



FACSIMILE TRANSMISSION

TO: ASX COMPANY ANNOUNCEMENTS PLATFORM
VIA: ASX ONLINE
FROM: GEOFF DAVIESON
DATE: 26 SEPTEMBER 2003
SUBJECT: LODGEMENT OF FINANCIAL STATEMENT
AND REPORTS

Dear Sirs,

In accordance with LR 4.5, please find annual audited accounts for the Company for FY03.

Yours sincerely,

G V DAVIESON
Company Secretary

ASIC registered agent number

388 1/2 18 March 2002

lodging party or agent name Geoff Davieson
 office, level, building name or PO Box no 1305 HAY ST
 street number & name
 suburb/city WGS PERTH state/territory WA postcode 6005
 telephone (08) 9683 1222
 facsimile (08) 9681 0639
 DX number _____ suburb/territory _____

ASS	REG A
CASH	REG F
REC	



Australian Securities & Investments Commission

copy of financial statements and reports

form **388**

Corporations Act 2001
 294, 295, 298-300, 307, 308, 319, 321, 322
 Corporations Regulations
 1.8.08

Name SCHAFFER CORPORATION LIMITED
 ACN / ARBN / ARSN/PIN 008 675 689

Reason for lodgement of statements and reports

- tick the appropriate box
- A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking (A)
 - A registered scheme* (B)
 - Amendment of financial statements or directors' report (company) (C)
 - Amendment of financial statements or directors' report (registered scheme)* (D)
 - A large proprietary company that is not a disclosing entity (E)
 - A small proprietary company that is controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity (F)
 - A small proprietary company that is requested by ASIC to prepare and lodge statements and reports (G)
 - A prescribed interest undertaking that is a disclosing entity (K)

Dates on which financial year begins 1/7/02 and ends 30/6/03 (a/b/y)
 Date of Annual General Meeting (if applicable) / /

Details of large proprietary company

If the company is a large proprietary company that is not a disclosing entity, please complete the following information as at the end of the financial year for which the financial statements relate:

- A. What is the consolidated gross operating revenue of the large proprietary company and the entities that it controls?
- B. What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?
- C. How many employees are employed by the large proprietary company and the entities that it controls?
- D. How many members does the large proprietary company have?

Auditor report

Were the financial statements audited? Yes No

If yes: Does the auditor's report (section 306) for the financial year contain a statement of:

- * reasons for the auditor not being satisfied as to the matters referred to in section 307? Yes No
- * details of the deficiency, failure or shortcoming concerning any matter referred to in section 307? Yes No

If no: Is there a class order exemption current for audit relief? Yes No

* NOTE: Where a new auditor has been appointed to a Registered Scheme, Form 5137 - Appointment of Scheme Auditor must be lodged

Details of current auditor*

The auditor can be a person or a firm.

If a person

name (family & given names)

Auditor Registration no:

office

level

building name

street number & name

suburb / city

state / territory

postcode

date of appointment (d/m/y)

/ /

or

If a firm

name of firm

office

level

building name CENTRAL PARK

street number & name

152 ST GEORGES TCE

suburb / city

PERDY

state / territory

N/A

postcode 6005

Business Registration number (if applicable)

State / Territory registered in

date of appointment (d/m/y)

/ /

Statements and reports to be attached to this form

Financial statements for the year (as per ss296(2))

statement of financial performance for the year (profit and loss statement)

statement of financial position as at the end of the year (balance sheet)

statement of cash flows for the year

if required by accounting standards - consolidated profit & loss statement, balance sheet and statement of cash flows

Notes to financial statements (as per ss298(1))

disclosures required by the regulations

notes required by the accounting standards

any other information necessary to give a true and fair view (see s297)

The directors' declaration about the statements and notes (as per ss 295(4))

The directors' report for the year (as per s 298 to 300)

Auditor's report required under sections 308 and 314

Certification

I certify that the attached documents marked () are a true copy of the annual reports required under Section 319.

print name

GEORGEY VICTOR DAVIESON capacity COMPANY SECRETARY

sign here

date

26-SEP-03

* NOTE: Where a new auditor has been appointed to a Registered Scheme, Form 5137 - Appointment of Scheme Auditor must be lodged.

Small Business (less than 20 employees), please provide an estimate of the time taken to complete this form

Include

- The time actually spent reading the instructions, working on the question and obtaining the information
- The time spent by all employees in collecting and providing this information

hrs

mins

2003 FINANCIAL REPORT

as at 30 June 2003

Statement of Financial Position	18
Statement of Financial Performance	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Directors' Declaration	43
Independent Audit Report	43
Directors' Statutory Report	44
ASX Additional Information	47

STATEMENT OF FINANCIAL POSITION

at 30 June 2003

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
CURRENT ASSETS					
Cash assets		21,072	5,606	1,783	594
Receivables	8	27,536	36,676	824	795
Inventories	9	37,380	41,932	-	1,731
Other financial assets	10	694	1,869	694	1,869
Other	11	734	508	25	34
TOTAL CURRENT ASSETS		87,416	86,591	3,326	5,023
NON CURRENT ASSETS					
Receivables	12	-	-	9,802	5,398
Investments accounted for using the equity method	13	-	-	-	-
Other financial assets	14	-	-	19,664	19,737
Property, plant and equipment	15	71,038	71,289	16,637	16,616
Deferred tax assets	6	3,678	4,247	803	701
Intangible assets	16	1,431	1,563	-	-
TOTAL NON CURRENT ASSETS		76,147	77,099	46,906	42,452
TOTAL ASSETS		163,563	163,690	50,232	47,475
CURRENT LIABILITIES					
Payables	17	19,525	26,266	415	1,785
Interest bearing liabilities	18	477	496	21	23
Current tax liabilities	6	3,882	4,431	135	150
Provisions	19	4,654	11,172	311	4,708
TOTAL CURRENT LIABILITIES		28,538	42,365	882	6,666
NON CURRENT LIABILITIES					
Interest bearing liabilities	20	64,117	63,235	8,981	8,669
Deferred tax liabilities	6	2,904	2,731	419	366
Provisions	21	3,367	2,535	172	253
TOTAL NON CURRENT LIABILITIES		70,388	68,501	9,572	9,288
TOTAL LIABILITIES		98,926	110,866	10,454	15,954
NET ASSETS		64,637	52,824	39,778	31,521
EQUITY					
Parent entity interest					
Contributed equity	22	14,738	13,386	13,790	12,438
Reserves	23	2,585	2,585	2,283	2,283
Retained profits	23	41,905	31,803	23,705	16,800
Equity attributable to members of Schaffer Corporation Ltd		59,228	47,774	39,778	31,521
Total outside equity interest in controlled entities	31	5,409	5,050	-	-
TOTAL EQUITY		64,637	52,824	39,778	31,521

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

STATEMENT OF FINANCIAL PERFORMANCE

year ended 30 June 2003

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
REVENUE FROM ORDINARY ACTIVITIES	3	223,133	212,785	20,238	9,191
Change in inventories of finished goods, work in progress and land held for re-sale		(4,552)	30,468	(1,731)	(2,928)
Raw materials and consumables used		(158,039)	(180,177)	(339)	(1,005)
Depreciation and amortisation expense	4	(5,031)	(4,428)	(231)	(254)
Borrowing cost expense	4	(4,380)	(3,987)	(561)	(766)
Salaries, wages and on costs		(13,335)	(12,788)	(1,403)	(1,305)
Other expenses from ordinary activities		(10,416)	(20,713)	(2,068)	(1,935)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method		-	(577)	-	-
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		27,380	20,583	13,905	998
Income tax expense/(benefit) relating to ordinary activities	6	7,981	5,774	82	(555)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		19,399	14,809	13,823	1,553
Net profit attributable to outside equity interests	31	2,379	1,772	-	-
NET PROFIT ATTRIBUTED TO MEMBERS OF SCHAFFER CORPORATE LIMITED		17,020	13,037	13,823	1,553
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		17,020	13,037	13,823	1,553
Basic earnings per share (cents)	32	125.0	102.4		
Diluted earnings per share (cents)	32	122.0	97.3		
Franked dividends per share (cents)	7	120.0	70.0		

