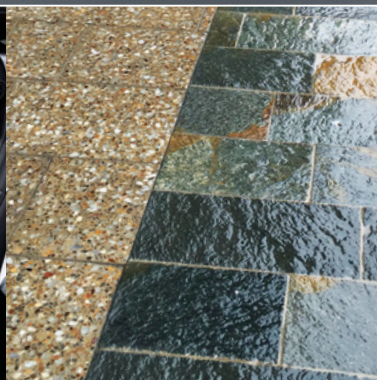


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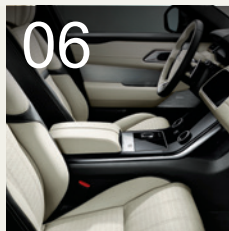
ANNUAL REPORT



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**Review of Operations:**

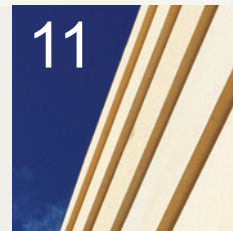
Automotive Leather



Building Materials



Property and Investments



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**ABOUT SCHAFFER CORPORATION**

# A DIVERSIFIED AUSTRALIAN INDUSTRIAL COMPANY

Schaffer Corporation Limited (SFC) is a diversified industrial company with core operating divisions in Automotive Leather, Building Materials, Property and Investment. Originally incorporated in 1955, the company was first listed on the Australian Securities Exchange (ASX) in 1963 and currently employs approximately 1,600 employees in three countries.

The Automotive Leather division is a world-class, globally competitive automotive leather producer, supplying quality interior leather products to such household names as Land Rover, Audi, Mercedes, Nissan, Toyota and Ford. The division operates leather processing and finishing operations in Slovakia and Australia. Component cutting plants are located in Slovakia and China. Exports account for over 97% of sales.

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

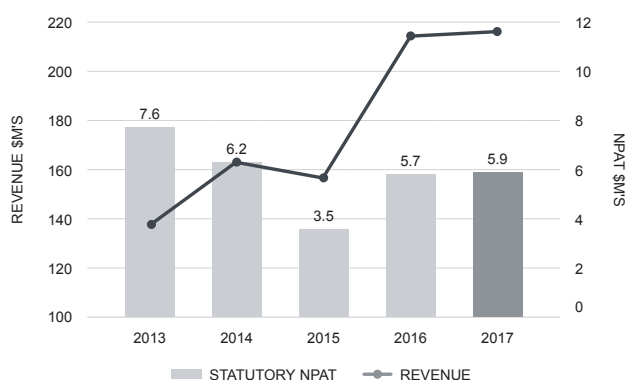
The Property division has syndicated interests in commercial and retail properties in Western Australia. The division's assets also include an interest in a future industrial subdivision located at Neerabup, Western Australia, and property held for future development in the Western Australian suburb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

Gosh Capital is a subsidiary investment company that seeks to maximise the value of the land asset on which the Gosh Leather business previously operated in North Coogee, Western Australia. Through reinvestment of profits, the subsidiary now owns, in addition to the North Coogee land, a commercial property in Western Australia and a range of other investments.

Schaffer Corporation's key internal performance measure is Return on Average Capital Employed (ROACE\*), which reflects the earnings achieved in relation to the debt and equity capital invested in its businesses. The Company applies the ROACE measure in pursuing its long-term growth strategy to organically develop its core businesses and to acquire businesses or properties.

The company has a proud history of paying a dividend in every one of the 54 years since it was originally listed as Calsil Ltd way back in 1963. For the past 17 years the company has paid approximately \$122 million in fully franked dividends to shareholders.

**SFC 5 YR FINANCIAL PERFORMANCE**



**Board of directors**



**John Schaffer**

**Anton Mayer**

**Danielle Blain**

**David Schwartz**

**Michael Perrott AM**



## MANAGING DIRECTOR'S REPORT

### EXECUTIVE MANAGEMENT TEAM



**John Schaffer**  
BCom(Hons), FCPA  
Age 67

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



**Anton Mayer**  
Age 75

*Mr Mayer joined the Group in 1998. In 2001, Mr Mayer joined the Board of Schaffer Corporation Limited and he is currently Executive Chairman of Howe Automotive Limited.*



**Mike Falconer**  
TEng, CEI, OMIEAust  
Age 63

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



**Matt Perrella**  
NPCAA  
Age 68

*Mr Perrella joined the Group in 1980. From 1989 until 2009 Mr Perrella was General Manager of Delta Corporation Limited. He is currently Executive Director of Delta Corporation.*



**Ralph Leib**  
BComm, BAcc  
Age 46

*Mr Leib joined the Group in 2016 and was promoted to Chief Financial Officer in July 2017.*



**Jason Cantwell**  
B Bus(Acc), CPA,  
MBA, GIA(Cert)  
Age 45

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



**Dan Birks**  
BAgrSc, MBA  
Age 51

*Mr Birks joined the Group in 2000 and was promoted to General Manager of Howe Automotive Ltd in 2016.*



**Jason Walsh**  
B Bus, MBA  
Age 47

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

Key Financial Indicators	17	16	15	14	13	12
Revenue (\$ millions)	215.0	213.6	157.3	163.6	138.4	152.6
EBIT* (\$ millions)	16.4	13.9	8.7	19.3	14.8	14.9
Net Profit after tax* (\$ millions)	5.9	5.7	3.5	6.2	7.6	7.5
Earnings per Share (\$)	\$0.42	\$0.41	\$0.25	\$0.44	\$0.54	\$0.53
Return on Average Capital Employed (ROACE*)	12%	10%	7%	16%	14%	14%
Ordinary Dividend per Share	\$0.26	\$0.25	\$0.25	\$0.25	\$0.23	\$0.21

# MAINTAINING FOCUS

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

## Financial Performance

For the 2017 financial year, Schaffer Corporation achieved net profit after tax (NPAT\*) of \$5.9 million, a 3% increase over the prior year. The prior year result included a non-recurring \$4.0 million in NPAT from the sale of Schaffer Corporation's 20% interest in the 616 St Kilda Road property syndicate.

Underlying Profit\* increased by more than 160% to \$8.2 million (2016: \$3.1 million) after excluding a \$1.6 million after-tax, non-cash impairment of assets and \$0.8m of restructuring costs

## Automotive Leather

Automotive Leather's EBIT increased to \$13.5 million with revenue growth of 10% to \$170.9 million.

The improved profit performance reflected increased margins from operational efficiencies, within the Slovakian finishing operations reaching operational maturity and 'steady state' volumes.

In December 2016, Automotive Leather completed the transfer of hide processing for all European customers to Slovakia. This has resulted in lower hide processing costs, lower freight costs and a reduction in the quantity and value of inventory required to be held by the operations.

The cutting operations in Slovakia also achieved a significant operational improvement. The team has bedded down the large number of new programmes introduced during the prior financial year. Profitability increased as these new programmes reached ongoing volumes and improved cutting yields.

With the successful transfer of those processes, Automotive Leather has continued to assess the scale of operations in Australia. As a result, during the financial year, Howe incurred pre-tax non-recurring costs of \$0.9 million associated with redundancies.

Automotive Leather is a multicurrency business that is impacted by currency movements. Sales are predominately in Euro and input costs (hides and chemicals) are principally in US dollars. A strengthening of the Australian dollar against the Euro negatively impacted the division's reported revenue. Similarly, in Australian dollar terms, hide costs expensed in the year were negatively impacted because of the strengthening of the US dollar against the Euro over the financial year.

Automotive Leather anticipates overall volumes will increase in the 2018 financial year. With steady state volumes and operational efficiencies now achieved, Automotive Leather should have a significant period-on-period increase in revenue and profitability in the current half (at current exchange rates).

## Building Materials

The Building Materials division's revenues decreased by 27% to \$38 million resulting in a break-even EBIT for the 2017 financial year (prior year: profit \$2.9 million).

The division's result was split between a profitable contribution from Building Products and a loss at Delta Corporation.

Building Products supplies paving and walling products to the residential and commercial building sectors. Continuing weakness in the Western Australian economy impacted the business, which nonetheless benefited from its focus on the commercial building materials sector. Its exclusive Australian-sourced natural stone product continues to have good penetration. Management remain focused on cost reductions, business simplification and production efficiencies, while seeking profitable revenue opportunities in these difficult market conditions.

Delta Corporation produces pre-cast and pre-stressed concrete products. Economic weakness impacted the business and revenue declined sharply. With intense competition and aggressive pricing behaviours continuing, Delta recorded a loss for the year. Delta is well positioned for a cyclical upturn in construction in Western Australia.

\*Please refer to page 5 for definitions and reconciliations for non-IFRS measures

On 15 August 2017, Building Products completed the sale of its limestone quarry tenements and property, plant and equipment associated with the production of limestone products. The assets were sold for \$5.0 million. An associated \$2.3 million non-cash pre-tax impairment has been brought to account at 30 June 2017. Schaffer Corporation took the decision to realise \$5.0 million of value for assets that were operating below profitable production volumes, and sell to a major industry participant who can make synergistic benefits.

Schaffer does not expect significantly improved conditions in the current year, however management have successfully managed costs in line with business levels and will continue to adjust to the changing business settings. Weak conditions, especially in Western Australia, make forecasting particularly difficult. Accordingly, Building Material's forecasts are conservative. The order books for Building Products and Delta are both strong. Schaffer Corporation expects revenue to be higher for the 2018 financial year, however the first half is expected to record a decrease in profit compared to the prior corresponding period.

## Property

The Group's property portfolio, including Gosh Capital, has an estimated current market value of \$90.5 million.

Schaffer Corporation carries those assets in its accounts at their depreciated book values, bar units in property unit trusts, which are at fair value. The market values (which are universally higher) are supported by ongoing, recent independent accredited valuations. The difference between book and market values represents \$52.4 million before tax (\$36.7 million after tax) of unrealised property value.

## Investment Property

The Investment Property business unit comprises Schaffer Corporation's interests in syndicated property investments. EBIT (excluding property sales) decreased to \$1.9 million (prior year: \$2.3 million) following the sale in the prior year of SFC's share in the 616 St Kilda Road syndicate. Weak market conditions in Western Australia have led to high rental incentives, which has impacted EBIT from the IBM Building syndicate.

The overall portfolio occupancy is at 96% and the Group expects 2018 financial year revenue and EBIT to be similar to 2017.

## Gosh Capital

Schaffer Corporation owns 83% of Gosh Capital. It continues to reinvest profits in a range of investments. At 30 June 2017, the market value of the asset portfolio was \$30.7 million (\$24.6 million net of debt).

Late in the financial year, Gosh Capital made a \$0.25 million investment in a managed fund with exposure to global mining and energy companies, providing further diversification to its portfolio.

Gosh Capital forecasts similar profit for the 2018 financial year.

## Cash Flow and Net Debt

Net debt was reduced by \$14.4 million during the year. Operating cash flow generated was \$22.4 million which included a \$9.7 million reduction in the trade working capital of the Automotive Leather division, mainly stock decrease, after completing the transition of European customer leather finishing to Slovakia.

Net debt reflects four distinct debt 'pools' associated with:

• Automotive Leather	\$20.5 million
• Syndicated Investment Property	\$17.8 million
• Gosh Capital	\$5.4 million
• Building Materials and Corporate	\$0.1 million

Reflecting the structuring of those pools, the debts associated with the Syndicate Investment Property portfolio, Automotive Leather and Gosh Capital are primarily on a non-recourse basis to the other assets of the Group.

The Group net debt position as at 30 June 2017 is set out in more detail below:

<i>All amounts in \$m</i>	Automotive Leather	Building Materials and Corporate	Syndicate Investment Properties	Gosh Capital	Total 30 June 2017
<b>Type of Debt</b>					
Bank debt – recourse	-	1.5	2.3	-	3.8
Bank debt – non-recourse	11.7	-	16.7	6.1	34.5
Govt. Loans – non-recourse	10.0	-	-	-	10.0
Equipment finance	6.7	0.2	-	-	6.9
	<b>28.4</b>	<b>1.7</b>	<b>19.0</b>	<b>6.1</b>	<b>55.2</b>
<b>Maturity Profile</b>					
FY18	1.7	1.7	12.0	-	15.4
FY19	15.8	-	-	-	15.8
FY20	4.2	-	7.0	6.1	17.3
FY21 and beyond	6.7	-	-	-	6.7
	<b>28.4</b>	<b>1.7</b>	<b>19.0</b>	<b>6.1</b>	<b>55.2</b>
<b>Net Debt Position</b>					
Gross debt	28.4	1.7	19.0	6.1	55.2
Cash and term deposits	(7.9)	(1.6)	(1.2)	(0.7)	(11.4)
<b>Net Debt</b>	<b>20.5</b>	<b>0.1</b>	<b>17.8</b>	<b>5.4</b>	<b>43.8</b>

## People, Health, Safety and Environment

Our global workforce is now around 1,600, a decrease on last year due to business restructuring and also improving efficiencies within the Automotive Leather division.

Schaffer Corporation is committed to providing all our employees with a safe and healthy working environment. Our Lost Time Injury Frequency Rate (LTIFR) has decreased by 19% over the past 2 years, and workers compensation claims reduced in number by 27% compared to prior year. SFC continues to review and improve occupational health and safety management to further improve outcomes.

Continuous improvement is also part of Schaffer Corporation's approach to its environmental responsibilities. The Automotive Leather division's new Slovakian finishing facilities employ the very latest technology that reduces chemical wastage and energy usage. At Building Materials, we continue to recycle concrete waste for pad or road base use, eliminating handling and transportation and resulting in significant cost savings. We also limit waste through the crushing of concrete paver rejects into grey limestone blocks for the landscaping market. These initiatives reduce Schaffer Corporation's carbon footprint.

## Dividends

Schaffer Corporation's long-standing policy is to pay dividends to its shareholders. On an ongoing basis, the directors manage the proportion of earnings paid out as dividends. The Board has regard to capital expenditure requirements, acquisition activity, liquidity needs and the availability of franking credits. We also reflect on prevailing economic conditions and uncertainty in setting dividends.

For the 2017 financial year, Schaffer Corporation has declared fully franked dividends totalling \$0.26 per share, which is \$0.01 per share (4%) more than the prior year.

## Outlook

The Automotive Leather division has the largest impact on Schaffer Corporation's profitability. The benefits of economies of scale from increased volumes, lower hide finishing costs and improved cutting yields will continue in the 2018 financial year. During site visits, customers have acknowledged the world-class quality of the finishing and cutting facilities in Slovakia.

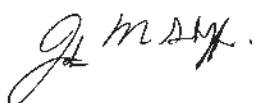
Automotive Leather is exposed to foreign currency movements, which are not within its control. Volatility in foreign exchange rates has impacted both positively and negatively in recent years.

While the current global economic conditions continue to improve from last year's volatility, geopolitical risks and their potential impact on the global economy have increased. Subject to no significant geopolitical event and at current exchange rates, Schaffer Corporation forecasts an improvement in Automotive Leather's first half profits.

Further, Group underlying performance for the first half should show a significant improvement compared to the prior year, at current foreign exchange rates. That expectation is driven by:

- A significant improvement in profit for Automotive Leather.
- A decrease in profit for Building Materials.
- Similar profit for Investment Property.
- Similar profit for Gosh Capital.

As always, I look forward to seeing as many shareholders as possible at Schaffer Corporation's Annual General Meeting. This year's meeting will be held on Wednesday, 15 November 2017, at which time I will provide a further update on the outlook for the 2018 financial year.



**JOHN SCHAFER**  
Managing Director

\* Schaffer Corporation results are reported under Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company discloses certain non-IFRS financial measures. The non-IFRS measures should only be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with IFRS.

The following are non-IFRS measures that are important to management as additional means to evaluate the Group's performance:

1. Earnings before Interest and Tax (EBIT) is calculated as profit before tax, non-recurring costs, financial income, and finance costs for both continuing and discontinued operations.
2. Return on Average Capital Employed (ROACE) is calculated as EBIT divided by the average of total assets (excluding cash and cash equivalents, term deposits, and deferred income tax assets) less trade and other payables, and provisions over the period.
3. Net Profit After Tax (NPAT) is profit/(loss) for the period attributable to owners of the parent.
4. Non-recurring costs are defined as those costs that resulted from unusual or once-off events that are unlikely to occur again in the normal course of business.

Group EBIT (unaudited) is reconciled as follows:

	Full-Year Ending	
	June 2017	June 2016
<i>EBIT Reconciliation (\$000's)</i>		
<b>Profit before income tax</b>	<b>10,057</b>	7,542
Finance income	(56)	(73)
Finance costs	2,869	3,745
Impairment of assets	2,327	-
Non-recurring costs	1,251	2,696
<b>EBIT</b>	<b>16,448</b>	13,910

Non-recurring costs are as follows:

	Full-Year Ending	
	June 2017	June 2016
<i>Non-recurring costs (\$000's)</i>		
Redundancy payments – Automotive Leather	826	1,106
New facility start-up costs – Automotive Leather	-	1,084
Asset disposals and write-downs – Automotive Leather	77	268
Redundancies – Building Materials	348	238
<b>Total Non-Recurring Costs</b>	<b>1,251</b>	2,696

Underlying profit (unaudited) is reconciled as follows:

	Full-Year Ending	
	June 2017	June 2016
<i>Underlying Profit Reconciliation (\$000's)</i>		
<i>All items after tax and minority interest</i>		
<b>NPAT</b>	<b>5,856</b>	5,683
Profit on sale of share in 616 St Kilda Rd Syndicate	-	(4,013)
Profit on sale of Space 207 trust assets	(64)	(141)
Impairment of assets	1,629	-
Non-recurring costs	770	1,598
<b>Underlying Profit</b>	<b>8,191</b>	3,127

The directors believe that the presentation of non-IFRS financial information is useful for investors as the measures are utilised by the Group for rewarding performance and they reflect the underlying performance of the businesses.

Non-IFRS financial information has been extracted from the audited financial statements.

# AUTOMOTIVE LEATHER







# A GLOBAL BUSINESS IN A GLOBAL INDUSTRY

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

[www.howe.com.au](http://www.howe.com.au)

Schaffer Corporation owns 83% of Howe Automotive Limited (Howe). Howe produces high quality leather for the global automotive industry and focuses on supplying premium OEM customers such as Jaguar Land Rover, Audi and Mercedes.

Howe production facilities are located to separately service both the European and Asian markets; for Asia, the finishing is located at the head office site in Thomastown, Victoria and the cutting is located in Shanghai, China; for Europe, the finishing and cutting are located together in Kosice, Slovakia.

Howe's global footprint provides competitive labour costs, appropriate management skills and a local presence in the key automotive markets. These factors provide Howe the opportunity to remain competitive and responsive in a highly demanding global environment.

The revenue of Howe increased by 10% compared to the previous year, which resulted from the commencement of a number of new programs during the 2017 financial year, including supply to new Mercedes and Jaguar Land Rover programs.

During the 2016 financial year Howe completed the establishment and commissioning of the leather finishing facility in Kosice, Slovakia. During the 2017 financial year, Howe successfully transferred all European customer leather finishing to the new facility, allowing for more efficient production and supply of finished hides to the two Slovakian cutting plants. This has resulted in lower hide processing costs and a reduction in the quantity and value of inventory required to be held by the operations.

All of Howe's products are sold in foreign currency therefore, currency fluctuations are an important factor for Howe to manage. Some of the revenues receive a partial economic hedge, naturally offset from the European cost base, however there remains a large portion of US dollar based costs which are exposed to currency fluctuations in the EUR/USD exchange rate.

The global automotive industry continues to grow and Howe has increased volumes through careful expansion of its customer base to OEMs that have a partnership approach to business. Howe is well positioned as a globally competitive, low cost producer and is focused on value added activities to the leather product it sells.

## FEATURE PROJECT Introducing a new type of Range Rover

*"New Range Rover Velar's interior is a calm sanctuary, created through elegant simplicity and a visually reductive approach, with design enabled technologies like the Touch Pro Duo infotainment system. All-LED lights and deployable flush door handles on the exterior complete a truly compelling design and, of course, it's a Land Rover with unrivalled capability in all conditions. Introducing the New Range Rover Velar: the Avant-Garde Range Rover."*

- Quote from Gerry McGovern Land Rover Chief Design Officer

*"Inside and out, the Velar impresses with attention to detail, ergonomic user friendliness, fit and finish, and a balance of packaging with aesthetics and driving functionality ... the Velar has proved itself to be very capable on and off-road, in shopping centre car parks or even just in the driveway, making the neighbours jealous."*

- David McCowen, Drive

Howe is proud to be a supplier to the new Range Rover Velar.





## BUILDING MATERIALS

# PROFITABLE NICHE FOCUS

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



SCHAFER CORPORATION'S BUILDING MATERIALS DIVISION CONSISTS OF SCHAFER BUILDING PRODUCTS WHICH MANUFACTURES, IMPORTS AND RETAILS A WIDE RANGE OF PAVING, WALLING AND IMPORTED STONE PRODUCTS, AND DELTA CORPORATION WHICH IS WA'S PRE-EMINENT MANUFACTURER OF PRECAST AND PRESTRESSED CONCRETE PRODUCTS.

## Schaffer Building Products

[www.urbanstone.com.au](http://www.urbanstone.com.au)

[www.urbanstonecentral.com.au](http://www.urbanstonecentral.com.au)

Continued volatility in the Australian construction industry has again driven our focus towards building relationships with our key specifiers and providing practical solutions for our clients in extremely competitive and challenging times.

Our brand, our exceptional customer service, excellent technical back up and manufacturing agility has underpinned our success, particularly on large infrastructure projects and contracts where detail and quality finishes are paramount in the commercial arena.

Focus on building an order bank with depth for all divisions across the board has underpinned our relative success during the past year, and has set the business into positive territory as we contemplate the 2018 financial year which is expected to be as challenging as the last year.

Consumer sentiment remains low, and this unfortunately has a negative impact on our residential product sales across the board, but particularly in Western Australia where the housing market is very subdued.

We continue to work hard on our efficiencies in all operations, with a positive impact on cost reduction being achieved through labour campaigning across the divisions as well as resizing the business units as and when required.

Managements strategic focus is to improve the bottom line and ensure we can provide adequate returns to our shareholders given the difficult economic environment in which we operate.

Again, we reiterate that our current order bank together with our strategic sales plans will ensure we are well placed to succeed in the year ahead.

Major projects of note completed during the year utilising Urbanstone commercial products are as follows;

### WA

- Yagan Square
- Queens Park Streetscape – City of Canning
- Cockburn Coast Landscape revitalisation
- Wembley Golf Course upgrade
- Mandurah Forum Shopping Centre redevelopment
- Uniting Church Albany landscaping upgrade
- Midland Rail Yards Redevelopment
- Curtin University Mainstream Project

### SA

- City of Adelaide Topham Mall to Bank Street streetscape
- Concordia College landscaping
- Port Pirie Town Centre
- Adelaide Convention Centre

### VIC

- Young Street Frankston Streetscape
- Scotch College landscaping project
- P.L.C. High School landscaping redevelopment
- Buddhist Temple landscaping

### NSW

- Brett Whitely Place North Sydney
- Goulburn Town Centre
- Walter Gorrs Park Dee Why
- North Sydney Footpath and Kerbing revitalisation

### QLD

- Southpoint Southbank – Flight Centre Head Office
- Robina Town Shopping Centre
- Lismore Town Centre

Western Australia's depressed construction sector continued to hamper progress within Urbanstone's Besser Masonry Division throughout the year. Negative market sentiment, delays in project funding and approvals and the sheer lack of projects available to quote has made this period very difficult overall.

A slow start to the year hampered our ability to reach targets, albeit a late surge in some larger commercial supply projects allowed the masonry division to claw back towards the end of the financial year.

A reasonable order bank and a good product mix of grey, coloured and secondary processed value-added products will positively impact on the division in the year ahead.

