's share of associates' and joint venture entities':</b>		
Profit (loss) from ordinary activities before tax	1,980	321
Income tax on ordinary activities	594	262
<b>Profit (loss) from ordinary activities after tax</b>	<b>1,386</b>	<b>59</b>
Extraordinary items net of tax	-	-
<b>Net profit (loss)</b>	<b>1,386</b>	<b>59</b>
Adjustments	-	-
<b>Share of net profit (loss) of associates and joint venture entities</b>	<b>1,386</b>	<b>59</b>

\*NOTE: These amounts include the equity accounted result for Australian Leather Holdings Limited for three months.

## 12. Other significant information

All significant information is disclosed in this Appendix 4E and the attached press release.

### 13. Foreign entities

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

Australian Accounting Standards
---------------------------------

### 14. Commentary on results

The current year's result includes the consolidation of a full year profit for Australian Leather Holdings Limited. The previous corresponding year included nine months consolidated result and three month's equity accounting. For a commentary on the results see the attached press release.

#### 14.1 Earnings per security (EPS)

<p>Details of basic and diluted EPS reported separately in accordance with paragraph 9 and 18 of <i>AASB 1027: Earnings Per Share</i> are as follows.</p>	<p>Current year</p> <p>\$'000</p>	<p>Previous corresponding year</p> <p>\$'000</p>
<p>The following reflects the income and share data used in the calculation of basic and diluted EPS:</p>		
<p>Basic Earnings</p>	<p>17,020</p>	<p>13,037</p>
<p>Diluted Earnings</p>	<p>17,020</p>	<p>13,037</p>
	<p><u>Number</u></p>	<p><u>Number</u></p>
<p>Weighted average number of ordinary shares used in the calculation of basic EPS</p>	<p>13,597,500</p>	<p>12,736,108</p>
<p>Dilutive effect of employee options on issue</p>	<p><u>340,800</u></p>	<p><u>659,800</u></p>
<p>Weighted average number of ordinary shares used in the calculation of diluted EPS</p>	<p>13,938,300</p>	<p>13,395,908</p>
<p>Basic EPS</p>	<p>\$1.25</p>	<p>\$1.02</p>
<p>Diluted EPS</p>	<p>\$1.22</p>	<p>\$0.97</p>

**14.2 Segment reporting**

See attached

**15. Status of audit or review**

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

- |                                     |                                                                        |                                     |                                                            |
|-------------------------------------|------------------------------------------------------------------------|-------------------------------------|------------------------------------------------------------|
| <input checked="" type="checkbox"/> | The accounts have been audited.                                        | <input checked="" type="checkbox"/> | The accounts have been subject to review.                  |
| <input checked="" type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/>            | The accounts have <i>not</i> yet been audited or reviewed. |

**16. 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

**17. 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: 20 AUGUST 2003  
Company Secretary

Print Name: GEOFFREY VICTOR DAVIESON

**SCHEDULE ACCOMPANYING APPENDIX 4E PRELIMINARY FINAL REPORT**

**SCHAFFER CORPORATION LIMITED**

**(ACN 008 675 689)**

**FOR THE YEAR ENDED 30 JUNE 2003**

**REPORT FOR INDUSTRY SEGMENTS**

	<b>LEATHER</b>		<b>BUILDING PRODUCTS</b>		<b>INVESTMENT PROPERTY</b>		<b>OTHER INVESTMENTS</b>		<b>CONSOLIDATED</b>	
	2003	2002*	2003	2002	2003	2002	2003	2002	2003	2002
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Total Revenue from Ordinary Activities</b>	<u>176,691</u>	<u>159,125</u>	<u>34,922</u>	<u>35,325</u>	<u>4,628</u>	<u>4,966</u>	<u>6,695</u>	<u>12,823</u>	222,936	212,239
Unallocated Revenue									197	295
<b>Total Revenue</b>									<u>223,133</u>	<u>212,534</u>
Segment Earnings	<u>22,274</u>	<u>15,926</u>	<u>4,332</u>	<u>5,322</u>	<u>2,263</u>	<u>2,433</u>	<u>1,731</u>	<u>902</u>	30,600	24,583
Interest and Corporate Overheads									(3, 220)	(4,000)
Operating Profit Before Income Tax									27,380	20,583
Income Tax Expense									<u>7,981</u>	<u>5,774</u>
Net Profit After Tax (equal to item 1.9)									<u>19,399</u>	<u>14,809</u>
Segment Assets	<u>82,338</u>	<u>94,601</u>	<u>22,140</u>	<u>22,401</u>	<u>28,000</u>	<u>27,404</u>	<u>28,693</u>	<u>16,941</u>	161,171	161,347
Unallocated Assets									<u>2,392</u>	<u>2,343</u>
Total Assets									<u>163,563</u>	<u>163,690</u>
Segment Liabilities	<u>63,703</u>	<u>69,448</u>	<u>7,701</u>	<u>7,897</u>	<u>23,955</u>	<u>22,985</u>	<u>2,578</u>	<u>1,976</u>	97,937	102,306
Unallocated Liabilities									<u>989</u>	<u>8,560</u>
Total Liabilities									<u>98,926</u>	<u>110,866</u>

\* Includes 3 months equity accounting and 9 months consolidated earnings