ANNUAL REPORT 12

Schaffer Corporation Limited

ABOUT SCHAFFER CORPORATION

A DIVERSIFIED AUSTRALIAN INDUSTRIAL COMPANY

Schaffer Corporation Limited is a diversified industrial company with core operating divisions in Building Materials, Automotive Leather and Property. Originally incorporated in 1955, the company was first listed on the ASX in 1963 and currently employs approximately 1,000 employees in three countries.

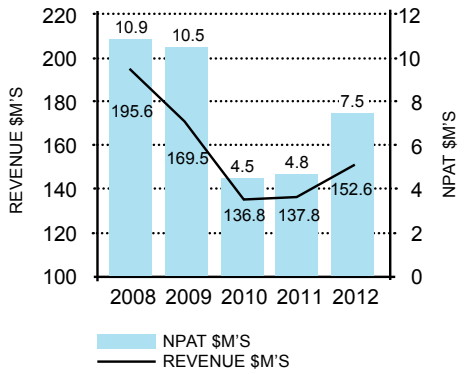
The Building Materials division is a niche Australian supplier of building, construction and landscaping products. The Building Products business unit manufactures and imports a premium range of paving, walling and landscaping products, which are sold direct to the trade and public through a national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

The Automotive Leather division is a world-class, globally competitive automotive leather producer, supplying quality interior leather products to such household names as Audi, Volkswagen, Land Rover, Nissan, Toyota and Ford. The division operates leather processing and finishing operations in the state of Victoria (Australia) and component cutting plants in China and Slovakia. Exports account for over 90% of sales.

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

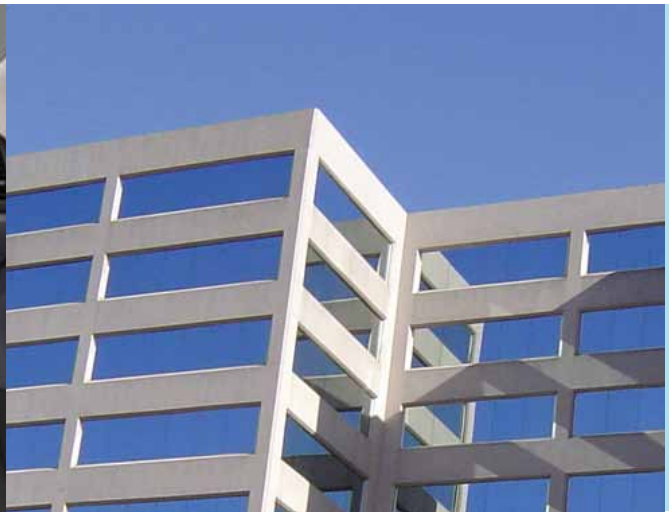
Schaffer Corporation's key internal performance measure is Return on Average Capital Employed (ROACE), which reflects the earnings achieved in relation to the debt and equity capital invested in its businesses. The Company applies the ROACE measure in pursuing its long-term growth strategy to organically 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 49 years since it was originally listed as Calsil Ltd way back in 1963. Over the past twelve years the company has paid approximately $105 million in fully franked dividends, at an average dividend yield of 8.3% p.a.

SFC 5 YR FINANCIAL PERFORMANCE



Board of directors

John Schaffer **Anton Mayer** **Danielle Blain** **David Schwartz** **Michael Perrott AM**



MANAGING DIRECTOR'S REPORT

EXECUTIVE MANAGEMENT TEAM

John Schaffer
BCom(Hons), FCPA
Age 62

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

Anton Mayer
Age 70

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 58

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

Matt Perrella
NPCAA
Age 62

Mr Perrella joined the Group in 1980. From 1989 until June 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, CSA(Cert)
Age 40

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

Nick Filipovic
BEc, CPA
Age 51

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

Jason Walsh
B Bus, MBA
Age 41

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

Key Financial Indicators	2012	2011	2010	2009	2008
Revenue *($millions)*	152.6	138.0	136.8	169.5	195.9
EBITDA* *($millions)*	19.9	17.1	15.1	27.5	28.5
Net Profit after tax *($millions)*	7.5	4.8	4.5	10.5	10.9
Earnings per Share ($)	$0.53	$0.34	$0.32	$0.74	$0.77
Return on Average Capital Employed (ROACE*)	14%	11%	8%	16%	17%
Ordinary Dividend per Share	0.21	$0.20	$0.40	$0.45	$0.50

MAINTAINING FOCUS

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

Financial Performance

For the 2012 financial year, Schaffer Corporation achieved net profit after tax (NPAT) of $7.5 million. That NPAT result represented a 56% increase (from $4.8 million) over the previous financial year.

The significantly improved NPAT was particularly pleasing as the previous year's result was boosted by an after-tax profit of $2.9 million from the sale of Schaffer Corporation's interest in a syndicated investment property at 89 St George's Terrace, Perth, Western Australia.

The result was achieved despite volatile and tough economic conditions. It reflects the operational diversity and sound underlying principles and positioning of Schaffer Corporation's divisions. The work that we put into our businesses facilitates the group achieving the best possible outcome in any particular set of circumstances.

The key drivers of the NPAT result were:

- An increase in resource and civil infrastructure projects in Western Australia, upon which the Building Materials division capitalised, particularly within the Delta pre-cast concrete business
- Ongoing benefits arising from Schaffer Corporation's strategic decision in the prior financial year to close the Howe Automotive Leather division's loss-making North American leather cutting operations.

Despite the Building Materials division's overall strong performance, its Building Products business unit, consisting of paving and walling product operations, continued to operate within an environment of difficult trading conditions, which included high foreign exchange rates, severely restricted debt financing for commercial and residential property development and low levels of consumer spending. Those factors resulted in Building Products' earnings before interest and tax (EBIT*) to be roughly comparable with the low levels achieved in the 2011 financial year.

As long-term shareholders in Schaffer Corporation will know, one of the key measures that we use to assess the performance of our businesses is Return on Average Capital Employed (ROACE*). For the 2012 financial year, Schaffer Corporation achieved ROACE* of 14%, which was an increase over the level of 11% in the previous year. However, it remains below the group's long-term average target of 15%. Each of Automotive Leather and Delta exceeded the 15% target for the 2012 financial year. However, Building Products remains below the target level as a result of subdued trading conditions.

People, Health, Safety and Environment

People underpin the growth and success of Schaffer Corporation. We have a proud history of loyal service from our employees all over the world. We have a 1,000 strong workforce who continue to respond to challenging environments with hard work and dedication. Just by way of an example, at the executive management level, our team of seven people has over 150 years of combined service with Schaffer Corporation.

Schaffer Corporation is committed to providing all our employees with a safe and healthy working environment. During the financial year, we continued to work diligently on reviewing and improving the occupational health and safety management systems across the group. In the final quarter, the number or workers compensation days per month dropped to a level approximately 30% lower than the average for the whole year and 45% lower than the average for the past three years. Those results provide a good representation of Schaffer Corporation's commitment to continuous improvement in this area.

Continuous improvement is also part of Schaffer Corporation's approach to its environmental responsibilities. During the financial year, the Automotive Leather division made further investment in plant technology that reduces chemical wastage and energy usage associated with leather finishing processes, thereby reducing the division's carbon footprint.

Building Materials

The Building Materials division increased revenue by 9% to $56.4 million and EBIT* by 26% to $5.0 million.

Delta Corporation produces and supplies pre-cast and pre-stressed concrete products. Delta continued its growth trend with increasing revenue centred on Government, building and infrastructure and large-scale resource projects. Given the strength in demand and Delta's leading position in the sector, it applied its capacity to highly specialised work, which flowed into increased profitability. In the current year, the number of projects in Delta's pipeline continues to improve and the short-term outlook for the business is encouraging.

The Building Products business unit supplies paving and walling products. The business unit had a similar result to the previous financial year at both the revenue and EBIT* levels. Those outcomes reflected the prevailing economic and industry conditions, which resulted in low residential and commercial building activity.

In the 2011 financial year, Building Products commenced sales of masonry block products. In the year under review, the business unit achieved good penetration for these products. It anticipates continuing that penetration, assisted by additional product development. The business unit remains highly customer focused and continues to refine its product mix to target the industry's requirements. I am encouraged by the build up in the unit's order book towards the end of the financial year.

Automotive Leather

The Automotive Leather division's revenue from continuing operations increased by 24% to $89.6 million and EBIT* more than doubled (including discontinued operations) to $7.4 million. The decision taken during the 2011 financial year to close the North American leather cutting operations had a $4.0 million impact on that year's EBIT* result ($3.2 million).

The increase in revenue was directly related to the 27% increase in volumes from new and continuing programs in Europe and China. In both those markets, Automotive Leather is expanding its local presence and focusing on positioning the business as a high quality, low cost producer.

Negative exchange rate fluctuations (particularly the AUD:EUR exchange rate increasing from Euro 0.74 to Euro 0.81 over the financial year) decreased export revenue per square metre. Currency movements are outside of its control and, accordingly, Automotive Leather continues to implement further technological and process improvements to create cost savings and enhance its reputation as a high quality and low cost producer.

Property

The Property division's revenue decreased by 3% to $6.6 million and EBIT* decreased to $4.5 million for the financial year.

The reduction in revenue was associated with reduced rental revenue following the sale of properties in the 2011 and 2012 financial years. The reduction in rental was offset by lower vacancy rates across our investment portfolio. The portfolio is currently nearly 100% tenanted.

EBIT* decreased from $7.2 million in the 2011 financial year, when the division accrued $4.4 million for its share of profits from the sale of 89 St Georges Terrace, Perth, Western Australia. In comparison, the only sale of property in the 2012 financial year accrued $0.4 million as a share of profit on the sale of a property located at Vulcan Road, Canning Vale, Western Australia.

During the financial year under review, a fire destroyed the tenanted building located at 10 Bennett Avenue, North Coogee, Western Australia. The property was insured against such a loss and the group has received a progress payment of $1.5 million against its property damage claim. Negotiation continues with insurers to achieve a final outcome of the claim.

Cash Flow and Net Debt

Global economic conditions remain uncertain. Accordingly, Schaffer Corporation continues to adopt a financially prudent approach by allocating our improving operating cash flow to the reduction of net debt across the group.

In the 2012 financial year, Schaffer Corporation reduced group net debt by $12.2 million to $39.3 million. That figure reflects three distinct debt 'pools' associated with:

- Syndicated investment property portfolio $22.0 million
- Automotive Leather $15.9 million
- Corporate and Building Materials $1.4 million

Reflecting the structuring of those debt pools, the debt associated with investment property portfolio and Automotive Leather is primarily on a non-recourse basis to the other assets of Schaffer Corporation.

The group net debt position as at 30 June 2012 is set out in more detail in the following table:

All amounts in $m	Building Mat and Corp	Syndicate Investment Properties	Automotive Leather	Total 30 June 2012
Type of Debt				
Bank debt – recourse	4.2	3.9	-	8.1
Bank debt – non-recourse	-	18.7	-	18.7
Govt. Loans – non-recourse	-	-	25.0	25.0
Equipment finance	1.4	-	0.1	1.5
	5.6	**22.6**	**25.1**	**53.3**
Maturity Profile				
FY13	0.6	7.7	2.6	10.9
FY14	4.6	7.6	2.5	14.7
FY15 & beyond	0.4	7.4	20.0	27.8
	5.6	**22.6**	**25.1**	**53.3**
Net Debt Position				
Gross debt	5.6	22.6	25.1	53.3
Cash and term deposits	(4.2)	(0.6)	(9.2)	(14.0)
Net Debt	**1.4**	**22.0**	**15.9**	**39.3**

Schaffer Corporation adopts a conservative accounting policy by carrying the investment property portfolio at book depreciated cost, rather than market values.

However, Schaffer Corporation has held most of its portfolio for many years and 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, the ratio of net debt to net debt plus equity (the leverage ratio) for the Corporate and Building Material debt pool is just 2% and 38% for the Automotive Leather pool. The Loan to Valuation Ratio (LVR) for Syndicate Investment Properties is 53%.

As part of Schaffer Corporation's effective capital management, there is a 12 month on-market share buy-back in place that has been available since 2 November 2012 for up to 700,000 shares. At 30 June 2012, 52,897 shares had been purchased under the scheme at an average of $3.41 per share.

Dividends

Schaffer Corporation's long-standing policy is to pay the majority of earnings as dividends to its shareholders.

In keeping with its prudent approach, the directors manage the proportion of earnings paid out as dividends having regard to capital expenditure requirements, acquisition activity, liquidity needs and the availability of franking credits. A current and relevant consideration is also the level of economic volatility and uncertainty.

In the 2012 financial year, Schaffer Corporation declared fully franked dividends totalling 21 cents per share. The final dividend increased by 10% to 11 cents per share (fully franked). That level of dividends reflected a payout ratio of 39%, which is the lowest it has been for some years.

The Board recognises that many investors and shareholders regard Schaffer Corporation as a strong yielding company. Nonetheless, we are conscious of the uncertainty of prevailing economic conditions and have declared an increased but still conservative dividend.

Outlook

For several years, SFC's businesses have been operating in challenging environments, impacted by macro and micro business conditions, volatile credit and currency markets and structural change in certain of its markets. These conditions make it difficult to make reasonably based and reliable forecasts of future performance.

For the first half of the 2013 financial year, Schaffer Corporation anticipates that its performance will be lower than the previous corresponding period with:

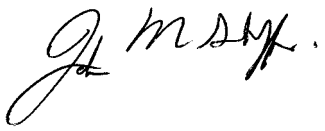
- Automotive Leather's EBIT* materially lower due to the ongoing strength of the Australian dollar (impacting export revenue) and lower volumes compared to the previous corresponding period.
- Improved performance from Building Materials, which has strong order books and is well positioned for the 2013 financial year.
- Slightly higher revenue at Property compared to the prior period with low vacancies and improving average rent.
- No expected property sales.

For Automotive Leather, given the evident risks associated with exchange rate volatility, we continue our strong belief in positioning Howe as a high quality and low cost producer to minimise the effects of negative exchange rate movements. Volumes are likely to increase in the second half of the 2013 financial year with the commencement of awarded programs.

With its strong manufacturing and distribution base, the Building Products business unit is leveraged to an increase in consumer spending and new housing. In the wider Building Materials division, increasing resource and civil infrastructure activity, along with our strong customer focus, resulted in confirmed order books increasing late in the 2012 financial year and putting the division in a good position for the 2013 financial year.