Major projects that have been supplied and completed during the past year utilising our Besser Masonry Products are as follows;

- Westfield Carousel Shopping Centre Upgrade
- Murdoch University – new campus facilities utilising coloured masonry blocks
- Aldi – new stores across Perth metro area
- Banksia Grove High School – Stage 3 – coloured masonry blocks
- Currabine Shopping Precinct – coloured blocks
- Station Street Commercial Development Subiaco
- Scarborough Life Saving Club
- Jurien Bay Health Centre – coloured and splitface masonry products
- HBF Arena Joondalup – coloured masonry products
- Kolbe Catholic College – new campus buildings – honed and coloured masonry products
- Claremont Football Club – new buildings and facility
- Bethanie on the Park Retirement Village – coloured masonry products
- Mandurah Forum Shopping Centre redevelopment
- Capital Square High Rise development – Perth City
- Belmont Forum Shopping Centre
- Q.V. Offices – High Rise Development

## FEATURE PROJECT

### Brett Whitely Place, North Sydney NSW



North Sydney Plaza in the precinct of North Sydney has been the focus of the Council and its community in the latest redevelopment strategy for this vibrant precinct and surrounds.

This new focal point of North Sydney's CBD embraces all of the qualities of the precinct. Its heritage and culture have been meticulously and cleverly folded into an impressive landscape design for this public open space, utilising some of Australia's most beautiful natural stone and granite paving products.

The development has created an iconic destination for workers, residents and visitors frequenting the plaza area and will provide an attractive event platform that will host a range of community and public events. This development will no doubt secure its position as the centrepiece of Public Art and Culture within the North Sydney precinct now and well into the future.

This project features Urbanstone's exclusive Western Australian Juperana and Coffee granite pavers in a variety of sizes manufactured specifically for this project.

## DELTA CORPORATION

[www.deltacorp.com.au](http://www.deltacorp.com.au)

Competition and a significant fall in demand within the marketplace has continued to lower turnover during the year, negatively impacting on margins. Delta has undertaken further cost cutting measures over the past 12 months to match market conditions and achieve acceptable results.

Although the resources sector continues to remain depressed, in contrast, the infrastructure sector has had a substantial upturn and is providing more opportunities. Delta has been successful in securing a major contract to manufacture and deliver 154 TeeRoff Beams for the NorthLink WA Stage 2 Project involving sixteen bridges between Reid Highway and Ellenbrook over the next twelve months. After an extremely competitive bidding process, the project win highlights Delta's competitive advantage in terms of quality, technical expertise and capacity to meet the clients programme requirements.

As noted above, supply continues to outstrip demand which is forcing our competitors to become more aggressive. Unaware of the true costs or risks involved, they have typically under-priced a number of projects which in some instances has resulted in non-performance and poor quality outcomes.

Delta recognise the products it makes typically will have a planned 50-100 year design and in-service life and subsequently, our focus is to continue to partner and develop the relationships with those clients who build essential infrastructure and facilities needed across the state. We are proud to have successfully completed all the projects we have undertaken to the highest of quality standards and in accordance with respective programs.

Major projects successfully completed during the year included:

- Dumas House Refurbishment WA
- Mawson Lakes Central Plaza Adelaide SA
- Yagan Square Project Perth WA
- New Perth Stadium Wall Panels, Burswood WA
- Mandurah Forum Shopping Centre Redevelopment WA
- New Norcia GNH Bypass Bridge WA

- Campbell Barracks Redevelopment Project Swanbourne WA
- Queens Park Station Precinct WA
- CIT Murdoch Stage 4 Development WA
- Perth College Senior Learning & Leadership Centre Mt Lawley WA
- Lifecare Roselin Court Adelaide SA
- Defence Housing Association Apartments WA
- Park Central Bowden Adelaide SA

We anticipate continued intense levels of competition in the marketplace over the next twelve months but with the NorthLink Project and reduced operational costs, we should achieve a profitable result.

## FEATURE PROJECT

### New Perth Stadium, Burswood WA



The start of the 2018 AFL season will herald a new era for sport in Perth. A multi-purpose stadium to host not just AFL, but rugby, soccer, cricket and entertainment events will open, offering 60,000 fans an exciting new venue.

Construction of Perth Stadium began in December 2014 with an innovative design committed to a 'fans first' approach. The design aims to acknowledge Western Australia's sporting, cultural and Aboriginal heritage.

The exterior of the Stadium is designed to make a distinctive first impression. Part of the exterior is finished with striking precast concrete architectural wall panels. Delta was selected by the builder Brookfield Multiplex to work with the design team to develop, manufacture and install more than 4000m<sup>2</sup> of panels for this exciting project.

The architectural finishes and the overall effect is imposing and stunning. It's virtually the first thing you see as you approach the stadium, and it truly looks amazing.

Although specified as a Class 2 finish, the finishes to the panels are Class 1 off-form, in earthy tones with a saw tooth profile. Special custom moulds were fabricated specifically for the project. Different depths of sand blasting to selected segments give the panels a unique and contrasting architectural finish with some smooth and others with exposed stone.

The project has been both interesting and challenging. Varying degrees of sandblasting was used, but the graphic art on this project was something really spectacular. We enjoyed being part of a project that's somewhat different to our usual production and is pushing the boundaries of what can be achieved with architectural precast.

The graphic art component of the panels was based on artwork from the client and acknowledges the site's rich Aboriginal history, while embracing Aboriginal heritage and culture in the Stadium and landscape design. Using graphic concrete, we provided a spectacular surface relief to showcase the Nyoongar Aboriginal language and stories. The artwork will encourage Perth Stadium visitors to reflect and appreciate the Aboriginal history of the area.

The manufacture and erection of the wall panels is now complete as this impressive stadium takes shape. The stadium construction is working to a tight timeline to be ready for the 2018 AFL season, and those deadlines have been met without any issues by Delta. When it's complete, the Perth Stadium will be a world-class venue with state of the art facilities with local companies, including Delta being able to take some credit for this exceptional arena.

## PROPERTY AND INVESTMENTS

# QUALITY INVESTMENTS AND LAND ASSETS WITH REDEVELOPMENT POTENTIAL

### Syndicated Property

As at 30 June 2017, Schaffer Corporation's Investment Property portfolio consisted of three office/retail syndicated properties located in Western Australia.

Property name/location	Year acquired	Schaffer interest
IBM Centre, Hay St, West Perth	1995	22.1%
Parks Shopping Centre, Bunbury	1999	16.7%
Hometown Shopping Centre, Albany Highway, Cannington	1998	25.0%

### Property Projects

Schaffer Corporation is part of a syndicate that has identified ongoing demand for industrial land in Western Australia. To that end, early in calendar 2006, Schaffer Corporation acquired a 20% interest in a 26 hectare property at Neerabup, north of Perth. The exercise is a land banking exercise and this property is likely to be developed in future as an industrial subdivision.

### Other Properties

Schaffer Corporation owns several other properties in Perth which are primarily occupied by various functions of the Building Materials division. The Directors believe several of these properties have significant redevelopment potential in the future and the long term strategy remains to eventually redevelop these properties and maximise returns to shareholders.

Among the assets is land at Jandakot, Western Australia, which is partially occupied by the Urbanstone manufacturing operations. The overall site has substantial development potential. The Group has made a submission for a Scheme Amendment to increase the scope and area of light industrial and commercial uses on 38.8 hectares of the land. The submission has been approved by the local Council and is in progress with the West Australian Planning Commission.

### Gosh Capital

This separate 83% owned subsidiary within Schaffer Corporation was established as its own division in the 2014 financial year with a mandate to maximise the value of the land asset on which the Gosh Leather business previously operated at 10 Bennett Avenue, North Coogee, Western Australia. This also involves the reinvestment of profits to grow the available capital for investment.

The division currently owns a range of investments, other than the land holding in North Coogee, including direct ownership of a bulky goods retail centre in Western Australia and various investments in property unit trusts, managed funds and shares.

During the 2017 financial year, Gosh Capital made a \$0.25 million investment in a managed fund with exposure to global mining and energy companies, providing further diversification to its portfolio.

The following table presents the entire property holdings of the Group:

Address	Description	Ownership structure	Land Size (sqm)	Current Lettable Area (sqm)	SFC Ownership %	SFC Share of Book Value (\$m)	SFC Share of Market Value (\$m)	SFC Share of Debt (\$m)	Tax on Capital Gain (\$m)	Net Equity Value (\$m)
<b>Property used by SFC operations</b>										
218 Campersic Road Herne Hill, WA	Delta	SFC Direct	134,305	-	100%	6.1	9.5		(1.0)	
Lot 701 Jandakot Road Jandakot, WA	Urbanstone	SFC Direct	64,097	-	100%	3.8	8.8		(1.5)	
1305 Hay Street West Perth, WA	Head Office	SFC Direct	413	-	100%	0.7	1.9		(0.4)	
50 Cutler Road Carabooda, WA	Quarry House	SFC Direct	72,818	-	100%	0.9	0.9		-	
						11.5	21.1	(1.5)	(2.9)	16.7
<b>Rental Properties</b>										
IBM Centre, 1060 Hay Street West Perth, WA	Office	Syndicate	5,797	8,466	22%	1.0	12.4	(7.1)	(3.4)	1.9
Hometown, 1480 Albany Hwy Cannington, WA	Retail	Syndicate	59,319	20,637	25%	5.5	13.2	(7.2)	(2.3)	3.7
Parks Shopping Centre Bunbury, WA	Retail	Syndicate	30,804	10,622	17%	2.0	6.7	(3.8)	(1.4)	1.5
39 Dixon Road Rockingham, Western Australia	Bulky Goods	Gosh Direct	12,047	5,434	83%	7.8	8.2	(5.2)	(0.1)	2.9
Inghams, Port Wakefield Rd Burton, SA	Industrial	Gosh - Unit Trust	53,300	13,437	4%	0.8	0.8	-	-	0.8
Pacific Suites, Canberra, ACT	Hotel	Gosh - Unit Trust	-	16,045	2%	0.7	0.7	-	-	0.7
Auburn Megamall 265 Paramatta Road, NSW	Bulky Goods	Gosh - Unit Trust	24,690	32,348	2%	1.2	1.2	-	-	1.2
						19.0	43.2	(23.3)	(7.2)	12.7
<b>Development sites</b>										
Lot 703 Jandakot Road Jandakot, WA	Vacant	SFC Direct	449,639	-	100%	3.3	7.5	-	(1.3)	6.2
Lot 702 Jandakot Road Jandakot, WA	Commercial	SFC Direct	32,442	500	100%	0.3	2.8	-	(0.8)	2.0
10 Bennett Avenue North Coogee, WA	Residential	Gosh Direct	21,035	-	83%	1.6	11.3	-	(2.9)	8.4
170 Flynn Drive Neerabup, WA	Industrial	Syndicate	26,000	-	20%	1.5	4.0	(1.0)	(0.8)	2.2
Lot 561 Paris Road Australind, WA	Commercial	Gosh - Unit Trust	12,000	-	4%	0.4	0.4	-	-	0.4
Part Lot 602 Yanchep Beach Road, WA	Residential	Gosh - Unit Trust	42,600	-	3%	0.2	0.2	-	-	0.2
						7.3	26.2	(1.0)	(5.8)	19.4
<b>Total SFC Property Value</b>						37.8	90.5	(25.8)	(15.9)	48.8

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# 2017

SCHAFER CORPORATION LIMITED

ABN 73 008 675 689

## FINANCIAL REPORT

*at 30 June 2017*

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Note	Consolidated	
		2017 \$'000	2016 \$'000
<b>Revenue</b>			
Sale of goods		193,392	185,915
Construction services		16,251	21,924
Rental income	3(a)	5,275	5,685
Finance income	3(b)	56	73
Total revenue		214,974	213,597
Cost of sales and services rendered		(178,532)	(186,926)
Gross profit		36,442	26,671
Impairment of property, plant & equipment	28	(2,327)	–
Other (losses)/income	3(c)	(971)	3,089
Marketing expenses		(5,814)	(6,016)
Administrative expenses		(14,404)	(12,457)
<b>Profit before tax and finance costs</b>		12,926	11,287
Finance costs	3(b)	(2,869)	(3,745)
<b>Profit before income tax</b>		10,057	7,542
Income tax expense	5	(2,511)	(1,720)
<b>Profit after income tax</b>		7,546	5,822
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value gains on available-for-sale financial assets		2,152	141
Income tax on items of other comprehensive income	5	(732)	(48)
		1,420	93
Foreign currency translation (losses)/gains attributable to parent		(98)	264
		1,322	357
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Net fair value gains on available-for-sale financial assets attributable to non-controlling interest		288	19
Foreign currency translation (losses)/gains attributable to non-controlling interest		(20)	53
<b>Other comprehensive income for the period, net of tax</b>		1,590	429
<b>Total comprehensive income for the period</b>		9,136	6,251
<b>Profit for the period is attributable to:</b>			
Non-controlling interest	30	1,690	139
Owners of the parent	23	5,856	5,683
		7,546	5,822
<b>Total comprehensive income for the period is attributable to:</b>			
Non-controlling interest		1,957	211
Owners of the parent		7,179	6,040
		9,136	6,251
<b>Earnings per share (EPS)</b>			
Basic EPS attributable to owners of the parent	31	41.8¢	40.6¢
Diluted EPS attributable to owners of the parent	31	40.6¢	40.6¢

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
as at 30 June 2017

		Consolidated	
		2017	2016
	Note	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short term deposits	4	11,417	7,068
Trade and other receivables	7	43,663	39,858
Inventories	8	50,382	59,754
Prepayments and deposits	9	2,127	1,713
		<u>107,589</u>	108,393
Non-current assets classified as held for sale	34	4,254	–
<b>Total current assets</b>		<u>111,843</u>	108,393
<b>Non-current assets</b>			
Receivables	10	216	–
Property, plant and equipment	13	37,290	46,138
Investment properties	14	25,406	25,177
Deferred income tax asset	5	2,284	1,983
Goodwill	15	1,299	1,299
Other financial assets	16	6,620	4,384
<b>Total non-current assets</b>		<u>73,115</u>	78,981
<b>Total assets</b>		<u>184,958</u>	187,374
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	32,435	29,534
Interest bearing loans and borrowings	18	15,355	16,661
Income tax payable		1,361	2,762
Provisions	19	7,892	7,284
Derivative financial instruments	33	895	530
		<u>57,938</u>	56,771
Non-current liabilities classified as held for sale	34	5	–
<b>Total current liabilities</b>		<u>57,943</u>	56,771
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	20	39,859	48,646
Deferred income tax liabilities	5	2,186	1,445
Provisions	21	1,265	1,325
<b>Total non-current liabilities</b>		<u>43,310</u>	51,416
<b>Total liabilities</b>		<u>101,253</u>	108,187
<b>Net assets</b>		<u>83,705</u>	79,187
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital	22	16,583	16,583
Reserves	23	4,935	3,551
Retained earnings	23	52,867	50,512
Total parent entity interest in equity		<u>74,385</u>	70,646
Non-controlling interests	30	9,320	8,541
<b>Total equity</b>		<u>83,705</u>	79,187

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

	Attributable to Equity Holders of the Parent							Total	Non-controlling interest	Total equity
	Issued capital	Retained earnings	Asset revaluation	Reserves			Foreign currency translation			
				Share-based payment EPU's	Share-based payment SFC options	Net unrealised gains/(losses)				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>At 1 July 2015</b>	16,583	48,330	2,585	648	115	18	(233)	68,046	8,330	76,376
Profit for the year	–	5,683	–	–	–	–	–	5,683	139	5,822
Other comprehensive income	–	–	–	–	–	93	264	357	72	429
Total comprehensive income for the year	–	5,683	–	–	–	93	264	6,040	211	6,251
<b>Transactions with owners in their capacity as owners:</b>										
Share-based payments	–	–	–	61	–	–	–	61	–	61
Equity dividends	–	(3,501)	–	–	–	–	–	(3,501)	–	(3,501)
<b>At 30 June 2016</b>	16,583	50,512	2,585	709	115	111	31	70,646	8,541	79,187
<b>At 1 July 2016</b>	16,583	50,512	2,585	709	115	111	31	70,646	8,541	79,187
Profit for the year	–	5,856	–	–	–	–	–	5,856	1,690	7,546
Other comprehensive income	–	–	–	–	–	1,420	(98)	1,322	267	1,589
Total comprehensive income for the year	–	5,856	–	–	–	1,420	(98)	7,178	1,957	9,135
<b>Transactions with owners in their capacity as owners:</b>										
Share-based payments	–	–	–	62	–	–	–	62	–	62
Equity dividends	–	(3,501)	–	–	–	–	–	(3,501)	(1,178)	(4,679)
<b>At 30 June 2017</b>	16,583	52,867	2,585	771	115	1,531	(67)	74,385	9,320	83,705

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	Consolidated	
Note	2017	2016
	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	215,292	209,903
Payments to suppliers and employees	(184,674)	(197,584)
Other revenue	15	21
Interest paid	(2,869)	(2,413)
Income taxes paid	(4,204)	(49)
Goods and services tax paid	(1,316)	(1,925)
<b>Net cash flows from operating activities</b>	<b>22,244</b>	<b>7,954</b>
4		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	56	73
Acquisition of property, plant and equipment	(3,430)	(9,487)
Proceeds on sale of investment property	–	9,624
Proceeds on sale of property, plant and equipment	590	–
Acquisition/improvements to investment properties	(820)	(728)
Acquisition of available-for-sale investments	(250)	(1,500)
Distribution from realised gain on available-for-sale investments	302	1,050
Capital distribution from available-for-sale investment	260	–
<b>Net cash flows used in investing activities</b>	<b>(3,292)</b>	<b>(968)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Finance lease principal payments	(2,134)	(1,640)
Dividends paid	(4,679)	(3,501)
Proceeds from borrowings	5,049	14,223
Repayment of borrowings	(13,008)	(13,528)
<b>Net cash flows used in financing activities</b>	<b>(14,772)</b>	<b>(4,446)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Net foreign exchange differences	169	336
Cash and cash equivalents at the beginning of the period	7,068	4,192
<b>Cash and cash equivalents at the end of the period</b>	<b>11,417</b>	<b>7,068</b>
4		

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 1 CORPORATE INFORMATION

The consolidated financial report of Schaffer Corporation Limited and its controlled entities (the Group or Consolidated Entity) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 19 September 2017.

Schaffer Corporation Limited (SFC, the Parent or the Company) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The Company is domiciled in Australia.

The nature of the operations and principal activities of the Group are described in note 28.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Instrument 2016/191 Corporations (Rounding in Financial/Directors Report). The Company is an entity to which the instrument applies.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### (b) New accounting standards and interpretations

##### *Adoption of new accounting standards*

The consolidated entity has adopted the following standards and interpretations as of 1 July 2016:

##### *AASB 2014-4 Amendments to Australian Accounting Standards—Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its noncurrent assets.

##### *AASB 2015-1 Amendments to Australian Accounting Standards—Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*

###### *AASB 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in AASB 5. This amendment is applied prospectively.

##### *AASB 2015-2 Amendments to Australian Accounting Standards—Disclosure Initiative: Amendments to AASB 101*

The amendments to AASB 101 clarify, rather than significantly change, existing AASB 101 requirements. The amendments clarify:

- The materiality requirements in AASB 101
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments do not have any impact on the Group.

The Consolidated Entity has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### *New Accounting Standards and Interpretations not yet applicable*

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2017.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2016-1	<i>Amendments to Australian Accounting Standards—Recognition of Deferred Tax Assets for Unrealised Losses</i>	This Standard makes amendments to AASB 112 <i>Income Taxes</i> to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
AASB 2016-2	<i>Amendments to Australian Accounting Standards—Disclosure Initiative: Amendments to AASB 107</i>	The amendments to AASB 107 <i>Statement of Cash Flows</i> are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017	1 July 2017
AASB 2017-2	<i>Amendments to Australian Accounting Standards—Further Annual Improvements 2014-2016 Cycle</i>	This Standard clarifies the scope of AASB 12 <i>Disclosure of Interests in Other Entities</i> by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .	1 January 2017	1 July 2017

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9, and relevant amending standards	<i>Financial Instruments</i>	<p>AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.</p> <p>Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.</p> <p>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.</p> <p>Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.</p> <p>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.</p> <p>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.</p> <p>The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.</p> <p>The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.</p>	1 January 2018	1 July 2018
AASB 15, and relevant amending standards	<i>Revenue from Contracts with Customers</i>	<p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i>, AASB Interpretation 13 <i>Customer Loyalty Programmes</i>, AASB Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, AASB Interpretation 18 <i>Transfers of Assets from Customers</i> and AASB Interpretation 131 <i>Revenue— Barter Transactions Involving Advertising Services</i>) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 <i>Leases</i>, once applied).</p> <p>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>▶ Step 1: Identify the contract(s) with a customer</li> <li>▶ Step 2: Identify the performance obligations in the contract</li> <li>▶ Step 3: Determine the transaction price</li> <li>▶ Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</li> </ul>	1 January 2018	1 July 2018
AASB 2014-10	<i>Amendments to Australian Accounting Standards— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	<p>The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 <i>Business Combinations</i>. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.</p> <p>AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.</p>	1 January 2018	1 July 2018
AASB 2016-5	<i>Amendments to Australian Accounting Standards— Classification and Measurement of Share-based Payment Transactions</i>	<p>This Standard amends AASB 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> <li>▶ The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments</li> <li>▶ Share-based payment transactions with a net settlement feature for withholding tax obligations</li> <li>▶ A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.</li> </ul>	1 January 2018	1 July 2018

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2017-1	<i>Amendments to Australian Accounting Standards—Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i>	The amendments clarify certain requirements in: <ul style="list-style-type: none"> <li>▶ AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i></li> <li>▶ AASB 12 <i>Disclosure of Interests in Other Entities</i> – clarification of scope</li> <li>▶ AASB 128 <i>Investments in Associates and Joint Ventures</i> – measuring an associate or joint venture at fair value</li> <li>▶ AASB 140 <i>Investment Property</i> – change in use.</li> </ul>	1 January 2018	1 July 2018
AASB Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	1 January 2018	1 July 2018
AASB 16	<i>Leases</i>	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 <i>Leases</i> . The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).  Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.  Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.  Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1 January 2019	1 July 2019
AASB Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 <i>Income Taxes</i> when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: <ul style="list-style-type: none"> <li>▶ Whether an entity considers uncertain tax treatments separately</li> <li>▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities</li> <li>▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>▶ How an entity considers changes in facts and circumstances.</li> </ul>	1 January 2019	1 July 2019

Impact of new accounting standards on Schaffer Corporation:

## AASB 9:

The company is specifically investigating the impact of the amended AASB 9 on classification of the Available for Sale Investments, the impact of the expected loss model on trade and other receivables, and the future use of hedge accounting. The assessment is still ongoing.

## AASB 15:

The company is currently evaluating all revenue streams to determine the potential impact related to the adoption of AASB 15, as well as potential disclosure required by the standard. Particular focus has been placed on the building materials division and the point of revenue recognition based on percentage of completion approach.

## AASB 16:

Management is continuing to determine the extent that the operating leases will be recognised as assets and liabilities on the Company's statement of financial position, the impact on profit and classification of the related cash flows.

The Company has commenced the assessment of the impact of the new standards as described above, however this has not been completed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 2

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Schaffer Corporation Limited and its subsidiaries (the Group) as at 30 June each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (i) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) exposure, or rights, to variable returns from its involvement with the investee; and
- (iii) the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (i) the contractual arrangement with the other vote holders of the investee;
- (ii) rights arising from other contractual arrangements; and
- (iii) the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Non-controlling interests represent the portion of profit or loss and net assets in Howe Automotive Limited and Gosh Holdings Pty Limited not held by the Group and are presented separately in the Consolidated Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position.

##### (d) Significant accounting judgments, estimates and assumptions

###### (i) Significant accounting judgments

In applying the Group's accounting policies, management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

###### *Operating lease commitments – Group as Lessor*

The Group has entered into commercial property leases on its Investment Property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

###### (ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

###### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 15.

###### *Share-based payment transactions*

###### *Employee participation units*

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted, as discussed in the Directors' Report under directors and executives disclosures.

###### *Construction contracts*

Refer note 2(t).

###### *Impairment of non-financial assets other than goodwill*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

##### (e) Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Both the functional and presentation currency of Schaffer Corporation Limited and its Australian subsidiaries is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences arising from the above procedures are taken to the Consolidated Statement of Comprehensive Income.

As at the reporting date the assets and liabilities of overseas subsidiaries (refer note 12) are translated into the presentation currency of Schaffer Corporation Limited at the rate of exchange ruling at the balance date and the Consolidated Statement of Comprehensive Income is translated at the average exchange rates for the year.

The exchange differences arising on the translation are taken directly to other comprehensive income.