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

STATEMENT OF CASH FLOWS

year ended 30 June 2003

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		236,016	233,180	4,158	8,403
Payment to suppliers and employees		(195,640)	(182,981)	(1,055)	(2,853)
Disposal of equity securities		1,265	866	1,265	522
Dividends received from associate		-	-	-	180
Dividends received		10	61	9,990	61
Other revenue		666	1,290	109	76
Interest income		634	193	142	90
Borrowing costs paid		(4,380)	(3,896)	(536)	(758)
Income taxes (paid)/refunded		(7,411)	(4,324)	(146)	2
Goods and services tax (paid)/refunded		2,443	(114)	(115)	(86)
Research and development expenditure		(1,108)	(349)	-	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	5(b)	32,495	43,926	13,812	5,637
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		(6,388)	(7,703)	(252)	(673)
Proceeds on sale of plant and equipment		168	821	-	251
Receipts from controlled entities		-	-	(1,120)	2,489
Receipts from/(advances to) other debtors		913	(323)	281	(303)
Net cash change from disposal of controlled entities		-	(100)	-	-
Deposit refunded/(paid)		-	123	-	63
Shares acquired in controlled entity		-	(6,101)	-	(2,084)
Payment of deferred acquisition price of controlled entity		(1,427)	-	(1,427)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(6,734)	(13,283)	(2,518)	(257)
CASH FLOWS FROM FINANCING ACTIVITIES					
Finance lease payments		(496)	(481)	41	(43)
Shares acquired under share buy back scheme		-	(91)	-	(91)
Repayment of commercial bill		-	(3,000)	-	(3,000)
Dividends paid		(13,646)	(4,420)	(11,626)	(4,420)
Preference dividend paid by controlled entity to minorities		-	(305)	-	-
Proceeds from share issue		1,352	5,680	1,352	5,680
(Repayment of)/proceeds from loans advanced		2,495	(24,691)	128	(3,478)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(10,295)	(27,308)	(10,105)	(5,352)
NET INCREASE IN CASH HELD		15,466	3,335	1,189	28
Add opening cash brought forward		5,605	2,270	593	565
CLOSING CASH CARRIED FORWARD	5(a)	21,071	5,605	1,782	593

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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

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 802 employees at 30 June 2003 (2002 – 1,006 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 except for the accounting policies with respect to the provision for dividends, employee benefits and foreign currency contracts that are hedges

Provision for dividends

The consolidated entity has adopted the new Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" which has resulted in a change in the accounting for the dividends provision. Previously, the consolidated entity recognised a provision for dividend based on the amount that was proposed or declared after the reporting date. In accordance with the requirements of the new Standard, a provision for dividends will only be recognised at the reporting date where the dividends have been declared, determined or publicly recommended prior to the reporting date. The effect of the revised policy has been to increase consolidated retained profits and decrease provisions at the beginning of the reporting period by \$4,708,000. (refer to note 23). In accordance with the new Standard, no provision for dividend has been recognised for the year ended 30 June 2003.

Employee benefits

The consolidated entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. There has been no material effect of the revised policy on opening retained profits or on current profits.

Foreign currency contracts

The entity has adopted revised Accounting Standard AASB 1012 "Foreign Currency Translation", applicable to annual reporting periods beginning on or after 1 January 2002.

In accordance with the revised Standard, Schaffer Corporation Limited has, for the first time recognised foreign currency contracts that are hedges on the Statement of Financial Position. Previously, foreign currency contracts that qualified for hedge accounting were not recognised in the Statement of Financial Position.

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 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 quarries.

Major depreciation periods are:

	2003	2002
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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Any gains or costs in entering a hedge are deferred and amortised over the life of the contract.

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.

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. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits.

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 is 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Rendering of services

Where the contract outcome can be reliably measured, control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

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.

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.

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 outflow 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Two employees ceased employment in 2002. 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 employee benefit 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.

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

NOTE 3

REVENUE FROM ORDINARY ACTIVITIES

Revenue from operating activities				
Revenue from the sale of goods	210,952	193,580	-	-
Revenue from sale of property	4,851	10,480	1,961	3,215
Revenue from sale of equity securities	1,273	1,715	1,273	1,320
Revenue from services	-	327	-	-
Rent received from				
- controlled entities	-	-	238	237
- other persons/corporations	4,579	4,645	1,850	1,786
Other	666	963	109	-
Total revenues from operating activities	222,321	211,710	5,431	6,558
Revenues from non operating activities				
Interest received from:				
- other persons/corporations	634	193	142	90
- controlled entities	-	-	-	51
Total interest	634	193	142	141
Dividends received from:				
- controlled entities	-	-	14,655	2,000
- associated entities	-	-	-	180
- other corporations	10	61	10	61
Total dividends	10	61	14,665	2,241
Proceeds on sale of plant and equipment	168	821	-	251
Total revenue from non operating activities	812	1,075	14,807	2,633
Total revenue from ordinary activities	223,133	212,785	20,238	9,191

NOTE 4

EXPENSES AND LOSSES/(GAINS)

(a) Expenses

Cost of sales – manufactured goods	159,629	142,826	-	-
Cost of sales – property	2,962	6,883	2,070	3,933
Cost of sales – equity securities	1,459	1,361	1,459	919
Bad debts written off				
- trade debtors	13	22	-	-
- other debtors	-	682	-	682
Reversed of provision for doubtful debts				
- trade debtors	(713)	(1,177)	-	-
Bad debts recovered				
- trade debtors	-	(1)	-	-
Total bad and doubtful debts	(700)	(474)	-	682

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTE 4				
EXPENSES AND LOSSES/(GAINS) (CONTINUED)				
(a) Expenses (continued)				
Depreciation of non current assets				
Buildings	385	298	10	10
Leasehold improvements	65	60	-	-
Plant and equipment	4,260	3,763	221	231
Total depreciation of non current assets	4,710	4,121	231	241
Amortisation of non current assets				
Goodwill	132	99	-	-
Plant and equipment under lease	189	208	-	13
Total amortisation of non current assets	321	307	-	13
Total depreciation and amortisation expenses	5,031	4,428	231	254
Borrowing costs expensed				
Interest expenses				
- other persons	4,096	3,676	536	715
- directors of the entity	-	43	-	43
Total interest expense	4,096	3,719	536	758
Other borrowing costs				
Finance charges				
- lease liability	182	177	-	-
- other	102	91	25	8
Total other borrowing costs	284	268	25	8
Total borrowing costs	4,380	3,987	561	766
Rental on operating leases – minimum lease payments	1,770	1,391	-	-
Research and development expenditure	1,108	349	-	-
Provision for employee entitlements	77	233	(116)	92
Movement in provision for diminution in value of investments	(276)	1,029	(276)	1,029
(b) Losses/(Gains)				
Loss/(gain) on sale of non current assets	115	423	-	(6)
Loss/(gain) on sale of listed and unlisted shares	186	(354)	186	(401)
Loss/(profit) on sale of shares in controlled entity	-	(294)	100	(294)
Net foreign currency (gain)/loss	(268)	483	-	-
Gain on disposal of joint venture interest	(122)	-	-	-

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTE 4				
EXPENSES AND LOSSES/(GAINS) (CONTINUED)				
(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 (no tax effect)	-	-	-	590
Loans from controlled entities forgiven (no tax effect)	-	-	-	(258)
Loss on disposal of controlled entities	-	-	100	-
Plant and equipment written down (tax effect – profit \$573)	-	1,910	-	-
Provision for (reversal of) non recovery of loans to controlled entities (no tax effect)	-	-	1,529	(1,166)
Movement in provision for currency loss (tax effect – \$164, 2002 - benefit \$385)	548	(1,284)	-	-
Reversal of provision for quality claims (tax effect – \$543, 2002 - benefit \$480)	(1,810)	(1,600)	-	-
	(1,262)	(974)	1,629	(834)

