

2004 FINANCIAL REPORT

as at 30 June 2004

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STATEMENT OF FINANCIAL POSITION

at 30 June 2004

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
CURRENT ASSETS					
Cash assets		28,489	21,072	4,466	1,783
Receivables	8	26,953	27,536	1,843	824
Inventories	9	31,654	37,380	-	-
Other financial assets	10	643	694	347	694
Other	11	631	734	18	25
TOTAL CURRENT ASSETS		88,370	87,416	6,674	3,326
NON CURRENT ASSETS					
Receivables	12	-	-	10,236	9,802
Investments accounted for using the equity method	13	-	-	-	-
Other financial assets	14	-	-	19,664	19,664
Property, plant and equipment	15	56,646	71,038	10,720	16,637
Deferred tax assets	6	3,275	3,678	997	803
Intangible assets	16	1,299	1,431	-	-
TOTAL NON CURRENT ASSETS		61,220	76,147	41,617	46,906
TOTAL ASSETS		149,590	163,563	48,291	50,232
CURRENT LIABILITIES					
Payables	17	15,351	18,638	335	415
Interest bearing liabilities	18	845	477	2	21
Current tax liabilities	6	2,635	3,882	1,494	135
Provisions	19	9,413	5,541	370	311
TOTAL CURRENT LIABILITIES		28,244	28,538	2,201	882
NON CURRENT LIABILITIES					
Interest bearing liabilities	20	53,901	64,117	10,119	8,981
Deferred tax liabilities	6	2,549	2,904	1,120	419
Provisions	21	2,628	3,367	231	172
TOTAL NON CURRENT LIABILITIES		59,078	70,388	11,470	9,572
TOTAL LIABILITIES		87,322	98,926	13,671	10,454
NET ASSETS		62,268	64,637	34,620	39,778
EQUITY					
Parent entity interest					
Contributed equity	22	15,916	14,738	14,968	13,790
Reserves	23	2,585	2,585	2,283	2,283
Retained profits	23	39,071	41,905	17,369	23,705
Equity attributable to members of Schaffer Corporation Ltd		57,572	59,228	34,620	39,778
Total outside equity interest in controlled entities	31	4,696	5,409	-	-
TOTAL EQUITY		62,268	64,637	34,620	39,778

The statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL PERFORMANCE

year ended 30 June 2004

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
REVENUE FROM ORDINARY ACTIVITIES	3	192,350	223,133	19,160	20,238
Change in inventories of finished goods, work in progress and land held for re-sale		(4,195)	(4,552)	-	(1,731)
Raw materials and consumables used		(93,028)	(125,392)	-	-
Cost of joint venture interests sold		(3,067)	(336)	(1,661)	(336)
Depreciation and amortisation expense	4	(4,996)	(5,031)	(191)	(231)
Borrowing cost expense	4	(3,998)	(4,380)	(445)	(561)
Salaries, wages and on costs		(42,798)	(43,092)	(1,498)	(1,403)
Other expenses from ordinary activities		(14,643)	(12,970)	(2,038)	(2,071)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method		-	-	-	-
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		25,625	27,380	13,327	13,905
Income tax expense relating to ordinary activities	6	7,348	7,981	195	82
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		18,277	19,399	13,132	13,823
Net profit attributable to outside equity interests	31	1,643	2,379	-	-
NET PROFIT ATTRIBUTABLE TO MEMBERS OF SCHAFFER CORPORATION LIMITED		16,634	17,020	13,132	13,823
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF SCHAFFER CORPORATION LIMITED AND RECOGNISED DIRECTLY IN EQUITY		-	-	-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		16,634	17,020	13,132	13,823
Basic earnings per share (cents)	32	119.8¢	125.0¢		
Diluted earnings per share (cents)	32	117.7¢	122.0¢		
Franked dividends per share (cents)	7	140.0¢	120.0¢		

The statement of financial performance should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

year ended 30 June 2004

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		187,830	236,016	1,467	4,158
Payments to suppliers and employees		(149,490)	(195,640)	(2,718)	(1,055)
Disposal of equity securities		814	1,265	814	1,265
Dividends received		38	10	11,682	9,990
Other revenue		185	666	240	109
Interest income		1,116	634	460	142
Borrowing costs paid		(3,998)	(4,380)	(433)	(536)
Income taxes paid		(8,547)	(7,411)	(2,339)	(146)
Goods and services tax (paid)/refunded		(334)	2,443	(118)	(115)
Research and development expenditure		(1,700)	(1,108)	-	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	5(b)	25,914	32,495	9,055	13,812
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		(4,461)	(6,388)	(535)	(252)
Proceeds on sale of plant and equipment		508	168	384	-
Proceeds on disposal of joint venture interests	5(e)	6,122	-	2,573	-
Receipts from controlled entities		-	-	9,111	(1,120)
Receipts from other debtors		-	913	-	281
Payment of deferred acquisition price of controlled entity		-	(1,427)	-	(1,427)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		2,169	(6,734)	11,533	(2,518)
CASH FLOWS FROM FINANCING ACTIVITIES					
Finance lease payments		(514)	(496)	(70)	41
Dividends paid		(21,824)	(13,646)	(19,468)	(11,626)
Proceeds from share issue		1,178	1,352	1,178	1,352
Proceeds from loans advanced		495	2,495	456	128
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(20,665)	(10,295)	(17,904)	(10,105)
NET INCREASE IN CASH HELD		7,418	15,466	2,684	1,189
Add opening cash brought forward		21,071	5,605	1,782	593
CLOSING CASH CARRIED FORWARD	5(a)	28,489	21,071	4,466	1,782

The statement of cash flows should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 1

CORPORATE INFORMATION

Schaffer Corporation Limited is a company limited by shares that is incorporated and domiciled in Australia. Schaffer Corporation Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

The registered office of Schaffer Corporation Limited is located at:

1305 Hay Street, West Perth
Western Australia 6005

During the year, the principal activities of Schaffer Corporation Limited and its controlled entities were:

- manufacture of automotive leather
- manufacture of paving and precast concrete products

The consolidated entity employed 864 employees at 30 June 2004 (2003–802 employees).

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have been complied with. The financial statements have been prepared in accordance with the historical cost convention.

Change in accounting policies

The accounting policies adopted are consistent with those of the previous year.

Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Schaffer Corporation Limited (the parent entity) and all entities which Schaffer Corporation Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent entity has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Cash and cash equivalents

Cash on hand and in banks and short term deposits are stated at the lower of cost and net realisable value. For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

written off as incurred. Receivables from related parties are recognised and carried at the nominal amount due less a provision for any uncollectible debts. Interest is taken up as income on an accrual basis.

Property, plant and equipment

Cost

Freehold land, freehold quarries, buildings on freehold land and plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land and properties held by joint ventures.

Major depreciation periods are:

	2004	2003
Freehold buildings	40 years	40 years
Leasehold improvements	The lease term	The lease term
Plant and equipment	5 to 15 years	5 to 15 years

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits, incidental to ownership of the leased item to the consolidated entity are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance. The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of improvements, whichever is the shorter.

Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Amounts payable to and by the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year. Except for certain specific hedges all resulting exchange differences arising on settlement or restatement are brought to account in determining the profit or loss for the financial year.

Specific hedges

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transactions arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are included with the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translation of financial reports of overseas operations

All overseas operations are deemed as integrated foreign operations as each is financially and operationally dependent on Australian Leather Holdings Limited. The accounts of overseas operations are translated using the temporal method and any exchange differences are taken directly to the statement of financial performance.

Derivative financial instruments

Forward Exchange Contracts

The consolidated entity enters into forward exchange contracts where it agrees to sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are recognised in net profit except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

Other Non Current Assets

Expenditure carried forward

Significant items of carry forward expenditure having a benefit to more than one period are written off over the periods to which such expenditure relates.

Research and development costs

Research and development costs are expensed as incurred.

Inventories

Manufacturing and maintenance – inventories are valued at the lower of cost and net realisable value. 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; and
- Finished goods and work in progress – cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Construction contracts – construction work in progress is stated at cost plus profit recognised to date less progress billings. Cost includes all costs directly related to specific contracts, and an allocation of overhead costs attributable to contract activity in general.

Property held for resale – property purchased for development and resale is valued at the lower of cost and net realisable value. Interest and other holding charges are capitalised until the properties are brought to a marketable condition.

Intangibles

Goodwill and discount on acquisition

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity. Goodwill is amortised by the straight line method over the period during which benefits are expected to be received. This is taken as being 20 years. Where the fair values of the identifiable net assets acquired exceed the cost of acquisition incurred, the difference represents a discount on acquisition and is accounted for by reducing proportionately the fair values of the non monetary assets acquired until the discount is eliminated. Where after reducing to zero the recorded amounts of the non monetary assets acquired, a discount balance remains it is recognised as revenue in the statement of financial performance.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recoverable amount

Non current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amounts the expected net cash flows have not been discounted to their present value.

Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Loans and borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues. Bills of exchange and promissory notes are carried at the principal amount. Finance lease liability is determined in accordance with the requirements of AASB 1008:Leases.

Provisions

Dividends payable are recognised when a legal obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

Sales rebates are given to specified customers on certain products sold above a predetermined volume and are recognised and payable when the sale is made.

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Control of the goods has passed to the buyer.

Interest

Control of a right to receive the interest payment.

Dividends

Control of a right to receive the dividend payment.

Precast concrete manufacture

The consolidated entity recognises revenue on the percentage of completion method. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. If in any period, total estimated costs for a contract exceed total estimated revenue, the resultant loss is brought to account in that period.

Sale of Property

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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint ventures

Interests in joint ventures are brought to account by including in the respective classifications, the share of individual assets employed, liabilities, expenses incurred and revenue earned.

Investments

All listed investments and other current and non current investments are carried at the lower of cost and recoverable amount.

Taxes

Income Tax

Tax effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Schaffer Corporation Limited and its 100% owned subsidiaries have formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

Goods and Services Tax (GST)

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 Statement of Financial Position. Cash flows are included in the 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.