On disposal of a foreign entity, the deferred cumulative amount recognised in the component of other comprehensive income relating to that particular foreign operation and attributable to the parent entity is recognised in the Consolidated Statement of Comprehensive Income.

##### (f) Investment properties

Investment properties are measured at cost less accumulated depreciation.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Consolidated Statement of Comprehensive Income in the year of retirement or disposal.

Depreciation is calculated on a straight-line basis over the estimated useful life as follows:

- buildings over 40 years
- land is not depreciated
- improvements – over 5 to 15 years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- land – not depreciated
- buildings – over 40 years
- leasehold improvements – the shorter of the lease term and the asset's useful life
- plant and equipment – over 5 to 15 years

##### (i) Amortisation of Limestone Quarries

Amortisation is provided on the units of production method with separate calculations made for each quarry location. The units of production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources.

##### (ii) Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

The recoverable amount of property, plant and equipment is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

#### (h) Goodwill

Goodwill is initially recognised at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest and any previous interest held over the net identifiable assets acquired and the liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed in this circumstance is measured on the basis of the relative values of the operation disposed and the portion of the cash-generating unit retained.

Impairment losses for goodwill are not subsequently reversed.

#### (i) Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### (j) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments:*

*Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets.

When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition.

##### (i) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in current assets unless the Group intends to dispose of the investment longer than 12 months after the balance sheet date.

After initial recognition, these financial assets are measured at fair value. Gains or losses are recognised as a separate component of equity until the financial asset is sold, collected or otherwise disposed, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Consolidated Statement of Comprehensive Income.

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability.

Dividends or distributions on available-for-sale equity instruments are recognised in the Consolidated Statement of Comprehensive Income when the Group's right to receive payments as dividends or distributions is established.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 2

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

##### (k) Inventories

Inventories are valued at the lower of cost and net realisable value except for contract work in progress.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials—purchase cost on a first-in, first-out basis.
- Finished goods—cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Costs are assigned on the first-in first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

##### Contract work in progress

Contract work in progress for the construction of precast concrete elements within the Building Materials segment is stated at cost plus profit recognised to date calculated in accordance with the percentage of completion method, less a provision for foreseeable losses and progress payments received to date.

A contract is not considered complete until the defects liability period has expired and monies withheld have been received. Any expected losses on a contract are recognised immediately in the period the loss becomes foreseeable. That is, when it becomes probable that total contract costs will exceed total contract revenues.

Cost includes all variable and fixed costs directly related to specific construction contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Also included are costs expected to be incurred under penalty clauses and rectification provisions.

The gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings, is generally presented as an asset. Progress billings not yet paid by customers and retention are included within the "Trade and Other Receivables" balance.

The gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses) are presented as current liabilities.

##### (l) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. The carrying amount approximates fair value.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment. The amount of the impairment loss is the portion of the individual receivable carrying amount estimated to be uncollectable.

##### (m) Cash and short-term deposits

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

##### (n) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

##### (o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

##### Restructure provisions

Provisions relating to restructures are recognised when:

- the Group has a detailed formal plan for the restructuring; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement it or by announcing its main features to those affected.

##### (p) 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 employee entitlements expected to be settled within twelve months of the reporting date are measured at the amounts expected to be settled. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

In determining the present value of future cash outflows, the interest rates attaching to national corporate bonds which have terms to maturity approximating the terms of the related liability are used. Employee entitlements, expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements;
- other types of employee entitlements;

are charged against profit or loss on a net basis in their respective categories.

Contributions to defined contribution superannuation plans are expensed when incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Executive share option arrangement

The Directors of Schaffer Corporation Limited may grant in their absolute discretion, without payment, share options to employees under an employee share scheme approved by shareholders at the Annual General Meeting in November 1999. Each option is convertible into one ordinary share of Schaffer Corporation Limited on payment of the exercise price, after a vesting period, but prior to the expiry date.

The exercise price is determined at the grant date at the absolute discretion of the Directors but not less than the greater of:

- (1) the weighted average of the last sale price on the Australian Stock Exchange Limited of the shares in the Company for each of the five trading days on which a sale of the Company's shares was effected immediately preceding the date on which any options are issued to any participant; and
- (2) 20 cents.

The options hold no voting or dividend rights, and are not transferable. Schaffer Corporation Limited does not provide any loans or guarantees to enable executives to finance the exercise of their options. When an executive ceases to be employed by the entity any unexercised options automatically lapse and are forfeited.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Schaffer Corporation Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Consolidated Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer note 31).

#### (r) Employee participation units

A controlled entity Howe Automotive Limited (Howe) may grant employee participation units (EPUs) in accordance with its Employee Incentive Plan adopted by Howe shareholders on 20 December 2001. For conditions refer to note 27.

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 Howe. Schaffer Corporation Limited has the option to compel the employee to use the whole or part of that cash payment to subscribe for Schaffer Corporation Limited shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binominal model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Schaffer Corporation Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Consolidated Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

EPU's are cancelled once they are paid out. EPU's are also cancelled if the employee ceases to be an employee prior to the third anniversary of the grant date for any reason other than death or permanent disablement, if the employee acts in competition with Howe after the third anniversary but prior to pay out, or if the employee is a director or general manager and does not provide a minimum of 90 days notice of intention to terminate employment.

Howe may at any time amend this plan but amendments cannot prejudice the accrued rights of an employee without consent of not less than 75% in the number of employees who hold EPUs at the time of the amendment.

#### (s) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangements is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

##### (i) Group as Lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Consolidated Statement of Comprehensive Income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

##### (ii) Group as Lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income.

#### (t) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time control of the goods has passed to the customer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 2

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### *Interest income*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

##### *Dividends*

Revenue is recognised when the shareholders' right to receive the payment is established.

##### *Rental income*

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

##### *Sale of land*

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

##### *Construction contracts*

For construction contracts, revenues and expenses are recognised on an individual contract basis using the percentage of completion method. Once the outcome of a construction contract can be estimated reliably based on a review of the terms and conditions applicable to each individual contract, contract revenues and expenses are recognised in the Consolidated Statement of Comprehensive Income in proportion to the stage of completion of the contract. The stage of completion is measured by reference to actual costs incurred to date as a percentage of estimated total costs for each contract. The Group has determined that the outcome of its construction contracts can usually be reliably estimated at the commencement of the contract. Where the outcome of a contract cannot be reliably determined, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise from a construction contract, the excess of total expected costs over revenue is recognised as an expense immediately.

#### (u) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- where taxable temporary differences associated with investments in subsidiaries, associates and undivided interests, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- where the deductible temporary differences is associated with investments in subsidiaries, or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

The Company and all its wholly-owned Australian resident subsidiaries are part of a tax consolidated group. The Company, being the head entity in a tax consolidated group, assumes the current tax liability and any deferred tax assets arising from tax losses and other unused tax credits of the subsidiaries in the tax consolidated group. Deferred tax balances of the subsidiaries in the tax consolidated group are not assumed by the Parent entity.

The Group allocates the tax balances for the period using the Group allocation approach, and a tax funding arrangement is in place to reimburse the parent entity for any liabilities of the subsidiaries it assumes and conversely, for the parent entity to reimburse the subsidiaries for any recognised tax losses it assumes.

#### (v) Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (w) Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to manage its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Group has determined that these derivatives do not qualify for hedge accounting and as such, any gains or losses arising from changes in fair value are taken directly to the Consolidated Statement of Comprehensive Income.

##### *Forward exchange contracts*

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

##### *Interest rate swaps*

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (x) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (y) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Parent adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares outstanding during the period, adjusted for any bonus element. Diluted earnings per share, is calculated as net profit attributable to members adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares outstanding during the period and dilutive potential ordinary shares, adjusted for any bonus element.

#### (z) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### (aa) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group become obliged to make future payments in respect of the purchase of these goods and services. The carrying amount approximates fair value.

#### (ab) Research costs

Research costs are expensed as incurred.

#### (ac) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the Consolidated Statement of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

#### (ad) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the Consolidated Statement of Comprehensive Income and the assets and liabilities are presented separately on the face of the Consolidated Statement of Financial Position.

#### (ae) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs of disposal. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

	Consolidated	
	2017 \$'000	2016 \$'000
<b>NOTE 3</b>		
<b>REVENUES AND EXPENSES</b>		
<b>(a) Net rental income</b>		
Rental property income	5,275	5,685
	<b>5,275</b>	5,685
Rental property expenses	(2,841)	(2,934)
Net rental income	<b>2,434</b>	2,751
<b>(b) Finance (costs)/income</b>		
Bank and other loans and overdrafts – interest	(2,670)	(3,596)
Finance charges payable under finance leases	(199)	(149)
Total finance costs	<b>(2,869)</b>	(3,745)
Bank interest revenue	56	73
Total finance income	<b>56</b>	73
<b>(c) Other (losses)/income</b>		
(Loss)/profit on disposal of property, plant and equipment	(330)	5,465
Net loss on derivatives	(622)	(669)
Net foreign currency loss	(144)	(1,970)
Realised gains on available-for-sale investments	110	242
Other	15	21
	<b>(971)</b>	3,089
<b>(d) Depreciation and amortisation included in the consolidated statement of comprehensive income</b>		
Depreciation and amortisation included in:		
Cost of sales	4,506	4,374
Rental property expenses	591	602
Marketing and administrative expenses	209	276
	<b>5,306</b>	5,252
<b>(e) Lease payments included in the consolidated statement of comprehensive income</b>		
Included in cost of sales:		
Minimum lease payments – operating lease	3,376	2,946
Included in marketing and administrative expenses:		
Minimum lease payments – operating lease	1,428	1,346
	<b>4,804</b>	4,292
<b>(f) Employee benefit expense</b>		
Wages and salaries	39,106	47,692
Post employment benefit provision	9	17
Long service leave provisions	27	128
Worker's compensation costs	413	1,013
Superannuation costs	1,469	2,137
Expense of share-based payments	62	61
	<b>41,086</b>	51,048
<b>(g) Other expenses/(gains)</b>		
Increase/(decrease) of allowance for doubtful debts	190	(177)
	<b>190</b>	(177)

**NOTE 4**  
**CASH AND SHORT-TERM DEPOSITS**

	Consolidated	
	2017 \$'000	2016 \$'000
<b>(a) Reconciliation of cash</b>		
Cash balance comprises:		
Cash at bank and on hand	11,417	7,068
Closing cash balance per Consolidated Statement of Cash Flows	<b>11,417</b>	7,068
<b>(b) Reconciliation of operating profit after income tax to the net cash flows from operations</b>		
Net profit	7,546	5,822
Adjustment for:		
Depreciation and amortisation	5,306	5,252
Impairment of property, plant and equipment	2,327	–
Interest received	(56)	(73)
Share-based payments expense	62	61
Profit on sale of investment properties	–	(5,733)
Loss on disposal of property, plant and equipment	338	268
Net loss/(gain) on foreign exchange	(65)	193
Realised gains in available-for-sale investments	(110)	(242)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(4,021)	(9,629)
(Increase)/decrease in inventories	9,372	10,084
(Increase)/decrease in prepayments	(414)	(75)
(Increase)/decrease in deferred income tax asset	(301)	(1,205)
Increase/(decrease) in trade and other payables	2,734	(1,791)
Increase/(decrease) in employee entitlement provisions	553	446
Increase/(decrease) in income tax payable	(1,401)	2,746
Increase/(decrease) in deferred tax liability	9	(23)
(Increase)/decrease in derivatives	365	1,853
<b>Net cash flows from operating activities</b>	<b>22,244</b>	7,954
<b>(c) Bank facilities</b> (refer note 20).		
<b>(d) Non-cash financing activities</b>		
During the current financial year plant costing \$Nil (2016–\$94,000) was acquired under a finance lease.		
During the current financial year plant costing \$3,328,000 (2016–\$5,522,000) was subject to sale and leaseback finance.		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

	Consolidated	
	2017	2016
	\$'000	\$'000

NOTE 5  
INCOME TAX

The major components of income tax expense are:

## Consolidated statement of comprehensive income

Current income tax		
Current income tax charge	3,585	3,678
Adjustment in respect of current income tax of previous years	(782)	(776)
Deferred income tax		
Relating to origination and reversal of temporary differences	(292)	(1,182)
Income tax expense reported in the consolidated statement of comprehensive income	2,511	1,720

## Consolidated statement of changes in equity

Deferred income tax related to items charged or credited directly to equity		
Unrealised gain on available-for-sale investments	732	48
Income tax expense reported in equity	732	48

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before tax	10,057	7,542
At the Group's statutory income tax rate of 30% (2016-30%)	3,017	2,263
- overseas currency translation adjustment	33	144
- expenses not allowable for income tax purposes	84	56
- other items	159	33
- over-provision of current income tax of previous years	(782)	(776)
	2,511	1,720
Income tax expense reported in the consolidated statement of comprehensive income	2,511	1,720

NOTE 5  
INCOME TAX (CONTINUED)

## Deferred income tax

Deferred income tax at 30 June relates to the following:

## Consolidated

## Deferred tax liabilities

	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Accelerated depreciation for tax purposes	1,417	1,535	118	184
Leased assets to be amortised for accounting purposes	-	-	-	123
Expenses deducted for income tax purposes but deferred for accounting purposes	78	96	18	35
Deferred gains and losses on foreign exchange contracts and translations	-	-	-	131
Income taken up for accounting purposes currently not assessable for income tax purposes	101	69	(32)	(47)
Unrealised gain on available-for-sale investments to fair value	790	58	(732)	(48)
Deferred gain for income tax purposes on rollover of freehold property	1,265	1,265	-	-
Gross deferred income tax liabilities	3,651	3,023		
Offset	(1,465)	(1,578)		
	2,186	1,445		

## Consolidated

## Deferred tax assets

Employee entitlements	1,791	2,222	(431)	(31)
Allowance for doubtful debts	7	14	(7)	(21)
Accelerated depreciation for accounting purposes	258	101	156	(112)
Deferred gains and losses on foreign exchange contracts and translations	599	883	(284)	883
Expenses not immediately deductible for income tax purposes	560	252	309	67
Lease liability deductible for income tax purposes	2	2	-	(23)
Deferred losses on interest rate swap contracts	49	87	(38)	(7)
Losses carried forward	483	-	483	-
Gross deferred income tax assets	3,749	3,561		
Offset	(1,465)	(1,578)		
	2,284	1,983		
Deferred tax (expense)/benefit			(440)	1,134

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

Note	Consolidated		
	2017 \$'000	2016 \$'000	
<b>NOTE 6</b>			
<b>DIVIDENDS PROVIDED FOR OR PAID</b>			
<b>(a) Dividends paid</b>			
	Final 2016 – 13¢ per share paid in September 2016 (2015–13¢)	1,821	1,821
	Interim 2017 – 12¢ per share paid in March 2017 (2016–12¢)	1,680	1,680
	Fully franked dividends paid by the Parent	3,501	3,501
	Dividend paid by controlled entity to minority shareholder fully franked	30	1,178
	Total fully franked dividends paid	4,679	3,501
<b>(b) Not recognised as a liability as at 30 June 2017</b>			
	Dividends on ordinary shares		
	Final franked dividend for 2017–14¢ (2016–13¢)	35	1,961
	The dividends were declared subsequent to 30 June 2017		
<b>(c) The tax rate at which dividends have or will be franked is interim 30% (2016–30%), final 30% (2016–30%)</b>			
	Franking account balance		
	The amount of franking credits available for the subsequent financial year are detailed below:		
	The franking account balance disclosures have been calculated using the franking rate at 30 June 2017		
	Franking account balance brought forward	2,158	3,511
	Fully franked dividends paid	(1,501)	(1,501)
	Tax paid	1,239	148
	Franked dividends received from other corporations	2,495	–
	Franking account balance at the end of the financial year	4,391	2,158
	Franking credits that will arise/(reduce) from the payment/(refund) of income tax payable/(refundable) as at the end of the financial year by the parent	–	1,571
	Franking credits that will be available on payment/(refund) of income tax payable/(refundable) as at the end of the financial year by the parent	4,391	3,729
	The above franking account is expressed on a tax paid basis		
	Fully franked dividends which can be paid from the above franking credits available amount	9,119	8,701

Note	Consolidated			
	2017 \$'000	2016 \$'000		
<b>NOTE 7</b>				
<b>TRADE AND OTHER RECEIVABLES (CURRENT)</b>				
	Trade debtors	(i)	38,111	33,710
	Allowance for doubtful debts	(i)	(322)	(132)
			37,789	33,578
	Sundry debtors	(ii)	5,874	6,280
			43,663	39,858

Terms and conditions relating to the above financial instruments:

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified.

- (i) Trade debtors are non-interest bearing and generally on 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. Financial difficulties of the debtor, default payments or debts more than 120 days overdue are considered objective evidence of impairment. An allowance of \$322,000 (2016–\$132,000) has been recognised for the current year for specific debtors for which such evidence exists. The amount of the allowance has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors. Refer note 32(d) for credit risk disclosure.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

	Consolidated	
	2017 \$'000	2016 \$'000
Movement in allowance for doubtful debts		
At 1 July	132	309
Increase/(decrease) in allowance during the year	190	(177)
At 30 June	322	132

The carrying amount of the trade and other receivables approximates their fair value.

**NOTE 8**  
**INVENTORIES**

Work in progress – at cost	13,147	19,487
Contract work in progress – amounts due from customers	(a) 967	525
Finished goods – at cost	11,104	17,085
Finished goods – at net realisable value	9	9
Raw materials – at cost	25,155	22,648
	50,382	59,754

Inventories recognised as an expense for the year ended 30 June 2017 totalled \$179,926,000 (2016–\$187,830,000) for the Group, which includes inventory write-downs recognised as an expense totalling \$1,394,000 (2016–\$904,000).

**(a) Contract work in progress**

Construction costs incurred to date:

Gross cost plus profit recognised to date	11,812	11,812
Less: Progress billings	(11,051)	(12,055)
Net construction work in progress	761	(243)

Represented by:

Amounts due to customers – trade and other payables	17	(206)	(768)
Amounts due from customers		967	525
		761	(243)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

	Consolidated	
	2017	2016
	\$'000	\$'000

**NOTE 9  
PREPAYMENTS AND DEPOSITS**

Prepayments	2,127	1,713
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Prepayments relate to insurance, raw materials and interest.

**NOTE 10  
RECEIVABLES (NON-CURRENT)**

Other debtors	216	-
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Non-current other debtors relate to a disposal of plant and equipment.

	2017	2016
	\$'000	\$'000

**NOTE 11  
PARENT ENTITY INFORMATION****Information relating to Schaffer Corporation Limited:**

Current assets	826	771
Total assets	44,537	44,787
Current liabilities	11,496	3,215
Total liabilities	23,942	25,395
Issued capital	15,847	15,847
Retained earnings	2,350	1,147
Share-based payments reserve–SFC options	115	115
Asset revaluation reserve	2,283	2,283
Total shareholders' equity	20,595	19,392
Profit of the parent entity	4,704	2,382
Total other comprehensive income of the parent entity	-	-

The parent entity has entered into Deeds of Cross Guarantee with controlled entities as disclosed in note 12.

**Tax consolidation**

The Company and its wholly-owned Australian resident subsidiaries have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Schaffer Corporation Limited.

Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

**Tax consolidation contributions by (or distributions to) equity participants**

The net amount recognised for the period under tax consolidation contributions by (or distributions to) equity participants, its major components and the accounts affected are as follows:

**NOTE 11  
PARENT ENTITY INFORMATION  
(CONTINUED)****Major components of tax consolidation contributions by (or distributions to) equity participants**

Net assumptions of tax liabilities of members of the tax-consolidated group	57	2,623
Tax funding contribution receivable from controlled entities	(57)	(2,623)
Excess of tax funding contributions over tax liabilities assumed	-	-

**NOTE 12  
CONTROLLED ENTITIES**

Controlled entity	Beneficial percentage held by the Group		Place of incorporation and business
	2017	2016	
	%	%	
Schaffer Properties Pty Ltd*	100	100	Australia
Delta Corporation Limited*	100	100	Australia
Urbanstone Pty Ltd*	100	100	Australia
Gosh Holdings Pty Ltd	83.17	83.17	Australia
Gosh Capital Pty Ltd	83.17	83.17	Australia
Howe Automotive Limited**	83.17	83.17	Australia
Rosedale Leather Pty Ltd**	83.17	83.17	Australia
Australian Leather Upholstery Pty Ltd**	83.17	83.17	Australia
Howe & Company Pty Ltd**	83.17	83.17	Australia
Howe Slovensko S.R.O.	83.17	83.17	Slovakia
Howe Leather (Shanghai) Co. Ltd.***	83.17	83.17	China
Howe Hong Kong Pty Limited	83.17	83.17	Hong Kong

\* Pursuant to the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 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 Instrument, Schaffer Corporation Limited and the controlled entities subject to the Instrument (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 the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 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 Instrument, Howe Automotive Limited and the controlled entities subject to the Instrument (the Howe Automotive 'Closed Group') entered into Deeds of Cross Guarantee at various dates. The effect of the deeds is that Howe Automotive Limited has guaranteed to pay any deficiency in the event of winding up of the controlled entities. The controlled entities have also given a similar guarantee in the event that Howe Automotive Limited is wound up.