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTE 5				
STATEMENT OF CASH FLOWS				
(a) Reconciliation of cash				
Cash balance comprises;				
Cash on hand	21,072	5,606	1,783	594
Bank overdraft	(1)	(1)	(1)	(1)
Closing cash balance	21,071	5,605	1,782	593
b) Reconciliation of operating profit after income tax to the net cash flows from operations				
Operating profit after taxation	19,399	14,809	13,823	1,553
Non cash items				
Depreciation	4,710	4,121	231	241
Loss/(profit) of equity accounted associate	-	577	-	-
Dividend received from equity accounted associated	-	180	-	-
Amortisation of leased plant and equipment	189	208	-	13
Amortisation of goodwill	132	99	-	-
Provision for employee entitlements	865	1,642	230	91
Movement in deferred foreign exchange gain	548	(1,284)	-	-
Reversal of provision for quality claims	(1,810)	(1,600)	-	-
Reversal of other provisions	(33)	-	-	-
Loss/(profit) on sale of non current assets	115	423	-	(6)
Non current assets written down	-	1,910	-	-
Movement in provision for diminution in value of investments	(276)	1,029	(276)	1,029
Investment in controlled entity written off	-	-	100	-
Provision for/(reversal of) non recovery of amounts owing by controlled entities	-	-	1,529	(1,166)
Amounts owing by controlled entities written off	-	-	-	1,172
Profit on disposal of a controlled entity	-	(294)	-	(294)
Changes in assets and liabilities				
(Increase)/decrease in receivables	8,171	14,841	(4,982)	1,150
(Increase)/decrease in inventory	4,552	12,221	1,731	2,928
(Increase)/decrease in other financial assets	1,451	153	1,451	119
(Decrease)/increase in trade creditors	(5,862)	(6,693)	30	(666)
(Decrease)/increase in tax provision	(172)	2,209	(15)	150
(Decrease)/increase in deferred tax liability	173	(3,050)	53	(88)
(Increase)/decrease in future income tax benefit	569	2,291	(102)	(615)
(Increase)/decrease in prepayments	(226)	134	9	26
Net cash flows from operating activities	32,495	43,926	13,812	5,637

NOTE 5

STATEMENT OF CASH FLOWS (CONTINUED)

(c) Bank facilities

The consolidated entity has bank facilities available to the extent of \$67,769,000 (2002 - \$71,376,000).

The chief entity has bank facilities to the extent of \$10,264,000 (2002 - \$14,025,000).

The unutilised facility for the consolidated entity at balance date was \$41,829,000 (\$2002 - \$46,299,000) and for the chief entity \$2,349,000 (2002 - \$6,289,000).

(d) Non cash financing activities

During the financial year the consolidated entity acquired plant and equipment with a fair value of \$Nil (2002 - \$375,000) by means of finance leases.

(e) Loss of control of joint venture

On 12 September 2002 a controlled entity, Schaffer Properties Pty. Ltd. disposed of a 12.5% interest in the Gateway Central Joint Venture. The disposal details are:

	\$000
Proceeds on sale receivable at balance date	421
Net Assets disposed of:	
Receivables	32
Prepayments	8
Land and buildings	1,343
Plant and equipment	96
	1,479
Trade Creditors	(2)
Bank Loans	(1,136)
Deferred Tax Liability	(5)
Net Assets disposed of	336
Sale Price	421
Less net assets disposed of	(336)
	85
Losses incurred written back	37
Profit on disposal disclosed in the accounts	122

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Operating profit before income tax	27,380	20,583	13,905	998
Prima facie tax thereon at 30%	8,214	6,175	4,172	299
Tax effect of permanent differences:				
- prima facie tax attributable to an equity accounted associate	-	(170)	-	-
- rebateable dividends	(3)	(18)	(4,400)	(618)
- expenses not allowable	105	323	485	5
- other items	(31)	(190)	(120)	102
- research and development	(83)	(63)	-	-
- under/(over) provision of tax relating to previous years	(110)	(77)	-	(2)
	8,092	5,980	137	(214)
- current and prior year tax losses and timing differences brought to account	(111)	(264)	(55)	(19)
- current and prior year tax losses and timing differences not brought to account	-	58	-	(322)
Income tax expense attributable to ordinary activities	7,981	5,774	82	(555)
Deferred tax assets and liabilities				
Current tax payable	3,882	4,431	135	150
Provisions for deferred income tax	2,904	2,731	419	366
Future income tax benefit	3,678	4,247	803	701

Tax consolidation

For purposes of income tax, Schaffer Corporation Limited and its 100% controlled entities intend to form a tax consolidated Group. At the date of signing the financial report, Schaffer Corporation Limited has not determined the date of entry into tax consolidation because this decision will be based on the most favourable outcome in terms of the transitional rules in the tax consolidation legislation. The date of entry will be determined at the time the head company lodges its tax return in January 2004.

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

NOTE 7

DIVIDENDS PROVIDED FOR OR PAID

(a) Dividends paid during the year

Final 2002 – 35¢ per share paid September 2002	4,741	-	4,741	-
Interim 2003 – 50¢ per share paid March 2003	6,885	-	6,885	-
Special 2002 – 10¢ per share paid November 2001 (2001 – 10¢)	-	1,245	-	1,245
Interim 2002 – 25¢ per share paid March 2002 (2001 – 8¢)	-	3,188	-	3,188
Dividend paid by controlled entity to minority shareholder	2,020	-	-	-
Total fully franked dividends paid	13,646	4,433	11,626	4,433

NOTE 7

DIVIDENDS PROVIDED FOR OR PAID (CONTINUED)

(b) Dividends provided for

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Interim 2003 – 50¢ per share paid March 2003	6,885	-	6,885	-
Interim – 25¢ per share March 2002 (2001 – 8¢)	-	3,188	-	3,188
Special – 10¢ per share paid November 2001 (2001 – 10¢)	-	1,245	-	1,245
Final – 35¢ per share payable September 2002 (2001 – 9¢)	-	4,708	-	4,708
Under/(over) provision of dividend in previous year	33	(13)	33	(13)
Fully franked dividends provided for	6,918	9,128	6,918	9,128

The tax rate at which dividends have or will be franked is interim 30% (2002 – 30%), final 30% (2002 – 30%)

(c) 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 2003

Franking account balance brought forward	436	1,454
Fully franked dividends paid	(4,983)	(1,900)
Tax paid/(refunded)	147	(1)
Franked dividends received from controlled entities	6,281	857
Franked dividends received from other corporations	4	26
Franking account balance at the end of the financial year	1,885	436
Franking credits to be received from controlled entities or associated entities	3,660	4,720
Franking credits that will arise from the payment of income tax payable as at the end of the financial year by the chief entity and wholly owned controlled entities	367	1,392
Franking debits that will arise from the payment of dividends as at the end of the financial year	-	(2,018)
Franking credits available	5,912	4,530

As of 1 July 2002, the new imputation system requires a company's franking credits to be expressed on a tax paid basis. The franking account surplus existing at 30 June 2002 has been restated to a tax paid amount by multiplying the Class C franking surplus by 30/70.

Fully franked dividends which can be paid from the above franking credits available

13,795 10,570

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTE 8				
RECEIVABLES (CURRENT)				
Trade debtors	28,427	37,311	309	2
Provision for doubtful debts	(1,944)	(2,657)	-	-
	26,483	34,654	309	2
Other debtors	1,053	2,022	171	452
Amounts owing by partly owned controlled entities	-	-	502	487
Provision for non recovery of amount owing by partly owned controlled entities	-	-	(158)	(146)
	27,536	36,676	824	795

Terms and conditions relating to the above financial instruments

- (i) Trade debtors are non interest bearing and generally on 30 days terms
(ii) Sundry debtors and other receivables are non interest bearing and have repayment terms between 30 and 90 days.
(iii) Included in trade debtors are non hedged receivables amounting to US\$10,957,000. The Australian dollar equivalent is \$16,354,000.
Payment terms vary from letter of credit arrangement from 30 to 60 days.