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 their nominal amounts. 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 government guaranteed 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; and
- other types of employee entitlements

are charged against profits on a net basis in their respective categories.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In respect of the consolidated entity's accumulated benefits superannuation plans, any contributions made to the superannuation funds by entities within the consolidated entity are charged against profits when due.

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 and cancelled. No employee participating in the plan ceased employment during the year. For further details on options refer notes 22(d) and 27(b) and the directors' report.

The value of the share option arrangement is not being recognised as an expense.

Employee participation units

A controlled entity Australian Leather Holdings Limited may grant employee participation units (EPUs) in accordance with its Employee Incentive Plan adopted on 20 December 2001.

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 Australian Leather Holdings Limited. 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.

An appropriate amount is provided for at balance date being the estimate of the future expected liability. For further details on EPUs refer note 27(c).

Earnings per share

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

Comparatives

Where necessary, comparatives have been re-classified and re-positioned for consistency with current year disclosures.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
NOTE 3				
REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities				
Revenue from the sale of goods	176,010	210,952	-	-
Revenue from sale of property	2,981	4,851	-	1,961
Revenue from sale of equity securities	814	1,273	814	1,273
Rent received from				
- controlled entities	-	-	83	238
- other persons/corporations	3,648	4,579	1,426	1,850
Other	185	666	240	109
Total revenues from operating activities	183,638	222,321	2,563	5,431
Revenues from non operating activities				
Interest received from:				
- other persons/corporations	1,116	634	460	142
Total interest	1,116	634	460	142
Dividends received from:				
- controlled entities	-	-	12,214	14,655
- other corporations	38	10	38	10
Total dividends	38	10	12,252	14,665
Proceeds on sale of property, plant and equipment	508	168	384	-
Proceeds on sale of joint venture interests	7,050	-	3,501	-
Total revenue from non operating activities	8,712	812	16,597	14,807
Total revenue from ordinary activities	192,350	223,133	19,160	20,238

NOTE 4
EXPENSES AND LOSSES/(GAINS)

(a) Expenses

Cost of sales – manufactured goods	122,742	159,629	-	-
Cost of joint venture interests sold	3,067	336	1,661	336
Cost of sales – property	1,781	2,663	293	2,070
Cost of sales – equity securities	492	1,459	492	1,459
Bad debts written off				
- trade debtors	3	13	-	-
Reversal of provision for doubtful debts				
- trade debtors	(27)	(713)	-	-
Bad debts recovered				
- trade debtors	(3)	-	-	-
Total bad and doubtful debts	(27)	(700)	-	-
Depreciation of non current assets				
Buildings	394	385	10	10
Plant and equipment	4,216	4,260	181	221
Total depreciation of non current assets	4,610	4,645	191	231

NOTE 4
EXPENSES AND LOSSES/(GAINS) (CONTINUED)

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Amortisation of non current assets				
Goodwill	132	132	-	-
Leasehold improvements	73	65	-	-
Plant and equipment under lease	181	189	-	-
Total amortisation of non current assets	386	386	-	-
Total depreciation and amortisation expenses	4,996	5,031	191	231
Borrowing costs expensed				
Interest expenses				
- other persons	3,844	4,096	424	536
Total interest expense	3,844	4,096	424	536
Other borrowing costs				
Finance charges				
- lease liability	114	182	9	-
- other	40	102	12	25
Total other borrowing costs	154	284	21	25
Total borrowing costs	3,998	4,380	445	561
Rental on operating leases – minimum lease payments	1,922	1,770	-	-
Research and development expenditure	1,700	1,108	-	-
Provision for employee entitlements	1,752	77	118	(116)
Movement in provision for diminution in value of investments	(145)	(276)	(145)	(276)
(b) Losses/(Gains)				
Loss/(gain) on sale of non current assets	(79)	115	(92)	-
Loss/(gain) on sale of listed and unlisted shares	(322)	186	(322)	186
Loss/(profit) on sale of shares in controlled entity	-	-	-	100
Net foreign currency gain	(1,926)	(268)	-	-
Gain on disposal of joint venture interest	(3,982)	(122)	(1,840)	-
(c) Significant items				
Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:				
Loans to controlled entities forgiven	-	-	1,513	-
Loss on disposal of controlled entities	-	-	-	(100)
(Reversal of)/provision for non recovery of loans to controlled entities	-	-	(1,517)	1,529
Increase in provision for sales rebates	1,431	-	-	-
Reversal of provision for quality claims	-	(1,810)	-	-
	1,431	(1,810)	(4)	1,629

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000

NOTE 5

STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

Cash balance comprises;

Cash on hand	28,489	21,072	4,466	1,783
Bank overdraft	-	(1)	-	(1)
Closing cash balance	28,489	21,071	4,466	1,782

(b) Reconciliation of operating profit after income tax to the net cash flows from operations

Operating profit after taxation	18,277	19,399	13,132	13,823
Non cash items				
Depreciation	4,610	4,645	191	231
Tax expense charged to controlled entities	-	-	(3,148)	-
Tax assets and liabilities transferred from controlled entities at beginning of reporting period	-	-	(862)	-
Amortisation	386	386	-	-
Provision for employee entitlements	1,702	865	118	230
Movement in currency loss provisions and deferrals	(296)	548	-	-
Reversal of provision for quality claims	-	(1,810)	-	-
Increase in provision for sales rebates	1,431	-	-	-
Reversal of other provisions	-	(33)	-	-
Loss/(profit) on sale of non current assets	(79)	115	(92)	-
Movement in provision for diminution in value of investments	(145)	(276)	(145)	(276)
Investment in controlled entity written off	-	-	-	100
(Reversal of)/provision for non recovery of amounts owing by controlled entities	-	-	(1,517)	1,529
Amounts owing by controlled entities written off	-	-	1,513	-
Profit on disposal of joint venture interests	(3,982)	-	(1,840)	-
Changes in assets and liabilities				
(Increase)/decrease in receivables	1,654	8,171	(737)	(4,982)
(Increase)/decrease in inventory	5,726	4,552	-	1,731
(Increase)/decrease in other financial assets	492	1,451	492	1,451
(Decrease)/increase in trade creditors	(2,747)	(5,862)	86	30
(Decrease)/increase in tax provision	(1,247)	(172)	1,359	(15)
(Decrease)/increase in deferred tax liability	(355)	173	701	53
(Increase)/decrease in future income tax benefit	403	569	(194)	(102)
(Increase)/decrease in prepayments	84	(226)	(2)	9
Net cash flows from operating activities	25,914	32,495	9,055	13,812

NOTE 5

STATEMENT OF CASH FLOWS (CONTINUED)

(c) Bank facilities

The consolidated entity has bank facilities available to the extent of \$56,922,000 (2003 - \$67,769,000)

The chief entity has bank facilities to the extent of \$4,783,000 (2003 - \$10,264,000)

The unutilised facility for the consolidated entity at balance date was \$40,830,000 (2003 - \$41,829,000) and for the chief entity \$712,000 (2003 - \$2,349,000)

(d) Non cash financing activities

During the financial year or the previous financial year no non-cash financing activities occurred.

(e) Disposal of joint venture interests

During the course of the year the Group disposed of its interest in various joint ventures as follows:

JOINT VENTURE DISPOSED OF	INTEREST DISPOSED OF	DATE OF DISPOSAL
South Hedland Shopping Centre Joint Venture	18.75%	5 September 2003
Gledden Arcade Joint Venture	22.10%	19 September 2003
BBC Hardware Innaloo Joint Venture	6.50%	23 September 2003
Alvito House Joint Venture	6.50%	23 September 2003
380A Scarborough Bch Rd Joint Venture	6.50%	23 September 2003
382 Scarborough Bch Rd Joint Venture	6.50%	23 September 2003
Gateway Central Joint Venture	12.50%	23 September 2003
Bourke St Joint Venture	12.10%	24 September 2003
401 Great Eastern Highway Joint Venture	25.00%	24 September 2003
GHD House Joint Venture	18.00%	15 March 2004
		<i>\$000</i>
The aggregate disposal details are:		
Proceeds on sales		7,050
Net Assets disposed of:		
Receivables		188
Prepayments		19
Land and buildings		11,090
Plant and equipment		2,470
		13,767
Trade Creditors		(871)
Bank Loans		(9,828)
Net Assets disposed of		3,068
Cash proceeds on sales		6,122
Less net assets disposed of		(3,068)
Proceeds owing at balance date		928
Profit on disposal disclosed in the accounts		3,982

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Operating profit before income tax	25,625	27,380	13,327	13,905
Prima facie tax thereon at 30%	7,688	8,214	3,998	4,172
Tax effect of permanent differences:				
- rebateable dividends	(6)	(3)	(3,670)	(4,400)
- expenses not allowable	26	105	-	485
- other items	(30)	(142)	55	(175)
- research and development	(63)	(83)	-	-
- under/(over) provision of tax relating to previous years	(267)	(110)	(188)	-
Income tax expense attributable to ordinary activities	7,348	7,981	195	82
Deferred tax assets and liabilities				
Current tax payable	2,635	3,882	1,494	135
Provisions for deferred income tax	2,549	2,904	1,120	419
Future income tax benefit	3,275	3,678	997	803

Tax consolidation

Effective 1 July 2003, for purposes of income tax, Schaffer Corporation Limited and its 100% owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Schaffer Corporation Limited.