\*\*\* Howe Leather (Shanghai) Co. Ltd has a 1 January to 31 December financial year to coincide with local tax and statutory reporting requirements. Financial statements for this subsidiary are prepared and audited for the year to 30 June for the purposes of Group consolidation. All other entities have 1 July to 30 June financial years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 12

## CONTROLLED ENTITIES (CONTINUED)

The Consolidated Statement of Financial Performance and Consolidated Statement of Financial Position of the entities which are members of the Schaffer 'Closed Group' are as follows:

	Schaffer Closed Group	
	2017 \$'000	2016 \$'000
<b>CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AND RETAINED EARNINGS RECONCILIATION</b>		
Profit from continuing operations before income tax	1,796	6,744
Income tax expense	1,529	(1,749)
Net profit for the year	3,325	4,995
Other comprehensive income	–	–
Total comprehensive income	3,325	4,995
Retained earnings at the beginning of the year	23,788	22,294
Net profit for the year	3,325	4,995
Dividends provided for or paid	(3,501)	(3,501)
Retained earnings at the end of the year	23,612	23,788
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term deposits	2,845	4,167
Trade and other receivables	6,704	5,287
Inventories	7,895	8,911
Prepayments and deposits	528	410
	17,972	18,775
Non-current assets classified as held for sale	4,254	–
<b>Total current assets</b>	<b>22,226</b>	<b>18,775</b>
<b>Non-current assets</b>		
Other financial assets	14,598	14,598
Property, plant and equipment	20,538	29,527
Investment properties	14,144	13,788
Goodwill	84	84
Deferred income tax assets	1,900	704
<b>Total non-current assets</b>	<b>51,264</b>	<b>58,701</b>
<b>Total assets</b>	<b>73,490</b>	<b>77,476</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	4,714	5,593
Interest bearing loans and borrowings	13,635	7,540
Income tax payable	–	1,571
Derivative financial instruments	165	289
Provisions	3,541	3,647
	22,055	18,640
Non-current liabilities classified as held for sale	5	–
<b>Total current liabilities</b>	<b>22,060</b>	<b>18,640</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	7,086	14,245
Provisions	1,237	1,308
<b>Total non-current liabilities</b>	<b>8,323</b>	<b>15,553</b>
<b>Total liabilities</b>	<b>30,383</b>	<b>34,193</b>
<b>Net assets</b>	<b>43,107</b>	<b>43,283</b>
<b>EQUITY</b>		
Issued capital	16,795	16,795
Reserves	2,700	2,700
Retained profits	23,612	23,788
<b>Total equity</b>	<b>43,107</b>	<b>43,283</b>

## NOTE 12

## CONTROLLED ENTITIES (CONTINUED)

## MATERIAL PARTLY-OWNED SUBSIDIARIES

## Accumulated balances of material non-controlling interest:

	Howe Automotive Ltd \$'000	Gosh Holdings Pty Ltd \$'000
2017	7,567	1,753
2016	7,157	1,384

## Profit allocated to material non-controlling interest:

2017	1,608	82
2016	54	85

## Summarised statement of profit or loss for the year ended 30 June 2017

	Howe Automotive Ltd \$'000	Gosh Holdings Pty Ltd \$'000
Revenue	170,906	1,352
Profit before tax and finance costs	12,653	903
Finance costs	(1,739)	(206)
<b>Profit before tax</b>	<b>10,914</b>	<b>697</b>
Income tax	(3,071)	(209)
<b>Profit for the year</b>	<b>7,843</b>	<b>488</b>
Other comprehensive income/(loss)	(118)	1,707
<b>Total comprehensive income</b>	<b>7,725</b>	<b>2,195</b>
Attributable to non-controlling interests	1,300	369
Dividends paid to non-controlling interests	1,178	–

## Summarised statement of profit or loss for the year ended 30 June 2016

Revenue	155,143	1,194
Profit before tax and finance costs	2,600	958
Finance costs	(2,295)	(239)
<b>Profit before tax</b>	<b>305</b>	<b>719</b>
Income tax	196	(216)
<b>Profit for the year</b>	<b>501</b>	<b>503</b>
Other comprehensive income/(loss)	317	112
<b>Total comprehensive income</b>	<b>818</b>	<b>615</b>
Attributable to non-controlling interests	137	104
Dividends paid to non-controlling interests	–	–

## Summarised statement of financial position at 30 June 2017

	Howe Automotive Ltd \$'000	Gosh Holdings Pty Ltd \$'000
Current assets	88,876	957
Non-current assets	20,308	17,928
Current liabilities	(35,702)	(182)
Non-current liabilities	(29,697)	(8,292)
<b>Total equity</b>	<b>43,785</b>	<b>10,411</b>
Attributable to:		
Equity holders of parent	36,218	8,658
Non-controlling interest	7,567	1,753

## Summarised statement of financial position at 30 June 2016

Current assets	89,466	389
Non-current assets	20,302	15,571
Current liabilities	(37,928)	(204)
Non-current liabilities	(28,780)	(7,540)
<b>Total equity</b>	<b>43,060</b>	<b>8,216</b>
Attributable to:		
Equity holders of parent	35,813	6,832
Non-controlling interest	7,247	1,384

## Summarised cash flow information for the year ending 30 June 2017

Operating	24,235	644
Investing	(3,066)	(18)
Financing	(16,029)	23
<b>Net increase in cash and cash equivalents</b>	<b>5,140</b>	<b>649</b>

## Summarised cash flow information for the year ending 30 June 2016

Operating	2,018	666
Investing	(8,911)	(606)
Financing	8,135	(90)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,242</b>	<b>(30)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

	Consolidated	
	2017 \$'000	2016 \$'000
<b>NOTE 13 PROPERTY, PLANT AND EQUIPMENT</b>		
Freehold land		
At cost	2,986	2,986
Buildings on freehold land		
At cost	17,625	17,590
Accumulated depreciation	(6,828)	(6,230)
	10,797	11,360
Leasehold quarries		
At cost	5,250	5,250
Accumulated depreciation	(2,330)	(345)
	2,920	4,905
Leasehold improvements		
At cost	1,044	1,188
Accumulated amortisation	(872)	(836)
	172	352
Net carrying amount of land and buildings	16,875	19,603
Plant and equipment		
At cost	57,783	64,482
Accumulated depreciation	(42,790)	(45,190)
Net carrying amount	14,993	19,292
Plant and equipment under lease and hire purchase		
At cost	11,832	8,245
Accumulated amortisation	(2,156)	(1,002)
	9,676	7,243
Net carrying amount of plant and equipment	24,669	26,535
Total property, plant and equipment		
At cost	96,520	99,741
Accumulated depreciation and amortisation	(54,976)	(53,603)
Total net carrying amount of property, plant and equipment	41,544	46,138
Less property, plant and equipment classified as held for sale	(4,254)	–
Total property, plant and equipment not classified as held for sale	37,290	46,138

The Directors do not consider there is any impairment loss on property, plant or equipment at 30 June 2017 apart from amounts already provided for during the year.

**Assets pledged as security**

Included in the balances of property, plant and equipment are assets over which charges have been granted as security over a government loan and bank facilities (refer notes 18 and 20). The terms of the charges preclude the assets being sold or being used as security for further charges without the permission of the charge holders. The charges also require buildings that form part of the security to be fully insured at all times. Assets under lease are pledged as security for the associated lease liabilities (refer notes 18 and 20).

	Consolidated	
	2017 \$'000	2016 \$'000
<b>NOTE 13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)</b>		
The carrying values of assets pledged as security are:		
Property, plant and equipment	41,544	46,138
<b>Reconciliations of the carrying amounts</b>		
Freehold land		
Carrying amount at beginning	2,986	2,986
Buildings on freehold land		
Carrying amount at beginning	11,360	11,768
Impairment write down	(200)	–
Additions	37	2
Depreciation expense	(400)	(410)
	10,797	11,360
Leasehold quarries		
Carrying amount at beginning	4,905	4,920
Impairment write down	(1,976)	–
Amortisation expense	(9)	(15)
	2,920	4,905
Leasehold improvements		
Carrying amount at beginning	352	391
Impairment write down	(151)	–
Amortisation expense	(29)	(39)
	172	352
Net carrying amount of land and buildings	16,875	19,603
Plant and equipment		
Carrying amount at beginning	19,292	18,393
Additions	3,393	4,063
Transfers from leased plant	(3,859)	530
Depreciation expense	(3,112)	(3,520)
Foreign currency translation adjustment	(32)	94
Disposals	(689)	(268)
	14,993	19,292
Plant and equipment under lease		
Carrying amount at beginning	7,243	2,894
Additions	–	5,515
Transfer to plant and equipment	3,859	(530)
Depreciation expense	(1,165)	(666)
Foreign currency translation adjustment	(21)	30
Disposals	(240)	–
	9,676	7,243
Total carrying amount of plant and equipment	24,669	26,535

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

	Consolidated	
	2017 \$'000	2016 \$'000
<b>NOTE 14 INVESTMENT PROPERTIES</b>		
Land and buildings		
At cost	27,563	26,977
Accumulated depreciation	(4,130)	(3,717)
Total carrying amount	23,433	23,260
Improvements		
At cost	4,203	4,611
Accumulated depreciation	(2,230)	(2,694)
Total carrying amount	1,973	1,917
Total		
At cost	31,766	31,588
Accumulated depreciation	(6,360)	(6,411)
Net carrying amount of investment properties	25,406	25,177

Investment properties are recognised at cost less accumulated depreciation. The fair value of the investment property as estimated by Directors at 30 June 2017 is \$70,059,000 (2016 \$67,388,000) based on valuations by certified independent valuers who hold recognised and relevant professional qualifications and licenses, and who specialise in valuing these types of investment properties. Valuers have carried out inspections of the properties and undertaken market research with respect to available sales and rental evidence.

	Note	Consolidated	
		2017 \$'000	2016 \$'000
Rental income derived from investment properties		5,275	5,685
Direct operating expenses (including repairs and maintenance) generating rental income (included in cost of sales)		(2,717)	(2,823)
Direct operating expenses (including repairs and maintenance) that did not generate rental income (included in cost of sales)		(124)	(111)
Profit arising from investment properties carried at cost	3(a)	2,434	2,751

Valuers used the following approaches when assessing properties in accordance with the specific characteristics of the property and availability of market evidence:

For leased offices and retail properties – a combination of the capitalisation and discounted cash flow (DCF) approach.

The capitalisation approach capitalises the assessed net market income at an appropriate market yield to establish the fully leased value of the property. Appropriate adjustments are then made to reflect the specific cash flow profile and the general characteristics of the property.

The DCF approach involves the discounting of the net cash flows over an assumed cash flow period of 10 years at an appropriate rate to reflect risk to derive a market value. Inputs to the calculations are discount rate percentage (range 7.8% to 10.5%), terminal yield percentage, acquisition costs, disposal costs, market rental escalation percentage (range 2.0% per annum to 3.8% per annum), ongoing capital expenditure, tenant retention profile, and lease renewal fees. Where relevant, valuers have used a combination of the capitalisation and discounted cash flow approach when assessing the Group's investment properties.

For vacant land—the market comparison approach which involves the analysis of the comparable sales evidence on a rate per square metre of land area, making adjustments for any varying points of difference in order to assess an appropriate market value. The valuation takes into account current zoning, approved uses and the potential for a higher use/zoning.

The approaches for the valuation of the Group's investment properties are classified as Level 3 as the fair value is estimated using inputs that are not based on observable market data.

**NOTE 14  
INVESTMENT PROPERTIES (CONTINUED)****Valuation approach**

Capitalisation and discounted cash flow  
Market comparison

Valuation technique non-market observable inputs (Level 3)	\$'000
	42,114
	27,945
	70,059

**Assets pledged as security**

Included in the balances of investment properties are assets over which first mortgages have been granted as security over bank loans (refer 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 investment properties that form part of the security to be fully insured at all times.

	Consolidated	
	2017 \$'000	2016 \$'000
The carrying values of assets pledged as security are:		
Investment properties	23,536	23,309

**Reconciliations of the carrying amounts**

	2017	2016
Land and buildings		
Carrying amount at beginning	23,260	26,266
Additions	588	556
Disposal of undivided interest in property syndicate	–	(3,148)
Depreciation expense	(415)	(414)
Total carrying amount	23,433	23,260
Improvements		
Carrying amount at beginning	1,917	2,637
Additions	232	172
Disposal of undivided interest in property syndicate	–	(704)
Depreciation expense	(176)	(188)
Total carrying amount	1,973	1,917
Total carrying amount of investment properties	25,406	25,177

**NOTE 15  
GOODWILL**

Goodwill at cost	1,299	1,299
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**(a) Carrying amount of goodwill, allocated to each of the cash generating units**

	Automotive Leather	Investment Properties	Total
Consolidated	\$'000	\$'000	\$'000
2017	1,215	84	1,299
2016	1,215	84	1,299

Goodwill is not amortised but is subject to impairment testing.

**(b) Impairment testing of goodwill**

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

- Automotive Leather
- Investment Property

**Automotive Leather**

The recoverable amount of the Leather unit has been determined based on a value in use calculation using both historical performance and future cash flow projections based on volume forecasts for awarded programmes and budget projections approved by senior management related to specific circumstances for this cash generating unit. Key assumptions include a pre-tax discount rate of 14%, expected revenue and margins. Management did not identify an impairment for this cash generating unit.

**Investment Property**

The recoverable amount of the Investment Property portfolio has been determined based on a fair value less costs of disposal, supported by independent property valuations of the underlying properties, which are typically reviewed at least every three years (refer to note 14). Management did not identify an impairment for this cash generating unit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

	Note	Consolidated	
		2017 \$'000	2016 \$'000
<b>NOTE 16 OTHER FINANCIAL ASSETS (NON-CURRENT)</b>			
Available for sale investments at fair value			
Units and shares in property investments	(a)	3,995	3,734
Listed shares		2,375	650
Units in managed investment trust		250	–
		<u>6,620</u>	<u>4,384</u>

(a) Units and shares in property investments consists of units in four property unit trusts and shares in an unlisted residential land development company, each with no fixed rate of return. Fair value of the units and shares is determined by the calculation of the Group's percentage ownership multiplied by the total net assets of the unit trust or company at fair value.

	Note	Consolidated	
		2017 \$'000	2016 \$'000
<b>NOTE 17 TRADE AND OTHER PAYABLES (CURRENT)</b>			
Trade creditors		31,509	28,238
Goods and services tax (net)		425	231
Other creditors		295	297
Amounts due to customers – contract work in progress	8	206	768
		<u>32,435</u>	<u>29,534</u>

The carrying value of all trade and other payables approximates their fair values.

Terms and conditions relating to the above financial instruments:

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

	Note	Consolidated	
		2017 \$'000	2016 \$'000
<b>NOTE 18 INTEREST BEARING LOANS AND BORROWINGS (CURRENT)</b>			
Revolving loan facility – secured	(a)	–	3,000
Lease liability – secured	(b)	1,865	1,589
Bank loans – secured	(c)	11,990	7,072
Government loan – secured	(d)	–	5,000
Cash advance–secured	(e)	1,500	–
		<u>15,355</u>	<u>16,661</u>

The fair value of the above approximates the carrying value.

## (a) Revolving loan facility

Howe Automotive has a Revolving Loan facility with a maturity date of 30 September 2018, to be available for working capital requirements. The facility limit at 30 June 2017 was €11,000,000 and the interest rate is bank bill rate plus a margin. The amount available to draw down is limited to 80% of total working capital of all Howe Automotive subsidiaries, excluding Howe Shanghai, and also excluding all receivables past 30 days overdue, uninsured receivables, and obsolete inventory. At 30 June 2017, drawings from this facility amounted to €7,836,000 (2016 – €10,004,000). The facility limit reduces by €1,662,500 within 12 months.

Under the facility agreement, Howe Automotive has granted first priority security up to \$20,000,000 over all of its assets and undertakings, with the exclusion of Howe Shanghai.

(b) Finance leases have an average term of 5 years. The average discount rate implicit in the leases is 2.73% per annum (2016 – 3.24% per annum).

(c) Bank loans (refer note 20(a)).

(d) Government loan (refer note 20(c)).

(e) Cash advance (refer note 20(d)).

For details of financing facilities available refer to note 20.

	Note	Consolidated	
		2017 \$'000	2016 \$'000
<b>NOTE 19 PROVISIONS (CURRENT)</b>			
Employee entitlements	27(a)	7,892	7,284

**NOTE 20  
INTEREST BEARING LOANS AND  
BORROWINGS (NON-CURRENT)**

Bank loans – secured	(a)	7,072	11,998
Lease liability – secured	(b)	5,059	4,141
Government loan – secured	(c)	10,000	12,500
Cash advances – secured	(d)	–	2,000
Commercial bills – secured	(e)	6,060	6,060
Revolving loan facility – secured	(f)	11,668	11,947
		<u>39,859</u>	<u>48,646</u>

The fair value of the above approximates the carrying value.

## (a) Bank loans

The bank loans are secured by a first registered mortgage over all the assets and undertakings of undivided interests in property syndicates. Included in bank loans is the consolidated entity's share of borrowings related to undivided interest in property syndicates.

Maturity Date	Interest Rate	Group's Share of Loans at 30 June 2017		Carrying Value of Assets pledged as Security \$'000
		Current	Non-current	
		\$'000	\$'000	
Jul 2017	6.52% Variable	971	–	1,567
Dec 2017	6.56% Fixed	3,841	–	2,315
Feb 2018	2.99% Variable	4,125	–	–
Feb 2018	4.70% Fixed	3,053	–	6,273
Oct 2019	3.78% Variable	–	7,072	1,802
		<u>11,990</u>	<u>7,072</u>	<u>11,957</u>

Maturity Date	Interest Rate	Group's Share of Loans at 30 June 2016		Carrying Value of Assets pledged as Security \$'000
		Current	Non-current	
		\$'000	\$'000	
Oct 2016	4.02% Variable	7,072	–	1,840
Jul 2017	6.65% Variable	–	980	1,538
Dec 2017	6.56% Fixed	–	3,841	2,320
Feb 2018	3.65% Variable	–	4,125	–
Feb 2018	4.70% Fixed	–	3,053	6,358
		<u>7,072</u>	<u>11,999</u>	<u>12,056</u>

## (b) Finance leases

Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 2.73% per annum (2016 – 3.24% per annum). The lease liability is secured by a charge over the leased assets.

## (c) Government loan

During the 2012 financial year, the Government of Australia entered into a new Loan Agreement with Howe Automotive Ltd and Howe & Company Pty Ltd, controlled entities of Schaffer Corporation Limited, to the value of \$25,000,000. The loan was drawn down on 1 February 2012 which coincided with the expiry of the previous Government Loan agreements. The loan is repayable in equal instalments over 10 years and is subject to an interest rate of 425 basis points above the indicator rate for 10 year Commonwealth bonds. The loan is secured by a second ranking charge over assets and undertakings of Howe with first ranking security capped at \$20,000,000.

## (d) Cash advances

The facility has an expiry date of 31 August 2017. The effective interest rate is 2.93% (2016 – 2.83%).

The cash advances are subject to an interest rate of BBSY plus margin.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

NOTE 20  
INTEREST BEARING LOANS AND BORROWINGS  
(NON-CURRENT) (CONTINUED)

## (e) Commercial bills

During the 2014 financial year, the Group established a commercial bill facility to fund the acquisition of an investment property by the Gosh Capital division. The facility is 100% secured by the property acquired and has an expiry date of 31 December 2019. The effective interest rate is 3.22% (2016 – 3.50%).

## (f) Revolving loan facility (refer note 18(a))

## Financing facilities available

## Bank overdrafts

The bank overdrafts are secured by a floating charge over certain of the Group's assets, including its land and buildings.

Subject to the continuance of satisfactory credit ratings, the bank overdraft facilities may be drawn at any time and have an average maturity of 1 year (2016–1 year). Interest is at the rate of 6.74% per annum (2016 – 6.76%).

	Note	Consolidated	
		2017 \$'000	2016 \$'000
<i>Financing facilities used and available</i>			
At reporting date, the following financing facilities had been negotiated and were available:			
Total facilities			
– bank overdraft		500	500
– banker's undertakings		9,450	9,450
– cash advances		8,000	8,000
– finance leases		8,788	7,115
– bank loans		19,062	19,070
– revolving loan facility		16,379	15,191
– government loan		10,000	17,500
– commercial bills		6,060	6,060
		<b>78,239</b>	<b>82,886</b>
Facilities used at reporting date			
– bank overdraft		–	–
– banker's undertakings	26(c)	7,662	6,374
– cash advances		1,500	2,000
– finance leases		6,924	5,730
– bank loans		19,062	19,070
– revolving loan facility		11,668	14,947
– government loan		10,000	17,500
– commercial bills		6,060	6,060
		<b>62,876</b>	<b>71,681</b>
Facilities unused at reporting date			
– bank overdraft		500	500
– banker's undertakings		1,788	3,076
– cash advances		6,500	6,000
– finance leases		1,864	1,385
– bank loans		–	–
– revolving loan facility		4,711	244
– government loan		–	–
– commercial bills		–	–
		<b>15,363</b>	<b>11,205</b>
Total facilities		<b>62,876</b>	<b>71,681</b>
Facilities used at reporting date		<b>62,876</b>	<b>71,681</b>
Facilities unused at reporting date		<b>15,363</b>	<b>11,205</b>
		<b>78,239</b>	<b>82,886</b>

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

## Consolidated

2017 2016

\$'000 \$'000

Note

NOTE 21  
PROVISIONS (NON-CURRENT)

Employee entitlements	27(a)	1,270	1,325
Less employee entitlements classified as held for sale		(5)	–
		<b>1,265</b>	<b>1,325</b>

NOTE 22  
CONTRIBUTED EQUITY

## a) Issued and paid up capital

As at 30 June 2017

14,005,373 ordinary fully paid shares

(2016–14,005,373)

16,583 16,583

	2017		2016	
	Number of shares	\$'000	Number of shares	\$'000
<b>b) Movement in ordinary shares on issue</b>				
At the beginning of the financial year	14,005,373	16,583	14,005,373	16,583
Shares acquired under a share buy-back scheme	–	–	–	–
At the end of the financial year	<b>14,005,373</b>	<b>16,583</b>	<b>14,005,373</b>	<b>16,583</b>

For details of movement in options and details of employee share options plan refer to note 25 and 27.

## (c) Terms and conditions of contributed equity

## Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

## Share options

The Company has a share-based payment option scheme under which options to subscribe for the company's shares can be granted to certain executives and other employees (refer note 27).

The share option holders carry no rights to dividends and no voting rights.

## Consolidated

2017 2016

\$'000 \$'000

NOTE 23  
RESERVES AND RETAINED PROFITS

## Reserves

Asset revaluation	2,585	2,585
Share-based payment – EPU's	771	709
Share-based payment – SFC options	115	115
Net unrealised gains reserve	1,531	111
Foreign currency translation reserve	(67)	31
	<b>4,935</b>	<b>3,551</b>

## Nature and purpose of reserve

## Asset revaluation

The asset revaluation reserve was used to record increments and decrements in the value of non-current assets prior to the adoption of Australian Equivalents to International Reporting Standards with effect from 1 July 2005. Currently the accounting policy is to record all assets at cost. The reserve can be used to pay dividends in limited circumstances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

NOTE 23  
RESERVES AND RETAINED PROFITS (CONTINUED)

## Share-based payment – EPU's

This reserve is used to record the value of EPU's provided to employees and directors as part of their remuneration. Refer to note 27(c) for further details of this plan.

## Share-based payment – SFC options

This reserve represents the amount expensed for the value of options issued. Refer to note 27(b) for further details of this plan.

## Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## Net unrealised gains reserve

The net unrealised gains reserve is used to record increments and decrements in the fair value of available-for-sale investments net of tax.

	Consolidated	
	2017	2016
	\$'000	\$'000
<b>Retained profits</b>		
<b>Balance 1 July</b>	<b>50,512</b>	48,330
Net profit attributable to members of the parent entity	5,856	5,683
Dividends provided for or paid	(3,501)	(3,501)
Balance 30 June	<b>52,867</b>	50,512

NOTE 24  
AUDITORS REMUNERATION

Amounts received or due and receivable by Ernst & Young for an audit or review of the financial report of the parent and any other entity in the consolidated group.

– Ernst & Young Australia	190,524	197,089
– Ernst & Young Slovakia	29,737	–
Other services – tax compliance, research and development claims.	108,990	112,834
	<b>329,251</b>	309,923

Amounts received or due and receivable by non-Ernst & Young audit firms for audit services.	12,000	50,000
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NOTE 25  
DIRECTORS AND EXECUTIVES DISCLOSURES

## (a) Details of Key Management Personnel (KMP)

- (i) Remuneration of Key Management Personnel  
Refer to Remuneration Report in the Directors' Report
- (ii) Remuneration by category: Key Management Personnel

	Consolidated	
	2017	2016
	\$	\$
Short term	3,383,156	3,329,522
Superannuation	231,282	226,264
Long term incentives	67,824	46,329
Termination benefits	454,791	25,618
	<b>4,137,053</b>	3,627,733

## (b) Option holdings of Key Management Personnel

## 30 June 2017

No options are currently held by key management personnel.

## 30 June 2016

No options are currently held by key management personnel.

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.

NOTE 26  
CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS

## (a) Commitments under lease agreements

The Group has entered into commercial leases on certain motor vehicles and also office, factory and retail premises. These leases have a life of between 1 and 10 years with renewal options of between 5 to 10 years included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. In the case of motor vehicles, a fully maintained vehicle is provided.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated	
	2017	2016
	\$'000	\$'000
Operating leases – office, factory and retail premises		
– payable not later than 1 year	3,938	3,853
– later than 1 year and not later than 5 years	12,125	10,344
– later than 5 years	3,486	4,591
– aggregate lease expenditure contracted for at balance date	<b>19,549</b>	18,788
Operating leases – motor vehicles		
– payable not later than 1 year	16	43
– later than 1 year and not later than 5 years	17	33
– aggregate lease expenditure contracted for at balance date	<b>33</b>	76

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have a purchase option but no terms of renewal.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the minimum lease payments are as follows:

	Consolidated			
	2017		2016	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	\$'000	\$'000	\$'000	\$'000
Within one year	2,008	1,865	1,744	1,641
After one year but not more than five years	5,233	5,059	4,347	4,089
Total minimum lease payments	7,241	6,924	6,091	5,730
Less amounts representing future finance costs	(317)	–	(361)	–
Present value of minimum lease payments	<b>6,924</b>	<b>6,924</b>	5,730	5,730

Finance leases have an average lease term of 4 years and an average implicit interest rate of 2.73% per annum. Assets that are the subject of finance leases include motor vehicles and large items of plant and machinery (refer notes 18 and 20).

	Consolidated	
	2017	2016
	\$'000	\$'000

## (b) Expenditure commitments

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

– payable not later than 1 year	386	750
---------------------------------	-----	-----

## (c) Banker's undertakings

First mortgages have been registered over the assets and undertakings of controlled entities by banks which have issued performance guarantees to third parties on behalf of the consolidated entity. The aggregate of the performance guarantees issued by the banks amounted to:

	<b>7,662</b>	6,374
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 27

## EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

## (a) Employee entitlements and superannuation commitments

The consolidated entity has established certain defined contribution superannuation plans. Employees contribute to these plans at various percentages of their wages and salaries and the end benefit is determined by accumulation of contributions and earnings of the plans.