NOTE 9
INVENTORIES (CURRENT)

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Work in progress				
Cost to date plus profit recognised	18,751	10,795	-	-
Less progress billings to date	(14,279)	(10,109)	-	-
	4,472	686	-	-
Work in progress - realisable value	4,472	686	-	-
Finished goods - at cost	8,483	16,385	-	-
Raw materials - at cost	22,333	21,161	-	-
	35,288	38,232	-	-
Land held for resale				
Cost of acquisition	567	912	-	174
Development expenses capitalised	1,268	2,520	-	1,557
Rates and taxes capitalised	80	91	-	-
Interest capitalised	177	177	-	-
	2,092	3,700	-	1,731
Carrying value of land	37,380	41,932	-	1,731

NOTE 10
OTHER FINANCIAL ASSETS (CURRENT)

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Shares				
- Listed on a prescribed stock exchange at cost	493	275	493	275
- Unlisted at cost	1,154	2,823	1,154	2,823
- Provision for diminution in value of unlisted shares	(953)	(1,229)	(953)	(1,229)
	694	1,869	694	1,869

NOTE 10
OTHER FINANCIAL ASSETS (CURRENT) (CONTINUED)

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Aggregate quoted market value at balance date of investments listed on a prescribed stock exchange	560	573	560	573

NOTE 11
OTHER CURRENTS ASSETS

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Prepayments	640	347	25	34
Deferred expenditure	94	161	-	-
	734	508	25	34

NOTE 12
RECEIVABLES (NON CURRENT)

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Amount owed by wholly owned controlled entities	-	-	11,319	5,398
Provision for non-recovery of amount owing by wholly owned controlled entities	-	-	(1,517)	-
	-	-	9,802	5,398

NOTE 13
INVESTMENTS

	% HELD BY CONSOLIDATED ENTITY		PLACE OF INC.
	2003	2002	
	%	%	
Associated companies at equity accounted amount			
Unlisted shares	-	-	-
Associated companies at cost			
Unlisted shares	-	-	-
Ordinary shares	-	-	-

	% HELD BY CONSOLIDATED ENTITY		PLACE OF INC.
	2003	2002	
	%	%	
Investments in associated companies comprise:			
Solco Zimbabwe (Private) Limited	25.0	25.0	Zimbabwe
Bell Solar Thermal Energy Sdn Bhd	16.8	16.8	Malaysia
Australian Leather Holdings Limited	-	*	
Principal activities of associated companies:			
Solco Zimbabwe (Private) Limited - Solar hot water system manufacture			Balance date September 30
Bell Solar Thermal Energy Sdn Bhd - Solar hot water system manufacture			February 28

* The percentage interest in Australian Leather Holdings Limited was 41.66% until 1 October 2001 when the company became a controlled entity

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Retained profits/(accumulated losses) attributable to associated companies:				
Balance at the beginning of the financial year	-	(1,282)		
Share of associates:				
Operating (loss)/profit before income tax	-	(802)		
Income tax expense attributable to operating profit	-	225		
Operating (loss)/profit after income tax	-	(577)		
Dividends received from associated companies	-	(180)		
Adjustment on acquisition of controlling interest/disposal of associated companies	-	2,039		
Balance at the end of the financial year	-	-		
Carrying amount of investments in associated companies				
Balance at the beginning of the financial year	-	11,588	-	11,067
Dividend received from associate	-	(180)	-	-
Share of losses for the financial year	-	(577)	-	-
Adjustment on acquisition of controlling interest/disposal of associated companies	-	(10,831)	-	(11,067)
Carrying amount of investment in associated companies	-	-	-	-

NOTE 14

OTHER FINANCIAL ASSETS (NON CURRENT)

Controlled entities at cost				
Unlisted shares	-	-	19,878	19,951
Provision for diminution in value of shares in unlisted controlled entities	-	-	(214)	(214)
	-	-	19,664	19,737

	BENEFICIAL PERCENTAGE HELD BY CONSOLIDATED ENTITY		PLACE OF INC	AMOUNT OF CHIEF ENTITY'S INVESTMENT	
	2003	2002		2003	2002
	\$000	\$000		\$000	\$000

NOTE 14

OTHER FINANCIAL ASSETS (NON CURRENT) (CONTINUED)

Schaffer Properties Pty Ltd *	100	100	WA	-	-
Schaffer Services Pty Ltd***	-	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	-	-
Loftus Corporate Pty Ltd ***	-	100	WA	-	100
Australian Leather Holdings Limited **	83.17	83.17	WA	14,598	14,571
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	-	-
				19,878	19,951

* 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 is wound up.

*** During the year the Company was deregistered. It had no assets or liabilities at the date of deregistration.

Audited by firms other than the chief entity's auditor.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	2003 \$000	2002 \$000
NOTE 14		
OTHER FINANCIAL ASSETS (NON CURRENT) (CONTINUED)		
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:		
Statement of Financial Performance		
REVENUE FROM ORDINARY ACTIVITIES	53,309	50,085
Cost of sales manufactured goods and property	(20,762)	(25,034)
Cost of sales – equity securities	(1,459)	(919)
Depreciation and amortisation expense	(1,873)	(1,849)
Borrowing costs expense	(1,590)	(2,151)
Other expenses from ordinary activities	(10,372)	(14,311)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSES	17,253	5,821
Income tax expense relating to ordinary activities	2,271	1,676
NET PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	14,982	4,145
Reconciliation of retained profits		
Retained profits at the beginning of the financial year	23,089	28,072
Net profit attributable to members of the Schaffer Closed Group	14,982	4,145
Adjustments arising from adoption of revised accounting standard AASB 1044 "Provision, contingent liabilities and contingent assets"	4,708	-
Dividends provided for or paid	(11,626)	(9,128)
Retained profits at the end of the financial year	31,153	23,089

	2003 \$000	2002 \$000
NOTE 14		
OTHER FINANCIAL ASSETS (NON CURRENT) (CONTINUED)		
Consolidated Statement of Financial Position		
Current assets		
Cash assets	8,800	1,957
Receivables	5,547	6,716
Inventories	4,718	6,153
Other financial assets	694	1,869
Other	248	208
Total current assets	20,007	16,903
Non current assets		
Other financial assets	14,598	14,671
Property, plant and equipment	46,875	46,607
Intangible assets	84	84
Deferred tax assets	1,368	1,467
Total non current assets	62,925	62,829
Total assets	82,932	79,732
Current liabilities		
Payables	4,968	6,316
Interest bearing liabilities	465	489
Current tax liabilities	429	1,390
Provisions	1,099	5,799
Total current liabilities	6,961	13,994
Non current liabilities		
Interest bearing liabilities	25,456	24,562
Deferred tax liabilities	1,551	1,529
Provisions	488	587
Total non current liabilities	27,495	26,678
Total liabilities	34,456	40,672
Net assets	48,476	39,060
Equity		
Contributed equity	14,738	13,386
Reserves	2,585	2,585
Retained profits	31,153	23,089
Total equity	48,476	39,060

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTE 15				
PROPERTY, PLANT AND EQUIPMENT				
Freehold land				
At cost	8,464	8,494	4,700	4,700
Freehold quarries				
At cost	712	712	712	712
Buildings on freehold land				
At cost	12,573	12,126	329	329
Accumulated depreciation	(3,279)	(2,904)	(49)	(39)
	9,294	9,222	280	290
Leasehold improvements				
At cost	580	694	-	-
Accumulated depreciation	(371)	(519)	-	-
	209	175	-	-
Joint venture properties				
At cost	22,972	22,109	8,681	8,558
Accumulated amortisation	(60)	-	-	-
	22,912	22,109	8,681	8,558
Total written down value land and buildings	41,591	40,712	14,373	14,260
Plant and equipment				
At cost	33,979	52,570	3,366	3,209
Accumulated depreciation	(6,717)	(24,416)	(1,102)	(871)
Written down value	27,262	28,154	2,264	2,338
Plant and equipment under lease				
At cost	3,008	3,111	-	39
Accumulated depreciation	(823)	(688)	-	(21)
	2,185	2,423	-	18
Total written down value plant and equipment	29,447	30,577	2,264	2,356
Total property, plant and equipment				
At cost	82,288	99,816	17,788	17,547
Accumulated depreciation and amortisation	(11,250)	(28,527)	(1,151)	(931)
Total written down amount	71,038	71,289	16,637	16,616

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.