NOTE 7

DIVIDENDS PROVIDED FOR OR PAID**(a) Dividends paid during the year**

Final 2003 – 50¢ per share paid September 2003 (2002- 35¢)	6,939	4,741	6,939	4,741
Special final 2003 – 20¢ per share paid September 2003	2,775	-	2,775	-
Interim 2004 – 50¢ per share paid March 2004 (2003 – 50¢)	6,967	6,885	6,967	6,885
Special interim 2004 – 20¢ per share paid March 2004	2,787	-	2,787	-
Dividend paid by controlled entity to minority shareholder (refer Note 31)	2,356	2,020	-	-
Total fully franked dividends paid	21,824	13,646	19,468	11,626

NOTE 7

DIVIDENDS PROVIDED FOR OR PAID (CONTINUED)**(b) 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 2004

	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Franking account balance brought forward		5,546		3,146
Fully franked dividends paid	(8,342)		(4,983)	
Tax paid	2,784		3,101	
Franked dividends received from controlled entities	4,990		4,277	
Franked dividends received from other corporations	9		5	
Franking account balance at the end of the financial year		4,987		5,546
Franking credits that will arise from the payment of income tax payable as at the end of the financial year by the chief entity		1,494		367
Franking credits available		6,481		5,913
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 to		15,122		13,797

NOTE 8

RECEIVABLES (CURRENT)

Trade debtors	26,433	28,427	-	309
Provision for doubtful debts	(1,971)	(1,944)	-	-
	24,462	26,483	-	309
Other debtors	2,491	1,053	1,499	171
Amounts owing by partly owned controlled entities	-	-	502	502
Provision for non recovery of amount owing by partly owned controlled entities	-	-	(158)	(158)
	26,953	27,536	1,843	824

Terms and conditions relating to the above financial instruments

- Trade debtors are non interest bearing and generally on 30 days terms
- Sundry debtors and other receivables are non interest bearing and have repayment terms between 30 and 90 days.
- Included in trade debtors are non hedged receivables amounting to

	2004		2003	
	\$000	Aust \$ Equivalent \$000	\$000	Aust \$ Equivalent \$000
\$ US	8,477	12,221	10,957	16,354
\$ Euro	1,949	3,368	-	-

Payment terms vary from letter of credit arrangement from 30 to 60 days.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
NOTE 9				
INVENTORIES (CURRENT)				
Work in progress				
Cost to date plus profit recognised	18,583	18,751	-	-
Less progress billings to date	(15,015)	(14,279)	-	-
Work in progress - realisable value	3,568	4,472	-	-
Finished goods - at cost	6,106	8,483	-	-
Raw materials - at cost	20,310	22,333	-	-
	29,984	35,288	-	-
Land held for resale				
Cost of acquisition	447	567	-	-
Development expenses capitalised	1,004	1,268	-	-
Rates and taxes capitalised	82	80	-	-
Interest capitalised	137	177	-	-
Carrying value of land	1,670	2,092	-	-
	31,654	37,380	-	-

NOTE 10
OTHER FINANCIAL ASSETS (CURRENT)

Deferred exchange loss	296	-	-	-
Shares				
- Listed on a prescribed stock exchange at cost	248	493	248	493
- Unlisted at cost	907	1,154	907	1,154
- Provision for diminution in value of unlisted shares	(808)	(953)	(808)	(953)
Carrying value of shares	347	694	347	694
	643	694	347	694
Aggregate quoted market value at balance date of investments listed on a prescribed stock exchange	365	560	365	560

NOTE 11
OTHER CURRENT ASSETS

Prepayments	547	640	18	25
Deferred expenditure	84	94	-	-
	631	734	18	25

NOTE 12
RECEIVABLES (NON CURRENT)

Amount owed by wholly owned controlled entities	-	-	10,236	11,319
Provision for non-recovery of amount owing by wholly owned controlled entities	-	-	-	(1,517)
	-	-	10,236	9,802

Terms and conditions - refer related party Note 30

NOTE 13
INVESTMENTS

Associated companies at equity accounted amount

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Unlisted shares	-	-	-	-
Investments in associated companies comprise:				
	% HELD BY CONSOLIDATED ENTITY		PLACE OF INC.	
	2004	2003		
	%	%		

Solco Zimbabwe (Private) Limited	25.0	25.0	Zimbabwe
Bell Solar Thermal Energy Sdn Bhd	16.8	16.8	Malaysia

BALANCE DATE

Principal activities of associated companies:

Solco Zimbabwe (Private) Limited - Solar hot water system manufacture	September 30
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Bell Solar Thermal Energy Sdn Bhd - Solar hot water system manufacture	February 28
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Equity accounted investments have been written down to their recoverable amount of zero.

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Controlled entities at cost				
Unlisted shares	-	-	19,878	19,878
Provision for diminution in value of shares in unlisted controlled entities	-	-	(214)	(214)
	-	-	19,664	19,664

NOTE 14
OTHER FINANCIAL ASSETS (NON CURRENT)

Controlled entities at cost				
Unlisted shares	-	-	19,878	19,878
Provision for diminution in value of shares in unlisted controlled entities	-	-	(214)	(214)
	-	-	19,664	19,664

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

CONTROLLED ENTITY	BENEFICIAL PERCENTAGE HELD BY CONSOLIDATED ENTITY		PLACE OF INC	AMOUNT OF CHIEF ENTITY'S INVESTMENT		2004 \$000	2003 \$000
	2004 %	2003 %		2004 \$000	2003 \$000		

NOTE 14

OTHER FINANCIAL ASSETS (NON CURRENT)
(CONTINUED)

Schaffer Properties Pty Ltd*	100	100	WA	-	-		
Delta Corporation Limited*	100	100	WA	5,066	5,066		
Urbanstone Pty Ltd*	100	100	WA	-	-		
Schaffer Corporation Management Pty Ltd*	100	100	WA	-	-		
Delta Rail Services Ltd*	100	100	WA	-	-		
Solco Industries Pty Ltd	51	51	WA	214	214		
Poly Tuff (WA) Pty Ltd	51	51	WA	-	-		
Australian Leather Holdings Limited**	83.17	83.17	WA	14,598	14,598		
Gosh Leather (Aust) Pty Ltd**	83.17	83.17	WA	-	-		
Rosedale Leather Pty Ltd**	83.17	83.17	WA	-	-		
Darkan Wet Blue Tanning Pty Ltd **	83.17	83.17	WA	-	-		
Australian Leather Upholstery Pty Ltd**	83.17	83.17	Vic	-	-		
Howe & Co Pty Ltd **	83.17	83.17	Vic	-	-		
Howe de Mexico SA de CV	83.17	83.17	Mexico	-	-		
				<u>19,878</u>	<u>19,878</u>		

* 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 Australian Leather Holdings Limited and the controlled entities subject to the Class Order (the ALH 'Closed Group') entered into Deeds of Cross Guarantee at various dates. The effect of the deeds is that Australian Leather Holdings 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 Australian Leather Holdings Limited is wound up.

The consolidated statement of financial performance and statement of financial position of the entities which are members of the Schaffer 'Closed Group' are as follows:

NOTE 14

OTHER FINANCIAL ASSETS (NON CURRENT)
(CONTINUED)

Statement of Financial Performance

REVENUE FROM ORDINARY ACTIVITIES	60,298	53,309
Changes in inventories of finished goods, work in progress and land held for re-sale	(923)	(1,435)
Raw materials and consumables used	(11,638)	(16,437)
Cost of sales joint venture interests	(3,067)	(299)
Depreciation and amortisation expense	(1,867)	(1,873)
Borrowing costs expense	(1,364)	(1,590)
Salaries, wages and on costs	(11,320)	(5,042)
Other expenses from ordinary activities	(6,830)	(9,380)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSES	23,289	17,253
Income tax expense relating to ordinary activities	3,343	2,271
NET PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	19,946	14,982

Reconciliation of retained profits

Retained profits at the beginning of the financial year	31,153	23,089
Net profit attributable to members of the Schaffer Closed Group	19,946	14,982
Adjustments arising from adoption of revised accounting standard AASB 1044 "Provision, contingent liabilities and contingent assets"	-	4,708
Dividends provided for or paid	(19,468)	(11,626)
Retained profits at the end of the financial year	<u>31,631</u>	<u>31,153</u>

Consolidated Statement of Financial Position

Current assets		
Cash assets	14,671	8,800
Receivables	5,123	5,547
Inventories	4,792	4,718
Other financial assets	347	694
Other	227	248
Total current assets	<u>25,160</u>	<u>20,007</u>
Non current assets		
Other financial assets	14,598	14,598
Property, plant and equipment	34,079	46,875
Intangible assets	84	84
Deferred tax assets	997	1,368
Total non current assets	<u>49,758</u>	<u>62,925</u>
Total assets	<u>74,918</u>	<u>82,932</u>
Current liabilities		
Payables	4,167	4,968
Interest bearing liabilities	833	465
Current tax liabilities	1,494	429
Provisions	1,296	1,099
Total current liabilities	<u>7,790</u>	<u>6,961</u>

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	2004 \$000	2003 \$000
NOTE 14		
OTHER FINANCIAL ASSETS (NON CURRENT) (CONTINUED)		
Non current liabilities		
Interest bearing liabilities	15,247	25,456
Deferred tax liabilities	1,120	1,551
Provisions	629	488
Total non current liabilities	<u>16,996</u>	<u>27,495</u>
Total liabilities	<u>24,786</u>	<u>34,456</u>
Net assets	<u>50,132</u>	<u>48,476</u>
Equity		
Contributed equity	15,916	14,738
Reserves	2,585	2,585
Retained profits	31,631	31,153
Total equity	<u>50,132</u>	<u>48,476</u>

NOTE 15
PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Freehold land				
At cost	8,920	9,176	5,154	5,412
Buildings on freehold land				
At cost	12,730	12,573	329	329
Accumulated depreciation	(3,672)	(3,279)	(59)	(49)
	<u>9,058</u>	<u>9,294</u>	<u>270</u>	<u>280</u>
Leasehold improvements				
At cost	615	580	-	-
Accumulated depreciation	(444)	(371)	-	-
	<u>171</u>	<u>209</u>	<u>-</u>	<u>-</u>
Joint venture properties				
At cost	12,551	22,972	4,201	8,681
Accumulated amortisation	(60)	(60)	-	-
	<u>12,491</u>	<u>22,912</u>	<u>4,201</u>	<u>8,681</u>
Total written down value land and buildings	<u>30,640</u>	<u>41,591</u>	<u>9,625</u>	<u>14,373</u>
Plant and equipment				
At cost	54,214	54,275	2,075	3,366
Accumulated depreciation	(29,951)	(27,013)	(980)	(1,102)
Written down value	<u>24,263</u>	<u>27,262</u>	<u>1,095</u>	<u>2,264</u>
Plant and equipment under lease				
At cost	2,572	3,008	-	-
Accumulated depreciation	(829)	(823)	-	-
	<u>1,743</u>	<u>2,185</u>	<u>-</u>	<u>-</u>
Total written down value plant and equipment	<u>26,006</u>	<u>29,447</u>	<u>1,095</u>	<u>2,264</u>
Total property, plant and equipment				
At cost	91,602	102,584	11,759	17,788
Accumulated depreciation and amortisation	(34,956)	(31,546)	(1,039)	(1,151)
Total written down amount	<u>56,646</u>	<u>71,038</u>	<u>10,720</u>	<u>16,637</u>

NOTE 15
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The directors' have reviewed the valuations of land and buildings and believe that the cost at which they are carried is not above their recoverable amount.