The consolidated entity also contributes to the plan, generally at the rate of 9.5% 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	
	Note	2017	2016
		\$'000	\$'000
The aggregate employee entitlement liability is comprised of:			
Accrued wages, salaries and on costs		113	184
Provisions (current)	19	7,892	7,284
Provisions (non-current)	21	1,265	1,325
Non-current liabilities held for sale	34	5	–
		<u>9,275</u>	<u>8,793</u>

The amount of superannuation expense for the year ended 30 June 2017 is \$1,469,000 (2016–\$2,137,000).

## (b) Employee share option plan

An employee share option plan has been established. The plan was approved by shareholders at the Annual General Meeting in November 1999. The plan permits the granting of options (at the absolute discretion of the Board) to Group employees to acquire ordinary shares in Schaffer Corporation Limited. The options issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of Schaffer Corporation Limited. The options cannot be transferred and will not be quoted on the ASX. The number of options which can be issued is limited to 5% of the number of shares on issue.

Options may be exercised as follows:

- (1) during the first 12 months of each option period and including each date of issue, no more than 25% of the options issued to that participant on that date of issue;
- (2) during the period of 24 months from and including each date of issue exercise no more than 50% of the options issued to that participant on that date of issue;
- (3) during the period of 36 months from and including each date of issue exercise no more than 75% of the options issued to that participant on that date of issue;
- (4) after 36 months 100% of the options may be exercised.

Options issued over ordinary shares as part of an employee share scheme are as follows:

- There were no options on issue at 30 June 2017 (2016–Nil).
- No options were issued during the year ended 30 June 2017 (2016–Nil).

## NOTE 27

## EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

## (c) Employee participation units

A controlled entity, Howe Automotive Limited, has established a Howe Automotive Limited shareholder approved employee incentives plan which permits the granting of employee participation units (EPUs) at the discretion of its shareholders' up to an EPU limit. The EPU limit is 10% of the fully diluted share capital of Howe Automotive Limited, which is calculated as if each EPU already issued was deemed to be one issued Howe Automotive Limited share.

An EPU provides an employee with a right to receive a cash payment from Howe Automotive Limited in the following circumstances:

- 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.

The amount of the cash payment is dependent on vesting and the financial performance of Howe Automotive Limited (refer to remuneration report for details). The vesting requirements are:

- up to 3 years – nil
- 3 years to 4 years – 33.3%
- 4 years to 5 years – 66.7%
- over 5 years – 100%

Note: Employees are ineligible to receive any payment in the following circumstances:

- termination due to misconduct;
- failure to provide 90 days written notice of intention to terminate employment;
- acting in competition prior to the payment date (payment date is at least 12 months after termination).

The amount of payment is calculated in accordance with an equity valuation formula based on 5.5 times Howe Automotive Limited's earnings before interest and tax minus net debt. The formula uses a three year average including one full year following termination.

Schaffer Corporation Limited has the option to compel the employee to use the whole or part of that cash payment in subscribing for Schaffer Corporation Limited shares based on the average Schaffer Corporation Limited share price for the same three year period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 27

## EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

## (c) Employee participation units (continued)

EPU Tranche	Issue number	Grant date	Number issued	Number redeemed	Number cancelled	Balance of EPU's outstanding	Balance as a % of Howe's capital	Number vested
Series 1		4 October 2000	3,383,634	1,883,555	958,697	541,382	0.9%	541,382
Series 2	Issue 1	21 December 2001	2,884,434	658,290	1,679,257	546,887	0.9%	546,887
	Issue 2	1 July 2002	120,000	20,000	40,000	60,000	0.1%	60,000
	Issue 3	1 July 2003	245,000	76,667	98,333	70,000	0.1%	70,000
	Issue 4	1 July 2004	57,672	–	32,672	25,000	0.0%	25,000
	Issue 5	16 May 2005	150,000	–	150,000	–	0.0%	–
	Issue 6	1 July 2005	1,350,000	250,000	500,000	600,000	1.0%	600,000
	Issue 7	21 August 2006	500,000	–	–	500,000	0.9%	500,000
	Issue 8	1 July 2007	200,000	–	–	200,000	0.3%	200,000
Series 3	Issue 1	1 January 2008	1,150,000	33,333	216,667	900,000	1.6%	900,000
	Issue 2	1 July 2009	100,000	–	–	100,000	0.2%	100,000
	Issue 3	1 January 2011	250,000	–	–	250,000	0.4%	250,000
	Issue 4	1 July 2013	1,075,000	–	275,000	800,000	1.4%	266,667
	Issue 5	1 July 2014	200,000	–	133,333	66,667	0.1%	–
	Issue 6	1 July 2016	330,000	–	–	330,000	0.6%	–
			<b>11,995,740</b>	<b>2,921,845</b>	<b>4,083,959</b>	<b>4,989,936</b>		<b>4,059,936</b>

During the year no EPU's were issued, redeemed or cancelled.

The Company has calculated the value at the respective grant dates of all EPU's issued to directors, executives and employees pursuant to the Company's Employee Incentive Plan pursuant to the methodology set out in AASB 2 *Share-based Payments*. To do this the Company has used the Black-Scholes options valuation method. Inputs into the Black-Scholes model applied include:

- (1) the calculated unit price on the grant date;
- (2) the exercise price of the EPU's;
- (3) the volatility on Howe Automotive Limited shares over the 12 months ended immediately prior to the grant date;
- (4) the options expected life;
- (5) zero dividend yield as EPU's participate in dividends paid by Howe Automotive Limited; and
- (6) the risk-free rate over the life of the option, estimated from the yield of 5 year and 10 year Commonwealth Government Bonds on the grant date, and extrapolating to a 7 year term.

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

The table below summarises, for each issue made since the plans were instituted, the inputs into the model used this year to assess the options' values.

Grant date	Vesting date*	Current price	Exercise price	Volatility	Risk free rate (estimated)	Valuation
4 October 2000	4 October 2007	\$0.26	\$0.26	36%	6.16%	\$0.13
20 December 2001	20 December 2008	\$0.33	\$0.26	33%	5.51%	\$0.18
1 July 2002	1 July 2009	\$1.19	\$0.26	33%	5.88%	\$1.02
1 July 2003	1 July 2010	\$1.33	\$0.26	31%	4.83%	\$1.14
15 January 2004	15 January 2011	\$0.90	\$0.26	25%	5.45%	\$0.72
16 May 2005	16 May 2012	\$0.19	\$0.26	40%	5.24%	\$0.08
1 July 2005	1 July 2012	\$0.13	\$0.26	39%	5.06%	\$0.04
21 August 2006	21 August 2013	\$0.00	\$0.26	39%	5.89%	\$0.00
1 July 2007	1 July 2014	\$0.00	\$0.26	24%	6.02%	\$0.00
1 January 2008	1 January 2015	\$0.36	\$0.19	20%	6.50%	\$0.24
1 July 2009	1 July 2016	\$0.37	\$0.19	38%	5.35%	\$0.25
1 January 2011	1 January 2018	\$0.00	\$0.19	38%	5.43%	\$0.00
1 July 2013	1 July 2020	\$0.16	\$0.19	65%	3.43%	\$0.10
1 July 2014	1 July 2021	\$1.08	\$0.19	65%	3.25%	\$0.96
1 July 2016	1 July 2023	\$0.00	\$0.19	65%	1.76%	\$0.00

\*There is no fixed expiry date for these schemes.

The weighted average fair value of EPU's as at 30 June 2017 was:

Vested	4,093,269	EPU's at 15¢ each
Unvested	896,667	EPU's at 13¢ each



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

### NOTE 28 SEGMENT INFORMATION

#### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance in determining the allocations of resources.

The operating segments are identified by management based on the nature of the product and customer supplied, and services provided and the identity of service line manager. Discrete financial information about each of these operating businesses is reported to the executive management team on a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of economic characteristics, the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

The Group comprises the following reportable segments:

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

The Building Materials segment comprising Delta Corporation Limited and Urbanstone Pty. Ltd. produces and sells concrete paving, pre-cast and pre-stressed concrete elements and imports and sells natural and reconstituted stone products.

The Investment Property segment includes the Group's share of syndicated property investments and the 100% owned investment property of the Group, excluding those investments and property owned by Gosh Capital. The activities of the segment include the leasing of office and retail properties, and the development and sale of property assets.

The Gosh Capital segment manages the assets of the previously operated Gosh Leather business, and invests profits earned from those assets in investment opportunities.

#### Major customers

The Group has a number of major clients to which it provided both products and services. There were two customers within the Automotive Leather segment which individually accounted for more than 10% of Group revenue (2016—three customers).

#### Sales to major customers

	2017		2016	
	\$'000	% of total revenue	\$'000	% of total revenue
Customer 1	35,699	17%	42,304	20%
Customer 2	21,628	10%	24,607	12%
Customer 3	—	—	24,180	11%
Sales to major customers	57,327	27%	91,091	43%
Revenue	214,974		213,597	

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period. There are no inter-segment transactions.

#### Allocation of assets

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

NOTE 28  
SEGMENT INFORMATION (CONTINUED)

## Operating segments

The following table presents revenue and profit information and certain asset and liability information regarding operating segments for the years ended 30 June 2017 and 30 June 2016.

	Automotive Leather		Building Materials		Investment Property		Gosh Capital		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Operating segment Information</b>										
<b>Revenue</b>										
Total revenue from ordinary activities external customers	170,906	155,143	37,987	51,822	4,719	5,433	1,352	577	214,964	212,975
Unallocated interest and dividend revenue									10	5
Total Revenue									214,974	212,980
<b>Results</b>										
Earnings before non-recurring items	16,028	4,832	(16)	2,897	1,870	8,050	903	958	18,785	16,737
Asset impairment	-	-	(2,327)	-	-	-	-	-	(2,327)	-
Restructuring costs	(903)	(2,458)	(348)	(238)	-	-	-	-	(1,251)	(2,696)
Segment results	15,125	2,374	(2,691)	2,659	1,870	8,050	903	958	15,207	14,041
Finance income and dividends									9	5
Finance costs									(2,869)	(3,745)
Corporate overheads									(2,290)	(2,759)
Operating profit before income tax									10,057	7,542
Income tax expense									(2,511)	(1,720)
<b>Profit after tax</b>									7,546	5,822
<b>Assets</b>										
Total segment non-current assets	18,351	19,105	20,794	28,889	14,209	13,835	17,882	15,773	71,236	77,602
Unallocated									1,879	1,379
Total non-current assets									73,115	78,981
Total segment assets	107,227	108,571	41,029	45,729	15,929	15,421	18,839	16,162	183,024	185,883
Unallocated									1,934	1,491
<b>Total assets</b>									184,958	187,374
<b>Liabilities</b>										
Segment liabilities	62,443	66,286	8,055	10,329	19,501	19,641	8,428	7,709	98,427	103,965
Unallocated									2,826	4,222
Total liabilities									101,253	108,187
<b>Other segment information</b>										
Segment capital expenditure	3,213	8,911	208	660	747	568	73	162	4,241	10,301
Unallocated									9	8
Total capital expenditure									4,250	10,309
Segment depreciation and amortisation	2,531	2,348	2,155	2,271	390	405	201	197	5,277	5,221
Unallocated									29	31
Total depreciation and amortisation									5,306	5,252
Segment impairment of property, plant and equipment	-	-	2,327	-	-	-	-	-	2,327	-
Other non-cash expenses/(revenues)	784	942	(372)	(342)	(124)	(24)	-	-	288	576

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

Unallocated assets and liabilities including the following material items:	Consolidated		Non-current assets (excluding deferred tax assets and financial instruments) by geographic location comprise:				
	2017 \$'000	2016 \$'000	Australia \$'000	Asia \$'000	Europe \$'000	Total \$'000	
<b>Non-current assets</b>							
Property plant and equipment	730	751					
Deferred income tax asset	1,149	628					
	1,879	1,379					
<b>Liabilities</b>							
Trade creditors	584	547					
Income tax payable	-	1,571					
Provision for employee entitlements	2,243	2,104					
	2,827	4,222					
Revenue from external customers by geographical locations is detailed below.							
Revenue is attributed to geographic location based on the location of the customers.							
Australia	46,117	60,646					
Asia	33,947	29,929					
Europe	134,910	123,022					
<b>Total revenue</b>	214,974	213,597					
			2017				
			Plant and equipment	23,951	337	13,002	37,290
			Investment properties	25,406	-	-	25,406
			Goodwill	1,299	-	-	1,299
				50,656	337	13,002	63,995
			2016				
			Plant and equipment	33,775	338	12,025	46,138
			Investment properties	25,177	-	-	25,177
			Goodwill	1,299	-	-	1,299
				60,251	338	12,025	72,614

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

**NOTE 29  
RELATED PARTY DISCLOSURES**

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

**(a) Transactions with related parties**

Schaffer Corporation Limited holds 83.17% (2016: 83.17%) of the share capital of Howe Automotive Limited of which Mr J M Schaffer and Mr A K Mayer are Directors. Dividends were received during the year amounting to \$5,821,900 (2016: nil).

**(b) EPU holdings of Key Management Personnel****30 June 2017**

Directors / Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested as at 30 June 2017	
						Vested	Not vested
D Birks (appointed 5 December 2016)	1,000,000	–	–	–	1,000,000	933,333	66,667
N Filipovic (employed to 12 December 2016)	1,320,627	–	–	(100,000)	1,220,627	1,220,627	–
<b>Total</b>	<b>2,320,627</b>	<b>–</b>	<b>–</b>	<b>(100,000)</b>	<b>2,220,627</b>	<b>2,153,960</b>	<b>66,667</b>

**30 June 2016**

Directors / Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested as at 30 June 2016	
						Vested	Not vested
N Filipovic	1,320,627	–	–	–	1,320,627	1,170,627	150,000
<b>Total</b>	<b>1,320,627</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,320,627</b>	<b>1,170,627</b>	<b>150,000</b>

For details of terms and conditions for each grant refer to note 27.

**NOTE 30  
NON-CONTROLLING INTEREST**

Reconciliation of non-controlling interest in controlled entities:

	2017 \$'000	2016 \$'000
At 1 July	8,541	8,330
– Add share of operating profit	1,690	139
– Share of foreign currency translation reserve movement	(20)	53
– Share of unrealised gains reserve movement	287	19
– Dividends paid (refer note 12)	(1,178)	–
At 30 June	<b>9,320</b>	<b>8,541</b>

**NOTE 31  
EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year (in cents).

	Consolidated 2017	2016
	41.8¢	40.6¢

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares (in cents).

	Consolidated 2017	2016
	40.6¢	40.6¢

	Consolidated 2017 \$'000	2016 \$'000
	5,856	5,683

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

Net profit attributable to ordinary equity holders of the parent from continuing operations

	Consolidated 2017	2016
Weighted average number of ordinary shares for basic earnings per share	14,005,373	14,005,373
Weighted average number of ordinary shares adjusted for the effect of dilution	14,427,617	14,005,373

There have been no other transactions involving ordinary shares.

**NOTE 32  
FINANCIAL INSTRUMENTS****Financial risk management, objectives and policies**

The Group's financial instruments comprise bank loans, commonwealth government loans and overdrafts, finance leases and hire purchase contracts, foreign exchange contracts, interest rate swaps, cash and short-term deposits, trade and other payables, available for sale investments, and trade and other receivables.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally interest rate swaps, and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. Trading in derivatives has also been undertaken, specifically in forward currency contracts. These derivatives do not qualify for hedge accounting and are based on limits set by the Board. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed.

These include monitoring by the Board of levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)

## (a) Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The \$10,000,000 loan from the Commonwealth Government to Howe Automotive Limited attracts interest at 4.25% above the long-term bond rate. This is set until maturity in February 2022.

In respect of the Group's syndicated property borrowings, the funding and interest rate decision are managed externally by unanimous consent amongst the joint operators (refer note 33(ii)).

At balance date the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated cash flow hedges:

	Consolidated	
	2017 \$'000	2016 \$'000
<b>Financial Assets</b>		
Cash and short-term deposits	11,417	7,068
	<b>11,417</b>	<b>7,068</b>
<b>Financial Liabilities</b>		
Bank loans	(12,168)	(12,176)
Cash advances	(1,500)	(2,000)
Commercial bills	(6,060)	(6,060)
Government loan	(10,000)	(17,500)
Revolving Loan	(11,668)	(14,947)
	<b>(41,396)</b>	<b>(52,683)</b>
Net exposure	<b>(29,979)</b>	<b>(45,615)</b>

Cash not required immediately is used to either reduce cash advances or invested on the short term money market.

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. At 30 June 2017 approximately 25.0% of the Group's borrowings are at a fixed rate of interest (2016 – 19.3%).

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date. At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	2017 \$'000	2016 \$'000
Judgements of reasonably possible movements:		
<b>Consolidated</b>		
+0.25 (25 basis points)	(52)	(80)
-0.25 (25 basis points)	52	80

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity is lower in 2017 than 2016 because of the reduced level of variable rated net debt.

For 2016 and 2017 the sensitivity has been based on an increase/decrease of 25 basis points and this is management's best estimate of movement in interest rates in the forthcoming year.

NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Assets pledged as security

The carrying amount of assets pledged as security for current and non-current interest bearing liabilities are:

	Consolidated	
	2017 \$'000	2016 \$'000
<b>Current</b>		
<i>Floating charges</i>		
Cash and cash equivalent	10,762	7,062
Receivables	43,661	39,820
Inventories	50,382	59,754
Total current assets pledged as security	<b>104,805</b>	<b>106,636</b>
<b>Non-current</b>		
<i>First mortgages</i>		
Freehold land and buildings	13,783	14,346
Investment properties	23,536	23,309
Leasehold quarries	2,920	4,905
	<b>40,239</b>	<b>42,560</b>
<i>Finance leases and hire purchases</i>		
Plant and equipment	9,676	7,243
<i>Floating charges</i>		
Plant and equipment	14,993	19,292
Leasehold improvements	172	352
Total non-current assets pledged as security	<b>15,165</b>	<b>19,644</b>

The terms and conditions relating to the financial assets are as follows:

Cash and cash equivalents, inventories, receivables, freehold land and buildings, available-for-sale financial assets and plant and equipment are pledged against the bank overdraft facility, cash advance facility and revolving loan facility on an ongoing floating basis (refer notes 18 and 20 for more details).

Investment properties are pledged as security for bank loans (refer note 20(a)) and commercial bills (refer note 20(e)).

## (c) Net fair values

Foreign exchange contracts, available for sale investments, and interest rate swaps are carried on the balance sheet at fair value.

The carrying values of all other financial assets and liabilities have been recognised at the balance date at amounts which approximate fair value.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of the financial instruments carried at fair value, as well as the methods used to estimate the fair value, are summarised in the table below:

	Quoted market price (Level 1)	Valuation technique market observable inputs (Level 2)	Valuation technique non-market observable inputs (Level 3)	Total
	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2017</b>				
<b>Consolidated</b>				
<b>Financial assets</b>				
<i>Available-for-sale investments</i>				
Listed investments	2,375	–	–	2,375
Unlisted investments	–	–	4,245	4,245
	2,375	–	4,245	6,620
<b>Financial liabilities</b>				
<i>Derivative instruments</i>				
Foreign exchange contracts	–	730	–	730
Interest rate swaps	–	165	–	165
	–	895	–	895
<b>Year ended 30 June 2016</b>				
<b>Consolidated</b>				
<b>Financial assets</b>				
<i>Available-for-sale investments</i>				
Listed investments	650	–	–	650
Unlisted investments	–	–	3,734	3,734
	650	–	3,734	4,384
<b>Financial liabilities</b>				
<i>Derivative instruments</i>				
Foreign exchange contracts	–	241	–	241
Interest rate swaps	–	289	–	289
	–	530	–	530

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments is based on quoted market prices.

For unlisted investments, the fair value is determined by the calculation of the Group's percentage ownership in the investment entity multiplied by the total net assets of the investment entity at fair value (refer note 16).

**Reconciliation of the fair value measurement of unlisted investments**

	2017	2016
	\$'000	\$'000
Balance as at 1 July	3,734	3,532
Purchase of units in unlisted unit trusts	–	1,000
Purchase of units in managed investment trust	250	–
Profit received from disposal of trust asset	(192)	(808)
Re-measurement recognised in other comprehensive income	714	10
Capital distribution	(261)	–
Balance as at 30 June	4,245	3,734

**(d) Credit risk exposures**

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the Group and arises from cash and cash equivalents, derivative financial instruments and deposits with financial institutions and particularly from credit exposures to customers relating to outstanding receivables.

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the Consolidated Statement of Financial Position.

*Concentrations of credit risk*

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers within the specified industries both within Australia and overseas.

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

The consolidated entity minimises concentration of credit risk in relation to cash by investing only in reputable banking facilities.

Refer also to note 28 – Segment Information.

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

Industry	Maximum credit risk exposure			
	Consolidated			
	Trade debtors		Trade debtors	
	2017	2016	2017	2016
	%	%	\$'000	\$'000
Automotive leather	84	86	31,917	29,036
Building materials	16	14	6,194	4,674
Total	100	100	38,111	33,710

There are no trade debtors held in the parent entity.

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

*Leather and Building Materials*

The Group has a credit policy, approved by the Chief Financial Officer that is designed to ensure that consistent processes are in place throughout the Group to measure and control credit risk. Credit risk is considered as part of the risk-reward balance of doing business. On entering into any business contract, the extent to which the arrangement exposes the Group to credit risk is considered. Key requirements of the policy are formal delegated authorities to the divisional accountant to incur credit risk to a specialised credit function to set counterparty limits; the establishment of credit systems and processes to ensure that counterparties are rated and limits set; and systems to monitor exposure against limited and report regularly on those exposures, and immediately on any excesses, and to track and report credit losses.

Before trading with a new counterparty can start, its creditworthiness is assessed by referring to a credit reporting agency. The assessment process takes into account all available qualitative and quantitative information about the counterparty and the Group, if any, to which the counterparty belongs. The counterparty's business activities, financial resources and business risk management processes are taken into account in the assessment, to the extent that this information is publicly available or otherwise disclosed to the Group by the counterparty, together with external credit ratings, if any. Creditworthiness continues to be evaluated after transactions have been initiated and a watch list of higher-risk counterparties is maintained. Once assessment is complete each counterparty is allocated a maximum exposure limit.

A balance is maintained of providing sufficient credit so as not to jeopardise potential sales but at the same time not put the company to undue risk. In addition, the Leather division purchases insurance to cover the estimated credit risk exposure of the division's individual debtors.

The maximum credit risk exposure for the Group does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. The only security provided is in the form of director's personal guarantees from debtors, which cannot be quantified due to the continual changing circumstances of the guarantee provider.

At 30 June, the ageing analysis of trade receivables is as follows:

	Consolidated	
	2017	2016
	\$'000	\$'000
<b>Trade receivables at 30 June</b>		
Neither impaired nor past due – 30 days or less	24,197	18,646
Not impaired and past due in the following periods:		
31 to 60 days	10,095	10,592
61 to 90 days	2,124	2,528
Over 90 days	1,695	1,944
Impaired debtors over 90 days	(322)	(132)
	37,789	33,578

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

## (e) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group's liquidity is managed centrally with operating units forecasting their cash and currency requirements. Unless restricted by location regulations, subsidiaries pool their cash surpluses which can be used to fund other subsidiaries' requirements or invest any net surplus in the market or arrange for necessary external borrowings, while managing the Group's overall net currency positions.

In managing its liquidity risk, the Group has access to a wide range of funding at competitive rates through capital markets and banks. The Group centrally co-ordinates relationships with banks, borrowing requirements, foreign exchange requirements and cash management. The Group believes it has access to sufficient funding through the commercial paper markets and by using undrawn committed borrowing facilities to meet foreseeable borrowing requirements.

Prudent liquidity risk management implies maintaining sufficient, cash and marketable securities, as well as the availability of funding through an adequate amount of committed credit facilities to meet expected future payment liabilities. The Group's liquidity management plan includes the preparation of annual cash flow forecasts, which are updated monthly, and the establishment and maintenance of adequate credit facilities to meet all expected future cash liabilities identified in these cash flow forecasts.

At 30 June 2017, the Group has the following undrawn borrowing facilities available (refer note 20).