The value of assets pledged as security are:

Property, plant and equipment	71,038	71,289	16,637	16,616
-------------------------------	--------	--------	--------	--------

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTE 15				
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)				
Reconciliations				
Freehold land				
Carrying amount at beginning	8,494	5,369	4,700	4,699
Assets acquired through acquisition of controlled entity	-	1,992	-	-
Additions	-	1,133	-	-
Disposals	(30)	-	-	-
	8,464	8,494	4,700	4,699
Freehold quarries				
Carrying amount at beginning	712	900	712	900
Disposals	-	(188)	-	-
	712	712	712	900
Buildings on freehold land				
Carrying amount at beginning	9,222	4,825	290	290
Assets acquired through acquisition of controlled entity	-	4,614	-	-
Additions	460	208	-	-
Disposals	(3)	(97)	-	-
Depreciation expense	(385)	(328)	(10)	(10)
	9,294	9,222	280	280
Leasehold improvements				
Carrying amount at beginning	175	183	-	-
Additions	99	52	-	-
Amortisation expense	(65)	(60)	-	-
	209	175	-	-
Joint venture properties				
Carrying amount at beginning	22,109	20,389	8,558	7,932
Additions	2,146	1,720	123	626
Disposal of joint venture interest	(1,343)	-	-	-
	22,912	22,109	8,681	8,558
Total written down value land and buildings	41,591	40,712	14,373	14,437
Plant and equipment				
Carrying amount at beginning	28,154	10,678	2,338	2,532
Assets acquired through acquisition of controlled entity	-	21,440	-	-
Recoverable amount write down	-	(1,910)	-	-
Additions	3,713	2,221	86	37
Transfers from leased plant	36	48	18	-
Depreciation expense	(4,260)	(3,763)	(221)	(231)
Intercompany transfers	-	-	43	-
Disposals	(285)	(560)	-	-
Disposal of joint venture interest	(96)	-	-	-
	27,262	28,154	2,264	2,338
Plant and equipment under lease				
Carrying amount at beginning	2,423	2,445	18	89
Additions	-	375	-	-
Transfers to plant and equipment	(36)	(48)	(18)	-
Amortisation expense	(189)	(208)	-	(13)
Disposals	(13)	(141)	-	(58)
	2,185	2,423	-	18
Total written down value plant and equipment	29,447	30,577	2,264	2,356

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

NOTE 16
INTANGIBLES

Goodwill at cost	2,590	2,590	-	-
Provision for amortisation	(1,159)	(1,027)	-	-
	<u>1,431</u>	<u>1,563</u>	<u>-</u>	<u>-</u>

NOTE 17
PAYABLES (CURRENT)

Trade creditors	16,438	21,355	247	190
Goods and services tax net	350	509	31	33
Deferred exchange profit	887	339	-	-
Other creditors	1,850	4,063	137	1,562
	<u>19,525</u>	<u>26,266</u>	<u>415</u>	<u>1,785</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\$ 3,980,691. The Australian dollar equivalent is \$5,941,329. Payment terms vary from 7 to 90 days.

NOTE 18
INTEREST BEARING LIABILITIES (CURRENT)

Bank overdraft - secured	1	1	1	1
Lease liability (refer note 26c) – secured	476	495	20	22
	<u>477</u>	<u>496</u>	<u>21</u>	<u>23</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% (2002 – 8%)

NOTE 19
PROVISIONS (CURRENT)

Employee entitlements (refer note 27a)	4,654	4,621	311	-
Quality claims	-	1,810	-	-
Other	-	33	-	-
Dividends payable (refer note 7)	-	4,708	-	4,708
	<u>4,654</u>	<u>11,172</u>	<u>311</u>	<u>4,708</u>

The quality claims provision was reversed during the year as this provision was no longer required.

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

NOTE 20
INTEREST BEARING LIABILITIES (NON CURRENT)

Lease liability (refer note 26c) – secured	1,158	1,635	52	9
Amount owing to wholly owned controlled entity	-	-	1,087	946
Government loan – secured	38,654	38,654	-	-
Bank loan – secured	24,305	22,946	7,842	7,714
	<u>64,117</u>	<u>63,235</u>	<u>8,981</u>	<u>8,669</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 increase is a result of property acquisitions (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% (2002 – 8%).

Government loans:

An amount of \$25,000,000 was interest free until February 2002, thereafter interest is 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)

Provisions (non current)				
Employee entitlements (refer note 27a)	3,367	2,535	172	253

NOTE 22
CONTRIBUTED EQUITY

a) Issued and paid up capital

As at 30 June 2003

13,769,735 ordinary fully paid shares (2002 – 13,450,735)	14,738	13,386	13,790	12,438
--	--------	--------	--------	--------

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2003	2002	2002
	Number of shares	\$000	Number of shares	\$000

NOTE 22

CONTRIBUTED EQUITY
(CONTINUED)

(b) Movement in shares on issue

At the beginning of the financial year	13,450,735	13,386	12,417,764	7,797
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 3 December 2001 35,000 options converted to ordinary shares under employee share scheme	-	-	35,000	91
Share cancellation – 14 December 2001 8,564 shares purchased under buy back arrangement	-	-	(8,564)	(36)
On 1 March 2002 127,500 options converted to ordinary shares under employee share scheme	-	-	127,500	333
Share cancellation – 5 March 2002 – 7,415 shares purchased under buy back arrangement	-	-	(7,415)	(55)
On 5 March 2002 186,450 options converted to ordinary shares under employee share scheme	-	-	186,450	503
On 20 March 2002 issue of 700,000 ordinary shares. The purpose of the issue was debt reduction and general working capital	-	-	700,000	4,900
Total capital issued during the year (c)	319,000	1,352	1,032,971	5,736
Capital raising costs	-	-	-	(147)
At the end of the financial year	13,769,735	14,738	13,450,735	13,386

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

NOTE 22

CONTRIBUTED EQUITY (CONTINUED)

(c) Capital issued during the year

CONVERSION DATE	OPTION GRANT DATE	OPTION EXPIRY DATE	NO. OF OPTIONS EXERCISED/SHARES ISSUED	EXERCISE PRICE PER OPTION \$	PROCEEDS RECEIVED \$	MARKET VALUE PER SHARE *	MARKET VALUE \$
3 Sep 2002	10 Jul 2000	10 Jul 2005	15,000	3.26	48,900	11.40	171,000
16 Sep 2002	28 Mar 2000	28 Mar 2005	10,725	3.30	35,393	11.70	125,483
16 Sep 2002	10 Jul 2000	10 Jul 2005	3,025	3.26	9,862	11.70	35,393
16 Sep 2002	24 Aug 2001	24 Aug 2006	30,000	3.77	113,100	11.70	351,000
16 Sep 2002	5 Feb 2002	5 Feb 2007	36,250	5.42	196,475	11.70	424,125
16 Sep 2002	20 Jun 2002	20 Jun 2007	1,250	9.49	11,863	11.70	14,625
12 Dec 2002	24 Aug 2001	24 Aug 2006	500	3.77	1,885	12.00	6,000
20 Feb 2003	17 Nov 1999	17 Nov 2004	10,000	2.61	26,100	13.75	137,500
20 Feb 2003	5 Feb 2002	5 Feb 2007	5,000	5.42	27,100	13.75	68,750
20 Feb 2003	15 Mar 2002	15 Mar 2007	25,000	7.11	177,750	13.75	343,750
27 Feb 2003	20 Jun 2002	20 Jun 2007	3,500	9.49	33,215	13.65	47,775
10 Mar 2003	17 Nov 1999	17 Nov 2004	105,000	2.61	274,050	13.00	1,365,000
10 Mar 2003	28 Mar 2000	28 Mar 2005	3,750	3.30	12,375	13.00	48,750
10 Mar 2003	10 Jul 2000	10 Jul 2005	15,000	3.26	48,900	13.00	195,000
10 Mar 2003	24 Aug 2001	24 Aug 2006	5,000	3.77	18,850	13.00	65,000
10 Mar 2003	5 Feb 2002	5 Feb 2007	38,750	5.42	210,025	13.00	503,750
10 Mar 2003	20 Jun 2002	20 Jun 2007	11,250	9.49	106,763	13.00	146,250
			319,000		1,352,604		4,049,151

* Market value per share is the closing listed price on the exercise date.

(d) 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 2002	EXERCISED DURING THE YEAR	NO. ON ISSUE 30 JUNE 2003	EXERCISE PRICE	EXERCISABLE ON OR BEFORE	NO. VESTED BUT NOT EXERCISED 20 JUNE 2003
17 Nov 1999	115,000	(115,000)	-	\$2.61	17 Nov 2004	-
28 Mar 2000	21,450	(14,475)	6,975	\$3.30	28 Mar 2005	6,975
10 Jul 2000	46,050	(33,025)	13,025	\$3.26	10 Jul 2005	-
24 Aug 2001	77,300	(35,500)	41,800	\$3.77	24 Aug 2006	1,800
5 Feb 2002	160,000	(80,000)	80,000	\$5.42	5 Feb 2007	-
15 Mar 2002	100,000	(25,000)	75,000	\$7.11	15 Mar 2007	25,000
20 Jun 2002	140,000	(16,000)	124,000	\$9.49	20 Jun 2007	54,000
	659,800	(319,000)	340,800			87,775

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTE 23				
RESERVES AND RETAINED PROFITS				
Reserves				
Asset revaluation	2,585	2,585	2,283	2,283
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	31,803	27,894	16,800	24,375
Net profit attributable to members of the parent entity	17,020	13,037	13,823	1,553
Adjustments arising from adoption of accounting standard AASB 1044 "Provision, contingent liabilities and contingent assets".	4,708	-	4,708	-
Dividends provided for or paid	(11,626)	(9,128)	(11,626)	(9,128)
Retained profits at the end of the financial year	41,905	31,803	23,705	16,800

NOTE 24**AUDITORS REMUNERATION**

	\$	\$	\$	\$
Amounts received or due and receivable by the auditors of Schaffer Corporation Limited for:				
Audit of the accounts	199,035	217,047	10,000	10,000
Other services – tax compliance	66,357	38,159	-	-
	265,392	255,206	10,000	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	3,500	-	-

NOTE 25**REMUNERATION OF DIRECTORS**

(a) Directors' remuneration

Income paid or payable or otherwise made available, in respect of the financial year, to all directors of Schaffer Corporation Limited directly or indirectly, from the entity or any related party

1,559,730 1,785,076

The number of directors of Schaffer Corporation Limited whose remuneration (including superannuation contributions) falls within the following bands.