Assets pledged as security

Included in the balances of property, plant and equipment are assets over which first mortgages have been granted as security over bank loans (see Note 20). 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.

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
The value of assets pledged as security are:				
Property, plant and equipment	56,646	71,038	10,720	16,637
Reconciliations				
Freehold land				
Carrying amount at beginning	9,176	9,206	5,412	5,412
Additions	36	-	34	-
Disposals	(292)	(30)	(292)	-
	<u>8,920</u>	<u>9,176</u>	<u>5,154</u>	<u>5,412</u>
Buildings on freehold land				
Carrying amount at beginning	9,294	9,222	280	280
Additions	158	460	-	-
Disposals	-	(3)	-	-
Depreciation expense	(394)	(385)	(10)	(10)
	<u>9,058</u>	<u>9,294</u>	<u>270</u>	<u>270</u>
Leasehold improvements				
Carrying amount at beginning	209	175	-	-
Additions	35	99	-	-
Amortisation expense	(73)	(65)	-	-
	<u>171</u>	<u>209</u>	<u>-</u>	<u>-</u>
Joint venture properties				
Carrying amount at beginning	22,912	22,109	8,681	8,558
Additions	669	2,146	218	123
Disposal of joint venture interest	(11,090)	(1,343)	(4,698)	-
	<u>12,491</u>	<u>22,912</u>	<u>4,201</u>	<u>8,681</u>
Total written down value land and buildings	<u>30,640</u>	<u>41,591</u>	<u>9,625</u>	<u>14,397</u>
Plant and equipment				
Carrying amount at beginning	27,262	28,154	2,264	2,338
Additions	3,563	3,713	283	86
Transfers from leased plant	261	36	-	18
Depreciation expense	(4,216)	(4,260)	(181)	(221)
Intercompany transfers	-	-	-	43
Disposals	(137)	(285)	-	-
Disposal of joint venture interest	(2,470)	(96)	(1,271)	-
	<u>24,263</u>	<u>27,262</u>	<u>1,095</u>	<u>2,264</u>

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000

NOTE 15

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Plant and equipment under lease				
Carrying amount at beginning	2,185	2,423	-	18
Transfers to plant and equipment	(261)	(36)	-	(18)
Amortisation expense	(181)	(189)	-	-
Disposals	-	(13)	-	-
	<u>1,743</u>	<u>2,185</u>	<u>-</u>	<u>-</u>
Total written down value plant and equipment	<u>26,006</u>	<u>29,447</u>	<u>1,095</u>	<u>2,264</u>

NOTE 16

INTANGIBLES

Goodwill at cost	2,590	2,590	-	-
Provision for amortisation	(1,291)	(1,159)	-	-
	<u>1,299</u>	<u>1,431</u>	<u>-</u>	<u>-</u>

NOTE 17

PAYABLES (CURRENT)

Trade creditors	12,820	16,438	215	247
Goods and services tax net	413	350	(33)	31
Other creditors	2,118	1,850	153	137
	<u>15,351</u>	<u>18,638</u>	<u>335</u>	<u>415</u>

- (a) Terms and conditions relating to the above financial instruments. All current payables are non interest bearing and are normally settled on 30 day terms.
- (b) Included in trade creditors are non hedged payables amounting to US\$2,067,873 (2003 – US\$3,980,691). The Australian dollar equivalent is \$2,981,362 (2003 – \$5,941,329). Payment terms vary from 7 to 90 days.

NOTE 18

INTEREST BEARING LIABILITIES (CURRENT)

Bank overdraft - secured	-	1	-	1
Lease liability (refer note 26c) – secured	845	476	2	20
	<u>845</u>	<u>477</u>	<u>2</u>	<u>21</u>

- (a) The bank overdraft, loans and bills payable are secured by first registered mortgage over all the assets and undertakings of controlled entities. The lease liability is secured by a charge over the leased assets.
- (b) Terms and conditions relating to the above financial instruments
- (i) Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8% (2003 – 8%)

NOTE 19

PROVISIONS (CURRENT)

Employee entitlements (refer note 27a)	7,095	4,654	370	311
Sales rebates (refer note 19a)	2,318	887	-	-
	<u>9,413</u>	<u>5,541</u>	<u>370</u>	<u>311</u>

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000

NOTE 19

PROVISIONS (CURRENT) (CONTINUED)

(a) Provision for sales rebates				
Carrying amount at the beginning of the financial year		887		
Amounts utilised during the year		(887)		
Additional provisions		<u>2,318</u>		
Carrying amount at the end of the financial year		<u>2,318</u>		

This provision relates to rebates given to specified customers on certain products sold above a pre-determined volume and are recognised and payable when the sale is made.

NOTE 20

INTEREST BEARING LIABILITIES (NON CURRENT)

Lease liability (refer note 26c) – secured	275	1,158	-	52
Amount owing to wholly owned controlled entity	-	-	6,048	1,087
Government loan – secured	38,654	38,654	-	-
Bank loan – secured	14,972	24,305	4,071	7,842
	<u>53,901</u>	<u>64,117</u>	<u>10,119</u>	<u>8,981</u>

- (a) The bank loans and bills payable are secured by first registered mortgage over all the assets and undertakings of controlled entities. Included in bank loans is the consolidated entity's share of joint venture borrowings. The decrease is a result of property disposals (refer note 28). The lease liability is secured by a charge over the leased assets. The government loans are secured by a second mortgage over the assets and undertakings of a controlled entity.
- (b) Terms and conditions relating to the above financial instrument. Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8% (2003 – 8%).

Government loans:

An amount of \$25,000,000 has interest payable at 2% over the long term bond rate. The facility expires in February 2012. An amount of \$13,654,000 bears a fixed interest rate of 4.4% per annum until February 2012.

NOTE 21

PROVISIONS (NON CURRENT)

Employee entitlements (refer note 27a)	2,628	3,367	231	172
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NOTE 22

CONTRIBUTED EQUITY

a) Issued and paid up capital				
As at 30 June 2004 13,939,185 ordinary fully paid shares (2003 – 13,769,735)	15,916	14,738	14,968	13,790

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	CONSOLIDATED ENTITY			
	2004	2004	2003	2003
	No of shares	\$000	No of shares	\$000

CONSOLIDATED		CHIEF ENTITY	
2004	2003	2004	2003
\$000	\$000	\$000	\$000

NOTE 22

CONTRIBUTED EQUITY (CONTINUED)

b) Movement in shares on issue

At the beginning of the financial year	13,769,735	14,738	13,450,735	13,386
On 3 September 2002 15,000 options converted to ordinary shares under employee share scheme	-	-	15,000	49
On 16 September 2002 81,250 options converted to ordinary shares under employee share scheme	-	-	81,250	366
On 12 December 2002 500 options converted to ordinary shares under employee share scheme	-	-	500	2
On 20 February 2003 40,000 options converted to ordinary shares under employee share scheme	-	-	40,000	231
On 27 February 2003 3,500 options converted to ordinary shares under employee share scheme	-	-	3,500	33
On 10 March 2003 178,750 options converted to ordinary shares under employee share scheme	-	-	178,750	671
On 19 August 2003 10,000 options converted to ordinary shares under employee share scheme	10,000	64	-	-
On 26 August 2003 86,200 options converted to ordinary shares under employee share scheme	86,200	540	-	-
On 4 September 2003 11,250 options converted to ordinary shares under employee share scheme	11,250	128	-	-
On 19 February 2004 57,000 options converted to ordinary shares under employee share scheme	57,000	410	-	-
On 18 June 2004 5,000 options converted to ordinary shares under employee share scheme	5,000	36	-	-
Total capital issued during the year	(c) 169,450	1,178	319,000	1,352
At the end of the financial year	13,939,185	15,916	13,769,735	14,738

For details of movement in options and details of employee share options plan refer to Note 25.

NOTE 22

CONTRIBUTED EQUITY (CONTINUED)

(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.

NOTE 23

RESERVES AND RETAINED PROFITS

Reserves

Asset revaluation	2,585	2,585	2,283	2,283
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Nature and purpose of reserve

The asset revaluation reserve is used to record increments and decrements in the value of non current assets. Currently the accounting policy is to record all assets at cost. The reserve can be used to pay dividends in limited circumstances.

Retained profits

Retained profits at the beginning of the financial year	41,905	31,803	23,705	16,800
Net profit attributable to members of the parent entity	16,634	17,020	13,132	13,823
Adjustments arising from adoption of accounting standard AASB 1044 "Provision, contingent liabilities and contingent assets".	-	4,708	-	4,708
Dividends provided for or paid	(19,468)	(11,626)	(19,468)	(11,626)
Retained profits at the end of the financial year	39,071	41,905	17,369	23,705

NOTE 24

AUDITORS REMUNERATION

	\$	\$	\$	\$
Amounts received or due and receivable by the auditors of Schaffer Corporation Limited for:				
Audit of the accounts	204,387	199,035	60,777	10,000
Other services – tax compliance	63,929	66,357	37,792	-
	268,316	265,392	98,569	10,000

Included above are amounts received or due and receivable by auditors other than the auditors of Schaffer Corporation Limited.