	2017		2016	
	\$'000	Expiry	\$'000	Expiry
<i>Australian Banks</i>				
Bank overdraft	500	2017	500	2016
Bankers' undertaking	1,788	2017	3,076	2017
Cash advances	6,500	2017	6,000	2017
Finance leases	1,864	2017	1,385	2017
<i>Global Finance Company</i>				
Revolving loan facility	4,711	2018	742	2017
	<u>15,363</u>		<u>11,703</u>	
In addition, there are the following banker's undertakings issued at 30 June 2017 (refer note 20).				
Performance guarantees to third parties (refer note 26(c))	1,801	< 1 year	2,463	< 1 year
	5,861	> 1 year	3,911	> 1 year
	<u>7,662</u>		<u>6,374</u>	

The table below shows the timing of cash outflows relating to trade and other payables. The amounts shown for bank loans in the table below include interest payments resulting from recognised financial liabilities over the term of the loan and the future minimum lease payments with respect to finance leases. Derivative financial instruments consist of interest rate swaps (refer note 33(ii)).

Cash advances and commercial bills are shown in the period when the facility expires.

Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at balance date.

Consolidated	Trade and other payables	Finance leases	Cash advances	Commercial bills	Bank loans	Government loan	Revolving loan	Derivative financial instruments
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2017</b>								
Within 1 year	32,436	2,008	1,507	195	12,568	685	234	128
1 to 2 years	–	1,788	–	195	267	3,185	11,760	50
2 to 3 years	–	1,584	–	6,158	7,162	3,014	–	–
3 to 4 years	–	1,584	–	–	–	2,843	–	–
4 to 5 years	–	277	–	–	–	2,671	–	–
Over 5 years	–	–	–	–	–	–	–	–
	<u>32,436</u>	<u>7,241</u>	<u>1,507</u>	<u>6,548</u>	<u>19,997</u>	<u>12,398</u>	<u>11,994</u>	<u>178</u>
<b>2016</b>								
Within 1 year	29,534	1,744	57	212	7,779	6,090	3,299	341
1 to 2 years	–	1,383	–	212	12,327	3,279	3,239	89
2 to 3 years	–	1,063	2,010	212	–	3,123	8,992	37
3 to 4 years	–	1,033	–	6,167	–	2,967	–	–
4 to 5 years	–	868	–	–	–	2,812	–	–
Over 5 years	–	–	–	–	–	2,656	–	–
	<u>29,534</u>	<u>6,091</u>	<u>2,067</u>	<u>6,803</u>	<u>20,106</u>	<u>20,927</u>	<u>15,530</u>	<u>467</u>

Debt associated with Automotive Leather, Investment Property, and Gosh Capital divisions represents 97% (2016–96%) of Group borrowings. At 30 June, 92% (2016–83%) of Group debt was non-recourse to the Parent.

\$10,000,000 of Group debt is by way of a Commonwealth Government Loan to Howe Automotive Limited. The loan terms initially required 10 principal repayments of \$2,500,000 per annum commencing February 2012. The Government loan is non-recourse to the Parent.

Debt associated with the Investment Property division totals \$19,062,000 at 30 June 2017 (2016–\$19,070,000). SFC's minority property interests are managed external to the Group. Accordingly, SFC does not control the funding structure.

SFC's objective is for property borrowing to be predominantly non-recourse to SFC. At 30 June 2017, 88% (2016–88%) of the property borrowings were non-recourse to the Parent.

## (f) Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR, USD and RMB. Foreign exchange risk arises from commercial transactions for the purchase of unfinished leather hides, and the processing, finishing and cutting of these hides, as well as foreign exchange risk from the sale of leather products in EUR, USD and RMB.

Approximately 99% of the Automotive Leather division's sales are denominated in foreign currencies, consistent with the operating unit making the sale, whilst approximately 88% of costs are denominated in foreign currencies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

To manage the foreign exchange risk arising from future commercial transactions the entity regularly considers the use of forward foreign exchange contracts with reference to currency exposure levels, sensitivity, and financial capacity to tolerate rate fluctuations. The foreign exchange risk management policy allows up to 50% of net future foreign exchange exposure to the USD and EUR to be managed using forward foreign exchange contracts, up to a rolling 12 month basis.

At 30 June 2017, the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

	Consolidated (AUD)	
	2017	2016
	\$'000	\$'000
<b>Financial assets</b>		
Cash and cash equivalents	1,037	233
Trade and other receivables	1,651	717
Forward rate agreements	14,524	11,436
	<b>17,212</b>	<b>12,386</b>
<b>Financial liabilities</b>		
Trade and other payables	(19,543)	(17,497)
	<b>(19,543)</b>	<b>(17,497)</b>
Net exposure	<b>(2,331)</b>	<b>(5,111)</b>

At 30 June 2016, the Group had the following exposure to EUR foreign currency that is not designated in cash flow hedges:

<b>Financial assets</b>		
Cash and cash equivalents	5,439	1,314
Trade and other receivables	26,482	23,968
	<b>31,921</b>	<b>25,282</b>
<b>Financial liabilities</b>		
Trade and other payables	(2,370)	(1,808)
Revolving loan	(11,668)	(14,947)
Forward rate agreements	(17,123)	(5,976)
	<b>(31,161)</b>	<b>(22,731)</b>
Net exposure	<b>760</b>	<b>(2,551)</b>

At 30 June 2017, the Group had the following exposure to RMB foreign currency that is not designated in cash flow hedges.

<b>Financial assets</b>		
Cash and cash equivalents	807	411
Trade and other receivables	8,471	8,025
	<b>9,278</b>	<b>8,436</b>
<b>Financial liabilities</b>		
Trade and other payables	(1,760)	(1,836)
	<b>(1,760)</b>	<b>(1,836)</b>
Net exposure	<b>7,518</b>	<b>6,600</b>

## NOTE 32

## FINANCIAL INSTRUMENTS (CONTINUED)

At 30 June 2017 had the Australian dollar moved as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

## Judgments of reasonably possible movements

	Change in foreign exchange rate		Effect on profit after tax	
	2017	2016	2017	2016
			\$'000	\$'000
<b>Consolidated</b>				
AUD/USD	US\$0.08	US\$0.09	154	387
AUD/USD	(US\$0.08)	(US\$0.09)	(190)	(494)
Sensitivity has decreased due to an increase in Forward Exchange Contracts entered into to partially offset the impact of future foreign exchange movements on the AUD value of our net USD imports.				
AUD/EUR	€0.07	€0.07	(50)	(169)
AUD/EUR	(€0.07)	(€0.07)	62	209
Sensitivity has decreased due to Forward Exchange Contracts entered into to partially offset the impact of future foreign exchange movements on the AUD value of our net EUR exports.				
AUD/RMB	¥0.52	¥0.47	(478)	(402)
AUD/RMB	(¥0.52)	(¥0.47)	585	487
Sensitivity has increased due to an increase in RMB working capital.				
Currency movements used above are what management considers as representative of any likely movement in the next 12 months based on historical movements and economic forecasters' expectations.				
Net unhedged foreign currency assets and liabilities:				
	USD	EUR	RMB	HKD
	000's	000's	000's	000's
<b>2017</b>				
Cash and bank balances	795	3,653	4,195	37
Trade and other receivables	1,265	17,785	44,041	-
Trade and other payables	(14,976)	(1,592)	(9,150)	(33)
Revolving loan	-	(7,836)	-	-
Forward rate agreements	11,130	(11,500)	-	-
Net FX exposure	(1,786)	510	39,086	4
Year end exchange rates	0.7663	0.6716	5.1991	5.9809
<b>2016</b>				
Cash and bank balances	173	1,276	2,024	4
Trade and other receivables	532	17,532	39,554	-
Trade and other payables	(12,979)	(7,440)	(9,049)	(92)
Revolving loan	-	(10,004)	-	-
Trade and other payables	8,483	(4,000)	-	-
Net FX exposure	(3,791)	(2,636)	32,529	(88)
Year end exchange rates	0.7418	0.6693	4.9288	5.7571

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)

## (g) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Group's total capital is defined as Schaffer Corporation Limited's shareholders' funds plus amounts attributable to non-controlling shareholders plus net debt. This amounted to \$127,502,000 at 30 June 2017 (2016–\$137,426,000).

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Schaffer Corporation Limited does not have a target debt/equity ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

The Group maintains back up liquidity by way of bank overdrafts, cash advance facilities and a revolving loan facility. Facilities undrawn at 30 June 2017 amounted to \$15,363,000 (2016–\$11,205,000). The Group's committed and standby credit facilities contain financial undertakings relating to interest cover and equity level. A compliance certificate must be produced quarterly attesting to compliance with the covenants.

During 2016, the Company paid dividends of \$3,501,000 (2016–\$3,501,000). The Board maintains its payout ratio policy of balancing returns to shareholders with the need to fund growth and to maintain financial strength and capacity during uncertain and volatile economic conditions. In line with that policy, the Company has paid a final dividend of \$0.14 per share (fully franked), bringing the dividends for the 2017 financial year to \$0.26 per share (fully franked).

Management monitor capital through the gearing ratio (net debt/total capital). The target for the Group's gearing ratio is discussed in note (i) below. The gearing ratios based on continuing operations at 30 June 2017 and 2016 were as follows:

	Consolidated	
	2017 \$'000	2016 \$'000
Total borrowings*	55,214	65,307
Less cash and cash equivalents	(11,417)	(7,068)
Net debt	43,797	58,239
Total equity	83,705	79,187
Total capital	127,502	137,426
Gearing ratio	34%	42%

\* Includes interest bearing loans and borrowings

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

- Shareholders' funds to be not less than \$45,000,000, or 85% of the Shareholders' funds for the previous financial year, at all times.
- Group debt service cover of no less than 1.2 times reported on a quarterly basis, based on results for the 12 months to the end of each quarter, amended to 1.25 times and 1.0 times for the 6 months results to the end of the December 2016 and March 2017 quarters respectively.
- Group interest cover of no less than 2.0 times reported on a quarterly basis, based on results for the 12 months to the end of each quarter.

The Group has complied with the above covenants at all times during the current and previous financial period.

Consolidated  
2017  
\$'000

2016  
\$'000

NOTE 33  
DERIVATIVE FINANCIAL INSTRUMENTS

## Current liabilities

Interest rate swap contracts – classified as held for trading	165	289
Forward foreign exchange contracts – classified as held for trading	730	241
	<b>895</b>	<b>530</b>

## Instruments used by the Group

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

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

The Group has the following contracts outstanding at balance date:

	2017 \$'000	2016 \$'000	2017 Average Exchange Rate	2016 Average Exchange Rate
<b>Sell Euro € / Buy US \$</b>				
Maturity 0-12 months	7,130	6,043	1.0969	1.1208
<b>Sell Euro € / Buy Australian \$</b>				
Maturity 0-12 months	7,306	–	0.6843	–
<b>Sell Australian \$ / Buy US \$</b>				
Maturity 0-12 months	5,319	5,647	0.7520	0.7083

Such contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in the Consolidated Statement of Comprehensive Income in the period they occur. The net fair value movement on foreign currency derivatives during the year was \$489,000 profit for the Group (2016 – \$1,877,000 loss).

## (ii) Interest Rate Swaps

Interest bearing loans of the Group currently bear an average variable interest rate of 3.73% (2016 – 4.11%). In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 36% (2016–33%) of the principal outstanding.

At 30 June 2017, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	Consolidated	
	2017 \$'000	2016 \$'000
0 – 1 years	3,053	–
1 – 2 years	3,841	3,053
2 – 3 years	–	3,841
	<b>6,894</b>	<b>6,894</b>

The Group has entered into interest rate swaps which do not satisfy the requirements for hedge accounting.

The fair value of interest rate swaps at 30 June 2017 is a liability of \$265,000 (2016–\$289,000 liability) which is recorded on the Consolidated Statement of Financial Position.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017

	2017	2016
Note	\$'000	\$'000
<b>NOTE 34</b>		
<b>NON-CURRENT ASSETS/ LIABILITIES HELD FOR SALE</b>		
Assets		
Leasehold quarries	2,920	-
Freehold land	875	-
Plant and equipment	459	-
Total assets	<u>4,254</u>	-
Liabilities		
Provisions	27(a) 5	-

Refer to note 35.

**NOTE 35**  
**SIGNIFICANT EVENTS AFTER BALANCE DATE**

On 15 August 2017, the Group completed the sale of its limestone quarry tenements and the property, plant, equipment and inventory associated with the production of the Group's limestone products for \$5 million. This sale supported an impairment of the combined value of these assets at 30 June 2017 of approximately \$2.3 million.

On 28 August 2017, the Group terminated its corporate Cash Advances facility.

Following the end of the reporting period, a final fully franked dividend of 14¢ per share to shareholders has been declared payable on 15 September 2017.

No other matter or circumstance has arisen since the end of the financial year which significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

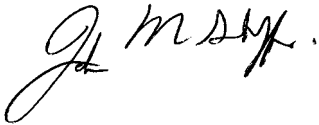
## DIRECTORS' DECLARATION

*year ended 30 June 2017*

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 consolidated entity are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
    - ii. complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and
  - c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
1. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2017.
2. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 12 will be able to meet any obligation or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



**J M Schaffer**  
Chairman and Managing Director  
Perth  
19 September 2017

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

year ended 30 June 2017



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

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Schaffer Corporation Limited (the Company) and its subsidiaries (collectively 'the Group'), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

- ▶ the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

#### Impairment Assessment of Non-current Assets

##### Why significant

The Group consists of a number of Cash Generating Units ('CGU's') and on an annual basis the Group performs an assessment of whether there are any indicators of possible impairment.

In addition to this, the Howe Automotive CGU contains goodwill of \$1.2m and therefore the Group tests for impairment on an annual basis.

The assessment of the recoverable value of the CGU's, incorporates significant judgment in respect of factors such as future contracts, margins, capital costs and economic assumptions such as discount rates and inflation rates.

Impairment charges totalling \$2.3m relating to assets within the Urbanstone CGU were recorded during the year.

### How our audit addressed the key audit matter

Our procedures included the following:

- assessed the Group's identification of indicators of impairment.
- assessed the appropriateness of the Group's identification of individual CGUs;
- evaluated the Group's assumptions and estimates to determine the recoverable value of its CGU's, including those relating to existing and prospective contracts, gross margin, capital expenditure and discount rates. In doing so, we involved our valuation specialists to compare certain assumptions against external market data and we considered the assumptions based on our knowledge of the Group and its industries;
- assessed the mathematical accuracy of the cash flow models and compared relevant data to the approved budgets;
- performed sensitivity analyses on CGU's with a higher risk of impairment;
- considered the historical accuracy of the Group's forecasts; and
- assessed the adequacy of the Group's disclosures in respect of asset carrying values and impairment testing.

#### Revenue Recognition—Percentage of Completion

##### Why significant

Certain sales contracts are reported using the percentage of completion method. This requires significant estimation and gives rise to a risk of incorrect revenue recognition. Accordingly this is determined to be a key audit matter. The Group's disclosure is included in note 2(t) to the financial report.

Revenue is recognised by the Group after assessing all factors relevant to each contract, including specifically assessing the following as applicable:

- The stage of completion at reporting date;
- The estimation of total contract revenue and costs including the estimation of cost contingencies;
- The determination of contractual entitlement and assessment of customer approval of variations and acceptance of claims; and
- The estimation of project completion date.

At 30 June 2017 \$0.76m (30 June 2016 -\$0.243m) of revenue was recognised based on contracts subject to percentage completion.

### How our audit addressed the key audit matter

Our procedures included the following:

- We assessed the estimates applied within the percentage of completion calculation by evaluating the costs incurred for the work undertaken to year end and assessing the estimated cost to completion for a sample of contracts. In assessing the estimated cost to completion, we considered the historical accuracy of the Group's forecasts as well as consistency of margins applied.
- We evaluated the significant judgments made by the Group. In doing so, we examined project documentation and enquired of the status of projects under construction with the Group.
- We examined supporting documentation of scope variations including evidence of client approval.
- We enquired with the Group whether there were any outstanding legal proceedings in respect of construction contracts and confirmed their response through an assessment of legal confirmations received.

#### Information other than the financial report and auditor's report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2017



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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCHAFFER CORPORATION LIMITED (CONTINUED)

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Directors' responsibilities for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the remuneration report***Opinion on the remuneration report*

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Schaffer Corporation Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst &amp; Young

**Philip Teale**  
Partner

Perth  
19 September 2017

## DIRECTORS' REPORT

year ended 30 June 2017

### DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2017 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** Mr John Schaffer joined the company in 1972. Mr Schaffer has held the position of Managing Director since 1987.  
BCom(Hons) FCPA  
Managing Director  
Executive Director  
since 6/9/1972

**D E BLAIN, BA** Mrs Danielle Blain joined the company in 1987. Mrs Blain served as Managing Director of Gosh Leather Pty Ltd from 1993 to 2001. Mrs Blain has diverse experience serving on a number of government and not-for-profit boards and is also a past Pro Chancellor of Edith Cowan University.  
Non-executive Director  
Appointed 5/6/1987

**A K MAYER** Mr Anton Mayer is the Executive Chairman of Howe Automotive Limited. Mr Mayer has over 45 years of international leather experience, broad business skills and a global business perspective.  
Executive Director  
Appointed 21/11/2001

**M D PERROTT AM** Mr Michael Perrott AM joined the Board as an independent director in February 2005. Mr Perrott AM has over 40 years' experience in the construction and contracting industry. During the past three years Mr Perrott AM has also served as a director of the following other listed companies:  
BCom FAIM FAICD  
Independent Director  
Appointed 23/2/2005  
GME Resources Ltd 21 November 1996 – 17 March 2017  
VDM Group Ltd 2 July 2009 – 7 August 2014

**D J SCHWARTZ** Mr David Schwartz joined the Board as an independent director in June 1999. He has over 30 years' experience in manufacturing and distribution businesses, and over 25 years' experience negotiating acquisitions and overseeing the development of property. During the past three years Mr Schwartz has served as a director of the following listed companies:  
Independent Director  
Appointed 29/6/1999  
Clime Investment Management Ltd 1 October 1999 – 28 February 2015  
ADG Global Supply Ltd 1 May 2008 – 7 January 2015

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

### COMPANY SECRETARY

J M CANTWELL (BBus(Acc) CPA MBA GIA(Cert))

Mr Jason Cantwell joined the company in 2011 and has over 20 years' experience in senior financial management roles within both private and publicly listed companies. Mr Cantwell is a Member of CPA Australia and a Certificated Member of the Governance Institute of Australia.

### ATTENDANCE AT BOARD MEETINGS

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

	Meetings eligible to attend	Meetings attended
J M Schaffer	8	8
D E Blain	8	8
A K Mayer	8	8
M D Perrott AM	8	8
D J Schwartz	8	7

In accordance with the Articles of Association:

At the SFC Annual General Meeting scheduled for 15 November 2017, Mr M Perrott will retire by rotation and being eligible, will offer himself for re-election.

### ATTENDANCE AT AUDIT COMMITTEE MEETINGS

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

### ATTENDANCE AT NOMINATION AND REMUNERATION COMMITTEE MEETINGS

The SFC Board established the Nomination and Remuneration Committee on 23 February 2005. The members of this Board sub-committee are Mrs D E Blain, Mr M D Perrott AM and Mr D J Schwartz. The Nomination and Remuneration Committee held one meeting during the year with all committee members attending.

### INTERESTS IN THE SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

On 19 September 2017 the economic interest of the Directors, including their related parties, in the shares of the Company were:

	Schaffer Corporation Limited	
	Ordinary shares	Options over ordinary shares
J M Schaffer	2,655,927	–
D E Blain	1,562,360	–
A K Mayer	347,185	–
M D Perrott AM	1,000	–
D J Schwartz	585,726	–

### PRINCIPAL ACTIVITIES

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

### RESULTS

The consolidated entity's operating profit after tax for the financial year was a profit of \$7,546,000 (2016–\$5,822,000).

### OPERATING AND FINANCIAL REVIEW

Please refer to Managing Director's report for details.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors of the consolidated entity there has not arisen during the financial year, or in the interval between the end of the financial year and the date of this report, any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

### DIVIDENDS

The following dividends have been paid or declared by the company since the commencement of the financial year.

Dividends paid for the year ended 30 June 2017:

	\$'000
On ordinary shares	
– 13¢ per share final, paid on 16 September 2016	1,821
– 12¢ per share interim, paid on 17 March 2017	1,680
	<u>3,501</u>
Dividends paid for the year ended 30 June 2016	
On ordinary shares	
– 13¢ per share final, paid on 20 September 2015	1,821
– 12¢ per share interim, paid on 21 March 2016	1,680
	<u>3,501</u>
Not recognised as a liability as at 30 June 2017	
Final franked dividend for 2017–14¢ (2016–13¢)	<u>1,961</u>

### REVIEW OF OPERATIONS

The consolidated entity's revenue from continuing operations increased by 1% to \$214,974,000 from \$213,597,000 this year. This resulted in a pre tax operating profit of \$10,057,000 compared to \$7,542,000 for last year. The consolidated entity's net profit after tax, excluding non-controlling interests, increased by 3% to \$5,856,000 from \$5,683,000.

## DIRECTORS' REPORT

year ended 30 June 2017

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

On 15 August 2017, the Group completed the sale of its limestone quarry tenements and the property, plant, equipment and inventory associated with the production of the Group's limestone products for \$5 million. This sale supported an impairment of the combined value of these assets at 30 June 2017 of approximately \$2.3 million.

On 28 August 2017, the Group terminated its corporate Cash Advances facility. Following the end of the reporting period, a final fully franked dividend of 14¢ per share has been declared payable on 15 September 2017.

No other matter or circumstance has arisen since the end of the financial year which significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS

During or since the financial year, the company has agreed to indemnify directors against a liability for costs and expenses incurred in defending proceedings brought against them for a liability incurred in their role as directors of the company other than in respect of any wilful misconduct. The total amount of insurance contract premiums paid is not disclosed due to a confidentially clause within the insurance policy.

### INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

### REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

#### Details of Key Management Personnel

##### Directors

J M Schaffer	Managing Director
D E Blain	Director (non-executive)
A K Mayer	Director (executive)
M D Perrott AM	Director (non-executive/independent)
D J Schwartz	Director (non-executive/independent)

##### Executives

D Birks	General Manager, Howe Automotive Ltd (appointed 5 December 2016)
N Filipovic	Managing Director, Howe Automotive Ltd (ceased employment 12 December 2016)
M Falconer	Group General Manager, Schaffer Building Products Business Unit
M Perrella	Executive Director, Delta Corporation Limited
J Walsh	General Manager, Delta Corporation Limited
J Cantwell	Group Financial Controller and Company Secretary

This report outlines the remuneration arrangements in place for directors and executives of the Schaffer Corporation Limited Group of companies.

### Remuneration philosophy

SFC's remuneration policy is directed at attracting, motivating and retaining quality directors and executives. SFC's key internal performance measures at the business unit and consolidated levels are earnings before interest and tax (EBIT) and return on average capital employed (ROACE). EBIT and ROACE have been chosen by the Group as measures of executive performance because they align the interests of management with those of all SFC shareholders.

### Remuneration committee

The SFC Board operates a Nomination and Remuneration Sub-Committee to support and advise the SFC Board in fulfilling its responsibility to shareholders to ensure that the company has remuneration policies and practices which enable it to attract and retain directors and executives who will best contribute towards achieving positive outcomes for shareholders. The committee determines the remuneration and other conditions of service of the chief executive officer and executive directors, if any. The committee makes recommendations to the Board on the remuneration of non-executive directors within the aggregate approved by shareholders in general meeting from time to time. The committee considers individual performance, company performance, internal relativity and fairness in setting levels of remuneration and may seek appropriate independent external advice to assist in its decision making. The structure of non-executive director and executive remuneration are separate and distinct.

### SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

#### Objective

SFC's remuneration policy aims to remunerate executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group.

#### Structure

The remuneration of SFC's senior executive consists of fixed remuneration and variable remuneration (annual and long term incentives). The company aims to reward executives for Company, business unit and individual performance, align executive remuneration with the interests of shareholders, link rewards with the strategic goals such as profitability or return on capital employed and ensure that total remuneration is effective in retaining and motivating senior executives and executive directors.