The preceding analysis excludes the impact of any final settlement for the fire damage claim for the property at North Coogee. As noted above, Schaffer Corporation is continuing negotiations on a final settlement and the company will make a further announcement when there is more certainty as to the final outcome.

As always, I look forward to seeing as many shareholders as possible at Schaffer Corporation's Annual General Meeting. The meeting this year will be held on 15 November 2012, at which time I will provide a further update on the outlook for the 2013 financial year.



JOHN SCHAFFER
Managing Director

* Schaffer Corporation results are reported under 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.

BUILDING MATERIALS

LIMESTONE RESOURCES
AUSTRALIA PTY LTD

Revenue ($million)	EBIT ($million)
$56.4	$5.0

PROFITABLE NICHE FOCUS

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

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

Schaffer Building Products

www.urbanstone.com.au
www.urbanstonecentral.com au
www.archistone.com.au
www.limestone-resources.com.au
www.lumeah.com.au

Our continued focus on strong customer service and exceptional product quality has allowed our business unit to build an exceptional order-bank over the past year, and to give us a strong springboard for the 2012/13 financial year.

Whilst this order-bank has been built over many months, it has been achieved despite continued pricing and competitive market pressures that revolve around the ongoing depressed building and construction markets.

Pricing pressures, and market competition have had an effect on selling prices in some areas of the business, but have not severely impacted, on our overall margins which we fiercely protect through production efficiency, product mix and excellent service.

Our retail sales have certainly been under pressure, particularly in Queensland, New South Wales and Victoria, but have remained steady in Western Australia with good growth experienced in South Australia.

Natural stone imports continue to play an important role in our sales mix, particularly since we secured exclusivity on several Australian Granite types.

This strategy has allowed us to seek specification on granite projects by referring products that have 100% Australian content, a "marketing positive" to specifiers, Government and local Government projects. This process is backed up with an exceptional range of products, dimension cut to exacting requirements.

Masonry Block sales have progressed exceptionally well during the past year, and it would be fair to say that our experience and focus on quality and service to the market has catapulted this division into the market leaders position in Western Australia within our first full year of operation.

Our order-bank remains healthy and our product development is on schedule to see a magnificent range of honed and polished masonry blocks offered to specifiers and the market in general towards the end of the coming year.

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

WA

- Haden Place Apartments – South Perth
- Town of Kwinana – City Centre
- City of Perth – major streetscapes
- Peppermint Gove library – Town of Peppermint Grove
- Mandurah Town Centre upgrade – Mandurah
- Collie Town Centre streetscapes – Collie
- FESA Head Quarters – Cockburn – Perth

SA

- Victor Harbour Foreshore Redevelopment – Victor Harbour

VIC

- ANZ Dockland Prescient - Melbourne

NSW

- Bathers Pavilion upgrade – Wollongong
- K2RQ Railway Platforms - Sydney

QLD

- Brisbane Airport upgrade
- Major projects of note completed during the year utilising UrbanStone's Australian Granite products are as follows:

WA

- Busselton Streetscapes – Shire of Busselton
- Forrest Chase redevelopment stage 3 & 4 – Perth City Council

QLD

- Queensland University at Gardens Point – Brisbane

Some major projects of note completed during the year utilising Archistone Masonry Block products are as follows:

- Terminal WA – Perth Airport
- Residence – Wayeela Place, City Beach, Perth
- Karratha Leisure Centre – Town of Karratha
- Fitzroy Crossing Police Station – Fitzroy Crossing
- WA Autism Centre Headquarters – Shenton Park, Perth

FEATURE PROJECT
BUTLER SENIOR HIGH SCHOOL

Architect Taylor Robinson Architects Pty Ltd
Builder Pindan Constructions
Blocklaying Contractor C&L Barden Bricklayers

The Butler Senior High School is a brand new campus located on a 10 hectare site in the northern suburb of Butler. The $53 million Stage One portion of the project is to be completed for the commencement of the 2013 school year, and will accommodate 600 mainstream students and up to 70 high-needs education support students.

Stage One incorporates an administration block, student services, library resource centre, a classroom block consisting of 8 general classrooms and education support classrooms with associated facilities and staff areas.

Concrete Masonry was chosen as the material of choice for construction of this major new educational facility because of the variety of colours and textures available to the designer, allowing each building on the campus to have their own individual character whilst still maintaining a common theme across the school. Limestone colours have formed the

basis of the colour palette for the buildings which tie in with traditional colours found in the local landscape. A combination of smooth face, split face and machined blocks in various sizes have added a range of colour, texture and shape to this outstanding facility. When completed, this school will provide a major educational hub in the northern suburbs of Perth and Archistone Masonry are proud to have been chosen as the preferred supplier for this prestigious project.

Delta Corporation

www.deltacorp.com.au

Despite a downturn in commercial projects during 2011/12, Delta achieved a solid performance for the year, significantly outperforming the previous year by taking full advantage of continuing activity and strong growth in the resource and infrastructure sectors of the construction industry.

We supplied a range of projects with our full range of standard products including Architectural Wall Panels, TeeRoff Bridge Beams, Precast and Prestressed Beams and Deltacore Flooring. We are proud to have successfully completed the supply of the highly architectural wall panels on various buildings for the high profile Fiona Stanley Hospital Project which have set an industry benchmark.

Major projects successfully completed during the year included:

Resource and Infrastructure

- Rio Tinto - Level Crossings
- Gorgon LNG Project – General Utilities
- Karara Iron Ore Project
- Cape Lambert Car Dumper 5
- Cape Lambert Port B Beach Road Bridge

Commercial

- Fiona Stanley Hospital Building B
- Fiona Stanley Hospital Building A, T, Y & Z
- REIWA Building Perth
- Central Energy Plant QE11
- Curtin University Engineering Building

We have set our targets even higher for 2012/13 as we have secured a solid order bank which includes a number of sizable projects. In addition, we are well placed to win a number of upcoming infrastructure and resource projects that are due for award over the next few months.

We are confident that we can achieve our budget forecast.

FEATURE PROJECT
GREAT EASTERN HIGHWAY AND ROE HIGHWAY INTERCHANGE PROJECT

Delta was chosen by MacMahon Contractors as the preferred specialist precast concrete supplier for structural precast concrete bridge elements for the $101.5 million Great Eastern Highway and Roe Highway Interchange Project, Midland, Western Australia.

This was one of the busiest intersections in Western Australia which picks up traffic from the Perth-Adelaide and Perth-Darwin National Highways. Traffic has increased dramatically over the past few years with currently around 60,000 vehicles using this intersection every day and this is expected to increase to 90,000 by 2021. The new interchange which was recently opened will relieve congestion, traffic flow and vastly improve safety.

The project involves a total of four bridges over Great Eastern Highway, Clayton Street and the National Railway line for which Delta supplied Precast Prestressed Concrete TeeRoff Beams to three bridges and Parapet Panels to all four.

Precast Prestressed Concrete TeeRoff Beams provide a speedy method of construction which minimises disruption to traffic and allows a complete bridge deck to be delivered and installed over a weekend.

With the limited storage space available at the project site the beams were manufactured and stored at Delta's works ready for delivery. As with all products manufactured by Delta the beams and parapets were produced in accordance with Delta's full third party accredited Quality System to ISO 9001:2008 standards. All elements were manufactured and delivered to site in accordance with the construction programme and to stringent Main Roads Specifications.

AUTOMOTIVE LEATHER

Revenue ($million)	EBIT ($million)
$89.6	$7.4

HOWE
THE PROMISE OF AUSTRALIA'S BEST LEATHER.™

A GLOBAL BUSINESS IN A GLOBAL INDUSTRY

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

Howe Automotive

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 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 Audi, Volkswagen, Land Rover, 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.

Howe increased its EBIT to $7.4 million (pcp: $3.2 million) by refocusing on higher margin cut component sales in Europe and Asia, and the beneficial strategic decision to close the loss-making North American operation in 2011.

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.

The outlook for the global automotive industry is cautious, particularly with some slowing of growth in China and the 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 even though we have a strong, competitive business, the currency translation into the strong Australian dollar has a negative effect on our Australian dollar profitability.

FEATURE PROJECT
NEW AUDI A6 SALOON

How do you improve a car like the Audi A6 Saloon? Simple, you just need 100 years of history along with a mass of developments, patents and records. You need engineers who can squeeze maximum performance from each drop of fuel and you need craftsmen who can create the perfect interiors.

What you see in the new Audi A6 Is a stunning saloon that catches the eye with its light and elegantly smooth proportioning and sporty lines. What you don't see is the enthusiasm of its developers and designers. Only the passion of the whole Audi team enables the building of a car worthy of the claim 'Vorsprung durch Technik' (Advancement through Technology).

An Impressive interior awaits the driver of the new Audi A6 Saloon with Howe chosen as one of the key leather suppliers for the vehicle.

Revenue ($million)	EBIT ($million)
$6.6	$4.5

PROPERTY

A PORTFOLIO OF QUALITY INVESTMENTS

Investment property

As at 30 June 2012, Schaffer Corporation's investment property portfolio consisted of three office/retail syndicated properties located in Western Australia, plus a syndicated interest in a office property located in Melbourne.

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

During the year, Schaffer's interest in the 115 Vulcan Road, Canning Vale, Perth property syndicate was sold generating a pre-tax profit of $0.4 million.

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, commencing in the next two to four years, this property is likely to be developed as an industrial subdivision.

Schaffer Corporation holds a 15% interest in the Mindarie Keys Marina residential land subdivision located north of Perth, Western Australia. This development project is substantially complete, nevertheless the joint operation continues to develop and operate the marina at Mindarie Keys.

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.

During the year, a fire event at one of the Group's leased properties at Bennett Avenue in North Coogee, destroyed the property. The property was previously occupied by Gosh Leather, part of SFC's leather operations. Subsequent to Gosh Leather terminating its own operations, the property was being leased to a Materials Recycling Facility since 2008. $1.5 million cash proceeds have been received from our insurers as a progress payment on our property damage claim in relation to this event. The total net impact of the fire on our 2011/12 result is $0.8 million NPAT. At the time of this report, the final outcome of the property damage claim is currently being negotiated.

2012

at 30 June 2012

SCHAFFER CORPORATION LIMITED

ABN 73 008 675 689

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	Note	Consolidated 2012 $'000	2011 $'000
CONTINUING OPERATIONS			
Revenue			
Sale of goods		**121,648**	104,604
Construction services		**25,564**	20,395
Rental income	3(a)	**5,178**	5,563
Finance income	3(b)	**176**	246
Dividends	3(c)	**1**	1
Total revenue		**152,567**	130,809
Cost of sales and services rendered		**(118,389)**	(101,697)
Gross profit		**34,178**	29,112
Other income/(losses)	3(d)	**1,916**	6,551
Marketing expenses		**(9,575)**	(9,424)
Administrative expenses		**(11,453)**	(9,808)
Profit from continuing operations before tax and finance costs		**15,066**	16,431
Finance costs	3(b)	**(3,830)**	(4,783)
Profit from continuing operations before income tax		**11,236**	11,648
Income tax expense	5	**(2,809)**	(3,647)
Profit from continuing operations after income tax		**8,427**	8,001
Discontinued operations			
Loss from discontinued operations after income tax	36	**–**	(3,051)
Net profit for period		**8,427**	4,950
Other comprehensive income			
Net fair value gains/(losses) on available-for-sale financial assets		**2**	1
Foreign currency translation profit/(loss)		**34**	(1,680)
Transfer realised foreign currency translation loss to discontinued operations		**–**	829
Income tax on items of other comprehensive income		**–**	–
Other comprehensive income for the period, net of tax		**36**	(850)
Total comprehensive income for the period		**8,463**	4,100
Profit/(loss) for the period is attributable to:			
Non-controlling interest		**910**	134
Owners of the parent		**7,517**	4,816
		8,427	4,950
Total comprehensive income for the period is attributable to:			
Non-controlling interest		**915**	(39)
Owners of the parent		**7,548**	4,139
		8,463	4,100
Earnings per share (EPS)			
Basic EPS		**53.4¢**	34.1¢
Diluted EPS		**53.4¢**	34.1¢
Basic EPS from continuing operations		**53.4¢**	55.7¢
Diluted EPS from continuing operations		**53.4¢**	55.7¢
Dividends paid and payable per share		**21.0¢**	20.0¢

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 2012

	Note	Consolidated 2012 $'000	2011 $'000
ASSETS			
Current Assets			
Cash and short-term deposits	4	**12,956**	7,961
Trade and other receivables	7	**22,088**	27,553
Inventories	8	**39,458**	45,089
Other financial assets	9	**1,033**	32
Prepayments and deposits	10	**1,630**	1,004
Derivative financial instruments	33	**–**	151
		77,165	81,790
Non-current assets classified as held for sale	34	**–**	717
Total Current Assets		**77,165**	82,507
Non-Current Assets			
Property, plant and equipment	13	**45,985**	48,571
Investment properties	14	**13,952**	14,132
Deferred income tax asset	5	**456**	1,802
Goodwill	15	**4,995**	4,995
Total Non-Current Assets		**65,388**	69,500
Total Assets		**142,553**	152,007
LIABILITIES			
Current Liabilities			
Trade and other payables	16	**18,491**	26,191
Interest bearing loans and borrowings	17	**10,459**	43,184
Income tax payable		**44**	1,716
Provisions	18	**4,859**	4,249
Derivative financial instruments	33	**203**	307
		34,056	75,647
Liabilities classified as held for sale	34	**–**	560
Total Current Liabilities		**34,056**	76,207
Non-Current Liabilities			
Interest bearing loans and borrowings	19	**42,936**	15,690
Provisions	20	**1,454**	1,483
Total Non-Current Liabilities		**44,390**	17,173
Total Liabilities		**78,446**	93,380
Net Assets		**64,107**	58,627
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	21	**16,853**	17,034
Reserves	22	**1,162**	1,081
Retained earnings	22	**40,982**	36,283
Total parent entity interest in equity		**58,997**	54,398
Non-controlling interests	30	**5,110**	4,229
Total Equity		**64,107**	58,627