Auditing accounts of certain controlled entities

	-	3,717	-	-
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NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 25

DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

J M Schaffer	Managing Director
D E Blain	Director (non-executive)
A K Mayer	Director (executive)
DJ Schwartz	Director (non-executive)

(ii) Specified Executives

B DeClase	General Manager Operations Howe & Company Pty. Ltd.
N Filipovic	General Manager Sales, Marketing and International Operations Howe & Company Pty. Ltd.
G Monkhouse	Chief Financial Officer Schaffer Corporation Limited
C Nunis	Chief Financial Officer Australian Leather Holdings Limited
B Tjahjana	General Manager Quality and Development Howe & Company Pty. Ltd.

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

Executive Remuneration

The Board does not consider the Company to be of sufficient size to warrant a dedicated remuneration committee. The Board (excluding the Mr Schaffer and Mr Mayer) assumes the role of a remuneration committee in being responsible for determining the remuneration of the executive directors. The Board also set the remuneration for all other senior group executives. The substantial equity interest of the directors means that all are focused maximising returns to shareholders in fulfilling this role. The Board of Schaffer Corporation Limited ("SFC") 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. The Group Managing Director and Company Secretary do not participate in any annual incentive program.

Long Term Incentive – SFC's senior executives (other than Mr Schaffer and Mr Mayer) participate in SFC's Employee Share Option Plan ("ESOP"). ALH operates the Employee Participation Unit ("EPU") Plan for its executives. The SFC ESOP and ALH EPU plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 25

DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(ii) Remuneration of Specified Directors and Specified Executives

	PRIMARY			POST EMPLOYMENT		EQUITY	OTHER	TOTAL
	SALARY & FEES	CASH BONUS	NON MONETARY BENEFITS	SUPER-ANNUATION	RETIREMENT BENEFITS	SHARE OPTIONS AND EPU'S		
	\$	\$	\$	\$	\$	\$		
Specified directors								
J M Schaffer								
2004	562,026	-	120,261	18,652	23,381	-	-	724,320
2003	506,255	-	115,381	22,219	28,452	2,009	-	674,316
D E Blain								
2004	70,000	88,798	-	6,300	957	7,541	-	173,596
2003	50,000	89,213	-	4,500	6,957	7,541	-	158,211
A K Mayer								
2004	396,125	214,423	-	-	-	-	-	610,548
2003	423,280	280,769	-	-	-	-	-	704,049
D J Schwartz								
2004	45,000	-	-	4,050	2,024	-	-	51,074
2003	25,000	-	-	2,250	4,167	2,555	-	33,972
Total Remuneration specified directors								
2004	1,073,151	303,221	120,261	29,002	26,362	7,541	-	1,559,538
2003 *	1,080,644	369,982	115,381	43,360	39,576	13,168	-	1,662,111

* Group total in respect of the financial year ended 30 June 2003 do not necessarily equal the sums of amounts disclosed for 2003 for individuals specified in 2004, as different individuals were specified in 2003.

(ii) Remuneration of Specified Directors and Specified Executives

Specified executives

B DeClase								
2004	152,027	202,954	-	31,949	-	13,774	-	400,704
2003	147,599	180,236	-	29,505	-	13,774	-	371,114
N Filipovic								
2004	203,882	264,979	-	42,197	-	16,916	-	527,974
2003	197,945	256,909	-	40,937	-	16,916	-	512,707
G Monkhouse								
2004	237,316	153,702	-	44,303	-	107,075	-	542,396
2003	225,748	149,462	-	48,484	-	133,889	-	557,583
C Nunis								
2004	172,769	248,137	-	37,881	-	16,916	-	475,703
2003	167,737	227,697	-	35,589	-	16,916	-	447,939
B Tjahjana								
2004	133,437	192,901	-	29,370	-	13,774	-	369,482
2003	127,082	166,627	-	26,433	-	13,774	-	333,916
Total Remuneration specified executives								
2004	899,431	1,062,673	-	185,700	-	168,455	-	2,316,259
2003	866,111	980,931	-	180,948	-	195,269	-	2,223,259

(c) Share options

Options issued over ordinary shares as part of an employee share scheme are as follows. Further details are provided in note 26(e).

DATE ISSUED	NO. ON ISSUE 30 JUNE 2003	ISSUED DURING THE YEAR	FORFEITED DURING THE YEAR	EXERCISED DURING THE YEAR	NO. ON ISSUE 30 JUNE 2004	EXERCISE PRICE	EXERCISABLE ON OR BEFORE	NO. VESTED BUT NOT EXERCISED 30 JUNE 2004
28 Mar 2000	6,975	-	-	(6,975)	-	\$3.30	28 Mar 2005	-
10 Jul 2000	13,025	-	-	(13,025)	-	\$3.26	10 Jul 2005	-
24 Aug 2001	41,800	-	-	(21,800)	20,000	\$3.77	24 Aug 2006	-
5 Feb 2002	80,000	-	-	(40,000)	40,000	\$5.42	5 Feb 2007	-
15 Mar 2002	75,000	-	-	(30,000)	45,000	\$7.11	15 Mar 2007	25,000
20 Jun 2002	124,000	-	(5,000)	(38,900)	80,100	\$9.49	20 Jun 2007	45,100
15 Jul 2003	-	80,000	-	(18,750)	61,250	\$12.31	15 Jul 2008	1,250
	340,800	80,000	(5,000)	(169,450)	246,350			71,350

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 25

DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(d) Options exercised and market value of shares issued.

CONVERSION DATE	OPTION GRANT DATE	OPTION EXPIRY DATE	NO. OF OPTIONS EXERCISED/SHARES ISSUED	EXERCISE PRICE PER OPTION	PROCEEDS RECEIVED
				\$	\$
19 Aug 2003	10 Jul 2000	10 Jul 2005	5,000	3.26	16,300
19 Aug 2003	28 Mar 2000	28 Mar 2005	5,000	9.49	47,450
26 Aug 2003	28 Mar 2000	28 Mar 2005	6,975	3.30	23,017
26 Aug 2003	10 July 2000	10 July 2005	8,025	3.26	26,161
26 Aug 2003	24 Aug 2001	24 Aug 2006	21,800	3.77	82,186
26 Aug 2003	15 Mar 2002	15 Mar 2007	25,000	7.11	177,750
26 Aug 2003	28 Mar 2000	28 Mar 2005	24,400	9.49	231,556
4 Sept 2003	20 Jun 2002	20 Jun 2007	3,750	9.49	35,588
4 Sept 2003	15 July 2003	15 July 2008	7,500	12.31	92,325
19 Feb 2004	5 Feb 2002	5 Feb 2007	40,000	5.42	216,800
19 Feb 2004	20 Jun 2002	20 Jun 2007	5,750	9.49	54,568
19 Feb 2004	15 July 2003	15 July 2008	11,250	12.31	138,488
18 Jun 2004	15 Mar 2002	15 Mar 2007	5,000	7.11	35,550
			169,450		1,177,739

(e) Remuneration options: Granted and vested during the year

During the financial year options were granted as equity compensation benefits to certain specified executives as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price of \$12.31.

SPECIFIED EXECUTIVES	VESTED NUMBER (DURING YEAR)	GRANTED NUMBER	GRANT DATE	VALUE PER OPTION AT GRANT DATE	EXERCISE PRICE PER SHARE	FIRST EXERCISE DATE	LAST EXERCISE DATE
G P Monkhouse	76,250	30,000	15 July 2003	\$1.82	\$12.31	15 July 2003	15 July 2008

(f) Shares issued on exercise of remuneration options by specified executives

SPECIFIED EXECUTIVES	SHARES ISSUED NUMBER	PAID PER SHARE	UNPAID PER SHARE
G P Monkhouse	85,000	\$6.49	-

(g) Option holdings of specified directors and specified executives

SPECIFIED EXECUTIVES	VESTED AS AT 30 JUNE 2004						
	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	OPTIONS EXERCISED	BALANCE AT END OF PERIOD	TOTAL	NOT EXERCISABLE	EXERCISABLE
G P Monkhouse	163,750	30,000	(85,000)	108,750	22,500	-	22,500

(h) Shareholdings of specified directors and specified executives

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 PERIOD	ON EXERCISE OF OPTIONS	NET CHANGE / OTHER	BALANCE AT END OF PERIOD
Specified directors				
D E Blain	1,562,360			1,562,360
A K Mayer	344,263		2,922	347,185
J M Schaffer	2,619,927			2,619,927
D J Schwartz	586,210			586,210
Specified executives				
G P Monkhouse	86,415	85,000	(82,039)	89,376
Total	5,199,175	85,000	(79,117)	5,202,136

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

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 of their director related entities.

Mr A K Mayer has a 16.83% interest in a controlled entity Australian Leather Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	CONSOLIDATED		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000

NOTE 26

CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS

(a) Termination benefits under Service agreements

No of service agreements – 1

Maximum liability at June 30, 2004

	502	376	502	376
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(b) Commitments under lease agreements

Operating leases – office, factory and retail premises

- payable not later than 1 year	1,836	1,736	-	-
- later than 1 year and not later than 5 years	6,003	6,589	-	-
- later than 5 years	271	1,876	-	-
- aggregate lease expenditure contracted for at balance date	8,110	10,201	-	-

Operating leases – motor vehicles

- payable not later than 1 year	211	194	9	-
- later than 1 year and not later than 5 years	303	216	20	-
- aggregate lease expenditure contracted for at balance date	514	410	29	-

Operating leases for motor vehicles have an average lease term of 4 years. In return for the lease payments a fully maintained vehicle is provided.

(c) Finance leases and hire purchase commitments

- payable not later than 1 year	883	576	2	17
- later than 1 year and not later than 5 years	289	1,231	-	75
Total lease payments	1,172	1,807	2	92
Future finance charges	(52)	(173)	-	(20)
	1,120	1,634	2	72
- Current liability (refer note 18)	845	476	2	20
- Non current liability (refer note 20)	275	1,158	-	52
	1,120	1,634	2	72

Finance leases have an average lease term of 4 years and an average implicit interest rate of 8%. Assets that are the subject of finance leases include motor vehicles and large items of plant and machinery.