\$ 20,000 - \$ 29,999	1	-
\$ 30,000 - \$ 39,999	1	1
\$ 50,000 - \$ 59,999	-	1
\$ 60,000 - \$ 69,999	2	-
\$190,000 - \$199,999	-	1
\$280,000 - \$289,999	-	1
\$590,000 - \$599,999	-	1
\$630,000 - \$639,999	-	1
\$670,000 - \$679,999	1	-
\$700,000 - \$709,999	1	-

The above table includes the value of employee participation units assessed using the Black-Scholes model.

Income paid or payable or otherwise made available, in respect of the financial year, to all directors of each entity, directly or indirectly, by the entities of which they are directors or any related party

3,128,455 3,005,470

(b) Executives remuneration

Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise

7,384,009 6,479,486

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

CONSOLIDATED		CHIEF ENTITY	
2003	2002	2003	2002
\$	\$	\$	\$

NOTE 25

REMUNERATION OF DIRECTORS (CONTINUED)

(b) Executives remuneration (continued)

Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the company or any related party, whether as an executive officer or otherwise.

	1,435,829	1,531,130
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The number of executives of the consolidated entity and the company whose remuneration falls within the following bands.

\$100,000 - \$109,999	2	4	-	-
\$110,000 - \$119,999	3	2	-	-
\$120,000 - \$129,999	-	3	-	-
\$130,000 - \$139,999	2	2	-	-
\$140,000 - \$149,999	3	1	-	-
\$150,000 - \$159,999	1	1	-	-
\$160,000 - \$169,999	1	-	2	-
\$170,000 - \$179,999	1	1	-	1
\$180,000 - \$189,999	2	3	-	1
\$190,000 - \$199,999	1	1	-	1
\$200,000 - \$209,999	1	2	-	-
\$230,000 - \$239,999	-	1	-	-
\$250,000 - \$259,999	2	-	-	-
\$270,000 - \$279,999	-	1	-	-
\$280,000 - \$289,999	2	1	-	-
\$290,000 - \$299,999	-	1	-	-
\$310,000 - \$319,999	1	-	-	-
\$330,000 - \$339,999	1	-	-	-
\$340,000 - \$349,999	-	2	-	1
\$370,000 - \$379,999	1	-	-	-
\$400,000 - \$409,999	-	1	-	-
\$430,000 - \$439,999	1	-	1	-
\$440,000 - \$449,999	1	-	-	-
\$510,000 - \$519,999	1	-	-	-
\$590,000 - \$599,999	-	1	-	-
\$630,000 - \$639,999	-	1	-	1
\$670,000 - \$679,999	1	-	1	-
\$700,000 - \$709,999	1	-	-	-

The above table includes the value of employee participation units assessed using the Black-Scholes model.

CONSOLIDATED		CHIEF ENTITY	
2003	2002	2003	2002
\$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, 2003	376	338	376	338
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(b) Commitments under lease agreements

Operating leases – office, factory and retail premises

- payable not later than 1 year	667	644	-	-
- later than 1 year and not later than 5 years	1,984	1,964	-	-
- later than 5 years	638	537	-	-

- aggregate lease expenditure contracted for at balance date	3,289	3,145	-	-
--	-------	-------	---	---

Operating leases – motor vehicle

- payable not later than 1 year	194	184	-	-
- later than 1 year and not later than 5 years	216	187	-	-

- aggregate lease expenditure contracted for at balance date	410	371	-	-
--	-----	-----	---	---

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	576	623	17	8
- later than 1 year and not later than 5 years	1,231	1,812	75	26

Total lease payments	1,807	2,435	92	34
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Future finance charges	(173)	(305)	(20)	(3)
------------------------	-------	-------	------	-----

	1,634	2,130	72	31
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- Current liability (refer note 18)	476	495	20	22
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- Non current liability (refer note 20)	1,158	1,635	52	9
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	1,634	2,130	72	31
--	-------	-------	----	----

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

	CONSOLIDATED		CHIEF ENTITY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

NOTE 26

CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS (CONTINUED)

(d) Capital expenditure commitments

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

- payable not later than 1 year	140	150	-	-
---------------------------------	-----	-----	---	---

(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

	2,384	3,553	85	269
--	-------	-------	----	-----

(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
 Gledden Arcade Joint Venture
 South Hedland Shopping Centre Joint Venture
 Hometown Joint Venture
 GHD House Joint Venture
 Queens Road Joint Venture
 Bourke Street Joint Venture
 401 Great Eastern Highway Joint Venture
 Crosslands Shopping Centre Joint Venture
 89 St Georges Tce Joint Venture
 BBC Hardware Innaloo Joint Venture
 Alvito House Joint Venture
 380a Scarborough Beach Road, Innaloo
 302 Scarborough Beach Road, Innaloo

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

The maximum contingent liability to the consolidated entity is \$24,305,000 (2002 - \$22,964,000)

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	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

NOTE 27

EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

(a) Employee entitlements and superannuation commitments (continued)

The aggregate employee entitlement liability is comprised of:

Accrued wages, salaries and on costs	324	330	-	-
Provisions (current) – refer note 19	4,654	4,621	311	-
Provisions (non current) – refer note 21	3,367	2,535	172	253
	8,345	7,486	483	253

(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.

(c) Employee incentives plan

A controlled entity Australian Leather Holdings Limited 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.

An EPU provides an employee with a right to receive a cash payment from Australian Leather Holdings Limited in the following circumstances:

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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

NOTE 27

EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

(c) Employee incentives plan (continued)

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.

NOTE 28

INTERESTS IN BUSINESS UNDERTAKINGS - JOINT VENTURES

	% INTEREST	
	2003	2002
Investment properties		
Schaffer Properties Pty Ltd and Schaffer Corporation Limited have interests in a number of property development 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	22.10
South Hedland Shopping Centre Joint Venture	18.75	18.75
Hometown Joint Venture	25.00	25.00
GHD House Joint Venture	18.00	18.00
Queens Road Joint Venture	9.00	9.00
Bourke Street Joint Venture	12.10	12.10
401 Great Eastern Highway Joint Venture	25.00	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	12.50	25.00
BBC Hardware Innaloo Joint Venture	6.50	6.50
Alvito House Joint Venture	6.50	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	15
Majestic Quay Joint Venture	25	25

CONSOLIDATED

2003 2002
\$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	1,370	327
Receivables	524	1,410
Other	78	78
Inventories	4,246	3,362
Total current assets	6,218	5,177
Non current assets		
Plant and equipment	18,937	4,497
Property	27,782	22,109
Intangible assets	168	84
Deferred tax assets	308	187
Total non current assets	47,195	26,877
Total assets	53,413	31,054
Current Liabilities		
Payables	1,849	955
Total current liabilities	1,849	955
Non current liabilities		
Interest bearing liabilities	31,695	22,946
Deferred tax liabilities	1,574	1,063
Total non current liabilities	33,269	24,009
Total liabilities	35,118	24,964
Net assets	18,295	7,090

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

Profit after tax \$1,980,000 (2002 - \$624,000)

Revenue \$8,495,000 (2002 - \$13,159,000)

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

Capital expenditure commitments of \$2,781,000 (2002 - \$2,250,000) payable within one year were contracted for at balance date.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

NOTE 29

SEGMENT INFORMATION

The company operates predominantly in Australia.