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 2012

	Attributable to Equity Holders of the Parent									
			Reserves							
	Issued capital	Retained earnings	Asset revaluation	Share-based payment EPU's	Share-based payment SFC options	Net unrealised gains/ (losses)	Foreign currency translation	Total	Non-controlling Interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2010	17,034	35,701	2,585	406	115	1	(1,415)	54,427	4,318	58,745
Profit for the year	–	4,816	–	–	–	–	–	4,816	134	4,950
Other comprehensive income	–	–	–	–	–	1	(678)	(677)	(173)	(850)
Total comprehensive income for the year	–	4,816	–	–	–	1	(678)	4,139	(39)	4,100
Transactions with owners in their capacity as owners:										
Share-based payments	–	–	–	66	–	–	–	66	–	66
Equity dividends	–	(4,234)	–	–	–	–	–	(4,234)	(50)	(4,284)
At 30 June 2011	17,034	36,283	2,585	472	115	2	(2,093)	54,398	4,229	58,627
At 1 July 2011	**17,034**	**36,283**	**2,585**	**472**	**115**	**2**	**(2,093)**	**54,398**	**4,229**	**58,627**
Profit for the year	**–**	**7,517**	**–**	**–**	**–**	**–**	**–**	**7,517**	**910**	**8,427**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**2**	**29**	**31**	**5**	**36**
Total comprehensive income for the year	**–**	**7,517**	**–**	**–**	**–**	**2**	**29**	**7,548**	**915**	**8,463**
Transactions with owners in their capacity as owners:										
Share-based payments	**–**	**–**	**–**	**50**	**–**	**–**	**–**	**50**	**–**	**50**
Shares acquired under buy-back scheme	**(181)**	**–**	**–**	**–**	**–**	**–**	**–**	**(181)**	**–**	**(181)**
Equity dividends	**–**	**(2,818)**	**–**	**–**	**–**	**–**	**–**	**(2,818)**	**(34)**	**(2,852)**
At 30 June 2012	**16,853**	**40,982**	**2,585**	**522**	**115**	**4**	**(2,064)**	**58,997**	**5,110**	**64,107**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2012

	Note	Consolidated 2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**164,258**	136,260
Payments to suppliers and employees		**(141,045)**	(127,300)
Other revenue		**143**	68
Interest paid		**(3,830)**	(4,783)
Income taxes paid		**(3,135)**	(2,059)
Goods and services tax paid		**(1,827)**	(1,103)
Net cash flows from operating activities	4(b)	**14,564**	1,083
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**176**	246
Improvements to investment properties		**(249)**	(1,254)
Acquisition of property, plant and equipment		**(2,163)**	(3,631)
Insurance proceeds on loss of property		**1,500**	–
Proceeds on sale of property, plant and equipment		**15**	11,416
Proceeds on sale of investment property		**1,147**	8,047
Investments in term deposits		**(1,000)**	–
Proceeds on disposal of equity securities		**1**	–
Deposits acquired		**100**	(126)
Dividends received		**1**	1
Net cash flows (used in)/from investing activities		**(472)**	14,699
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease principal payments		**(659)**	(710)
Dividends paid	6(a)	**(2,852)**	(4,284)
Proceeds from borrowings		**2,700**	6,469
Repayment of borrowings		**(8,139)**	(23,126)
Shares acquired under share buy-back scheme		**(181)**	–
Net cash flows used in financing activities		**(9,131)**	(21,651)
Net increase/(decrease) in cash and cash equivalents		**4,961**	(5,869)
Net foreign exchange differences		**34**	(1,680)
Cash and cash equivalents at the beginning of the period		**7,961**	15,510
Cash and cash equivalents at the end of the period	4(a)	**12,956**	7,961

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 2010

NOTE 1
CORPORATE INFORMATION

The consolidated financial report of Schaffer Corporation Limited and its controlled entities ("the Group") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 21 September 2012.

Schaffer Corporation Limited ("SFC", "the Parent" or "the Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock 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 and non-current assets held for sale 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 2011:

1. AASB 124 (Revised) Related Party Disclosures (December 2009) effective 1 January 2011.
2. AASB 2009-12 Amendments to Australian Accounting Standards – numerous editorial changes to a range of Australian Accounting Standards and Interpretations effective 1 January 2011.
3. AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 January 2011.
4. AASB 2010-5 – Amendments to Australian Accounting Standards – numerous editorial changes to a range of Australian Accounting Standards and Interpretations effective 1 January 2011.
5. AASB 1054 – Australian Additional Disclosures – with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in several areas effective 1 July 2011.
6. AASB 2010-6 – Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] effective 1 July 2011.

The amendments did not have an impact on the financial statements or the performance of the Group.

Other amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

AASB 1 *First-time adoptions of Australian Accounting Standards*
AASB 134 *Interim Reporting*
Interpretation 13 *Customer Loyalty Programmes*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) New accounting standards and interpretations (continued)

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 2012.

Reference	Title	Summary	Application date of standard	Application date for Group
2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate *SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets* into AASB 112.	1 Jan 2012	1 July 2012
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 July 2012
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (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. (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. (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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. 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 and 2010-10.	1 January 2013*	1 July 2013
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	1 July 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

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 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly – controlled Entities – Non-monetary Contributions* by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	1 July 2013
Annual Improvements 2009–2011 Cycle **	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards • Repeated application of IFRS 1 • Borrowing costs IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment • Classification of servicing equipment IAS 32 Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	1 July 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

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 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	1 July 2013
AASB 2012-4	Amendments to Australian Accounting Standards – Government Loans	AASB 2012-4 adds an exception to the retrospective application of Australian Accounting Standards under AASB 1 First-time Adoption of Australian Accounting Standards to require that first-time adopters apply the requirements in AASB 139 Financial Instruments: Recognition and Measurement (or AASB 9 Financial Instruments) and AASB 120 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans (including those at a below-market rate of interest) existing at the date of transition to Australian Accounting Standards.	1 January 2013	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle;	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1); and • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation 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.	1 January 2014	1 July 2015

* AASB ED 215 *Mandatory effective date of IFRS 9* proposes to defer the mandatory effective date of AASB 9 to annual periods beginning on or after 1 January 2015, with early application permitted. At the time of preparation, finalisation of ED 215 is still pending by the AASB. However, the IASB has deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted.

** These IFRS amendments have not yet been adopted by the AASB. In order to claim compliance with IFRS, these amendments should be noted in the financial statements.

The impact of the adoption of these new and revised standards and interpretations has not been determined by the Group at 30 June 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

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.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Non-controlling interests represent the portion of profit or loss and net assets in Howe Automotive 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 judgements, estimates and assumptions

(i) Significant accounting judgements

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 is discussed in note 15(a).

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.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) Interest in jointly controlled assets

In respect of the Group's interest in jointly controlled assets, the following are recognised in the financial statements:

(i) the Group's share of the jointly controlled assets, classified according to the nature of the assets;
(ii) any liabilities that the Group has incurred;
(iii) the Group's share of any liabilities incurred jointly with the other parties in relation to the joint operation;
(iv) any income from the sale or use of the Group's share of the output of the joint operation, together with the Group's share of any expenses incurred by the joint operation; and
(v) any expenses that the Group has incurred in respect of its interest in the joint operation.

(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 (A$).

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.

As at the reporting date, the assets and liabilities of overseas subsidiaries (refer note 12) 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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 to sell 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 to sell 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 after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

(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 fixed 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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 provision 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 receivable carrying amount.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 wages and salaries, annual leave and any other 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 government bonds securities 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 profits on a net basis in their respective categories.

Contributions to defined contribution superannuation plans are expensed when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 (see note 31).

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee participation units

A controlled entity Howe Automotive Limited (HA) may grant employee participation units (EPUs) in accordance with its Employee Incentive Plan adopted by HA 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 HA. 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 binominal 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 HA 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.

HA 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 EPUs 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 profit or loss.

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 ventures, 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.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 operations, 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 a method that is systematic, rational and consistent with the broad principles of AASB 112, 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 2012

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.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 acquire, 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.

Prior to July 2011

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

(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 presently 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 to sell. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 3
REVENUES AND EXPENSES

Revenue and expenses from continuing operations

	Consolidated 2012 $'000	2011 $'000
(a) Net rental income		
Rental property income	**5,178**	5,563
	5,178	5,563
Rental property expenses	**(2,818)**	(3,012)
Net rental income	**2,360**	2,551
(b) Finance (costs)/income		
Bank and other loans and overdrafts – interest	**(3,691)**	(4,638)
Finance charges payable under finance leases	**(139)**	(145)
Total finance costs	**(3,830)**	(4,783)
Bank interest revenue	**176**	246
Total finance income	**176**	246
(c) Dividends		
Dividends received	**1**	1
	1	1
(d) Other income/(losses)		
Insurance proceeds on loss of property	**1,500**	–
(Loss)/profit on disposal of property, plant & equipment	**(10)**	947
Net gain on derivatives	**369**	384
Net foreign currency gain/(loss)	**(530)**	859
Profit on disposal of investment property	**431**	4,296
Other	**156**	65
	1,916	6,551
(e) Depreciation, amortisation and impairment included in consolidated statement of comprehensive income		
Depreciation and amortisation included in:		
Cost of sales	**3,918**	3,951
Rental property expenses	**535**	572
Marketing and administrative expenses	**571**	356
	5,024	4,879
(f) Lease payments included in the consolidated statement of comprehensive income		
Included in cost of sales:		
Minimum lease payments – operating lease	**667**	1,260
Included in marketing and administrative expenses:		
Minimum lease payments – operating lease	**1,843**	1,309
	2,510	2,569
(g) Employee benefit expense		
Wages and salaries	**34,491**	32,491
Long service leave provisions	**334**	350
Worker's compensation costs	**832**	608
Superannuation costs	**2,083**	1,958
Expense of share-based payments	**83**	66
	37,823	35,473
(h) Other expenses/(gains)		
Provision for/(write back of) allowance for doubtful debts	**33**	(3)
	33	(3)

NOTE 4
CASH AND SHORT-TERM DEPOSITS

	Consolidated 2012 $'000	2011 $'000
(a) Reconciliation of cash		
Cash balance comprises:		
Cash at bank and on hand	**11,456**	7,961
Short-term deposits	**1,500**	–
Closing cash balance per Consolidated Statement of Cash Flows	**12,956**	**7,961**
(b) Reconciliation of operating profit after income tax to the net cash flows from operations		
Net profit	**8,427**	4,950
Adjustment for:		
Depreciation, amortisation and impairment	**5,024**	4,879
Interest received	**(176)**	(246)
Dividends received	**(1)**	(1)
Share-based payments expense	**50**	66
Profit on sale of investment property	**(431)**	(4,296)
Insurance proceeds on loss of property	**(1,500)**	–
Loss/(profit) on disposal of property, plant & equipment	**10**	(947)
Net (gain)/loss on foreign exchange	**530**	(859)
Transfer of foreign currency translation reserve to net profit	**–**	829
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**5,465**	(7,064)
Increase/(decrease) in employee entitlement provision	**581**	11
(Increase)/decrease in inventories	**5,631**	(1,181)
Increase/(decrease) in trade and other payables	**(8,040)**	4,015
(Decrease)/increase in income tax payable	**(1,672)**	905
(Increase)/decrease in deferred income tax asset	**1,346**	(268)
(Increase)/decrease in prepayments	**(726)**	35
(Increase)/decrease in derivatives	**47**	255
(Increase)/decrease in available for sale investments	**(1)**	–
Net cash flows from operating activities	**14,564**	1,083

(c) Bank facilities (refer note 19)

(d) Non-cash financing activities

During the current financial year plant costing $59,000 (2011 – $170,000) was acquired under a finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 5
INCOME TAX

The major components of income tax expense are:

	Consolidated 2012 $'000	2011 $'000
Consolidated statement of comprehensive income		
Current income tax		
Current income tax charge	**1,741**	3,033
Adjustment in respect of current income tax of previous years	**(278)**	(70)
Deferred income tax		
Relating to origination and reversal of temporary differences	**1,346**	(268)
Income tax expense reported in the consolidated statement of comprehensive income	**2,809**	2,695
Consolidated statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity		
Unrealised gain on available-for-sale investments	**1**	–
Income tax expense reported in equity	**1**	–
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before tax from continuing operations	**11,236**	11,648
Loss before tax from discontinued operations	**–**	(4,003)
Accounting profit before income tax	**11,236**	7,645
At the Group's statutory income tax rate of 30% (2011 – 30%)	**3,370**	2,295
– overseas currency translation adjustment	**(67)**	142
– expenses not allowable for income tax purposes	**61**	320
– other items	**(277)**	8
– over-provision of current income tax of previous years	**(278)**	(70)
	2,809	2,695
Income tax expense reported in the consolidated statement of comprehensive income	**2,809**	3,647
Income tax attributable to discontinued operation	**–**	(952)
	2,809	2,695

NOTE 5
INCOME TAX (CONTINUED)

	Consolidated Statement of Financial Position 2012 $'000	2011 $'000	Consolidated Statement of Comprehensive Income 2012 $'000	2011 $'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Consolidated				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	**1,876**	1,695	**(181)**	237
Leased assets to be amortised for accounting purposes	**475**	736	**261**	(442)
Expenses deducted for income tax purposes but deferred for accounting purposes	**83**	74	**(9)**	(59)
Income taken up for accounting purposes currently not assessable for income tax purposes	**1**	1	**–**	1
Unrealised gain on available-for-sale investments to fair value	**2**	1	**(1)**	(1)
Interest rate swap contracts deferred gain	**–**	45	**45**	17
Deferred gain for income tax purposes on available-for-sale investments on script for script rollover	**7**	7	**–**	–
Gross deferred income tax liabilities	**2,444**	2,559		
Offset	**(2,444)**	(2,559)		
	–	–		
Consolidated				
Deferred tax assets				
Employee entitlements	**1,499**	1,310	**189**	62
Allowance for doubtful debts	**39**	29	**10**	(1)
Accelerated depreciation for accounting purposes	**290**	616	**(326)**	(1)
Deferred gains and losses on foreign exchange contracts and translations	**189**	243	**(54)**	25
Deferred loss on available-for-sale investments	**–**	–	**–**	(1)
Expenses not immediately deductible for income tax purposes	**185**	433	**(248)**	(65)
Lease liability deductible for income tax purposes	**376**	543	**(167)**	290
Deferred losses on interest rate swap contracts	**61**	–	**61**	–
Losses carried forward	**261**	1,187	**(926)**	206
Gross deferred income tax assets	**2,900**	4,361		
Offset	**(2,444)**	(2,559)		
	456	1,802		
Deferred tax (expense)/benefit			**(1,346)**	268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 6
DIVIDENDS PROVIDED FOR OR PAID