(d) Capital expenditure commitments

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

- payable not later than 1 year				
Plant and equipment	230	140	-	-

(e) 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:

	2,265	2,384	85	85
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NOTE 26

CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS (CONTINUED)

(f) The consolidated entity has a several liability only for borrowings made to finance the following joint ventures:

Mindarie Keys Joint Venture

IBM Centre Joint Venture

616 St Kilda Road Joint Venture

Hometown Joint Venture

Queens Road Joint Venture

Crosslands Shopping Centre Joint Venture

89 St Georges Tce Joint Venture

The consolidated entity's share of all liabilities has been included in the financial statements (refer note 28).

NOTE 27

EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

(a) Employee entitlements and superannuation commitments

The consolidated entity has established certain 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		CHIEF ENTITY	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
The aggregate employee entitlement liability is comprised of:				
Accrued wages, salaries and on costs	291	324	-	-
Provisions (current) – refer note 19	7,095	4,654	370	311
Provisions (non current) – refer note 21	2,628	3,367	231	172
	10,014	8,345	601	483

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 27

EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

(b) Employee share option plan

An employee share option plan has been established. The plan was approved by shareholders at the 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. There are currently twenty three executives eligible for the plan.

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.

(c) Employee incentives plan

A controlled entity Australian Leather Holdings Limited (ALH) has established 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 Australian Leather Holdings Limited, which is calculated as if each EPU already issued was deemed to be one issued Australian Leather Holdings Limited share.

NOTE 27

EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

An EPU provides an employee with a right to receive a cash payment from Australian Leather Holdings 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 dependant on vesting and the financial performance of Australian Leather Holdings 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 Australian Leather Holdings 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.

EPU TRANCHE	SERIES	GRANT DATE	NUMBER ISSUED	NUMBER VESTED	NUMBER REDEEMED	NUMBER CANCELLED	BALANCE OF EPU'S OUT-STANDING	BALANCE AS A % OF ALH'S CAPITAL
Tranche 1		04-Oct-00	3,383,634	1,060,205	-	(203,019)	3,180,615	5.0%
Tranche 2	Series 1	21-Dec-01	2,884,434	-	-	(210,766)	2,673,668	4.2%
	Series 2	01-Jul-02	120,000	-	-	-	120,000	0.2%
	Series 3	01-Jul-03	245,000	-	-	-	245,000	0.4%

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

	% INTEREST	
	2004	2003
NOTE 28		
INTERESTS IN BUSINESS UNDERTAKINGS - JOINT VENTURES		
Investment properties		
Schaffer Properties Pty Ltd and Schaffer Corporation Limited have interests in a number of property joint ventures in Western Australia and Victoria.		
IBM Centre Joint Venture	22.10	22.10
616 St Kilda Road Joint Venture	20.00	20.00
Gledden Arcade Joint Venture	-	22.10
South Hedland Shopping Centre Joint Venture	-	18.75
Hometown Joint Venture	25.00	25.00
GHD House Joint Venture	-	18.00
Queens Road Joint Venture	9.00	9.00
Bourke Street Joint Venture	-	12.10
401 Great Eastern Highway Joint Venture	-	25.00
Crosslands Shopping Centre Joint Venture	16.70	16.70
89 St. George's Terrace Joint Venture	20.00	20.00
Gateway Central Joint Venture	-	25.00
BBC Hardware Innaloo Joint Venture	-	6.50
Alvito House Joint Venture	-	6.50
380a Scarborough Beach Road	-	6.50
382 Scarborough Beach Road	-	6.50
Property Developments		
The following joint ventures are established for the purposes of redeveloping, constructing and resale of residential and commercial properties.		
Mindarie Keys Joint Venture	15.00	15.00
Majestic Quay Joint Venture	-	25.00

	CONSOLIDATED	
	2004	2003
	\$000	\$000

NOTE 28
INTERESTS IN BUSINESS UNDERTAKINGS - JOINT VENTURES (CONTINUED)

The interest in the joint ventures is included in the account as follows:

Current assets		
Cash assets	416	704
Receivables	1,166	663
Other	63	53
Inventories	1,720	2,123
Total current assets	3,365	3,543
Non current assets		
Plant and equipment	5,937	4,325
Property	9,165	22,912
Intangible assets	84	84
Deferred tax assets	74	121
Total non current assets	15,260	27,442
Total assets	18,625	30,985
Current Liabilities		
Payables	542	1,121
Total current liabilities	542	1,121
Non current liabilities		
Interest bearing liabilities	14,972	24,306
Deferred tax liabilities	783	1,106
Total non current liabilities	15,755	25,412
Total liabilities	16,297	26,533
Net assets	2,328	4,452

The joint ventures have contributed to the after tax result of the consolidated entity as follows:

Profit after tax \$4,227,000 (2003 - \$1,980,000)

Revenue \$14,234,000 (2003 - \$8,495,000)

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

Capital expenditure commitments of \$Nil (2003 - \$2,781,000) payable within one year were contracted for at balance date.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 29
SEGMENT INFORMATION

The company operates predominantly in Australia.

BUSINESS SEGMENT INFORMATION	LEATHER		BUILDING PRODUCTS		INVESTMENT PROPERTIES		OTHER INVESTMENTS		CONSOLIDATED	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Total revenue from ordinary activities external customers	140,870	176,691	34,750	34,922	11,227	4,628	5,359	6,695	192,206	222,936
Unallocated revenue									144	197
Total revenue									192,350	223,133
Results										
Segment results	16,087	22,274	4,170	4,332	5,779	2,263	1,811	1,731	27,847	30,600
Interest and corporate overhead									(2,222)	(3,220)
Operating profit before income tax									25,625	27,380
Income tax expense									7,348	7,981
Net profit after tax									18,277	19,399
Assets										
Segment assets	75,141	82,338	20,598	22,140	16,467	28,000	34,541	28,693	146,747	161,171
Unallocated assets									2,843	2,392
Total assets									149,590	163,563
Liabilities										
Segment liabilities	61,939	63,703	6,360	7,701	14,690	23,955	1,607	2,578	84,596	97,937
Unallocated liabilities									2,726	989
									87,322	98,926
Other Segment Information										
Acquisition of property, plant and equipment, intangible assets and other non current assets	1,419	2,737	1,361	1,286	1,633	2,354	-	-	4,413	6,377
Unallocated									48	11
									4,461	6,388
Depreciation	2,954	2,977	1,341	1,257	207	287	-	-	4,502	4,521
Unallocated									108	124
									4,610	4,645
Amortisation	132	132	254	254	-	-	-	-	386	386
Non cash expenses other than depreciation and amortisation	2,496	(722)	273	174	-	-	(145)	(276)	2,624	(824)
Unallocated									(68)	(118)
									2,692	(706)

Intersegment transactions are on a commercial basis

Buildings products comprise the operations of Delta Corporation Limited, Urbanstone Pty. Ltd. and Solco Industries Pty. Ltd.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 30

RELATED PARTY DISCLOSURES

- (a) The directors of Schaffer Corporation Limited during the year were Messrs J M Schaffer, D J Schwartz, A K Mayer and Mrs D E Blain.
- (b) The following related party transactions occurred during the financial year within the consolidated entity.

Disclosures relating to wholly owned group

Schaffer Corporation Limited has provided 100% controlled entities with working capital loans which are interest free and have no fixed repayment date. The aggregate amounts owing from those controlled entities at year end is \$10,237,370 (2003 - \$11,318,925) of which \$Nil (2003 - \$1,517,000) has been provided for as non recoverable.

Wholly owned controlled entities have provided Schaffer Corporation Limited with loans which are interest free and have no fixed repayment date. The aggregate amounts owing to those controlled entities at year end is \$6,047,729 (2003 - \$1,087,329).

Transactions with other related parties

Schaffer Corporation Limited holds 83.17% (2003 - 83.17%) of the share capital of Australian Leather Holdings Limited of which Mr J M Schaffer, Mr A K Mayer and Mrs D E Blain are directors. Schaffer Corporation Limited provided management services under normal commercial terms and conditions to Australian Leather Holdings Limited. Fees received during the year were \$240,000 (2003 - \$240,000).

Schaffer Corporation Limited holds 51% of the ordinary share capital of Solco Industries Pty Ltd of which Mr J M Schaffer is a director as Schaffer Corporation Limited's nominee. Schaffer Corporation Limited provided Solco Industries Pty Ltd with a secured loan with no fixed terms of repayment. This loan and other loans provided by the 49% equity holders are interest free. The balance of the loan outstanding at 30 June 2004 is \$502,411 (2003 - \$502,411) of which \$157,986 (2003 - \$158,024) has been provided for as non recoverable.