BUSINESS SEGMENT INFORMATION	LEATHER		BUILDING PRODUCTS		INVESTMENT PROPERTIES		OTHER INVESTMENTS		CONSOLIDATED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Revenue										
Total revenue from ordinary activities external customers	176,691	159,125	34,922	35,325	4,628	4,966	6,695	12,823	222,936	212,239
Unallocated revenue									197	546
Total revenue									223,133	212,785
Results										
Segment results	22,274	15,926	4,332	5,322	2,263	2,433	1,731	902	30,600	24,583
Interest and corporate overhead									(3,220)	(4,000)
Operating profit before income tax									27,380	20,583
Income tax expense									7,981	5,774
Net profit after tax									19,399	14,809
Assets										
Segment assets	82,338	94,601	22,140	22,401	28,000	27,404	28,693	16,941	161,171	161,347
Unallocated assets									2,392	2,343
Total assets									163,563	163,690
Liabilities										
Segment liabilities	63,703	69,448	7,701	7,897	23,955	22,985	2,578	1,976	97,937	102,306
Unallocated liabilities									989	8,560
									98,926	110,866
Other Segment Information										
Acquisition of property, plant and equipment, intangible assets and other non current assets	2,737	731	837	3,012	2,383	1,883	-	31	5,957	5,657
Depreciation	2,977	2,384	1,322	1,221	287	287	-	-	4,586	3,892
Amortisation	132	99	189	195	-	-	-	-	321	294
Non cash expenses other than depreciation and amortisation	49	3,333	147	145	-	-	-	1,029	196	4,507

Intersegment transactions are on a commercial basis

- Prior year includes 3 months equity accounting and 9 months consolidated earnings

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

CONSOLIDATED		CHIEF ENTITY	
2003	2002	2003	2002
\$000	\$000	\$000	\$000

NOTE 30

RELATED PARTY DISCLOSURES

(a) The directors of Schaffer Corporation Limited during the year were Messrs J M Schaffer, K K Webster (resigned 20/06/2003), J B Abernethy (resigned 20/06/2003), 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 \$11,318,925 (2002 - \$5,397,860) of which \$1,517,000 (2002 - Nil) 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 \$1,087,329 (2002 - \$946,583).

Transactions with other related parties

Schaffer Corporation Limited holds 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 (2002 - \$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 2003 is \$502,411 (2002 - \$487,011) of which \$158,024 (2002 - \$145,840) has been provided for as non recoverable.

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

(d) Interests in the shares of entities within the consolidated entity held by directors of the reporting entity and their director related entities, as at 30 June 2003

Schaffer Corporation Limited ordinary shares

	ACQUIRED/ (DISPOSED OF) DURING THE YEAR	2003	2002
Mr J M Schaffer	48,501	1,967,240	1,918,739
Mrs D E Blain	(338,000)	909,673	1,247,673
Mr A K Mayer	0	344,263	344,263
Mr D J Schwartz	20,000	586,210	566,210

EXERCISE PRICE	EXERCISED DURING THE YEAR	2003	2002
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NOTE 30

RELATED PARTY
DISCLOSURES (CONTINUED)

Change in directors shareholders is the result of on or off market transactions or the exercise of options.

Options to acquire Schaffer Corporation Limited ordinary shares

Mr J B Abernethy	\$2.61	22,500	-	22,500
Mr J M Schaffer	\$2.61	42,500	-	42,500
Mr D J Schwartz	\$2.61	20,000	-	20,000

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

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

NOTE 31

OUTSIDE EQUITY INTEREST

2003	2002
\$000	\$000

Reconciliation of outside equity interest in controlled entities:

Opening balance	5,050	-
- Amount arising on acquisition of controlled entity	-	3,278
- Add share of operating profit	2,379	1,772
- Dividends Paid	(2,020)	-
Closing balance	5,409	5,050

NOTE 32

EARNINGS PER SHARE

CONSOLIDATED ENTITY	2003	2002
	\$000	\$000

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

Net profit after tax	19,399	14,809
Adjustments:		
Net profit attributable to outside equity interest	(2,379)	(1,772)
Earnings used in calculating basic and diluted earnings per share	17,020	13,037
	NUMBER OF SHARES	NUMBER OF SHARES
Weighted average number of ordinary shares used in calculating basic earnings per share	13,597,500	12,736,108
Effect of dilutive securities:		
Share options	340,800	659,800
Weighted average number of ordinary shares used in calculating diluted earnings per share	13,938,300	13,395,908

Conversions, calls, subscriptions or issues after 30 June 2003

Since the end of the financial year 107,450 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 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 2003

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 BALANCE SHEET		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
			1 YEAR OR LESS		OVER 1 TO 5 YRS							
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000

(i) Financial assets

Cash	21,072	5,606	-	-	-	-	-	-	21,072	5,606	4.55%	4.25%
Receivables – trade	-	-	-	-	-	-	26,483	34,654	26,483	34,654	N/A	N/A
Receivables – other	-	-	-	-	-	-	1,053	2,022	1,053	2,022	N/A	N/A
Listed shares	-	-	-	-	-	60	493	215	493	275	N/A	10%
Unlisted shares	-	-	-	-	-	-	201	1,594	201	1,594	N/A	N/A
Total financial assets	21,072	5,606	-	-	-	60	28,230	38,485	49,302	44,151		

(ii) Financial liabilities

Trade creditors, accruals and other creditors	-	-	-	-	-	-	18,288	25,418	18,638	25,927	N/A	N/A
Bank overdraft	1	1	-	-	-	-	-	-	1	1	9%	9%
Finance lease liability	-	-	476	495	1,158	1,635	-	-	1,634	2,130	8.0%	8.0%
Dividends payable	-	-	-	-	-	-	-	4,708	-	4,708	N/A	N/A
Government loans	-	-	-	-	38,654	38,654	-	-	38,654	38,654	6.59%	6.39%
Bank loans	11,612	10,153	-	-	12,693	12,793	-	-	24,305	22,946	6.72%	6.79%
Total financial liabilities	11,613	10,154	476	495	52,505	53,082	18,288	30,126	83,232	94,366		

(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

	TOTAL CARRYING AMOUNT AS PER THE STATEMENT OF FINANCIAL POSITION		AGGREGATE NET FAIR VALUE	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Financial assets				
Listed shares	493	275	560	573
Financial Liabilities				
Government Loans	38,654	38,654	36,565	36,588

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.

Dividends payable:

The carrying amount approximates fair value.

Short term borrowings:

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

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2003

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 balance sheet.

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 28 – 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	
	2003	2002	2003	2002
Manufacturing	97%	98%	25,636	33,834
Property development	3%	2%	847	820

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

Subsequent to year end the Group has disposed of its interest in the following joint venture investments:

Bourke Street Joint Venture

401 Great Eastern Highway Joint Venture

Gledden Arcade Joint Venture

Gateway Central Joint Venture

BBC Hardware Innaloo Joint Venture

Alvito House Joint Venture

380A Scarborough Beach Road Joint Venture

382 Scarborough Beach Road Joint Venture

South Hedland Shopping Centre Joint Venture

These sales generated approximately \$2,030,000 net profit after tax, \$4,690,000 in net cash and reduced debt levels by \$7,953,000.

Following the end of the reporting period a final dividend of 70¢ per share has been declared payable on 18 September 2003.

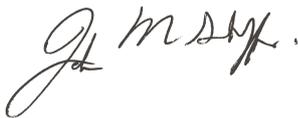
DIRECTORS' DECLARATION INDEPENDENT AUDIT REPORT

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 2003 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, 26 September 2003

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 2003. 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 2003 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
26 September 2003

DIRECTORS' STATUTORY REPORT

year ended 30 June 2003

Your directors submit their report for the year ended 30 June 2003 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 Non 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 property development, manufacturing and distribution businesses.
K K WEBSTER, FCPA Non executive Director Resigned 20/06/03	Mr Kelvin Webster joined the company in 1978.
J B ABERNETHY B Com (Econ) – LLB Non executive Director Resigned 20/06/03	Mr John Abernethy is Managing Director of Loftus Capital Partners Limited.

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

ATTENDANCE AT BOARD MEETINGS

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

	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
J M Schaffer	12	12
J B Abernethy	12	11
D E Blain	12	12
A K Mayer	12	10
D J Schwartz	12	10
K K Webster	12	12

ATTENDANCE AT AUDIT COMMITTEE MEETINGS

During the year two audit committee meetings were held. Mr K K Webster, Mr J B Abernethy, 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 interest of the Directors in the shares of the Company were:

	SCHAFFER CORPORATION LIMITED	
	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
J M Schaffer	1,967,240	-
J B Abernethy	243,900	-
D E Blain	1,047,673	-
A K Mayer	344,263	-
D J Schwartz	566,210	-
K K Webster	75,548	-

The directors' exercised the following options during the year and there are no unexercised options at the date of this report.