#### Fixed remuneration

This includes base salary and the statutory Superannuation Guarantee Contribution (SGC) which comprises the cash component, and other non-cash benefits such as a motor vehicle. Where non-cash benefits are elected, it is intended that the cost to the company is not greater than the cost that would otherwise have been incurred had that portion of the salary been provided as cash. The Schaffer Corporation Limited Superannuation Fund is available to executives for superannuation contributions and life insurance. Premiums for life insurance are deducted from member accounts. Executives can elect to have the company contribute superannuation beyond the statutory SGC level by way of a salary sacrifice in lieu of cash salary. Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee in respect of each executive director. The fixed remuneration of executives is reviewed annually by the SFC Managing Director in the case of the Building Materials and Corporate divisions and by the Howe Automotive Limited Managing Director in the case of the Automotive Leather division. The review process considers company-wide, business unit and individual performance in the context of any annual change during the preceding 12 month period to the consumer price index and wages cost index as published by the Australian Bureau of Statistics. For the year beginning 1 July 2017, a 2% increase was applied for Senior Executives.

## DIRECTORS' REPORT

year ended 30 June 2017

### SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION (CONTINUED)

#### Variable remuneration – Short Term Incentive

The Group has performance-based incentive plans in place at each of its operations in which management and the labour force participate. The level of remuneration payable to participating executives is linked to the financial performance of their business. Executives are provided with cash incentives provided profitability thresholds are met. A summary of the annual incentive schemes for the Automotive Leather, Building Materials and Corporate divisions is provided below:

##### *Automotive Leather Division–Profit Participation Scheme*

Howe Automotive Limited operates a profit participation scheme for the staff and management of the Automotive Leather division. Prior to the commencement of each financial year, the division management submits an annual budget for consideration and approval by the Howe Automotive Limited Managing Director and the SFC Board. The scheme provides for a bonus pool of 5% of actual EBIT, which becomes payable provided actual EBIT exceeds budgeted EBIT and a specified return on capital employed (ROCE) has been achieved as at 30 June balance date. The profit participation bonus is subject to audited financials of each business unit and approval by the shareholders of Howe Automotive Limited. A full year 2017 bonus was approved (2016 – not approved). Actual EBIT performance versus Budgeted EBIT performance and a threshold ROCE have been chosen as the relevant performance conditions as these performance measures are readily monitored and available and EBIT and ROCE performance aligns the interest of management with those of shareholders. The scheme has been designed to incentivise a wide range of the Automotive Leather division workforce from top executive management to factory floor personnel.

##### *Building Materials Division–Management Bonus Incentive Scheme*

The Company operates a Management Bonus Incentive Scheme (MBIS) for the management group of the Building Materials division. Prior to the commencement of each financial year the Building Materials division management submits an annual budget for consideration by SFC's Managing Director and the SFC Board. Upon approval of the budget by the Board, a cash bonus (as a percentage of each participants fixed remuneration) is payable on a tiered basis provided actual EBIT profitability thresholds are met/exceeded as at 31 December and 30 June balance dates. The MBIS payment for EBIT performance is subject to reviewed/ audited financial statements of each business unit and is payable at the discretion of the Managing Director in the following period. Neither a half-year bonus nor full-year bonus were approved for the year ended 30 June 2017 (2016 – no bonuses approved). A bonus is forfeited for a financial year where an employee has ceased employment prior to the end of that financial year.

Actual EBIT performance versus Budgeted EBIT performance has been chosen as the relevant performance condition as this performance measure is readily monitored and available, and EBIT performance aligns the interest of management with those of shareholders. The scheme may be discontinued at any time by the SFC Managing Director without prior notice.

##### *Corporate – Short Term Incentive Plan*

SFC has implemented a formal Short Term Incentive (STI) Plan for the Group Managing Director and Group Financial Controller approved by the Nomination and Remuneration Committee. These executives can earn a cash bonus with a value of up to 30% of their base annual remuneration, based on actual performance against defined objectives. This equates to a maximum of \$251,003 for the Group Managing Director, and \$61,775 for the Group Financial Controller, for the year ended 30 June 2017. The minimum possible award for both the Group Managing Director and the CFO is nil. 60% of any STI award is based on financial performance against the annual budget, however no STI bonus is payable if the annual net profit after tax (NPAT) is less than the prior year. The members of the Nomination and Remuneration Committee have the discretion to adjust the NPAT for STI purposes to eliminate the financial impact of "one off" abnormal issues which may positively or negatively affect NPAT, including adjustments related to accounting judgments on factors which may or may not eventuate and that are not reflective of management performance. 40% of any STI award is based on performance against pre-agreed KPI's which are critical to the company's future success. The Nominations and Remuneration Committee approved STI awards for the 2017 year on 15 August 2017. The managing director received an STI award of 82.5% (2016: 90%) of the maximum possible award. The Group Financial Controller received an STI award of 90% (2016: 92.5%) of the maximum possible award.

#### Variable remuneration–Long Term Incentive

Long term incentive grants are typically made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance. Howe Automotive Limited operates the Employee Participation Unit (EPU) Plan for its executives. SFC's senior executives (other than Mr Schaffer and Mr Mayer) can participate in SFC's Employee Share Option Plan (ESOP). The Howe Automotive Limited EPU and SFC ESOP plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders. A summary of the long-term incentive schemes is provided below:

##### *Howe Automotive Limited Employee Participation Units Plan*

Howe Automotive Limited operates an employee incentives plan which permits the granting of employee participation units (EPUs) at the discretion of its shareholders' up to an EPU limit. The EPU limit is 10% of the fully diluted share capital of Howe Automotive Limited, which is calculated as if each EPU already issued was deemed to be one issued Howe Automotive Limited share. Howe Automotive Limited dividends are applied on a fully diluted basis to the unpaid portion of each EPU's until the unpaid portion is reduced to nil. Once fully paid up, each EPU participates in Howe Automotive Limited dividend payments on a fully diluted basis.

An EPU provides an employee with a right to receive either, at the discretion of SFC, a cash payment from Howe Automotive Limited or shares in SFC in the following circumstances:

- (a) If an employee dies or becomes permanently disabled at any time after the grant date.
  - (b) If an employee ceases employment after the three year initial vesting period.
  - (c) Upon a liquidity event (trade sale or listing on an Australian or overseas stock exchange).
  - (d) On issue of a compulsory payment notice by SFC.
- The amount of the payment is dependent on vesting and the financial performance of Howe Automotive Limited. The vesting requirements are:
- (a) up to 3 years – nil
  - (b) 3 years to 4 years – 33.3%
  - (c) 4 years to 5 years – 66.7%
  - (d) over 5 years – 100%

Note: Employees are ineligible to receive any payment in the following circumstances:

- (i) termination due to misconduct.
- (ii) failure to provide 90 days written notice of intention to terminate employment.
- (iii) acting in competition prior to the payment date (payment date is at least 12 months after termination).

The performance hurdle to be eligible for a payment is a positive equity valuation for Howe Automotive Limited. The eligibility and amount of payment is calculated in accordance with an equity valuation formula based on 5.5 times Howe Automotive Limited's earnings before interest and tax minus net debt. The formula uses a three year average including one full year following termination. This formula is designed to incentivise EPU holders in respect of building the long term value of Howe Automotive Limited and provides a fair and readily calculable means for valuing that long term interest.

SFC has the option to compel the employee to use the whole or part of that cash payment in subscribing for SFC shares based on the average SFC share price for the same three year period.

##### *SFC Employee Share Option Plan (ESOP)*

An employee share option plan has been established. The plan was approved by shareholders at the Annual General Meeting 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 SFC. The options issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of SFC. The options cannot be transferred and will not be quoted on the ASX. The number of options which can be issued is limited to 5% of the number of shares on issue. At the date of this report there were no ESOP options on issue.

## DIRECTORS' REPORT

year ended 30 June 2017

### SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION (CONTINUED)

Options may be exercised as follows:

- (1) during the first 12 months of each option period and including each date of issue, no more than 25% of the options issued to that participant on that date of issue;
- (2) during the period of 24 months from and including each date of issue exercise no more than 50% of the options issued to that participant on that date of issue; and
- (3) during the period of 36 months from and including each date of issue exercise no more than 75% of the options issued to that participant on that date of issue.

After 36 months 100% of the options may be exercised.

While ESOP contains vesting conditions, the exercising of ESOP options is not dependent on a performance condition because: ESOP options have been issued with an exercise price at or above the share price on the issue date; ESOP options do not participate in dividends; and are not transferable or saleable. Accordingly, ESOP options only provide an economic benefit to the recipient in the event the share price (which adjusts for dividends paid) significantly exceeds the exercise price (which is not adjusted for dividends paid) over the option vesting period thereby aligning the interests of management with those of all shareholders.

There are currently no share options on issue, and no options under this scheme have been granted since 15 July 2003.

The following table details the proportion of fixed remuneration and variable remuneration paid for the year ended 30 June 2017 as detailed in this report:

	2017 Remuneration Structure	
	% Fixed	% Variable
<b>Specified Directors</b>		
J M Schaffer	81	19
D E Blain	100	–
A K Mayer	100	–
M D Perrott AM	100	–
D J Schwartz	100	–
<b>Specified Executives</b>		
D Birks	96	4
M Falconer	100	–
N Filipovic	100	–
M Perrella	100	–
J Walsh	100	–
J Cantwell	81	19

#### Non-executive Director Remuneration

SFC's non-executive directors receive fees for their services (including statutory superannuation) and the reimbursement of reasonable expenses. The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding that amount is then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting held 19 November 2003 when shareholders approved an aggregate remuneration limit of \$250,000 per annum. The amount of aggregate remuneration to be approved by shareholders and the manner in which it is to be apportioned amongst the non-executive directors is reviewed annually. This limit is not currently fully utilised. The fee pool is payable only to non-executive directors. The amount payable to non-executive directors is set by the Board after having taken regard to the size of the Company and Board, the responsibilities, demands and accountabilities faced by those directors in discharging their duties and after seeking external advice to ensure the fees are in line with market standards. All three non-executive directors are members of the Audit Committee and the Nomination and Remuneration Committee and the fixed annual fee received by non-executive directors is inclusive of these sub-committee commitments. It is current SFC policy that non-executive directors do not receive shares, options or other securities and are not eligible to participate in SFC's Employee Share Option Plan. Payment of fees (including statutory superannuation) and the reimbursement of reasonable expenses are the only remuneration payable to Mrs Blain, Mr Schwartz and Mr Perrott AM.

Non-executive directors appointed prior to July 2003 are entitled to a retirement benefit equivalent to one year's annual director's fees. The retirement benefit was reduced from three years' to one year's annual director's fees in July 2003 (a three year retirement benefit was in place at the time Mrs Blain and Mr Schwartz accepted their appointment to the Board). SFC considers the reduced benefit modest and appropriate given the benefit which historically existed. It is SFC's policy that no retirement benefit apply to new directors appointed after July 2003.

It is not a requirement of the Constitution of the Company that directors hold shares in the Company.

#### Relationship of Company Performance to Shareholder Wealth

##### Total Shareholder Return

Total shareholder return (TSR) is an accepted and understood measure of performance. SFC calculates TSR as follows:

- movement in Share Price (including bonus issues)
- plus Dividends Paid
- plus Dividend Imputation Credits

The chart below itemises the constituents to SFC's TSR by year for each of the past five years. SFC's average TSR for the past five years is 22%.

	Sept 2013	Sept 2014	Sept 2015	Sept 2016	Sept 2017
Tax Rate	30%	30%	30%	30%	<b>30%</b>
Share Price	\$5.06	\$6.00	\$4.81	\$5.46	<b>\$7.55</b>
Ord Dividends	\$0.23	\$0.25	\$0.25	\$0.25	<b>\$0.26</b>
Imputation Credit	\$0.10	\$0.11	\$0.11	\$0.11	<b>\$0.11</b>
<b>TSR</b>	<b>\$1.34</b>	<b>\$1.30</b>	<b>(\$0.83)</b>	<b>\$1.01</b>	<b>\$2.46</b>
<b>TSR</b>	<b>33%</b>	<b>26%</b>	<b>(14%)</b>	<b>21%</b>	<b>45%</b>

At the date of this report, on an aggregate dollars paid basis, SFC paid to shareholders \$3.6 million fully franked dividends in respect of 2017 and a total of \$17.4 million has been paid in fully franked ordinary and special dividends over the past 5 years.

#### Earnings Per Share (EPS)

SFC's average EPS over the past five years has been 41.1¢.

	June 2013	June 2014	June 2015	June 2016	June 2017
<b>EPS</b>	<b>54.0¢</b>	<b>44.1¢</b>	<b>25.2¢</b>	<b>40.6¢</b>	<b>41.8¢</b>



## DIRECTORS' REPORT

year ended 30 June 2017

## Remuneration of Key Management Personnel for the year ended 30 June 2017

	Short term		Post employment		Long term benefits		Total	Performance related
	Salary & fees	Cash bonus	Superannuation	Termination benefit	Long service leave	Share-based payment-EPU's <sup>#</sup>		
<b>30 June 2017</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>		<b>\$</b>	
<b>Directors</b>								
J M Schaffer	830,630	207,077	35,000	17,653	18,949	-	1,109,309	18.67%
D E Blain	43,214	-	35,000	1,870	-	-	80,084	0.00%
A K Mayer	532,631	-	-	-	-	-	532,631	0.00%
M D Perrott AM	78,214	-	-	-	-	-	78,214	0.00%
D J Schwartz	78,214	-	-	7,637	-	-	85,851	0.00%
<b>Executives</b>								
D Birks <sup>##</sup>	270,533	13,305	25,632	-	14,205	783	324,458	4.10%
M Falconer	463,692	-	35,000	-	9,524	-	508,216	0.00%
N Filipovic <sup>###</sup>	177,852	-	15,834	427,631	3,403	969	625,689	0.00%
M Perrella	149,201	-	33,958	-	7,027	-	190,186	0.00%
J Walsh	293,107	-	28,432	-	9,491	-	331,030	0.00%
J Cantwell	197,458	48,028	22,426	-	3,473	-	271,385	19.38%
	<b>3,114,746</b>	<b>268,410</b>	<b>231,282</b>	<b>454,791</b>	<b>66,072</b>	<b>1,752</b>	<b>4,137,053</b>	

<sup>#</sup> Includes the value of employee participation units (EPU's) using the Black-Scholes model.

<sup>##</sup> Mr D Birks appointed to General Manager – Howe Automotive Limited on 5 December 2016.

<sup>###</sup> Mr N Filipovic employed as Managing Director – Howe Automotive Limited to 12 December 2016.

The amounts included in the table below represent the entire bonus earned by the following Key Management Personnel:

	Percentage paid during the year	Percentage payable subsequent to year end
JM Schaffer	-	100%
J Cantwell	-	100%
D Birks	100%	-

The portion of bonus accrued at 30 June 2017 was 95%.

The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

Executives are those directly accountable for the operational management and strategic direction of the company and the consolidated entity.

## Remuneration of Key Management Personnel for the year ended 30 June 2016

	Short term		Post employment		Long term benefits		Total	Performance related
	Salary & fees	Cash bonus	Superannuation	Termination benefit	Long service leave	Share-based payment-EPU's <sup>#</sup>		
<b>30 June 2016</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
<b>Directors</b>								
J M Schaffer	785,430	221,473	35,000	17,308	13,138	-	1,072,349	20.65%
D E Blain	41,680	-	35,000	1,528	-	-	78,208	-
A K Mayer	544,052	-	-	-	-	-	544,052	-
M D Perrott AM	76,680	-	-	-	-	-	76,680	-
D J Schwartz	76,680	-	-	6,782	-	-	83,462	-
<b>Executives</b>								
M Falconer	450,190	-	35,000	-	7,333	-	492,523	-
N Filipovic	395,106	-	35,000	-	6,902	2,143	439,151	-
M Perrella	198,505	-	34,946	-	5,125	-	238,576	-
J Walsh	289,600	-	28,161	-	4,954	-	322,715	-
J Cantwell	190,746	59,380	23,157	-	6,734	-	280,017	23.22%
	<b>3,048,669</b>	<b>280,853</b>	<b>226,264</b>	<b>25,618</b>	<b>44,186</b>	<b>2,143</b>	<b>3,627,733</b>	

<sup>#</sup> Includes the value of employee participation units (EPU's) using the Black-Scholes model.

The amounts included in the table below represent the entire bonus earned by the following Key Management Personnel:

	Percentage paid during the year	Percentage payable subsequent to year end
JM Schaffer	-	100%
J Cantwell	-	100%

The portion of bonus accrued at 30 June 2016 was 100%.

## DIRECTORS' REPORT

year ended 30 June 2017

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

### SHAREHOLDING OF KEY MANAGEMENT PERSONNEL

Economic interests in the shares of Schaffer Corporation Limited held by Directors of the reporting entity and their related parties are as follows:

As at 30 June 2017	Balance at beginning of year	Net change other	Balance at end of year
<b>Specified directors</b>			
D E Blain	1,562,360	–	1,562,360
A K Mayer	347,185	–	347,185
M D Perrott AM	1,000	–	1,000
J M Schaffer	2,655,927	–	2,655,927
D J Schwartz	585,726	–	585,726
<b>Specified executives</b>			
J Cantwell	450	–	450
M Falconer	20,000	–	20,000
M Perrella	59,834	–	59,834
<b>Total</b>	<b>5,232,482</b>	<b>–</b>	<b>5,232,482</b>

### SHARE OPTIONS

No options were issued or forfeited, vested or exercised during the course of neither the financial year under review nor the preceding year. There are no options currently on issue.

#### EPU's held by Key Management Personnel

30 June 2017	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested as at 30 June 2017	
						Vested	Not vested
<b>Directors / Executives</b>							
D Birks (appointed 5 December 2016)	1,000,000	–	–	–	1,000,000	933,333	66,667
N Filipovic (employed to 12 December 2016)	1,320,627	–	–	(100,000)	1,220,627	1,220,627	–
<b>Total</b>	<b>2,320,627</b>	<b>–</b>	<b>–</b>	<b>(100,000)</b>	<b>2,220,627</b>	<b>2,153,960</b>	<b>66,667</b>
30 June 2016	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested as at 30 June 2016	
						Vested	Not vested
<b>Directors / Executives</b>							
N Filipovic	1,320,627	–	–	–	1,320,627	1,170,627	150,000
<b>Total</b>	<b>1,320,627</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,320,627</b>	<b>1,170,627</b>	<b>150,000</b>

#### Shares issued on exercise of compensation options and EPU's

No shares were issued during the current or previous year.

#### Employment contracts

Mr Schaffer, SFC's Managing Director is employed under a Service Agreement. The service agreement was entered into on 18 July 1984. Mr Schaffer's employment continues until terminated by Mr Schaffer or the Company. Under the terms of the service agreement, the agreement may be terminated by the Company or Mr Schaffer after the expiration of one month's notice in writing given to one of them by the other. Upon termination of this agreement Mr Schaffer is entitled to receive from the Company a lump sum equal to the annual remuneration paid immediately preceding that termination except if the termination is for reasons of gross misconduct, fraud or dishonesty resulting in a material loss or injury to the Company or if Mr Schaffer is found guilty of wilful disobedience or any other conduct resulting in a material prejudice to the Company or such as to bring the Company into disrepute.

Mr Mayer provides management services to the Automotive Leather division pursuant to a Consultancy Agreement. The agreement has been renewed for the period 1 July 2015 to 30 June 2018. The Consultancy Agreement may be terminated sooner:

- by the consultee without prior notice for cause (i.e. wilful misconduct, wilfully wrongful act, gross negligence, criminal act or a prohibition by law in company management);
- by either party for any reason upon 90 days prior written notice to the other party;
- by the consultee 30 days after giving notice of termination to Mr Mayer for reason of his physical or mental incapacity on a permanent basis;
- on the death of Mr Mayer.

The Consultancy Agreement with Mr Mayer does not provide for a termination payment upon termination of the agreement.

All other senior executives are employed under standard employment contracts that define the role, duties, remuneration and benefits, leave entitlements, dismissal and confidentiality of information conditions of employment. Notice periods are typically one month.

#### End of remuneration report

#### TAX CONSOLIDATION

Effective 1 July 2003, for purposes of income tax, Schaffer Corporation Limited and its 100% owned subsidiaries have formed a tax consolidated group.

Effective 1 July 2003 for purposes of income tax, Howe Automotive Limited and its 100% owned Australian resident subsidiaries for tax purposes have formed a tax consolidated group.

#### ROUNDING

The amount contained in this report and in the financial statements has been rounded to the nearest \$1,000 under the option available to the company under ASIC Instrument 2016/191 Corporations (Rounding in Financial/Directors Report).

#### CORPORATE GOVERNANCE

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

#### AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the following declaration from the auditor of Schaffer Corporation Limited.

## DIRECTORS' REPORT

year ended 30 June 2017



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

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

## AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF SCHAFFER CORPORATION LIMITED

As lead auditor for the audit of Schaffer Corporation Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Schaffer Corporation Limited and the entities it controlled during the financial year.

Ernst &amp; Young

**Philip Teale**  
Partner

19 September 2017

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's Auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance, research and development claims      \$112,834

Signed in accordance with a resolution of the directors.

**J M Schaffer**  
Chairman and Managing Director

Perth  
19 September 2017

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2017

ASX Corporate Governance Council issued its third edition of the Corporate Governance Principles and Recommendations on 27 March 2014 with effect from 1 July 2014.

*"Corporate Governance is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. Different entities may legitimately adopt different governance practices, based on a range of factors, including their size, complexity, history and corporate culture." (ASX Corporate Governance Principles and Recommendations, March 2014).*

The Board of SFC is committed to best practice in corporate governance where the Board considers these practices are appropriate and add shareholder value to a company and board of SFC's size and structure.

This Corporate Governance Statement outlines the main corporate governance practices of Schaffer in the context of the Principles adopted by the ASX Corporate Governance Council (Council). Unless otherwise stated below, the Company has complied with the Council's Recommendations.

### LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The strategic control of the business of the Group is vested with the Board. The Board's objective to create, build and sustain shareholder value is carried out in accordance with their duties and obligations to act honestly, fairly, diligently as are imposed upon them by the Constitution, regulatory authorities and ethical standards. Key matters reserved for the Board include the following:

- Approval of the Strategic Business Plan
- Approval of the Annual Budgets
- Review of the operating results and approval of the financial accounts
- Setting the Corporate Governance practices within the Group
- Determining SFC's dividend policies
- Approval of the Group financial policies
- Approval of the Group risk management strategies
- Review of Board nominations and composition
- Determining the terms and conditions for and evaluate the performance of the Managing Director
- Delegation of authority to the Managing Director and senior management on operational matters, or approval of matters in excess of any discretion which may have been delegated from time to time
- Acquisition, establishment, disposal or cessation of any significant business of SFC
- Approving the issue of any securities in SFC
- Approving the capital management strategy of SFC
- Approving the appointment of SFC's External Auditor

The Board has delegated authority for the management of the Group through the Managing Director to executive management. Accordingly, the Group's executive management team are charged with implementing Board directives and the day-to-day management and reporting of the Group's activities. The Board has a formal Charter setting out the roles of Board and Management. Consistent with Council Principle 1, the Board Charter has been posted to the corporate governance section of the Company's website—[www.schaffer.com.au](http://www.schaffer.com.au)

### STRUCTURE THE BOARD TO ADD VALUE

The Schaffer Board currently consists of five directors: two independent; one non-executive; and two executive directors namely the Executive Chairman of the Leather division and the Group Managing Director and Chairman. The Board considers that between them, the directors bring the range of skills, knowledge and experience (both local and international) necessary to successfully direct the Group's operations.

The Board of Directors consists of:

**John Schaffer** *Chairman and Managing Director*  
(Age 67)

John joined the Company in 1972 and has held the positions of Managing Director since 1987 and Chairman since 1988. John holds a Bachelor of Commerce degree with honours from the University of Western Australia and is an FCPA.

**Danielle Blain** *Non-executive Director*  
(Age 73)

Danielle joined the Board in 1987. Mrs Blain served as a director of Howe Automotive Limited from 1993 to 2005 and as Managing Director of Gosh Leather Pty Ltd (the furniture division) from 1993 to 2001. Mrs Blain holds a Bachelor of Arts degree from the University of Western Australia. Mrs Blain is a member of the Board's Audit Committee and the Nomination and Remuneration Committee.