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

	2004	2003
	\$000	\$000

NOTE 31

OUTSIDE EQUITY INTEREST

Reconciliation of outside equity interest in controlled entities:

Opening balance	5,409	5,050
- Add share of operating profit	1,643	2,379
- Dividends Paid	(2,356)	(2,020)
Closing balance	<u>4,696</u>	<u>5,409</u>

CONSOLIDATED
ENTITY

	2004	2003
	\$000	\$000

NOTE 32

EARNINGS PER SHARE

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

Net profit after tax	18,277	19,399
Adjustments:		
Net profit attributable to outside equity interest	<u>(1,643)</u>	<u>(2,379)</u>
Earnings used in calculating basic and diluted earnings per share	<u>16,634</u>	<u>17,020</u>

	Number of Shares	Number of Shares
--	---------------------	---------------------

Weighted average number of ordinary shares used in calculating basic earnings per share	13,881,167	13,597,500
Effect of dilutive securities:		
Share options	<u>246,350</u>	<u>340,800</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>14,127,517</u>	<u>13,938,300</u>

Conversions, calls, subscriptions or issues after 30 June 2004

Since the end of the financial year 87,750 ordinary shares have been issued pursuant to the employee share option plan. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 33
FINANCIAL INSTRUMENTS

(a) Interest rate risk

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN:				NON INTEREST BEARING		TOTAL CARRYING AMOUNT AS PER THE STATEMENT OF FINANCIAL POSITION		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
	2004 \$000	2003 \$000	1 YEAR OR LESS		OVER 1 TO 5 YRS		2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000
			2004 \$000	2003 \$000	2004 \$000	2003 \$000						
(i) Financial assets												
Cash	28,489	21,072	-	-	-	-	-	-	28,489	21,072	5.15%	4.55%
Receivables – trade	-	-	-	-	-	-	24,462	26,483	24,462	26,483	N/A	N/A
Receivables – other	-	-	-	-	-	-	2,491	1,053	2,491	1,053	N/A	N/A
Listed shares	-	-	-	-	-	-	248	493	248	493	N/A	N/A
Unlisted shares	-	-	-	-	-	-	99	201	99	201	N/A	N/A
Total financial assets	28,489	21,072	-	-	-	-	27,300	28,230	55,789	49,302		
(ii) Financial liabilities												
Trade creditors, accruals and other creditors	-	-	-	-	-	-	15,351	18,638	15,351	18,638	N/A	N/A
Bank overdraft	-	1	-	-	-	-	-	-	-	1	N/A	9.0%
Finance lease liability	-	-	845	476	275	1,158	-	-	1,120	1,634	8.0%	8.0%
Dividends payable	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Government loans	-	-	-	-	38,654	38,654	-	-	38,654	38,654	6.59%	6.59%
Bank loans	11,612	11,612	-	-	12,693	12,693	-	-	14,972	24,305	6.94%	6.72%
Total financial liabilities	11,612	11,612	845	476	51,622	52,505	15,351	18,638	70,097	83,232		

(b) Net fair values

All financial assets and liabilities have been recognised at the balance sheet date at their net fair values except for the following:

	TOTAL CARRYING AMOUNT AS PER THE STATEMENT OF FINANCIAL POSITION		AGGREGATE NET FAIR VALUE	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Financial assets				
Listed shares	248	493	365	560

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Recognised financial instruments*Cash, cash equivalents and short term investments:*

The carrying amount approximates fair value because of their short term to maturity.

Trade receivables and payables:

The carrying amount approximates fair value.

Short term borrowings:

The carrying amount approximates fair value because of their short term to maturity.

NOTE 33
FINANCIAL INSTRUMENTS (CONTINUED)*Long term loans receivable:*

The fair values of long term loans receivable are estimated based on the amount likely to be recovered.

Long term borrowings:

Other than noted above the fair values of long term borrowings are the amounts repayable at the end of the term of the loan.

Non current investments/securities:

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, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by references to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/ security. The net fair value of the unlisted options is determined to be the difference between the market price and the exercise price of the underlying shares.

Foreign exchange contracts:

Foreign exchange contracts are carried on the balance sheet at the net amount payable to or receivable from the relevant counterparties.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 33

FINANCIAL INSTRUMENTS (CONTINUED)

(c) Credit risk exposures

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 statement of financial position.

Concentration 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.

Refer also to Note 29 – Segment Information

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

INDUSTRY	MAXIMUM CREDIT RISK EXPOSURE CONSOLIDATED			
	PERCENTAGE OF TOTAL TRADE DEBTORS		\$000	
	2004	2003	2004	2003
Manufacturing	99%	97%	24,325	25,636
Property development	1%	3%	137	847

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

Manufacturing

- payment terms 30 days
- a risk assessment process is used for all new customers

Property development

- 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 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.

NOTE 34

SIGNIFICANT EVENTS AFTER BALANCE DATE

Following the end of the reporting period a final dividend of 70¢ per share has been declared payable on 16 September 2004.

NOTE 35

IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

For the financial year commencing 1 July 2005, the consolidated entity must comply with Australian equivalents of International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board ("AASB"). The Group will be required to present its financial statements in accordance with AASB standards equivalent to IFRS standards for the financial year commencing 1 July 2005, including the interim financial report for the half-year ending 31 December 2005. Entities complying with IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

NOTE 35

(CONTINUED)

The Company is on schedule to transition its accounting policies and financial reporting from current Australian Standards to Australian equivalents of IFRS within the requisite timeframe. Schaffer Corporation Limited ("SFC") has allocated internal resources and consulted experts in performing an internal review to assess the impact of the anticipated conversion to IFRS from the consolidated entity's existing accounting and reporting practices. The review focused on the standards reasonably believed to be relevant to the Group. The review has not at this stage quantified the effects of the differences set out below as the eventual impact will depend on the particular circumstances prevailing in the reporting periods to which IFRS applies. Consequently, at this stage the Company has not been able to reliably quantify the impact of IASB adoption on the financial report.

To date the review process has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available including elective exemptions under Accounting Standards AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004). Some of these choices are still being analysed to determine the accounting policy most appropriate for the Group. The major changes identified to date that will be required to the Company's existing accounting policies include the following:

Share-Based Payments

SFC operates a shareholder approved Employee Share Option Plan ("ESOP") and in ALH an Employee Participation Unit ("EPU") scheme. Pursuant to the ESOP the Company issues options to senior executives as part of its remuneration strategy designed to align the interests of the participants with those of all SFC shareholders. The company already determines the fair value of options issued to employees pursuant to SFC's ESOP. Under AASB 2 Share-Based Payments, the Company will be required to recognise an expense over the vesting period for option issues in its Statement of Financial Performance. The standard applies to all share based payments issued after 7 November 2002 which have not vested as at 1 January 2005. This treatment will result in an increase in expenses in the Statement of Financial Performance. No tax deduction is allowed for the amount expensed. Reliable estimation of the future financial effects of this change in accounting policy is in the process of being quantified.

Goodwill

Under the Australian equivalent to IFRS 3 Business Combinations, goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change to the Group's current accounting policy which amortises goodwill over its useful life (usually 20 years). Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. The impact of adopting this standard is not expected to be material given the amount of goodwill currently recorded in the financial statements (refer note 16).

Taxation

Under AASB 112 Income Taxes, tax assets and liabilities are recognised using the balance sheet approach, which will result in a change in the entity's current accounting policy that uses the income statement approach. AASB 112 has a wider scope than the Company's current accounting policy, hence it is likely upon transition that the amount of deferred taxes recognised in the balance sheet will increase. Deferred tax liabilities will increase in relation to assets that are carried in the Statement of Financial Position at amounts greater than their tax cost base due to fair value adjustments and intangibles arising in relation to pre-transition business combinations, revaluations of assets and investments in associates. The impact of this difference may be to increase deferred tax liabilities and decrease opening retained earnings, although the financial effect of this change in accounting policy has not yet been determined.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2004

NOTE 35 (CONTINUED)

Financial Assets and Liabilities

AASB 139 Financial Instruments: Recognition and Measurement will require financial instruments to be classified into one of the following categories which in turn determine the accounting treatment for the item. The classifications are:

- Financial assets held for trading – which are to be measured at fair value with fair value changes applied through the Statement of Financial Performance;
- Financial assets held to maturity – which are to be measured at amortised cost
- Loans and receivables - which are to be measured at amortised cost
- Available for sale financial assets – which are to be measured at fair value with fair value changes taken to equity
- Non-trading financial liabilities – which are to be measured at amortised cost

This will result in a change in the current accounting policy that does not classify financial instruments. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

Hedge Accounting

The Group uses forward contracts to manage foreign exchange exposure. AASB 139 Financial Instruments: Recognition and Measurement will require all derivatives to be measured at fair value and recognised in the Statement of Financial Performance unless they qualify for specific hedge accounting. In order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identified the type of hedge – fair value of cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Due to the complexity of accounting for specific hedges pursuant to the IFRS regime, future hedge contracts will be treated as general hedges with all movements in fair value recognised in the Statement of Financial Performance. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured.

NOTE 35 (CONTINUED)

Investment Property

Under current Australian Standards, investment properties are not depreciated and the Company has disclosed the value of its investment property joint venture interests at the lower of cost and net realisable value. The new standard, AASB 140 Investment Property, requires the value of investment properties to be recorded by the Company at either fair value or depreciated cost. The fair value option utilises a mark to market approach whereby revaluation increments or decrements are required to be recognised in the Company's Statement of Financial Performance at each balance date. The Company intends to research further the impact and relevance of both fair value and depreciated cost options before determining the most appropriate policy.

The above should not be regarded as a complete list of changes in accounting policies that will result from the Company's transition of Australian equivalents to IFRS, as not all standards have been analysed in full detail, and some decisions have not been made where specific accounting policy elections are available.

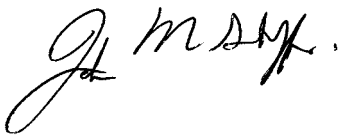
DIRECTORS' DECLARATION INDEPENDENT AUDIT REPORT

DIRECTORS' DECLARATION

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

- (1) In the opinion of the directors:
- a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (2) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 14 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, 16 September 2004

INDEPENDENT AUDIT REPORT TO MEMBERS OF SCHAFFER CORPORATION LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Schaffer Corporation Limited (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

INDEPENDENT AUDIT REPORT TO MEMBERS OF SCHAFFER CORPORATION LIMITED (CONTINUED)

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.


Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Schaffer Corporation Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Schaffer Corporation Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



G H Meyerowitz
Partner
Perth
16 September 2004

DIRECTORS' STATUTORY REPORT

year ended 30 June 2004

Your directors submit their report for the year ended 30 June 2004 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 6/9/72	Mr John Schaffer joined the company in 1972. Mr Schaffer has held the position of Managing Director since 1988.
D E BLAIN, BA Non executive Director Appointed 5/6/87	Mrs Danielle Blain joined the company in 1987.
A K MAYER Executive Director Appointed 21/11/01	Mr Anton Mayer is the Managing Director of Australian Leather Holdings Limited. Mr Mayer has over 35 years of international leather experience, broad business skills and a global business perspective.
D J SCHWARTZ Non executive Director Appointed 29/6/99	Mr David Schwartz is the chairman of Loftus Capital Partners Limited. He has over 20 years experience in manufacturing and distribution businesses.