	Consolidated 2012 $'000	2011 $'000
(a) Dividends paid		
Final 2011 – 10¢ per share paid in September 2011 (2010 – 20¢)	**1,411**	2,823
Interim 2012 – 10¢ per share paid in March 2012 (2011 – 10¢)	**1,407**	1,411
Fully franked dividends paid by parent	**2,818**	4,234
Dividend paid by controlled entity to minority shareholder fully franked (refer note 30)	**34**	50
Total fully franked dividends paid	**2,852**	4,284
(b) Not recognised as a liability as at 30 June		
Dividends on ordinary shares		
Final franked dividend for 2012 – 11¢ (2011 – 10¢)	**1,547**	1,411
The dividends were declared subsequent to 30 June (refer note 35)		
(c) The tax rate at which dividends have or will be franked is interim 30% (2012 – 30%), final 30% (2011 – 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 2012		
Franking account balance brought forward	**4,027**	4,507
Fully franked dividends paid	**(1,208)**	(1,814)
Tax paid	**2,364**	1,227
Franked dividends received from other corporations	**72**	107
Franking account balance at the end of the financial year	**5,255**	4,027
Franking credits that will arise from the payment of income tax payable as at the end of the financial year by the parent	**5**	1,429
Franking credits that will be available on payment of income tax payable as at the end of the financial year by the parent	**5,260**	5,456
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	**12,273**	12,731

NOTE 7
TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated 2012 $'000	2011 $'000
Trade debtors (see note (i))	**19,187**	21,788
Allowance for doubtful debts	**(131)**	(98)
	19,056	21,690
Sundry debtors (see note (ii))	**3,032**	5,863
	22,088	27,553

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 $131,000 (2011 – $98,000) 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 2012 $'000	2011 $'000
Movement in allowance for doubtful debts		
At 1 July	**98**	101
Provided/(written back) during the year	**33**	(3)
At 30 June	**131**	98

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

	Note	Consolidated 2012 $000	2011 $000
NOTE 8 INVENTORIES			
Work in progress – at cost		**14,697**	17,714
Contract work in progress	(a)	**1,031**	1,082
Finished goods – at cost		**5,561**	7,337
Finished goods – at net realisable value		**2,563**	98
Raw materials – at cost		**15,302**	18,570
		39,154	44,801
Land held for resale			
Cost of acquisition		**42**	42
Development expenses capitalised		**262**	246
Carrying value of land		**304**	288
		39,458	45,089

Inventories recognised as an expense for the year ended 30 June 2012 totalled $123,693,000 (2011 – $110,301,000) for the Group.

Inventory write downs recognised as an expense totalled $133,000 (2011 – Nil).

(a) Contract work in progress

Construction costs incurred to date:		
Gross cost plus profit recognised to date	**21,531**	13,916
Less: Progress billings	**(21,591)**	(13,170)
Net construction work in progress	**(60)**	746
Represented by:		
Amounts due to customers – trade and other payables (note 16)	**(1,091)**	(336)
Amounts due from customers	**1,031**	1,082
	(60)	746

There are no retentions in progress billings as these have been satisfied by the issue of performance guarantees by the bank.

NOTE 9 OTHER FINANCIAL ASSETS			
Available for sale investments at fair value			
Shares – listed	(a)	**33**	32
Held-to-maturity investments			
Investment in term deposits	(b)	**1,000**	–
		1,033	32

(a) Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

(b) Held to maturity investments comprise cash on term deposit as follows:

Amount	Term	Interest rate	Maturity date
$1,000,000	180 days	5.15%	26 Nov 2012

	Consolidated 2012 $000	2011 $000
NOTE 10 PREPAYMENTS AND DEPOSITS		
Prepayments	**1,604**	878
Deposits	**26**	126
	1,630	1,004

Prepayments relate to insurance, advertising, raw materials and interest.

	2012 $000	2011 $000
NOTE 11 PARENT ENTITY INFORMATION		
Information relating to Schaffer Corporation Limited:		
Current assets	**845**	388
Total assets	**49,307**	52,810
Current liabilities	**8,486**	2,469
Total liabilities	**30,050**	32,683
Issued capital	**16,117**	16,298
Retained earnings	**738**	1,429
Share-based payments reserve – SFC options	**115**	115
Net unrealised gains reserve	**4**	2
Asset revaluation reserve	**2,283**	2,283
Total shareholders' equity	**19,257**	20,127
Profit of the parent entity	**2,127**	4,233
Total other comprehensive income of the parent entity	**2**	1

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:

	2012 $'000	2011 $'000
Major components of tax consolidation contributions by (or distributions to) equity participants		
Net assumptions of tax liabilities of members of the tax-consolidated group	**1,841**	2,353
Tax funding contribution receivable from controlled entities	**(1,841)**	(2,353)
Excess of tax funding contributions over tax liabilities assumed	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 12
CONTROLLED ENTITIES

Controlled entity	Beneficial percentage held by the Group 2012 %	Beneficial percentage held by the Group 2011 %	Place of incorporation	Amount of parent's investment 2012 $000	Amount of parent's investment 2011 $000
Schaffer Properties Pty Ltd*	**100**	100	Australia	**–**	–
Delta Corporation Limited*	**100**	100	Australia	**5,066**	5,066
Urbanstone Pty Ltd*	**100**	100	Australia	**–**	–
Urbanstone Central Pty Ltd*	**100**	100	Australia	**–**	–
Urbanstone Central Properties Pty Ltd***	**–**	100	Australia	**–**	–
Archistone Pty Ltd*	**100**	100	Australia	**5,791**	5,791
Gosh Holdings Pty Ltd	**83.17**	83.17	Australia	**–**	–
Gosh Leather Pty Ltd	**83.17**	83.17	Australia	**–**	–
Limestone Resources Australia Pty Ltd*	**100**	100	Australia	**–**	–
Limestone Pavecrete Pty Ltd*	**100**	100	Australia	**–**	–
Howe Automotive Limited**	**83.17**	83.17	Australia	**14,598**	14,598
Rosedale Leather Pty Ltd**	**83.17**	83.17	Australia	**–**	–
Australian Leather Upholstery Pty Ltd**	**83.17**	83.17	Australia	**–**	–
Howe & Co 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	**–**	–
				25,455	25,455

* 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.

*** Urbanstone Central Properties Pty Ltd was deregistered during the financial year due to inactivity.

NOTE 12
CONTROLLED ENTITIES (CONTINUED)

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 2012 $'000	Schaffer Closed Group 2011 $'000
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AND RETAINED EARNINGS RECONCILIATION		
Profit from continuing operations before income tax	**4,163**	6,201
Income tax expense	**(979)**	(1,793)
Net profit for the year	**3,184**	4,408
Retained earnings at the beginning of the year	**28,648**	28,474
Dividends provided for or paid	**(2,818)**	(4,234)
Retained earnings at the end of the year	**29,014**	28,648
Consolidated Statement of Financial Position		
ASSETS		
Current Assets		
Cash and short-term deposits	**2,931**	2,931
Trade and other receivables	**7,381**	5,910
Inventories	**8,929**	8,420
Other financial assets	**33**	32
Derivative financial instruments	**–**	151
Prepayments and deposits	**1,155**	670
	20,429	18,114
Non-current assets classified as held for sale	**–**	717
Total Current Assets	**20,429**	18,831
Non-Current Assets		
Other financial assets	**14,598**	14,598
Property, plant and equipment	**35,214**	36,698
Investment properties	**13,952**	14,132
Goodwill	**3,780**	3,780
Deferred income tax assets	**449**	490
Total Non-Current Assets	**67,993**	69,698
Total Assets	**88,422**	88,529
LIABILITIES		
Current Liabilities		
Trade and other payables	**7,580**	6,504
Interest bearing loans and borrowings	**7,907**	9,187
Income tax payable	**5**	1,429
Derivative financial instruments	**203**	–
Provisions	**3,149**	2,862
	18,844	19,982
Liability classified as held for sale	**–**	560
Total Current Liabilities	**18,844**	20,542
Non-Current Liabilities		
Interest bearing loans and borrowings	**20,353**	18,885
Provisions	**442**	506
Total Non-Current Liabilities	**20,795**	19,391
Total Liabilities	**39,639**	39,933
Net Assets	**48,783**	48,596
EQUITY		
Issued capital	**17,065**	17,246
Reserves	**2,704**	2,702
Retained profits	**29,014**	28,648
Total Equity	**48,783**	48,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 13
PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2012 $'000	2011 $'000
Freehold land		
At cost	**7,618**	7,554
Buildings on freehold land		
At cost	**16,374**	18,433
Accumulated depreciation	**(4,561)**	(6,409)
	11,813	12,024
Leasehold quarries		
At cost	**5,250**	5,250
Accumulated depreciation	**(259)**	(234)
	4,991	5,016
Leasehold improvements		
At cost	**1,510**	1,753
Accumulated amortisation	**(927)**	(1,020)
	583	733
Net carrying amount of land and buildings	**25,005**	25,327
Plant and equipment		
At cost	**60,580**	61,340
Accumulated depreciation	**(41,562)**	(40,528)
Net carrying amount	**19,018**	20,812
Plant and equipment under lease and hire purchase		
At cost	**2,952**	3,096
Accumulated amortisation	**(990)**	(664)
	1,962	2,432
Net carrying amount of plant and equipment	**20,980**	23,244
Total property, plant and equipment		
At cost	**94,284**	97,426
Accumulated depreciation and amortisation	**(48,299)**	(48,855)
Total net carrying amount	**45,985**	48,571

The directors do not consider there is any impairment loss on property, plant or equipment at 30 June 2012.

Assets pledged as security

Included in the balances of property, plant and equipment are assets over which mortgages have been granted as security over government loans and bank facilities (refer notes 17 and 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 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).

NOTE 13
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated 2012 $'000	2011 $'000
The carrying value of assets pledged as security are:		
Property, plant and equipment	**44,573**	**47,125**
Reconciliations		
Freehold land		
Carrying amount at beginning	**7,554**	15,341
Additions	**64**	46
Disposals	**–**	(7,833)
	7,618	7,554
Buildings on freehold land		
Carrying amount at beginning	**12,024**	14,659
Additions	**221**	212
Disposals	**(10)**	(2,346)
Depreciation expense	**(422)**	(501)
	11,813	12,024
Leasehold quarries		
Carrying amount at beginning	**5,016**	5,045
Amortisation expense	**(25)**	(29)
	4,991	5,016
Leasehold improvements		
Carrying amount at beginning	**733**	769
Additions	**–**	74
Disposals	**–**	(6)
Amortisation expense	**(150)**	(104)
	583	733
Net carrying amount of land and buildings	**25,005**	25,327
Plant and equipment		
Carrying amount at beginning	**20,812**	22,079
Additions	**1,910**	2,419
Transfers from leased plant	**98**	671
Depreciation expense	**(3,587)**	(3,484)
Foreign currency translation adjustment	**(167)**	(525)
Disposals	**(48)**	(348)
	19,018	20,812
Plant and equipment under lease		
Carrying amount at beginning	**2,432**	1,760
Additions	**59**	1,639
Transfer to plant and equipment	**(98)**	(671)
Depreciation expense	**(409)**	(296)
Foreign currency translation adjustment	**(22)**	–
	1,962	2,432
Total carrying amount of plant and equipment	**20,980**	23,244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 14 INVESTMENT PROPERTIES

	Consolidated 2012 $'000	2011 $'000
Land and buildings		
At cost	**14,768**	15,422
Accumulated depreciation	**(2,593)**	(2,381)
	12,175	13,041
Improvements		
At cost	**3,931**	3,783
Accumulated depreciation	**(2,154)**	(1,975)
	1,777	1,808
Total		
At cost	**18,699**	19,205
Accumulated depreciation	**(4,747)**	(4,356)
Net carrying amount of investment properties	**13,952**	14,849
Less investment properties classified as held for sale	**–**	(717)
Investment properties not classified as held for sale	**13,952**	14,132

Investment properties are recognised at cost less accumulated depreciation. The fair value of the investment property is estimated by directors at 30 June 2012 at $43,230,000 and is based on valuations by independent valuers who hold recognised and relevant professional qualifications.

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 (see 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.

The carrying values of assets pledged as security are:

	Consolidated 2012 $'000	2011 $'000
Investment properties	**13,952**	14,849
Reconciliations		
Land and buildings		
Carrying amount at beginning	**13,041**	14,531
Additions	**53**	1,012
Disposal of interest in joint operations	**(675)**	(2,247)
Depreciation expense	**(244)**	(255)
Total carrying amount	**12,175**	13,041
Improvements		
Carrying amount at beginning	**1,808**	2,200
Additions	**196**	242
Disposal of interest in joint operations	**(41)**	(424)
Depreciation expense	**(186)**	(210)
Total carrying amount	**1,777**	1,808

NOTE 15 GOODWILL

	Consolidated 2012 $'000	2011 $'000
Goodwill at cost	**4,995**	4,995

Goodwill is not amortised but subject to impairment testing (refer note 15(a)).

No impairment loss was recognised in the 2012 financial year.

(a) Impairment testing of goodwill

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

- Leather
- Investment Properties
- Building Materials

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 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 properties

The recoverable amount of the Investment Property unit has been determined based on a fair value less cost of sale, supported by independent property valuations, which are typically reviewed at least every three years.

Building materials

The recoverable amount of the Building Materials unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and long term future estimates approved by senior management, over a fifteen year period. A period greater than five years for these cash flows is justified on the basis that the estimated useful life of material assets within the Building Material CGU, notably limestone quarries, is considerably longer than five years.

The primary assumptions underlying the cash flow projections include revenue growth of 5% for a five year period followed by a 2% growth rate for the next ten year period, using a pre-tax discount rate of 13.3% (2011 – 13.9%).

The discount rate is based on the weighted average cost of capital for Schaffer Corporation. The growth rate is based on management estimates.

Reasonably possible changes in the above primary assumptions are unlikely to cause the carrying amount of the goodwill allocated to the Building Material unit to exceed its recoverable amount.