J M Schaffer	42,500	-
J B Abernethy	22,500	-
D J Schwartz	20,000	-

ROTATION AND ELECTION OF DIRECTORS

In accordance with the Articles of Association: Mrs. D E Blain retires by rotation and being eligible offers herself 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 \$17,020,000 (2002 - \$13,037,000). The previous year's result included the equity accounted share of the profit of Australian Leather Holdings Limited for the first three months of the year and consolidation of the profit for the remainder of the year.

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 2002.

	\$
On ordinary shares	
- 10¢ per share special, paid on 14 December 2001	1,245,000
- 25¢ per share interim, paid on 22 March 2002	3,188,000
- 35¢ per share final, paid on 26 September 2002	4,708,000
	<u>9,141,000</u>
Out of profits for the year ended 30 June 2003	
On ordinary shares	
- 50¢ per share interim, paid on 21 March 2003	<u>6,885,000</u>

DIRECTORS' STATUTORY REPORT

year ended 30 June 2003

REVIEW OF OPERATIONS

The consolidated entity's revenue increased by 5% from \$212,785,000 to \$223,133,000 this year. This resulted in a pre tax operating profit of \$27,380,000 compared to \$20,583,000 for last year. The net after tax consolidated entity profit, after minority interests increased by 31% from \$13,037,000 to \$17,020,000. The above increase in revenue and pre tax operating profit is a direct result of the consolidation of the results of Australian Leather Holdings Limited for the entire year. In the previous year the interest in Australian Leather Holdings Limited was equity accounted for the first three months of the year and consolidated for the remainder of the year.

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.

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 EPUs
	\$	\$	\$	\$	\$	\$
J B Abernethy	25,000	-	-	-	2,250	1,063
D E Blain	25,000	-	-	6,957	2,250	7,541
A K Mayer	423,280	280,769	-	-	-	-
J M Schaffer	506,255	-	115,381	28,452	22,219	2,009
D J Schwartz	25,000	-	-	4,167	2,250	2,555
K K Webster	51,109	-	-	-	12,141	-

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

	ANNUAL EMOLUMENTS		LONG TERM EMOLUMENTS	
	BASIC FEE	BONUS	SUPER-ANNUATION	SHARE OPTIONS EPUs
	\$	\$	\$	\$
B DeClase	147,599	180,236	29,505	13,774
N Filipovic	197,945	256,909	40,937	16,916
G Monkhouse	225,748	149,462	48,484	133,889
C Nunis	167,737	227,697	35,589	16,916
B Tjahjana	127,082	166,627	26,433	13,774
B DeClase	General Manager Operations, Howe and Company Pty Ltd			
N Filipovic	General Manager Sales, Marketing & International Operations, Howe and 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 & Development, Howe and Company Pty Ltd			

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.

DIRECTORS' STATUTORY REPORT

year ended 30 June 2003

The table below summarises, for each issue made since the plans were instituted, the inputs into the model used this year to determine 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

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. No adjustments have been or will be made to reverse amounts previously disclosed in relation to options that never vest (i.e. forfeitures). Prior to 1 July 2002, the company disclosed the fair value of option grants using the Black-Scholes option-pricing model but did not allocate those values over the vesting period. Rather, the full fair value of the grant was disclosed as an emolument in the year of grant. As a result, included in the amounts disclosed above as option grant emoluments in relation to the 2003 financial year, are amounts related to options that vested during or over the 2003 financial year, which were granted and therefore disclosed as part of emoluments in prior years as well.

Employee participation units

Executive's remuneration includes the value of employee participation units (EPU) issued to employees of Australian Leather Holdings Limited. The company has calculated the value as the respective grant dates of all EPU 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 ED108. To do this, the Company has used the Black-Scholes options valuation method. Inputs into the Black-Scholes model, as applied, include:

- (1) the calculated unit price on the grant date
- (2) the exercise price of the EPU
- (3) the volatility on Australian Leather Holdings Limited shares over the 12 months ended immediately prior to the grant date
- (4) the option's expected life (refer Note 27(c) for explanation of vesting provisions)
- (5) zero dividend yield (as EPU 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 historic 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 plan was 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 July 2002	1 July 2009	\$1.19	\$0.26	33%	5.88%	\$1.02
1 July 2003	1 July 2010	\$1.33	\$0.26	31%	4.83%	\$1.14

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 313,350 unissued ordinary shares under options (340,800 at reporting date). Refer to note 22(d) of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

Shares issued as a result of the exercise of options

During the financial year, employees and directors have exercised the option to acquire 319,000 fully paid ordinary shares in Schaffer Corporation Limited at a weighted average exercise price of \$4.24. Since the end of the financial year, a further 107,450 options have been exercised, at a weighted average exercise price of \$6.82.

TAX CONSOLIDATION

For purposes of income tax, Schaffer Corporation Limited and its 100% controlled entities intend to form a tax consolidated Group. At the date of signing the financial report, Schaffer Corporation Limited has not determined the date of entry into tax consolidation because this decision will be based on the most favourable outcome in terms of the transitional rules in the tax consolidation legislation. The date of entry will be determined at the time the head company lodges its tax return in January 2004.

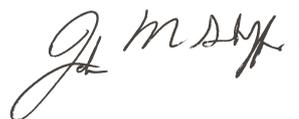
ROUNDING

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, 26 September 2003

ASX ADDITIONAL INFORMATION

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

TOTAL SHARE CAPITAL

Issued as at 16 September 2003 – 13,877,185 ordinary fully paid shares

SHARE REGISTRY ADDRESS

C/- Computershare Investor Services Pty Ltd	Postal Address:
Level 2 Reserve Bank Building	GPO Box D182
45 St George's Tce	PERTH WA 6840
PERTH WA 6000	

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 16 September 2003

SHAREHOLDINGS	SHAREHOLDERS
1 – 1,000	1,083
1,001 – 5,000	704
5,001 – 10,000	125
10,001 – 100,000	91
100,001 and over	19
	2,022

Number of shareholders holding less than a marketable parcel ie less than 36 shares: 20

SUBSTANTIAL SHAREHOLDERS

As at 16 September 2003, 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	14.18%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.70%
	2,619,927	18.88%
Mrs D E Blain & Associates	909,673	6.56%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.70%
	1,562,360	11.26%
* Combined interest of Mr J M Schaffer & Mrs D E Blain	4,182,287	30.14%
Perpetual Trustees Australia Limited	1,666,529	12.01%
Jobling Investments Pty Ltd Estate of Mr A E Jobling Deceased	508,312	
	321,543	
	829,855	5.98%

* 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

TWENTY LARGEST SHAREHOLDERS

As at 16 September 2003

	NO OF SHARES	PERCENTAGE OF ISSUED ORDINARY SHARES
Swan Holdings Pty. Ltd.	1,305,374	9.41
Schaffer Nominees Pty. Ltd.	980,482	7.07
Mrs Danielle Eva Blain	907,570	6.54
RBC Global Services Australia Nominees Pty. Limited <PI Pooled>	870,684	6.27
Mr John Michael Schaffer	799,554	5.76
Jobling Investments Pty. Ltd.	508,312	3.66
National Nominees Limited	469,327	3.38
Mrs Blanka Schaffer	432,897	3.12
Mr David Schwartz	359,654	2.59
Keyton Enterprises Limited	344,263	2.48
Estate of Mr Albert Edward Jobling Deceased	321,543	2.32
The Sports Café (Australia) Pty. Ltd.	226,072	1.63
RBC Global Services Australia Nominees Pty. Limited <PIIC>	178,378	1.29
Double Pty. Ltd.	143,500	1.03
J. P. Morgan Nominees Australia Limited	118,843	0.86
Alan Forrester Pty. Ltd.	110,241	0.79
Mr John Bruce Abernethy	108,900	0.78
Mrs Debra Ruth Schaffer	108,207	0.78
Stoddarts (1980) Pty. Ltd.	106,706	0.77
Mirrabooka Investments Limited	100,000	0.72
	<hr/> 8,500,507	<hr/> 61.25

ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 19 November, 2003 at 11.30am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.