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

ATTENDANCE AT BOARD MEETINGS

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

	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
J M Schaffer	9	9
D E Blain	9	8
A K Mayer	9	9
D J Schwartz	9	9

ATTENDANCE AT AUDIT COMMITTEE MEETINGS

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

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	2,619,927	-
D E Blain	1,562,360	-
A K Mayer	347,185	-
D J Schwartz	566,210	-

ROTATION AND ELECTION OF DIRECTORS

In accordance with the Articles of Association:

Mr. D J Schwartz retires by rotation and being eligible offers himself for re-election.

PRINCIPAL ACTIVITIES

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

RESULTS

The consolidated entity's operating profit after tax for the financial year and after outside equity interests, was a profit of \$16,634,000 (2003 - \$17,020,000).

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 of 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.

Out of profits, as recommended in the financial statements, for the year ended 30 June 2003:

	\$
On ordinary shares	
- 50¢ per share interim, paid on 21 March 2003	6,885,000
Out of profits for the year ended 30 June 2004	
On ordinary shares	
- 70¢ per share final, paid on 18 September 2003	9,714,000
- 70¢ per share interim, paid on 22 March 2004	9,754,000
	19,468,000

REVIEW OF OPERATIONS

The consolidated entity's revenue decreased by 14% from \$223,133,000 to \$192,350,000 this year. This resulted in a pre tax operating profit of \$25,625,000 compared to \$27,380,000 for last year. The net after tax consolidated entity profit, after minority interests decreased by 2% from \$17,020,000 to \$16,634,000.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than matters referred to in this 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.

DIRECTORS' STATUTORY REPORT

year ended 30 June 2004

SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no significant events after balance date which would materially affect the reported results or financial position of the company apart from those disclosed in note 34 of the financial statements.

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. The total amount of insurance contract premiums paid is not disclosed due to a confidentiality clause within the insurance policy.

DIRECTORS' AND OTHER OFFICERS EMOLUMENTS

The nature and amount of emoluments of directors and officers of the company are reviewed on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving corporate objectives, some senior executives participate in a performance bonus plan which provides incentives where specified criteria relating to profitability are met. Details of the nature and amount of each element of the emolument of each director of the company and each of the five executive officers of the company and the consolidated entity receiving the highest emolument for the financial year as follows:

	ANNUAL EMOLUMENTS			LONG TERM EMOLUMENTS		
	BASIC FEE	BONUS	OTHER	OTHER	SUPER-ANNUATION	SHARE OPTIONS & EPU'S
	\$	\$	\$	\$	\$	\$
D E Blain	70,000	88,798	-	957	6,300	7,541
A K Mayer	396,125	214,423	-	-	-	-
J M Schaffer	562,026	-	120,261	23,381	18,652	-
D J Schwartz	45,000	-	-	2,024	4,050	-

Emoluments of the five most highly paid executive officers of the company and the consolidated entity:

	ANNUAL EMOLUMENTS			LONG TERM EMOLUMENTS		
	BASIC FEE	BONUS	OTHER	OTHER	SUPER-ANNUATION	SHARE OPTIONS & EPU'S *
	\$	\$	\$	\$	\$	\$
B DeClase	152,027	202,954	-	-	31,949	13,774
N Filipovic	203,882	264,979	-	-	42,197	16,916
G Monkhouse	237,316	153,702	-	-	44,303	107,075
C Nunis	172,769	248,137	-	-	37,881	16,916
B Tjahana	133,437	192,901	-	-	29,370	13,774

* Includes the value of share options and employee participation units ("EPU's") using the Black-Scholes model.

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.

The category 'Other' includes the value of any non cash benefits provided.

Directors' and executives' remuneration includes the value of share options and employee participation units.

Share options

The Company has re-calculated the value as at the respective grant dates of all share options in the Company issued to directors, executives and employees pursuant to the Company's Employee Share Option Plan (refer note 27(b)) pursuant to the methodology set out in ED108 "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 table below summarises, for each issue made since the plans were instituted, the inputs into the model used this year to re-assess the options' values. The table also gives the valuation placed on each option when they were first granted.

GRANT DATE	EXPIRY DATE	CURRENT PRICE	EXERCISE PRICE	VOLATILITY	5 YEAR BONDS	DIVIDEND YIELD	VALUATION PER ED108
17 Nov 99	17 Nov 04	\$2.61	\$2.61	16%	6.25%	4.60%	\$0.37
28 Mar 00	28 Mar 05	\$3.30	\$3.30	23%	6.56%	4.55%	\$0.64
10 Jul 00	10 Jul 05	\$3.26	\$3.26	35%	5.94%	4.91%	\$0.83
24 Aug 01	24 Aug 06	\$4.00	\$3.77	33%	5.42%	6.75%	\$0.83
4 Feb 02	4 Feb 07	\$5.65	\$5.42	36%	5.63%	4.78%	\$1.53
26 Mar 02	26 Mar 07	\$7.00	\$7.11	33%	6.12%	7.14%	\$1.32
20 Jun 02	20 Jun 07	\$9.50	\$9.49	34%	5.66%	6.84%	\$1.89
15 Jul 03	15 Jul 08	\$12.29	\$12.31	31%	5.01%	8.14%	\$1.82

DIRECTORS' STATUTORY REPORT

year ended 30 June 2004

The company has adopted the fair value measurement provisions of ED 108 "Share-based Payments" prospectively for all options granted to directors and relevant executives, which have not vested as at 1 July 2002. 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.

Employee participation units

Executive's remuneration includes the value of employee participant units (EPUs) issued to employees of Australian Leather Holdings Limited. 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 (refer Note 27 (c) pursuant to the methodology set out in ED 108. 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 Australian Leather Holdings Limited shares over the 12 months ended immediately prior to the grant date
- (4) the options expected life (refer Note 27(c) for explanation of vesting provisions)
- (5) zero dividend yield as EPUs participate in dividends paid by Australian Leather Holdings Limited
- (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 Australian Leather Holdings 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 Oct 2000	4 Oct 2007	\$0.26	\$0.26	36%	6.16%	\$0.13
20 Dec 2001	20 Dec 2008	\$0.33	\$0.26	33%	5.51%	\$0.18
1 Jul 2002	1 Jul 2009	\$1.19	\$0.26	33%	5.88%	\$1.02
1 Jul 2003	1 Jul 2010	\$1.33	\$0.26	31%	4.83%	\$1.14

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 325,100 unissued ordinary shares under options (246,350 at reporting date). Refer to note 22(d) of the financial statements for further details of the options outstanding.

Shares issued as a result of the exercise of options

During the financial year, employees and directors have exercised the option to acquire 169,450 fully paid ordinary shares in Schaffer Corporation Limited at a weighted average exercise price of \$6.95. Since the end of the financial year, a further 87,750 options have been exercised, at a weighted average exercise price of \$8.25.

TAX CONSOLIDATION

Effective 1 July 2003, for purposes of income tax, Schaffer Corporation Limited and its 100% subsidiaries have formed a tax consolidated Group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

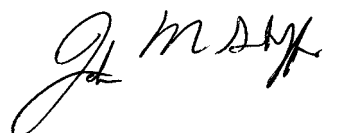
ROUNDING

The amount contained in this report and in the financial statements has been rounded 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.

Signed in accordance with a resolution of the directors.



J M Schaffer
Chairman and Managing Director
Perth, 16 September 2004

ASX ADDITIONAL INFORMATION

year ended 30 June 2004

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

TOTAL SHARE CAPITAL

Issued as at 10 September 2004 – 14,026,935 ordinary fully paid shares

SHARE REGISTRY ADDRESS

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

Postal Address:
GPO Box D182
PERTH WA 6840

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 10 SEPTEMBER 2004	SHARE-HOLDINGS	SHARE-HOLDERS
	1 – 1,000	1,407
	1,001 – 5,000	948
	5,001 – 10,000	146
	10,001 – 100,000	88
	100,001 – and over	18
		2,607

Number of shareholders holding less than a marketable parcel ie less than 36 shares: 26

SUBSTANTIAL SHAREHOLDERS

As at 10 September 2004, the substantial shareholders of the company summarised below, were:

	NO OF SHARES	ECONOMIC INTEREST AS A PERCENTAGE OF ISSUED ORDINARY SHARES
Mr J M Schaffer & Associates	1,967,240	14.02%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.65%
	2,619,927	18.68%
Mrs D E Blain & Associates	909,673	6.49%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.65%
	1,562,360	11.14%
* Combined interest of Mr J M Schaffer & Mrs D E Blain	4,182,287	29.82%
Perpetual Trustees Australia Limited	1,118,258	7.97%
Jobling Investments Pty Ltd	507,812	
Estate of Mr A E Jobling Deceased	286,504	
	794,316	5.66%

* 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.

ASX ADDITIONAL INFORMATION

year ended 30 June 2004

TWENTY LARGEST SHAREHOLDERS

As at 10 September 2004

	NO OF SHARES	PERCENTAGE OF ISSUED ORDINARY SHARES
Swan Holdings Pty. Ltd.	1,305,374	9.31
Schaffer Nominees Pty. Ltd.	980,482	6.99
Mrs Danielle Eva Blain	907,570	6.47
Mr John Michael Schaffer	799,554	5.70
Jobling Investments Pty. Ltd.	507,812	3.62
Mrs Blanka Schaffer	432,897	3.09
RBC Global Services Australia Nominees Pty. Limited	421,283	3.00
National Nominees Limited	369,276	2.63
Mr David Schwartz	359,654	2.56
Keyton Enterprises Limited	344,263	2.45
Estate of Mr Albert Edward Jobling Deceased	286,504	2.04
The Sports Café (Australia) Pty. Ltd.	226,072	1.61
Argo Investments Limited	184,204	1.31
JP Morgan Nominees Australia Limited	172,152	1.23
RBC Global Services Australia Nominees Pty. Ltd.	128,206	0.91
Alan Forrester Pty. Ltd.	110,241	0.79
Mr John Bruce Abernethy	108,900	0.78
Mrs Debra Ruth Schaffer	108,207	0.77
Double Pty. Ltd.	100,000	0.71
Sabina Nominees Pty. Ltd.	81,736	0.58
	<hr/> 7,934,387	<hr/> 56.57

ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 10 November, 2004 at 11.30am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.