Carrying amount of goodwill, allocated to each of the cash generating units

	Leather	Investment properties	Building materials	Total
Consolidated	**$'000**	**$'000**	**$'000**	**$'000**
2012	**1,215**	**84**	**3,696**	**4,995**
2011	1,215	84	3,696	4,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

	Consolidated 2012 $'000	2011 $'000
NOTE 16 TRADE AND OTHER PAYABLES (CURRENT)		
Trade creditors	**16,487**	24,759
Goods and services tax (net)	**397**	367
Other creditors	**516**	729
Amounts due to customers – contract work in progress (note 8)	**1,091**	336
	18,491	26,191

All trade and other payables are stated at fair value.

Terms and conditions relating to the above financial instruments:

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

	Note	Consolidated 2012 $'000	2011 $'000
NOTE 17 INTEREST BEARING LOANS AND BORROWINGS (CURRENT)			
Lease liability – secured	(b)	**643**	629
Revolving loan facility	(a)	**–**	–
Cash advances/commercial bills – secured	(e)	**–**	3,300
Bank loan – secured	(c)	**7,316**	9,161
Government loan – secured	(d)	**2,500**	30,654
		10,459	43,744
Less Bank loan classified as held for sale		**–**	(560)
		10,459	43,184

The fair value of the above is the same as the carrying value apart from Government loans (refer note 32(c)).

(a) Revolving loan facility

During the financial year, Howe Automotive entered into a 1 year term facility, with a maturity date of 24 February 2013, to be available for working capital requirements. The facility limit is $7,000,000 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 2012, there have been no drawings from this facility.

(b) Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8.14% per annum (2011 – 8.2% per annum).

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

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

(e) Cash advances/commercial bills (refer note 19(d)).

For details of financing facilities available (refer note 19).

	Consolidated 2012 $'000	2011 $'000
NOTE 18 PROVISIONS (CURRENT)		
Employee entitlements (refer note 26(a))	**4,859**	4,249
	4,859	4,249

	Note	Consolidated 2012 $'000	2011 $'000
NOTE 19 INTEREST BEARING LOANS AND BORROWINGS (NON-CURRENT)			
Lease liability – secured	(b)	**873**	1,487
Government loan – secured	(c)	**22,500**	–
Bank loan – secured	(a)	**15,363**	14,203
Cash advances/commercial bills	(d)	**4,200**	–
		42,936	15,690

(a) Bank loan

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.

		Group's Share of Loan at 30 June 2012		
Maturity date	Interest rate	Current $'000	Non-current $'000	Carrying value of assets $'000
Dec 2012	4.53% Variable	2,428		
Dec 2012	5.19% Fixed	3,750		5,948
Jan 2013	7.13% Variable	1,038		1,597
Oct 2013	6.19% Variable		3,757	
Oct 2013	6.81% Fixed		3,315	1,691
Jan 2013	6.03% Variable	100		
Jan 2015	6.03% Variable		1,037	
Jan 2015	6.51% Fixed		2,275	
Jan 2015	6.44% Fixed		1,138	3,655
Feb 2015	6.51% Fixed		3,841	2,580
		7,316	15,363	15,471

		Group's Share of Loan at 30 June 2011		
Maturity date	Interest rate	Current $'000	Non-current $'000	Carrying value of assets $'000
Jul 2011	8.03% Variable	4,760		3,438
Sept 2011	4.96% Fixed	3,841		2,264
Oct 2011	6.13% Variable	490		
Oct 2011	6.13% Variable	70		717
Oct 2013	7.73% Variable		7,072	1,403
Apr 2013	8.46% Variable		953	1,524
Dec 2012	5.86% Variable		2,428	
Jan 2014	5.19% Fixed		3,750	5,734
		9,161	14,203	15,080

(b) Finance leases

Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8.14% per annum (2011 – 8.2% per annum). The lease liability is secured by a charge over the leased assets.

(c) Government loan

During the 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 AUD$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 AUD$20,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 19
INTEREST BEARING LOANS AND BORROWINGS (NON-CURRENT) (CONTINUED)

(d) Cash advances/commercial bills

Cash advances have maturities of 30-180 days, however, the facility has an expiry date of 31 August 2014. The effective interest rate is 4.94% (2011 – 6.07%).

During the financial year, the commercial bills have been rolled into a new 3 year term debt facility that was executed on 12 September 2011. The bills were converted to cash advances under the new facility and are subject to an interest rate of BBSY plus margin.

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 1 year (2011 – 1 year).

Interest is at the rate of 10.2% per annum (2011 – 10.56%).

Bank loans

The Group has bank loans in joint operations. The loans are repayable within one to three years and are secured by the assets of the joint operations.

Interest rates vary from 4.53% per annum to 7.13% per annum (2011 – 5.19% per annum to 8.46% per annum).

Financing facilities used and available

	Consolidated 2012 $'000	2011 $'000
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities		
– bank overdraft	**500**	2,100
– bankers undertaking	**5,359**	4,699
– cash advances/commercial bills	**8,000**	15,720
– finance leases	**2,645**	2,148
– bank loans	**22,679**	23,364
– revolving loan facility	**7,000**	–
– Government loan	**25,000**	30,654
	71,183	78,685
Facilities used at reporting date		
– bank overdraft	**–**	–
– bankers undertaking (refer note 25(d))	**2,739**	2,206
– cash advances/commercial bills	**4,200**	3,300
– finance leases	**1,516**	2,116
– bank loans	**22,679**	23,364
– revolving loan facility	**–**	–
– Government loan	**25,000**	30,654
	56,134	61,640
Facilities unused at reporting date		
– bank overdraft	**500**	2,100
– bankers undertaking	**2,620**	2,493
– cash advances/commercial bills	**3,800**	12,420
– finance leases	**1,129**	32
– bank loans	**–**	–
– revolving loan facility	**7,000**	–
– Government loan	**–**	–
	15,049	17,045
Total facilities		
Facilities used at reporting date	**56,134**	61,640
Facilities unused at reporting date	**15,049**	17,045
	71,183	78,685

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

	Consolidated 2012 $'000	2011 $'000
NOTE 20 PROVISIONS (NON-CURRENT)		
Employee entitlements (refer note 26(a))	**1,454**	1,483

NOTE 21
CONTRIBUTED EQUITY

a) Issued and paid up capital

	2012	2011
As at 30 June 2012		
14,060,354 ordinary fully paid shares (2011 – 14,113,251)	**16,853**	17,034

	2012 Number of shares	2012 $'000	2011 Number of shares	2011 $'000
b) Movement in ordinary shares on issue				
At the beginning of the financial year	**14,113,251**	17,034	**14,113,251**	17,034
Shares acquired under a share buy-back scheme	**(52,897)**	(181)	–	–
At the end of the financial year	**14,060,354**	**16,853**	**14,113,251**	**17,034**

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.

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its issued shares.

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 2012

NOTE 22
RESERVES AND RETAINED PROFITS

	Consolidated 2012 $'000	2011 $'000
Reserves		
Asset revaluation	**2,585**	2,585
Share-based payment – EPU's	**522**	472
Share-based payment – SFC options	**115**	115
Net unrealised gains reserve	**4**	2
Foreign currency translation reserve	**(2,064)**	(2,093)
	1,162	1,081

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 2012 $'000	2011 $'000
Retained profits		
Balance 1 July	**36,283**	35,701
Net profit attributable to members of the parent entity	**7,517**	4,816
Dividends provided for or paid	**(2,818)**	(4,234)
Balance 30 June	**40,982**	36,283

NOTE 23
AUDITORS REMUNERATION

	Consolidated 2012 $	2011 $
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.	**190,000**	190,000
Other services – tax compliance, research and development claims.	**69,657**	18,500
	259,657	208,500
Amounts received or due and receivable by non-Ernst & Young audit firms for audit services.	**22,510**	27,715

NOTE 24
DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Key Management Personnel (KMP)

Refer to Remuneration Report in the Directors' Report

(i) Remuneration of Key Management Personnel

Refer to Remuneration Report in the Directors' Report

(ii) Remuneration by category: Key Management Personnel

	Consolidated 2012 $	2011 $
Short term	**3,139,786**	2,777,533
Post employment	**276,509**	273,939
Long term incentives	**41,699**	83,242
	3,457,994	3,134,714

(b) Option holdings of Key Management Personnel

30 June 2012
No options are currently held by key management personnel.

30 June 2011
No options are currently held by key management personnel.

(c) Shareholdings of Key Management Personnel

Economic interests in the shares of Schaffer Corporation Limited held by directors of the reporting entity and their director related entities.

	Balance at beginning of year	Net change other	Balance at end of year
As at 30 June 2012			
Specified directors			
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**
Specified executives			
J Cantwell	**–**	**450**	**450**
M Falconer	**20,000**	**–**	**20,000**
M Perrella	**59,834**	**–**	**59,834**
Total	**5,232,032**	**450**	**5,232,482**
As at 30 June 2011			
Specified directors			
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	2,619,927	36,000	2,655,927
D J Schwartz	585,726	–	585,726
Specified executives			
M Falconer	20,000	–	20,000
M Perrella	59,834	–	59,834
Total	5,196,032	36,000	5,232,032

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.

Keyton Enterprises Limited, a company associated with Mr A K Mayer, has a 16.83% interest in controlled entities Howe Automotive Limited and Gosh Holdings Pty. Ltd.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 24
DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(d) EPU holdings of Key Management Personnel

30 June 2012

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 2012 Vested	Vested as at 30 June 2012 Not vested
N Filipovic	**1,170,627**	**–**	**–**	**–**	**1,170,627**	**1,037,294**	**133,333**
Total	**1,170,627**	**–**	**–**	**–**	**1,170,627**	**1,037,294**	**133,333**

30 June 2011

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 2011 Vested	Vested as at 30 June 2011 Not vested
N Filipovic	1,170,627	–	–	–	1,170,627	903,960	266,667
Total	1,170,627	–	–	–	1,170,627	903,960	266,667

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

NOTE 25
CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS

	Consolidated 2012 $'000	Consolidated 2011 $'000
(a) Termination benefits under Service agreements		
Number of service agreements – 1		
Maximum liability at 30 June 2012	**751**	729

Refer to the Directors' Report under Remuneration Report.

(b) Commitments under lease agreements

The Group has entered into commercial leases on certain motor vehicles and office and retail premises. These leases have an average life of between 1 and 6 years with renewal options of up to 5 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 2012 $'000	Consolidated 2011 $'000
Operating leases – office, factory and retail premises		
– payable not later than 1 year	**4,125**	2,741
– later than 1 year and not later than 5 years	**7,781**	6,647
– later than 5 years	**3,649**	1,796
– aggregate lease expenditure contracted for at balance date	**15,555**	11,184
Operating leases – motor vehicles		
– payable not later than 1 year	**111**	123
– later than 1 year and not later than 5 years	**155**	74
– aggregate lease expenditure contracted for at balance date	**266**	197

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.

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 2012 Minimum lease payments $'000	Consolidated 2012 Present value of lease payments $'000	Consolidated 2011 Minimum lease payments $'000	Consolidated 2011 Present value of lease payments $'000
Within one year	741	741	782	782
After one year but not more than five years	946	946	1,655	1,655
Total minimum lease payments	1,687	1,687	2,437	2,437
Less amounts representing future finance costs	(171)	(171)	(321)	(321)
Present value of minimum lease payments	1,516	1,516	2,116	2,116

Finance leases have an average lease term of 4 years and an average implicit interest rate of 7.5% 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).

	Consolidated 2012 $'000	Consolidated 2011 $'000
(c) Expenditure commitments		
Estimated expenditure contracted for at balance date but not provided for:		
payable not later than 1 year	**620**	–
(d) A first mortgage has been registered over the assets and undertakings of a controlled entity by a bank which has issued performance guarantees to third parties on behalf of the consolidated entity. The aggregate of the performance guarantees issued by the bank amounted to:	**2,739**	2,206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

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% 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.

	Consolidated	
	2012	2011
	$'000	$'000
The aggregate employee entitlement liability is comprised of:		
Accrued wages, salaries and on costs	**279**	191
Provisions (current) – refer note 18	**4,859**	4,249
Provisions (non-current) – refer note 20	**1,454**	1,483
	6,592	5,923

The amount of superannuation expense for the year ended 30 June 2012 is $2,083,000 (2011 – $1,958,000)

(b) Employee share option plan

An employee share option plan has been established. The plan was approved by shareholders at the AGM 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:

(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.
(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.
(4) 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 2012 (2011 – Nil). No options were issued during the year ended 30 June 2012 (2011 – Nil).

The Company has calculated the value as at the respective grant dates of all share options in the Company issued to executives and employees pursuant to the Company's Employee Share Option 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, as applied include:

(1) the Company's closing share price on the grant date;
(2) the exercise price of the options as established under the Employee Share Option Plan;
(3) the volatility of the Company's share over the 12 months ended immediately prior to the grant date;
(4) the option's expiry date (typically five years after the grant date);
(5) the risk-free rate over the life of the option, estimated by the yield on 5 year Commonwealth Government Bonds on the grant date; and
(6) an estimate of the Company's dividend yield, based on historical dividends per share and the Company's share price on the grant date.

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

The company has adopted the fair value measurement provisions of AASB 2 *Share-Based Payments* prospectively for all options granted to directors and relevant executives, which have not vested as at 1 January 2005. The fair value of such grants is being amortised and disclosed as part of director and executive emoluments on a straight-line basis over the vesting period.

(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:

(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 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:

(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 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 2012

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 HA'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%	133,333
Series 3	Issue 1	1 January 2008	1,150,000	(33,333)	(216,667)	900,000	1.6%	600,000
	Issue 2	1 July 2009	100,000	–	–	100,000	0.2%	–
	Issue 3	1 January 2011	250,000	–	–	250,000	0.4%	–
			10,390,740	**(2,566,098)**	**(4,031,373)**	**3,793,269**		**3,076,602**

During the year, no EPUs were issued, 540,990 EPUs were redeemed, and 66,667 EPUs were 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

The weighted average fair value of EPU's as at 30 June 2012 was:

Vested	3,076,602	EPU's at 16¢ each
Unvested	716,667	EPU's at 14¢ each

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 27
INTERESTS IN JOINTLY CONTROLLED ASSETS

Investment properties

Schaffer Properties Pty Ltd and Schaffer Corporation Limited have interests in a number of jointly controlled assets in Western Australia and Victoria.

	% interest	
	2012	2011
IBM Centre Joint Venture	**22.10**	22.10
616 St Kilda Road Joint Venture	**20.00**	20.00
Hometown Joint Venture	**25.00**	25.00
Crosslands Shopping Centre Joint Venture	**16.70**	16.70
Vulcan Road Joint Venture (available for sale)	**–**	20.00

Property developments

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

Mindarie Keys Joint Venture	**15.00**	15.00
Neerabup Joint Venture	**20.00**	20.00

The interest in the jointly controlled assets is included in the financial statements as follows:

	Consolidated	
	2012 $'000	2011 $'000
Current Assets		
Cash and cash equivalents	**572**	732
Trade and other receivables	**256**	195
Prepayments	**792**	457
Inventories	**364**	352
Derivative financial instruments	**–**	151
Total Current Assets	**1,984**	1,887
Non-Current Assets		
Plant and equipment	**540**	564
Investment properties	**13,952**	14,849
Goodwill	**84**	84
Total Non-Current Assets	**14,576**	15,497
Total Assets	**16,560**	17,384
Current Liabilities		
Trade and other payables	**424**	579
Interest bearing loans and borrowings	**7,316**	9,161
Derivative financial instruments	**203**	–
Total Current Liabilities	**7,943**	9,740
Non-Current Liabilities		
Interest bearing loans and borrowings	**15,363**	14,203
Deferred income tax liabilities	**454**	394
Total Non-Current Liabilities	**15,817**	14,597
Total Liabilities	**23,760**	24,337
Net Assets/(Liabilities)	**(7,200)**	(6,953)

The jointly controlled assets have contributed to the after tax result of the consolidated entity as follows:

Profit after tax	$934,000	(2011 – $3,554,000)
Revenue	$5,978,000	(2011 – $6,227,000)

There are no contingent liabilities in respect of the jointly controlled assets.

SFC share of capital expenditure commitments of $620,000 (2011 – Nil) payable within one year were contracted for at balance date.

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 comprise the following segments:

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

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

The investment property segment leases offices and retail premises and represents the Group's share of jointly controlled assets. This segment also includes the Mindarie Keys and Neerabup joint venture land subdivisions.

Major customers

The Group has a number of major clients to which it provided both products and services. There were two customers within the Automotive Leather segment which individually accounted for more than 10% of revenue (2011 – one customer).

Sales to major customers

	2012		2011	
	$'000	**% of Total revenue**	$'000	**% of Total revenue**
Customer 1	**18,671**	**12%**	16,576	12%
Customer 2	**16,868**	**11%**	–	–
Sales to major customers	**35,539**	**23%**	16,576	12%
Revenue from continuing operations	**152,567**		130,809	
Revenue from discontinued operations	**–**		7,247	
Total revenue	**152,567**		138,056	

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 28
SEGMENT INFORMATION (CONTINUED)

Business segments

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2012 and 30 June 2011.

	Automotive Leather		Building Materials		Investment Property		Unallocated		Consolidated	
Business segment information	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000
Revenue										
Total revenue from ordinary activities external customers	**89,599**	72,098	**56,395**	51,869	**6,564**	6,799	**9**	43	**152,567**	130,809
Results										
Segment results	**7,363**	7,291	**4,965**	3,948	**4,540**	7,198	**9**	43	**16,877**	18,276
Interest and corporate overhead									**(5,641)**	(6,628)
Operating profit before income tax									**11,236**	11,648
Income tax expense									**(2,809)**	(3,647)
Profit after tax from continuing operations									**8,427**	8,001
Assets										
Non-current assets	**10,581**	12,588	**34,467**	36,064	**19,203**	19,498	**1,137**	1,350	**65,388**	69,500
Total segment assets	**65,503**	76,112	**52,708**	52,165	**21,201**	22,120	**3,141**	1,610	**142,553**	152,007
Liabilities										
Segment liabilities	**38,579**	53,428	**14,845**	13,299	**23,537**	23,956	**1,485**	2,697	**78,446**	93,380
Other segment information										
Capital expenditure	**840**	262	**1,247**	3,440	**270**	1,270	**114**	83	**2,471**	5,055
Depreciation and amortisation	**1,681**	1,490	**2,775**	2,783	**471**	509	**97**	97	**5,024**	4,879
Other non-cash expenses/(revenues)	**530**	(606)	**209**	23	**–**	–	**46**	125	**785**	(458)

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

Revenue from external customers by geographical locations is detailed below.

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

	2012 $'000	2011 $'000
Australia	**70,398**	64,995
Asia	**27,904**	23,289
Europe	**54,265**	42,525
Total revenue	**152,567**	130,809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 29
RELATED PARTY DISCLOSURES

(a) The directors of Schaffer Corporation Limited during the year were Mrs D E Blain, Messrs A K Mayer, M D Perrott AM, J M Schaffer and D J Schwartz.

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

Transactions with other related parties

Schaffer Corporation Limited holds 83.17% (2011 – 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 (2011 – Nil).

Keyton Enterprises Limited, a company associated with Mr A K Mayer, owns 16.83% (2011 – 16.83%) of the share capital of Howe Automotive Limited of which Mr A K Mayer is a director. Dividends paid to Keyton Enterprises Limited during the year amounted to Nil (2011 – Nil).

Schaffer Corporation Limited holds 83.17% (2011 – 83.17%) of the share capital of Gosh Holdings Pty. Ltd. of which Mr J M Schaffer is the director. Dividends were received during the year amounting to $166,340 (2011 – $249,510).

Keyton Enterprises Limited, a company associated with Mr A K Mayer, owns 16.83% (2011 – 16.83%) of the share capital of Gosh Holdings Pty Ltd of which Mr A K Mayer is a director. Dividends paid to Keyton Enterprises Limited during the year amounted to $33,660 (2011 – $50,490).

(c) Schaffer Corporation Limited is the ultimate Australian holding company.

NOTE 30
NON-CONTROLLING INTEREST

	2012 **$'000**	2011 $'000
Reconciliation of non-controlling interest in controlled entities:		
At 1 July 2011	**4,229**	4,318
– Add share of operating profit/(loss)	**910**	134
– Share of foreign currency translation reserve movement	**5**	(173)
– Dividends paid	**(34)**	(50)
At 30 June 2012	**5,110**	4,229

NOTE 31
EARNINGS PER SHARE

	Consolidated **2012**	2011
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).	**53.4**	34.1
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).	**53.4**	34.1
	$'000	$'000
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	**7,517**	7,867
Profit attributable to ordinary equity holders of the parent from discontinued operations	**–**	(3,051)
	7,517	4,816

	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares for basic earnings per share	**14,085,617**	14,113,251
Weighted average number of ordinary shares adjusted for the effect of dilution	**14,085,617**	14,113,251

There have been no other transactions involving ordinary shares. The potential ordinary shares at the reporting date are Nil (2011 – Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

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 $25,000,000 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 property borrowings, the funding and interest rate decision are managed externally by unanimous consent amongst the joint operation partners (refer note 33(ii)).

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	
	2012 $'000	2011 $'000
Financial Assets		
Cash and short-term deposits	**12,956**	7,961
	12,956	7,961
Financial Liabilities		
Bank loans	**(8,361)**	(15,773)
Cash advances/commercial bills	**(4,200)**	(3,300)
Government loan	**(25,000)**	(17,000)
	(37,561)	(36,073)
Net exposure	**(24,605)**	(28,112)

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. The Group's policy is to maintain between 20% and 40% of its borrowings at fixed rates. At 30 June 2012 approximately 30% of the Group's borrowings are at a fixed rate of interest (2011 – 39%).

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 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

	Post tax profit higher/(lower)	
	2012 $'000	2011 $'000
Judgements of reasonably possible movements:		
Consolidated		
+0.25 (25 basis points)	**(43)**	(49)
–0.25 (25 basis points)	**43**	49

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

The sensitivity is lower in 2012 than 2011 because of an increase of cash held at period end, a larger portion of bank loans being fixed, offset by an increased proportion of the Government loan now being variable.

For 2011 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 that year.

For 2012 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	**2012 $'000**	2011 $'000
Current			
Floating charge			
Cash and cash equivalent	4	**11,143**	7,961
Receivables	7	**22,087**	27,553
Inventories	8	**39,458**	45,089
Other financial assets	9	**1,033**	32
Total current assets pledged as security		**73,721**	80,635
Non-current			
First mortgage			
Freehold land and buildings	13	**18,019**	18,132
Investment properties	14	**13,952**	14,849
Leasehold quarries	13	**4,991**	5,016
Finance lease and hire purchase			
Plant and equipment	13	**1,962**	2,432
Floating charge			
Plant and equipment	13	**19,018**	20,812
Leasehold improvements	13	**583**	733
Total non-current assets pledged as security	13	**19,601**	61,974

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)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 32
FINANCIAL INSTRUMENTS (CONTINUED)

(c) Net fair values

Foreign exchange contracts 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 except for the following:

	Total carrying amount as per balance sheet		Aggregate net fair value	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Government loans 4.4% per annum	**–**	13,654	**–**	13,404

The fair values of the government loans were determined using a discounted cash flow model using a market rate of interest at the balance date.

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.

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**
Year ended 30 June 2012				
Financial Assets				
Derivative instruments				
Interest rate swaps	**–**	**–**	**–**	**–**
Available-for-sale				
Investments				
Listed investments	**33**	**–**	**–**	**33**
Unlisted investments	**–**	**–**	**–**	**–**
	33	**–**	**–**	**33**
Financial liabilities				
Derivative instruments				
Interest rate swaps	**–**	**203**	**–**	**203**
Foreign exchange contracts	**–**	**–**	**–**	**–**
	–	**203**	**–**	**203**
Year ended 30 June 2011				
Financial Assets				
Derivative instruments				
Interest rate swaps	–	151	–	151
Available-for-sale				
Investments				
Listed investments	32	–	–	32
Unlisted investments	–	–	–	–
	32	151	–	183
Financial liabilities				
Derivative instruments				
Interest rate swaps	–	–	–	–
Foreign exchange contracts	–	307	–	307
	–	307	–	307

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 financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, forward commodity contracts and foreign exchange contracts not traded on a recognised exchange.

(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	
	2012	2011	**2012**	2011
Industry	**%**	%	**$'000**	$'000
Automotive leather	**64**	75	**12,337**	16,247
Building materials	**36**	25	**6,850**	5,541
Total	**100**	100	**19,187**	21,788

There are no trade debtors held in the parent entity.

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

Leather and building materials

The group has a credit policy, approved by the CFO 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 32
FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk exposures (continued)

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.

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:

	2012 $'000	2011 $'000
Trade receivables at 30 June		
Neither impaired nor past due – 30 days or less	**11,145**	13,339
Not impaired and past due in the following periods		
31 to 60 days	**5,053**	4,686
61 to 90 days	**1,934**	2,725
Over 90 days	**1,055**	1,038
Impaired debtors over 90 days	**(131)**	(98)
	19,056	21,690

(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 indentified in these cash flow forecasts.

At 30 June 2012 the Group has the following undrawn borrowing facilities available (refer note 19).

	2012 $'000	2012 Expiry	2011 $'000	2011 Expiry
Australian Bank				
Bank overdraft	**500**	**2013**	2,100	2011
Bankers' undertaking	**2,620**	**2013**	2,493	2011
Cash advances/commercial bills	**3,800**	**2014**	12,420	2011
Finance leases	**1,129**	**2014**	32	2011
Global Finance Company				
Revolving loan facility	**7,000**	**2013**	–	–
	15,049		17,045	
In addition, there are the following banker's undertakings issued at 30 June 2012 (refer note 19).				
Performance guarantees to third parties (refer note 25(d))	**2,133**	< 1 year	1,882	< 1 year
	606	> 1 year	324	> 1 year
	2,739		2,206	

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.

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
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
2012					
Within 1 year	**18,491**	**740**	**236**	**8,511**	**4,312**
1 to 2 years	**–**	**486**	**207**	**7,762**	**4,131**
2 to 3 years	**–**	**307**	**4,235**	**8,607**	**3,950**
3 to 4 years	**–**	**117**	**–**	**–**	**3,769**
4 to 5 years	**–**	**19**	**–**	**–**	**3,587**
Over 5 years	**–**	**18**	**–**	**–**	**15,219**
	18,491	**1,687**	**4,678**	**24,880**	**34,968**
2011					
Within 1 year	26,191	782	3,334	9,404	33,682
1 to 2 years	–	829	–	3,575	–
2 to 3 years	–	766	–	10,928	–
3 to 4 years	–	60	–	–	–
	26,191	2,437	3,334	23,907	33,682

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 32
FINANCIAL INSTRUMENTS (CONTINUED)

(e) Liquidity risk (continued)

Consolidated	Less than 1 year	1-2 years	2-3 years
	$'000	$'000	$'000
2012			
Interest rate swap	–	8,711	2,280
	–	**8,711**	**2,280**
2011			
Interest rate swap	3,841	–	3,750
Foreign exchange contract – net settled	9,048	–	–
	12,889	**–**	**3,750**

Debt associated with Howe Automotive Limited and the Property division represents 90% (2011 – 91%) of Group borrowings. At 30 June, 84% (2011 – 86%) of Group debt was non-recourse to the Parent.

$25,000,000 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 2013. The Government loan is non-recourse to the Parent.

Debt associated with the Property division totals $22,679,000 at 30 June 2012 (2011 – $23,364,000). 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 2012, 86% (2011 – 86%) 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 these hides, as well as foreign exchange risk from the sale of leather products in USD, EUR and RMB.

Approximately 92% of the leather division's sales are denominated in foreign currencies, consistent with the operating unit making the sale, whilst approximately 65% of costs are denominated in foreign currencies.

To manage the foreign exchange risk arising from future commercial transactions the entity uses forward foreign exchange contracts. 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, on a rolling 6-9 month basis. At 30 June 2012, the Group had no forward foreign exchange contracts.

At 30 June 2012 the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

	Consolidated	
	2012	2011
	$'000	$'000
Financial assets		
Cash and cash equivalents	**1,809**	1,373
Trade and other receivables	**2,112**	6,869
Forward rate agreements	**–**	8,046
	3,921	16,288
Financial liabilities		
Trade and other payables	**(7,161)**	(12,034)
	(7,161)	(12,034)
Net exposure	**(3,240)**	4,254

At 30 June 2012 the Group had the following exposure to EUR foreign currency that is not designated in cash flow hedges:

	Consolidated	
	2012	2011
	$'000	$'000
Financial assets		
Cash and cash equivalents	**1,293**	2,352
Trade and other receivables	**6,757**	9,337
	8,050	11,689
Financial liabilities		
Trade and other payables	**(1,389)**	(3,183)
Forward rate agreements	**–**	(16,907)
	(1,389)	(20,090)
Net exposure	**6,661**	(8,401)

At 30 June 2012 the Group had the following exposure to RMB foreign currency that is not designated in cash flow hedges.

	Consolidated	
	2012	2011
	$'000	$'000
Financial assets		
Cash and cash equivalents	**278**	130
Trade and other receivables	**6,431**	9,836
	6,709	9,966
Financial liabilities		
Trade and other payables	**(2,567)**	(7,109)
	(2,567)	(7,109)
Net exposure	**4,142**	2,857

At 30 June 2012 the Group had the following exposure to HKD foreign currency that is not designated in cash flow hedges.

	Consolidated	
	2012	2011
	$'000	$'000
Financial assets		
Cash and cash equivalents	**5**	2
	5	2
Financial liabilities		
Trade and other payables	**(39)**	(27)
	(39)	(27)
Net exposure	**(34)**	25

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 32
FINANCIAL INSTRUMENTS (CONTINUED)

(f) Foreign Exchange Risk (continued)

At 30 June 2012 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

		Post tax profit higher/(lower)	
		2012	2011
Consolidated		**$'000**	$'000
AUD/USD	$0.10	**203**	(257)
AUD/USD	($0.10)	**(248)**	310
Net USD financial liabilities due to inventory supply contracts, compared to prior year net USD financial assets due to USD forward exchange contracts. No USD forward exchange contracts are held at 30 June 2012.			
AUD/EUR	$0.07	**(372)**	510
AUD/EUR	($0.07)	**443**	(618)
Net EUR financial assets due to sales in EUR, compared to prior year net EUR financial liabilities due to EUR forward exchange contracts. No EUR forward exchange contracts are held at 30 June 2012.			
RMB/AUD	$0.50	**(209)**	(136)
RMB/AUD	($0.50)	**245**	157
Net RMB financial assets increased primarily because of an increase in working capital as a result of decreased payables at 30 June 2012.			

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 forecaster's expectations.

Net unhedged foreign currency assets and liabilities:

	USD	EUR	RMB	HKD
	'000	'000	'000	'000
2012				
Cash and bank balances	**1,838**	**1,045**	**1,785**	**41**
Trade and other receivables	**2,145**	**5,458**	**41,307**	**–**
Trade and other payables	**(7,275)**	**(1,122)**	**(16,485)**	**(307)**
Forward rate agreements				
Net FX exposure	**(3,292)**	**5,381**	**26,607**	**(266)**
Year end exchange rates	**1.0159**	**0.8077**	**6.4232**	**7.8802**
2011				
Cash and bank balances	1,455	1,732	892	14
Trade and other receivables	7,279	6,876	67,468	–
Trade and other payables	(12,752)	(2,344)	(48,767)	(220)
Forward rate agreements	8,527	(12,450)	–	
Net FX exposure	(4,509)	(6,186)	19,593	(206)
Year end exchange rates	1.0597	0.7364	6.8594	8.25

(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 $103,546,000 at 30 June 2012 (2011 – $110,100,000).

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 2012 amounted to $15,049,000 (2011 – $17,045,000). 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 2012 the company paid dividends of $2,818,000 (2011 – $4,234,000). The Board maintains its payout ratio policy of balancing returns to shareholders with the need to fund growth in the Building Materials Division. In line with that policy, the company has paid a final dividend of $0.11 per share (fully franked), bringing the dividends for the 2012 financial year to $0.21 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 2011 and 2012 were as follows:

	Consolidated	
	2012	2011
	$'000	$'000
Total borrowings*	**53,395**	59,434
Less cash and cash equivalents	**(12,956)**	(7,961)
Held-to-maturity investments	**(1,000)**	–
Net debt	**39,439**	51,473
Total equity	**64,107**	58,627
Total capital	**103,546**	110,100
Gearing ratio	**38%**	47%

**Includes interest bearing loans and borrowings*

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

(i) Shareholders' funds to be not less than $45,000,000, or 85% of the Shareholders' funds for the previous financial year, at all times.

(ii) 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.

(iii) Group interest cover of no less than 1.5 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 financial period. During the previous financial period, for facilities covering bank overdraft, bankers undertaking and commercial bills, the Group debt service ratio was not met on one occasion but no remedy was sought from the bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2012

NOTE 33
DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated 2012 $'000	2011 $'000
Current assets		
Interest rate swap contracts – classified as held for trading	–	151
	–	151
Current liabilities		
Interest rate swap contracts – classified as held for trading	**203**	–
Forward currency contracts – classified as held for trading	–	307
	203	**307**

Instruments used by the Group

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

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

The Group had the following contracts outstanding at balance date:

	2012 $'000	2012 Average exchange rate	2011 $'000	2011 Average exchange rate
Sell Euro / Buy USD				
Sell Euro Maturity 0-12 months	–	–	187	1.4056
Sell Euro / Buy AUD				
Sell Euro Maturity 0-12 months	–	–	8,861	0.7377

These 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 profit or loss in the period they occur. The net fair value gain on foreign currency derivatives during the year was $Nil for the Group (2011 – gain $439,000).

(ii) Interest Rate Swaps

Interest bearing loans of the Group currently bear an average variable interest rate of 5.8% (2011 – 7.52%). 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 48% (2011 – 32%) of the principal outstanding. The fixed interest rates are from 5.19% to 6.81% (2011 – 4.96% to 5.19%) and the variable rates between 0.9% and 3.5% (2011 – 0.9% and 3.5%) above the 30 day bank bill rate, which at balance date averaged 3.63% (2011 – 5.03%).

At 30 June 2012, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	Consolidated 2012 $'000	2011 $'000
0 – 1 years	**7,316**	3,841
1 – 2 years	**7,072**	–
2 – 3 years	**8,291**	3,750
	22,679	7,591

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 2012 is a liability of $202,912 (2011 – $150,957 asset) which is recorded on the Consolidated Statement of Financial Position.

NOTE 34
NON-CURRENT ASSETS/ LIABILITIES HELD FOR SALE

	2012 $'000	2011 $'000
Assets		
Investment property	–	717
Liabilities		
Bank Loan	–	560

NOTE 35
SIGNIFICANT EVENTS AFTER BALANCE DATE

Following the end of the reporting period, a final fully franked dividend of 11¢ per share has been declared payable on 21 September 2012.

Following the end of the reporting period, Howe Automotive Limited has declared a fully franked dividend of $2,100,000 payable by 14 September 2012. The total value of dividends payable to the Parent is $1,946,577.

NOTE 36
DISCONTINUED OPERATION

(a) During the prior financial period the company sold its automotive leather subsidiary, Howe de Mexico SA, which included a cutting plant located in Juarez, Mexico (part of the leather reporting segment). The financial performance of the Mexican operations had been negatively affected over the past few years by a combination of reduced sales volumes and pricing pressures. In addition crime levels in and around Juarez have escalated alarmingly following a government sponsored crack down on drug cartels operating in the area. The sale of this loss making operation was aimed at improving the overall financial performance of the Automotive Leather division.

In accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations,* the financial results of the Mexican operations have been classified as "discontinued operations".

(b) Financial performance of the discontinued operation

	Consolidated 2012 $'000	2011 $'000
Revenue	–	7,247
Expenses	–	(9,785)
Gross profit/(loss)	–	(2,538)
Loss recognised on closure	–	(636)
Less realised foreign currency translation loss	–	(829)
Loss before tax from discontinued operations	–	(4,003)
Income Tax:		
– related to pre-tax loss	–	761
– related to loss on closure	–	191
Loss for the year from discontinued operations	–	(3,051)

(c) Net cash flows of discontinued operations

Cash flow from/(used in)		
Operating activities	–	(3,529)
Investing activities	–	–
Net cash flow from/(used in) discontinued operations	–	(3,529)

(d) Discontinued operation earnings per share information (cents per share)

	2012 ¢	2011 ¢
Basic earnings per share – discontinued operation	–	(21.6)
Diluted earnings per share – discontinued operation	–	(21.6)

DIRECTORS' DECLARATION

year ended 30 June 2012

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

In the opinion of the directors:

a) The financial statements and notes of the consolidated entity are in accordance with the Corporation's Act 2001, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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; and

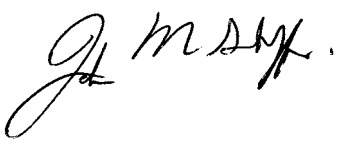
b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.

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;

d) 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 2012.

e) As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 12 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

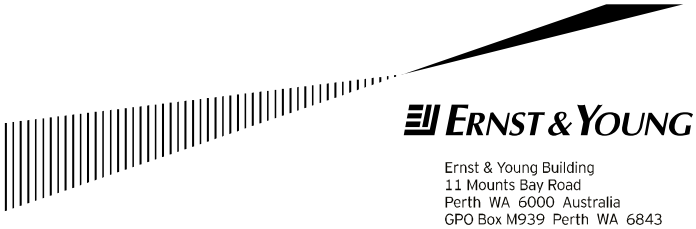


J M Schaffer
Chairman and Managing Director

Perth, 21 September 2012

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

year ended 30 June 2012



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

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

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 2012, 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 2012 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001,* and

(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 the Directors' Report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Darren Lewsen
Partner

Perth
21 September 2012

Liability limited by a scheme approved
under Professional Standards Legislation

DIRECTORS' REPORT

year ended 30 June 2012

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2012 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:

J M SCHAFFER B Com (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.
D E BLAIN, BA 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.
A K MAYER 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.
M D PERROTT AM B Com 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 Nov 1996 – current VDM Group Ltd — 2 Jul 2009 – current
D J SCHWARTZ 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 Oct 1999 – current 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 CSA (Cert))

Mr Jason Cantwell joined the company in 2011 and during the past 20 years has had significant 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 Chartered Secretaries Australia.

ATTENDANCE AT BOARD MEETINGS

During the year, eight 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	9
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 15 November 2012, 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 members being in attendance.

INTERESTS IN THE SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

At the date of this report the economic interest of the Directors 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 leasing.

RESULTS

The consolidated entity's operating profit after tax for the financial year was a profit of $8,427,000 (2011 – $4,950,000).

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 2012:

	$'000
On ordinary shares	
- 10¢ per share final, paid on 23 September 2011	1,411
- 10¢ per share interim, paid on 23 March 2012	1,407
	2,818
Dividends paid for the year ended 30 June 2011	
On ordinary shares	
- 20¢ per share final, paid on 24 September 2010	2,823
- 10¢ per share interim, paid on 26 March 2011	1,411
	4,234
Not recognised as a liability as at 30 June 2012	
Final franked dividend for 2012 – 11¢ (2011 – 10¢)	1,547

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.

REVIEW OF OPERATIONS

The consolidated entity's revenue from continuing operations increased by 17% from $130,809,000 to $152,567,000 this year. This resulted in a pre tax operating profit from continuing operations of $11,236,000 compared to $11,648,000 for last year. The consolidated entity's net profit after tax, excluding non-controlling interests, increased by 56% from $4,816,000 to $7,517,000.

DIRECTORS' REPORT
year ended 30 June 2012

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than the discussion of the Company's operations and outlook already set out from pages 1-12 of this Annual Report, the Directors have no 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

Following the end of the reporting period, a final fully franked dividend of 11¢ per share has been declared payable on 21 September 2012.

Following the end of the reporting period, Howe Automotive Limited has declared a fully franked dividend of $2,100,000 payable by 14 September 2012. The total value of dividends payable to the Parent is $1,746,577.

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 confidentially clause within the insurance policy.

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 & Company Pty. Ltd.
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 (SFC).

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 capital employed (ROCE). EBIT and ROCE 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 2011, an increase of 3% 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 Building Materials, Automotive Leather and Corporate divisions is provided below:

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 participants 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. The 2012 bonus was approved on 23 July 2012 (2011 – 26 July 2011). 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.

DIRECTORS' REPORT
year ended 30 June 2012

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 is currently transitioning from a bonus pool of 10% of actual EBIT to 5% of actual EBIT, which becomes payable provided actual EBIT exceeds budgeted EBIT and a satisfactory 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. The 2012 bonus was approved on 31 July 2012 (2011 – n/a) 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.

Corporate – Short Term Incentive (STI) Plan

Schaffer Corporation 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. 60% of any STI award is based on financial performance against at 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 (e.g. investment property sales). 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 2011/12 year were approved by the Nominations and Remunerations Committee on 21 August 2012. The Managing Director received an STI award of 85% of the maximum possible award (2011 – 30%). The CFO received an STI award of 77.5% of the maximum possible award (2011 – n/a).

Variable remuneration – 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. The SFC ESOP and Howe Automotive Limited EPU plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders. As such 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. A summary of the long-term incentive schemes for the Corporate, Building Materials and Automotive Leather divisions is provided below:

SFC Employee Share Option Plan ("ESOP")

An employee share option plan has been established. The plan was approved by shareholders at the AGM 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. 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.

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 a cash payment from Howe Automotive Limited 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 Schaffer Corporation Limited.

The amount of the cash 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 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. 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.

There is no policy on key management personnel and executives hedging their exposure to securities issued on remuneration.

Schaffer Building Products – Long Term Incentive (LTI) Scheme

Schaffer Building Products business unit, part of the Building Materials Division has established a deferred Long Term Incentive Plan. Eligible executives may earn a deferred cash bonus of up to 30% of their base annual remuneration, for each year over a five year vesting period. An LTI award is only earned provided the business unit achieves a pre-determined return on average capital employed during each year of the vesting period. In the event the performance hurdle is not achieved during each year of the vesting period, the LTI award is to be pro-rated based on the number of years during which the performance hurdle was achieved. However if the average return on capital over the full vesting period exceeds the performance hurdle, eligible executives will be entitled to the maximum LTI award. Eligible executives must remain as an employee throughout the vesting period to be eligible for a LTI award. Any employee who voluntarily resigns or is dismissed for cause prior to the vesting date forfeits all entitlements under the LTI scheme. LTI awards are paid in cash within sixty days of the conclusion of the vesting period.

Currently only the General Manager of the Schaffer Building Products business unit has been invited to participate in the LTI scheme. During the year ended 30 June 2012, the pre-determined performance hurdle was not achieved.

DIRECTORS' REPORT

year ended 30 June 2012

The following table details the proportion of fixed remuneration and variable remuneration paid for the year ended 30 June 2012 as detailed in this report:

	2011/12 Remuneration Structure	
	% Fixed	% Variable
Specified Directors		
J M Schaffer	80%	20%
D E Blain	100%	–
A K Mayer	100%	–
M D Perrott AM	100%	–
D J Schwartz	100%	–
Specified Executives		
J Cantwell	82%	18%
M Falconer	100%	–
N Filipovic	75%	25%
M Perrella	74%	26%
J Walsh	76%	24%

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.

It is not a requirement of the Constitution of the Company that directors hold shares in the Company. 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 year's to one year's annual director's fees in July 2003 (a three year retirement benefit was in place at the time each director 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.

RELATIONSHIP OF COMPANY PERFORMANCE TO SHAREHOLDER WEALTH

Total Shareholder Return

Total shareholder return ("TSR") is a well 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 -4.3%.

	Sept 2008	Sept 2009	Sept 2010	Sept 2011	Sept 2012
Tax Rate	30%	30%	30%	30%	**30%**
Share Price ($)	7.04	5.45	4.85	3.26	**4.05**
Bonus Issue ($)	–	–	–	–	**-**
Ord Dividends ($)	0.50	0.45	0.40	0.20	**0.21**
Special Dividends ($)	–	–	–	–	**-**
Imputation Credit ($)	0.21	0.19	0.17	0.09	**0.09**
TSR	**(1.25)**	**(0.95)**	**(0.03)**	**(1.30)**	**1.09**
TSR%	**(14%)**	**(13%)**	**(1%)**	**(27%)**	**33%**

At the date of this report, on an aggregate dollars paid basis, SFC paid to shareholders $2.8 million fully franked dividends in respect of 2011/12 and a total of $24.7 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 54.2¢.

	Year Ended				
	June 2008	June 2009	June 2010	June 2011	June 2012
EPS (¢)	77.3	74.1	31.9	34.1	**53.4**

DIRECTORS' REPORT

year ended 30 June 2012

RELATIONSHIP OF COMPANY PERFORMANCE TO SHAREHOLDER WEALTH (CONTINUED)

Remuneration of Key Management Personnel for the year ended 30 June 2012

	Short term		Post employment	Long term incentives			
30 June 2012	**Salary & Fees $**	**Cash Bonus## $**	**Superannuation $**	**Long Service Entitlement $**	**Share-based Payment – EPU's # $**	**Total $**	**Performance Related**
Directors							
J M Schaffer	693,221	191,419	50,000	17,277	–	951,917	20.1%
D E Blain	20,174	–	50,000	2,044	–	72,218	–
A K Mayer	370,896	–	–	–	–	370,896	–
M D Perrott AM	70,174	–	–		–	70,174	–
D J Schwartz	70,174	–	–	4,345	–	74,519	–
Executives							
J Cantwell	169,171	37,328	17,810	718	–	225,027	18.1%
M Falconer	402,232	–	50,000	8,486	–	460,718	–
N Filipovic	362,826	130,000	33,699	(12,682)	8,857	522,700	24.9%
M Perrella	238,585	70,747	50,000	6,883	–	366,215	26.2%
J Walsh	235,730	77,109	25,000	5,771	–	343,610	23.6%
	2,633,183	506,603	276,509	32,842	8,857	3,457,994	

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

##Cash bonus	percentage paid during the year	percentage payable subsequent to year end
J M Schaffer	0%	100%
J Cantwell	0%	100%
N Filipovic	0%	100%
M Perrella	29%	71%
J Walsh	26%	74%

The amounts included in the table represent the entire bonus earned. The portion of bonus accrued at 30 June 2012 was $487,328.

No bonus was forfeited during the year.

The terms "director" and "officer" have been treated as mutually exclusive for the purposes of this disclosure.
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 2011

	Short term		Post employment	Long term incentives			
30 June 2011	**Salary & Fees $**	**Cash Bonus## $**	**Superannuation $**	**Long Service Entitlement $**	**Share-based Payment – EPU's # $**	**Total $**	**Performance Related**
Directors							
J M Schaffer	629,604	65,592	50,000	18,265	–	763,461	8.6%
D E Blain	18,130	–	50,000	1,980	–	70,110	–
A K Mayer	300,692	–	–	–	–	300,692	–
M D Perrott AM	68,130	–	–	–	–	68,130	–
D J Schwartz	68,130	–	–	4,019	–	72,149	–
Executives							
J Cantwell***	46,047	–	3,906	–	–	49,953	–
M Falconer**	481,672	–	50,000	38,078	–	569,750	–
N Filipovic	329,180	–	30,201	8,161	8,857	376,399	–
M Perrella	207,967	89,858	50,000	7,193	–	355,018	25.3%
D Richardson*	175,010	–	16,667	(10,189)	–	181,488	–
J Walsh	220,082	77,439	23,165	6,878	–	327,564	23.6%
	2,544,644	232,889	273,939	74,385	8,857	3,134,714	

* D Richardson resigned in February 2011.
** Mr Falconer's Salary and Fees includes an increase in accrued annual leave of $107,402 as a result of salary increase.
*** J Cantwell commenced in March 2011.
# Includes the value of employee participation units (EPUs) using the Black-Scholes model.

##Cash bonus	percentage paid during the year	percentage payable subsequent to year end
J M Schaffer	0%	100%
M Perrella	33%	67%
J Walsh	35%	65%

The amounts included in the table represent the entire bonus earned. The portion of bonus accrued at 30 June 2011 was $176,055.

No bonus was forfeited during the year.

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.
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 and responsible for the operational management and strategic direction of the company and the consolidated entity.

DIRECTORS' REPORT

year ended 30 June 2012

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

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

30 June 2012
No EPU's were granted to key management personnel during the course of the year.

30 June 2011
No EPU's were granted to key management personnel during the course of 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 leather division pursuant to a Consultancy Agreement renewed for the period 1 July 2006 and which terminated on 30 June 2012. The agreement has been renewed for the period 1 July 2012 to 30 June 2015. 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 of 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.

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 subsidiaries 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

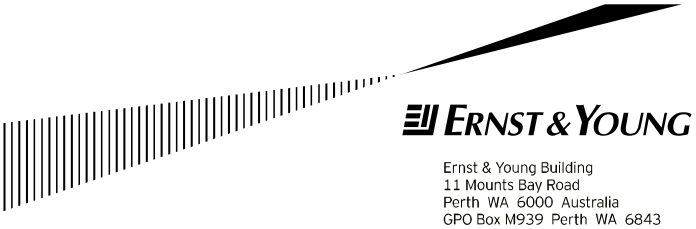
In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Schaffer Corporation Limited support the principles contained in the company's corporate governance statement in the corporate governance section of this annual report.

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 2012



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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.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 2012, 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

Ernst & Young

Darren Lewsen
Partner

Perth
21 September 2012

Liability limited by a scheme approved
under Professional Standards Legislation

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	$69,657

Signed in accordance with a resolution of the directors.

J M Schaffer
Chairman and Managing Director

Perth, 21 September 2012

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2012

ASX Corporate Governance Council issued its Corporate Governance Principles and Recommendations with 2010 Amendments on 30 June 2010 with effect from 1 January 2011.

> *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. Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised. Corporate governance practices will evolve in the light of changing circumstances. Corporate governance practices must also evolve in the context of developments both in Australia and overseas. If a company considers that a recommendation is inappropriate to its particular circumstances, it has the flexibility not to adopt it (ASX Corporate Governance Principles and Recommendations with 2010 Amendments, June 2010).*

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

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 & 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.

The Board of Directors consists of:

John Schaffer *Chairman and Managing Director*
(Age 62)

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 68)

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 & Remuneration Committee.

Anton Mayer *Executive Director*
(Age 70)

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.

Michael Perrott AM *Independent Director*
(Age 66)

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 and VDM Group Limited. Mr Perrott AM is also a member of the Board of Notre Dame University and SANE Australia.

David Schwartz *Independent Director*
(Age 58)

David joined the Board in 1999 and is independent Chairman of the Board's Audit Committee and the Nomination & 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, ToLife Technologies Pty Limited and Stefani Pure Water Australasia Pty Limited and a director of Betts Group Pty Ltd, Clime Investment Management 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	–	–	18.9%	No	N/A
D E Blain	1987	Non-executive	Member	Member	11.1%	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 2012

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 it 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.

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 joint venture 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.

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 18.9%) and has served on the Board in since 1972;
- Mrs Blain is a substantial shareholder of SFC (with an economic interest of 11.1%), served as an executive director of HA 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 and is a substantial Howe Automotive Limited shareholder with a 16.8% economic interest in the SFC subsidiary.

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 direct 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 MD 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

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.

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.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2012

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 AGM;
- 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 LR 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, Limestone Resources Australia Pty Ltd, Delta Corporation Limited, Archistone Pty. Ltd., Urbanstone Central Pty. Ltd. 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

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

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.

HR strategies – SFC HR 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
Appointment of a manger to be responsible for diversity at SFC.	The CFO and Company Secretary has been appointed to be responsible for diversity at SFC.
Inclusion of gender diversity reporting at each SFC board meeting.	The monthly board reporting now includes statistics on the numbers of each gender represented in senior executive positions and the total workforce at various business units and locations.
Completion of a communication program to educate the workforce on diversity principles.	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.
Senior executives to indentify female employees with potential for development and future promotion to executive level within SFC's divisions.	Reviews have been conducted, and will continue to be conducted, with the intention of identifying female employees with potential for development and future promotion to executive level.
Development of Business Unit specific diversity plans which once implemented will be reviewed annually.	Business Unit specific plans are being developed to align with the Group diversity objectives and are scheduled to be implemented during the next reporting period.

At 30 June 2012, women represented 45% of the Group's workforce, 14% of senior executive positions, and 20% of the board.

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 each half and full financial year present a true and fair view in all material respects, of the Group's financial condition and 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

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.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2012

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.

- 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 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 Managing Director 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.

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 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 AGM and is available to answer any questions shareholders may have, that are relevant to the conduct of the audit.
- 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 SFC Board is responsible for SFC reviewing and analysing the implementation and effectiveness of SFC's risk management systems. The SFC Board reviews these control systems annually.

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 the financial periods ending 31 December and 30 June 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.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2012

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.

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 and the Building Products unit has a separate Long Term Incentive Scheme. All of 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 2011/12 financial year of $70,174 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 year's to one year's annual director's fees in July 2003 (a three year retirement benefit was in place at the time each director 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 2012

Additional information required by the Australian Stock Exchange Ltd is as follows.

TOTAL SHARE CAPITAL

The Issued Capital as at 14 September 2012 is 14,052,652 ordinary fully paid shares.

SHARE REGISTRY ADDRESS

C/- Computershare Investor Services Pty Ltd
Level 2 Reserve Bank Building
45 St George's Terrace
Perth WA 6000
AUSTRALIA

Postal Address:
GPO Box D182
Perth WA 6840
AUSTRALIA

STOCK EXCHANGE LISTING

The shares of the Company are listed on the Australian Stock Exchange Limited. 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 14 SEPTEMBER 2012

Shareholdings	Shareholders
1 – 1,000	760
1,001 – 5,000	681
5,001 – 10,000	132
10,001 – 100,000	116
100,001 – and over	15

Number of shareholders holding less than a marketable parcel i.e. less than 124 shares: 113.

SUBSTANTIAL SHAREHOLDERS

As at 14 September 2012, 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	14.26%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.64%
	2,655,927	18.90%
Mrs D E Blain & Associates	909,673	6.47%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.64%
	1,562,360	11.11%
* Combined interest of Mr J M Schaffer & Mrs D E Blain	4,218,287	30.01%
Jobling Investments Pty Ltd	507,812	
Estate of Mr A E Jobling Deceased	286,504	
	794,316	5.65%
Perpetual Limited and Subsidiaries	1,322,523	9.41%

* 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 14 September 2012

	Number of Shares	Percentage of issued ordinary shares
Swan Holdings Pty Ltd	1,305,374	9.29
RBC Investor Services Australia Nominees Pty Limited <PI POOLED A/C>	1,088,687	7.75
Schaffer Nominees Pty Ltd	980,482	6.98
Mrs Danielle Eva Blain	907,570	6.46
Mr John Michael Schaffer	799,554	5.69
Jobling Investment Pty Ltd	507,812	3.61
Mr Kenneth John Beer <Beer Super Fund A/C>	466,806	3.32
Mr David Schwartz	359,170	2.56
Keyton Enterprises Ltd	344,263	2.45
Mr Albert Edward Jobling	286,504	2.04
JP Morgan Nominees Pty Ltd <Cash Income A/C>	250,858	1.79
BNP Paribas Noms Pty Ltd <Master Cust DRP>	233,836	1.66
The Sports Café (Australia)	226,072	1.61
M F Custodians Ltd	202,390	1.44
Frederick Bruce Wareham	125,255	0.89
Mr Peter Canaway <Superannuation Fund A/C>	100,000	0.71
Debra Ruth Schaffer	92,870	0.66
Milton Corporation Ltd	68,999	0.49
Mrs Winifred Francis Schulze	66,918	0.48
J P Morgan Nominees Australia Limited	66,326	0.47
	8,479,746	60.34

ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Thursday, 15 November 2012 at 11:30am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.

Corporate Timetable

Final 2012 dividend record date	7 September 2012
Final 2012 dividend payment date	21 September 2012
Despatch of 2012 Annual Report and notice of AGM	8 October 2012
Annual General Meeting	15 November 2012
2013 half-year earnings release and dividend announcement	February 2013
Interim 2013 dividend payment date	March 2013

SHAREHOLDER INFORMATION

Annual General Meeting

Schaffer Corporation will hold its Annual General Meeting on Thursday 15 November 2012 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 Address/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 557 010 (in Australia)
or +61 8 9323 2000
Facsimile: +61 8 9323 2033
Website: 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
DJ Schwartz

Group Financial Controller and Company Secretary

J Cantwell B Bus(Acc), CPA, MBA, CSA(Cert)

Head Office and Registered Office

1305 Hay Street
West Perth WA 6005
Australia
Telephone: +61 8 9483 1222
Facsimile: +61 8 9481 0439
Email: reception@schaffer.com.au
Website: www.schaffer.com.au

Share Registry

Computershare Investor
Services Pty Limited
GPO Box D182
Perth WA 6840
Australia
Telephone: 1300 557 010 (in Australia)
or +61 8 9323 2000
Facsimile: +61 8 9323 2033
Website: 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

www.mindfield.com.au
SC-1-14543