**Michael Perrott AM** *Independent Director*  
(Age 71)

Michael joined the Board as an independent director in February 2005 and is a member of the Board's Audit Committee and the Nomination and Remuneration Committee. Mr Perrott AM has been involved in industries associated with construction, contracting, mining and land development since 1969.

**Anton Mayer** *Executive Director*  
(Age 75)

Anton joined the Board in 2001. Anton is the Executive Chairman of Howe Automotive Limited, and held the position of Howe Automotive Limited Managing Director from 1998 to June 2007. Anton is also a director of a number of the Howe Automotive Limited Group subsidiaries. Anton has over 45 years of international leather experience, broad business skills and a global business perspective.

**David Schwartz** *Independent Director*  
(Age 63)

David joined the Board in 1999 and is independent Chairman of the Board's Audit Committee and the Nomination and Remuneration Committee. David has many years' experience in successfully managing manufacturing and distribution businesses in Australia and South Africa, and over 25 years' experience negotiating acquisitions and overseeing the development of property. Mr Schwartz is Chairman of Stefani Pure Water Australasia Pty Limited, and a director of Primewest Management Ltd.

The names of Schaffer's current directors, their year of appointment, status as non-executive, executive or independent directors, their economic interest in SFC and whether they retire at the next Annual General Meeting is summarised in the table below.

Director	Year appointed	Classification	Audit Committee	Nomin. & Remun. Committee	Economic Interest in SFC	Retiring at next AGM	Seeking Re-election
J M Schaffer	1972	Chairman/Executive	–	–	19.0%	No	N/A
D E Blain	1987	Non-executive	Member	Member	11.2%	No	N/A
A K Mayer	2001	Executive	–	–	2.5%	No	N/A
M D Perrott AM	2005	Independent	Member	Member	–	Yes	Yes
D J Schwartz	1999	Independent	Chairman	Chairman	4.2%	No	N/A

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2017

### BOARD COMMITTEES

The Board may from time to time establish committees where the Board is of the belief that the establishment of such a committee will improve the performance of the Board in accomplishing its duties.

The Board operates an Audit Committee and a Nomination and Remuneration Committee. Both committees comply with Council guidelines. The Charter of each committee is summarised later in this section. Full details of SFC Audit Committee and Nomination and Remuneration Committee can be found on the Company's website. The Board does not believe the Board is of sufficient size to warrant the establishment of additional dedicated Board Committees.

### BOARD MEETINGS

Management provides the Board with information in a form, timeframe and quality that facilitates the Board in effectively discharging its duties. The Board meets at least 8 times per year. Board papers are, where possible, provided to directors at least four days prior to the relevant meeting. The non-executive Board members are joined at Board meetings by the Group's Managing Director, the Executive Chairman of Howe Automotive Limited and the Company's Company Secretary.

### BOARD AND MANAGEMENT EVALUATION

Under the Board Charter, the Chairman is responsible for ensuring that board meetings are conducted competently and ethically and that Directors individually and as a group have opportunities to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and Company. In this context, the Chairman undertakes a continuous review of the performance and contribution of individual Directors, whilst the Board as a whole conducts an ongoing evaluation of its performance and that of its committees.

The Nomination and Remuneration Committee annually assess the performance of the Managing Director. The Managing Director conducts annual reviews of all Senior Executives. Annual reviews were conducted during the reporting period.

### DIRECTOR INDEPENDENCE

The Board applies the Council's independence criteria in assessing director independence. Mr Schwartz and Mr Perrott AM are considered by the Board to be independent directors. In analysing Mr Schwartz's independence, the Board considered the materiality of Mr Schwartz's minority interests in the relevant syndicated property interests of the Company. Accordingly, the Board confirms Mr Schwartz's independence on the basis that (i) operating revenue from SFC's property interests represents less than 10% of Group revenue; and (ii) no interest held by Mr Schwartz represents a controlling interest in any single property. While the Board considers Mr Schwartz independent for the above reasons, standard Board meeting procedures and governance principles apply whereby in respect of any property business where Mr Schwartz has an interest, Mr Schwartz does not receive the relevant Board papers and does not attend that part of the Board meeting where the matter is being discussed or considered. In addition, the mere fact that Mr Schwartz and Mr Perrott AM have served on the Board for a substantial period does not mean that they have become too close to management to not be considered independent. Mr Schwartz and Mr Perrott AM contribute unbiased and differing ideas and wisdom to the Board generated from their individual and independent experience across numerous other businesses and industries.

Directors classified as not being independent directors are Mrs Blain, Mr Schaffer and Mr Mayer on the basis that:

- Mr Schaffer is an executive director, a substantial shareholder of SFC (with an economic interest of 19.0%) and has served on the Board in since 1972;
- Mrs Blain is a substantial shareholder of SFC (with an economic interest of 11.2%), served as an executive director of Howe from 1993 to 2001 and has served on the SFC Board since 1987; and
- Mr Mayer is an executive director of SFC by virtue of his role as Executive Chairman of Howe Automotive Limited.

The Board does not currently comply with Council guidelines in respect of majority independence, Chairman independence and separation of the Chairman and Managing Director roles. However, the Board is currently of the view that having a competent, cohesive and functioning Board whose members have a balance of practical experience and skills relevant to SFC's business is more beneficial to maximising returns to shareholders than it would be to expand the Board by two additional members simply for the purpose of achieving majority independence pursuant to the Council's definition. Further, the Board is not in entire agreement with the definition of independence as defined by the Council's guidelines. In the Board's view, independence is about having individuals on the Board whose interests are directly aligned with shareholders (i.e. they have a significant

stake in the company) and have the capability to question and challenge management's decision making process. On this basis, your Board is independent. Collectively the Board has a financial interest in approximately 37% of SFC's issued capital representing a large proportion of each director's personal asset base. When the shareholders gain, so does the Board; when shareholders lose, the Board loses significantly.

Similarly, based on the strong alignment of shareholders with the Chairman, it is not considered that having an Independent Chairman and separating the roles of Chairman and Managing Director would add shareholder value at this stage.

As a result of the Company's departure from the Council Recommendations contained in this Principle, governance practices employed by the Board to support its objective and competent operation are:

#### Disclosure of interests and conflicts

A director is required to disclose to all directors any material personal interest they may have, or may reasonably be perceived to have, in a matter which relates to the affairs of the Company. A director is expected to disclose their interest as soon as practicable after the director becomes aware of that interest.

In the event a potential material conflict of interest arises, the director concerned does not receive the relevant Board papers and leaves the Board meeting while the matter is discussed and considered. Directors must keep the Board advised on an ongoing basis of any interests which could cause, or may reasonably be perceived to cause, a conflict with the interests of the Company.

The minutes of the meeting should record the decision taken by those directors who do not have an interest in the matter.

#### Independent legal advice

With the consent of the Chairman, individual directors may seek independent professional advice at the Company's expense on any matter connected with the discharge of their responsibilities. The Chairman requires the submission of a cost estimate by a director in order to establish the reasonableness of the projected fee. The Chairman's consent will not be unreasonably withheld.

#### Period of office

Shareholders are given the opportunity to vote on the composition of the Board such that at each Annual General Meeting, one third of the Directors (excluding the Managing Director) must retire but may stand for re-election. Each director who is required by the Constitution to retire cannot hold office for more than three years without retiring within that time frame and standing for re-election. Any director who is appointed to the Board to fill a casual vacancy during a year may only hold office until the next Annual General Meeting but may stand for re-election at that meeting.

### PROMOTE RESPONSIBLE AND ETHICAL DECISION MAKING

#### Conduct and ethics

The Company operates under a Code of Conduct a copy of which is posted to the corporate governance section of the Company's website—[www.schaffer.com.au](http://www.schaffer.com.au)

The Company's Code of Conduct describes how SFC relates to its employees, customers, suppliers, shareholders and the community. SFC is committed to promoting integrity and maintaining the highest standard of ethical conduct in all of its activities.

Our business success is dependent on the development and maintenance of trusting relationships, underpinned by the continuous demonstration of corporate integrity.

The purpose of this Code of Conduct is to provide a common behavioural framework for all SFC personnel which recognises social responsibility, complies with applicable laws and standards, and is in keeping with the spirit and rules of the Australian and international markets in which SFC operates. This Code of Conduct applies to SFC and its controlled affiliates.

SFC's directors and management team lead by example, demonstrating their commitment to this Code of Conduct at all times through their personal behaviour and through guidance provided to our personnel.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2017

### Securities trading policy

SFC's Securities Trading Policy regulates dealing by SFC Directors and senior executives in SFC securities. Restrictions imposed by law on prohibiting anyone dealing in SFC's securities if in possession of unpublished SFC price-sensitive information have been supplemented by Board imposed restrictions specific to SFC Directors and senior executives. Price sensitive information is information a reasonable person would expect to have a material effect on the price or value of SFC securities.

This policy provides that in addition to Directors and senior executives being prohibited from trading in the Company's securities at any time if they possess any unpublished price sensitive information, Directors and senior executives may buy or sell the Company's securities only within limited trading windows.

The periods within which a Director or senior executive may buy or sell SFC securities is:

- from 24 hours to 4 weeks after the Company has made any Scheduled Announcement. A scheduled announcement refers to the announcement by SFC of its (i) results for the half year, (ii) preliminary final year result, (iii) Chairman's Address to the Annual General Meeting;
- from 24 hours to 4 weeks after the Company has made any Unscheduled Announcement. An unscheduled announcement refers to any other announcement of new information made by SFC pursuant to ASX Listing Rule 3.1; and
- during the period when a prospectus for securities is released by SFC until the last day for acceptance of securities issued pursuant to that prospectus.

SFC Directors and senior executives are prohibited from trading at all other times. For the purposes of clarity, any unscheduled ASX Listing Rule 3.1 announcement made within 4 weeks prior to a Scheduled Announcement does not enable SFC Directors and senior executives to trade SFC securities. The senior executives Group to which these restrictive trading periods apply includes all General Manager personnel at Howe & Company Pty Ltd, UrbanStone Pty Ltd and Delta Corporation Limited, and SFC's Chief Financial Officer, Group Financial Controller & Company Secretary and Group Chief Accountant.

The policy also requires that Directors and senior executives do not buy or sell the Company's securities on a short-term basis.

These rules also apply to trading by a related party of any SFC Director or senior executive. This Policy does not restrict participation by SFC senior executives in SFC's Employee Share Options Plan (ESOP), but applies in respect of the trading of SFC's securities to which plan participants become entitled under the ESOP.

A copy of the Company's Securities Trading Policy can be accessed from the corporate governance section of the Company's website—[www.schaffer.com.au](http://www.schaffer.com.au)

### Diversity policy

SFC recognises the benefits to be gained from a variety of skills, backgrounds and experiences being applied to specific work objectives. Therefore, SFC is committed to diversity throughout our workforce.

SFC has established a diversity policy which includes the requirement for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. The copy of the Company's Diversity Policy can be accessed from the corporate governance section of the Company's website – [www.schaffer.com.au](http://www.schaffer.com.au)

Our commitment to diversity will be supported by:

**Communication** – SFC will maintain an inclusive workplace culture via the organisation-wide awareness of workplace diversity principles and benefits. Management will ensure ongoing communication of these principles to the workforce.

**Human Resource strategies** – SFC Human Resource strategies and policies including recruitment, promotion and employee development will incorporate diversity principles to encourage a diverse workforce at all levels of the organisation. Where appropriate opportunities exist, and strong candidates are available for recruitment or promotion, diversity will be a consideration.

**Action against inappropriate workplace behaviour** – SFC does not tolerate discrimination, harassment, bullying, victimisation and/or vilification in the workplace. Action will be taken against these types of behaviour that do not value diversity.

**Flexible work practices** – where appropriate, flexible work practices will be accepted to meet the differing needs of a diverse workforce.

The table below outlines the gender diversity objectives established by the Board and the progress against each objective.

Objectives	Progress
Comply with the Workplace Gender Equality Agency Act as determined by the Workplace Gender Equality Agency (WGEA)	Annual compliance notification was received on 28 June 2017 from WGEA.
Ensure reporting systems satisfy the reporting requirements as stipulated by the WGEA	The monthly Board reporting includes statistics on the numbers of each gender represented in senior executive positions and the total workforce at various business units and locations. Reporting systems are established to collate Group-wide information for reporting on the gender equality indicators stipulated by the WGEA.
Provide ongoing communication, education and updates on issues related to equal opportunity in the workplace.	Staff memorandums have been distributed and displayed at various SFC business unit locations presenting SFC's policy on diversity, and encouraging contribution and communication on diversity within the workplace.
Implement and revise Business Unit specific diversity plans.	Business Unit specific plans are being continually developed, reviewed and revised according to the specific circumstances of each Business Unit.

At 30 June 2017, women represented 48% (2016: 46%) of the Group's workforce, 14% (2016: 14%) of senior executive positions, and 20% (2016: 20%) of the Board.

## SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Written declaration by management

SFC's Managing Director and CFO report in writing to the Audit Committee that the consolidated financial statements of SFC and its controlled entities for any accounting period are based on a sound system of risk management and present a true and fair view in all material respects of the Group's financial condition and that operational results are in accordance with accounting standards. This statement is in turn supported by written statements provided by the senior management of all subsidiary companies within the Group.

### Audit Committee

The SFC Audit Committee was established by the Board in 1996. The Audit Committee has adopted a formal Charter, a copy of which can be accessed from the corporate governance section of the Company's website—[www.schaffer.com.au](http://www.schaffer.com.au)

The Audit Committee's purpose is to provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the company's financial reporting, risk management systems and the external audit functions. In doing so, it is the responsibility of the Audit Committee to maintain free and open communication between the Committee, external auditors and management of the Company.

In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

Council guidelines require the Audit Committee to consist of at least three directors and have an independent Chairperson who is not Chairperson of the Board.

The members of the SFC's Audit Committee are Mr Schwartz (Independent Chairman), Mrs Blain (Non-executive Director) and Mr Perrott AM (Independent Director). Accordingly, SFC's Audit Committee complies with the Council's Audit Committee structure guidelines.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2017

### MAKE TIMELY AND BALANCED DISCLOSURE

#### Continuous disclosure policy

The Board is committed to ensuring that information that is expected to have a material effect on the price or value of SFC's shares is immediately notified to the ASX for dissemination to the market in accordance with the ASX Listing Rules. The Company's Continuous Disclosure Policy sets out the key obligations of the Board and senior management to ensure that SFC complies with its disclosure obligations pursuant to the ASX Listing Rules and the Corporations Act. In fulfilling its obligations of continuous disclosure SFC has adopted and adheres to the following practices.

- SFC's Managing Director, Chief Financial Officer and Company Secretary constitute the executive team charged with management of all elements of the Company's activities. This team is responsible for assessing the materiality of information and drafting all disclosures. For administrative convenience, SFC's Company Secretary is the nominated officer of the Company responsible for communications with the ASX.
- Information is released firstly via electronic means via the ASX. Further dissemination to analysts and investors does not occur until after ASX confirms the information has been released to the market.
- The information is posted to SFC's website at [www.schaffer.com.au](http://www.schaffer.com.au) in order to make the information accessible to the widest audience. Investor information is posted to an area on SFC's website separate from any promotional material about the Company or its products.
- SFC's Managing Director, Chief Financial Officer and Company Secretary, and Howe Automotive Limited's Executive Directors are the officers authorised to speak on SFC's behalf at investor briefings and to the media. These officers understand that when speaking on behalf of the Company it is in respect of explanation and clarification of information previously released via the ASX. As these officers have knowledge of all information previously released to the ASX (they form part of the executive team responsible for the information disclosures), the risk of inadvertent disclosure of price sensitive information when speaking to investor briefings and the media is minimised. Presentations used in briefings which may have content which would trigger a continuous disclosure obligation are lodged with ASX prior to the briefing. All presentations are posted to SFC's website.
- Comments on analysts' financial projections are confined to errors in factual information and underlying assumptions. The Company will not provide price sensitive information or earnings forecast guidelines to analysts unless it has already done so to the market via the ASX.
- Unless the executive team responsible for information disclosures believes it has an obligation to make a statement on a particular matter, SFC's policy is not to respond to market rumours or speculation.

### RESPECT THE RIGHTS OF SHAREHOLDERS

#### Shareholder communications strategy

SFC aims to ensure that investors and the market are kept informed of all major developments affecting the Company.

Information is communicated to investors and the market in accordance with SFC's periodic and continuous disclosure obligations pursuant to the ASX Listing Rules and the Corporations Act. SFC's disclosure practices are aimed at ensuring timely access for all investors to Company information.

To achieve these objectives and to satisfy regulatory requirements, SFC provides information to investors and the market in a number of ways:

- SFC's principal communication with investors is by provision of the Annual Report and financial statements, the Interim Report and the Annual General Meeting.
- Periodic and continuous disclosure announcements are released directly to the market via the ASX using ASX's electronic lodgement service. These announcements are immediately placed on the Company's website, at [www.schaffer.com.au](http://www.schaffer.com.au) and typically mailed to shareholders.
- The release of Interim and Final results is typically followed by investor briefings and road shows. The purpose of the investor briefings/road shows is for explanation and clarification of previously released information and non-material company or industry specific information. Site visits are also arranged to give those who advise investors a better understanding of the Groups operating facilities.

- SFC's website contains further information about the Group and its activities, including copies of recent Annual and Interim Reports, the full text of notices of meetings and explanatory notes and copies of road-show presentations and presentations to brokers/analysts.
- The Annual General Meeting provides an opportunity for the Board to communicate with shareholders and investors through the presentation of the Chairman's Address and shareholders, through the Chairman, are given the opportunity to ask general questions of directors. SFC's external auditor attends each Annual General Meeting and is available to answer any questions shareholders may have, that are relevant to the conduct of the audit. The meeting, when possible, is held at the same convenient location on the same weekday and time each year in order to encourage shareholder participation.
- SFC's senior management meets regularly to consider its continuous disclosure obligations and assess the appropriateness of its policy in the context of any legislative amendments to the disclosure regime. Unless SFC has an obligation to make a statement on a particular matter, the Company's policy is not to respond to market rumours and media speculation.

### RECOGNISE AND MANAGE RISK

#### Risk management

The Board has formal written policies on risk oversight and management. SFC's risk management policy provides the framework to manage the risks associated with SFC's business activities.

The purpose of the policy is to identify, assess, monitor and manage risk with the objective of minimising losses and maximising shareholder value.

SFC prepares risk profiles including a description of material risks, both financial and non-financial. SFC reviews and updates its risk profile as required.

SFC implements a systematic process to assist in the identification, assessment, treatment and monitoring of risks.

SFC provides the necessary tools and resources to management and staff to support the effective management of risks.

SFC ensures that the Board is adequately informed of significant risk management issues and the actions undertaken to manage risks in a timely manner.

The Board has considered the need for an internal audit function and concluded that the size and nature of the Group's operations do not warrant such a function as present. Responsibility for implementation and effective conduct of SFC's risk management system rests with the Board, Chief Executive Officer, Chief Financial Officer, Company Secretary, General Managers and all employees. The Managing Director and the Chief Financial Officer are required to state in writing to the Board in respect of any accounting period that:

- The statement given in accordance with the ASX Corporate Governance Council's Best Practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- SFC's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The SFC Board are able to oversee the entity's risk management system efficiently and effectively without establishing a separate risk committee. Executive management report to the Board on the effectiveness of our management of material business risks and they are satisfied that the risk management process enables material risks to be appropriately identified, prioritised, monitored and managed. Strategic risks are reported to the board on an ongoing basis.

The Automotive Leather division of SFC is materially exposed to the economic risk of foreign exchange fluctuations. To manage the foreign exchange risk arising from future commercial transactions the entity regularly considers the use of natural hedges and forward foreign exchange contracts, with reference to currency exposure levels, sensitivity, and financial capacity to tolerate rate fluctuations.

SFC does not have any material environmental or social sustainability risks.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2017

### REMUNERATE FAIRLY AND RESPONSIBLY

#### Executive remuneration

SFC's Nomination and Remuneration Committee operates to support and advise the Board in fulfilling its responsibility to shareholders to ensure that the company has remuneration policies and practices which enable it to attract and retain directors and executives who will best contribute towards achieving positive outcomes for shareholders. The committee determines the remuneration and other conditions of service of the chief executive officer and executive directors, if any. The committee makes recommendations to the Board on the remuneration of non-executive directors within the aggregate approved by shareholders in general meeting from time to time. The committee considers individual performance, company performance, internal relativity and fairness in setting levels of remuneration and may seek appropriate independent external advice to assist in its decision making.

SFC's remuneration policy is directed at attracting, motivating and retaining quality people.

The remuneration of SFC's senior executive consists of fixed remuneration and annual and long term incentives.

*Fixed Remuneration*—This includes base salary and the statutory Superannuation Guarantee Contribution (SGC) which comprises the cash component; and other non-cash benefits such as a motor vehicle.

The Schaffer Corporation Limited Superannuation Fund is available to executives for superannuation contributions and life insurance. Premiums for life insurance are deducted from member accounts. Executives can elect to have the company contribute superannuation beyond the statutory SGC level by way of a salary sacrifice in lieu of cash salary.

*Annual Incentive*—The Company has performance-based incentive plans in place at each of its operations in which management and the labour force participate. The level of remuneration payable to participating executives is linked to the financial performance of their business. Executives are provided with cash incentives provided profitability thresholds are met.

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

#### Non-executive Director remuneration

SFC's non-executive directors receive fees for their services (including statutory superannuation) and the reimbursement of reasonable expenses. The amount payable to non-executive directors is set by the Board after having taken regard to the size of the Company and Board, the responsibilities, demands and accountabilities faced by those directors in discharging their duties and after seeking independent advice to ensure the fees are in line with market standards. It is current SFC policy that non-executive directors do not receive shares, options or other securities and are not eligible to participate in SFC's Employee Share Option Plan.

A directors' pool limit of \$250,000 per annum was approved by shareholders at SFC's 2003 Annual General Meeting. This limit is not currently fully utilised. The fee pool is payable only to non-executive directors. Non-executive directors were paid annual fees for the 2017 financial year of \$78,214 each from the fee pool (inclusive of superannuation). Non-executive directors appointed prior to July 2003 are entitled to a retirement benefit equivalent to one year's annual director's fees. The retirement benefit was reduced from three years' to one year's annual director's fees in July 2003 (a three year retirement benefit was in place at the time Mrs Blain and Mr Schwartz accepted their appointment to the Board). SFC considers the reduced benefit modest and appropriate given the benefit which historically existed. It is SFC's policy that no retirement benefit apply to new directors appointed after July 2003.



## ASX ADDITIONAL INFORMATION

year ended 30 June 2017

Additional information required by the Australian Securities Exchange is as follows.

### TOTAL SHARE CAPITAL

Issued as at 1 September 2017 – 14,005,373 ordinary fully paid shares.

### SHARE REGISTRY ADDRESS

C/o Computershare Investor Services Pty Ltd  
Level 11  
172 St George's Terrace  
Perth WA 6000  
Australia

Postal Address:  
GPO Box D182  
Perth WA 6840  
Australia

### SECURITIES EXCHANGE LISTING

The shares of the Company are listed on the Australian Securities Exchange. 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 1 SEPTEMBER 2017

Shareholdings	Shareholders
1 – 1,000	620
1,001 – 5,000	485
5,001 – 10,000	111
10,001 – 100,000	94
100,001 – and over	18

Number of shareholders holding less than a marketable parcel i.e. less than 67 shares: 72.

### SUBSTANTIAL SHAREHOLDERS

As at 1 September 2017, the substantial shareholders of the company summarised below, were:

	Number of shares	Economic interest as a percentage of issued ordinary shares
Mr J M Schaffer & Associates	2,003,240	14.30%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.66%
	2,655,927	18.96%
Mrs D E Blain & Associates	909,673	6.50%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.66%
	1,562,360	11.16%
*Combined interest of Mr J M Schaffer & Mrs D E Blain	4,218,287	30.12%
Sterling Equity Pty Limited and subsidiaries	1,475,194	10.53%

\* Pursuant to the Corporation Act (2001), by virtue of the Swan Holdings Pty Ltd Voting Deed conferring on J M Schaffer the power to vote all Swan Holdings Pty Ltd's interest in Schaffer Corporation Limited's shares, J M Schaffer is also deemed to have an interest in all the Schaffer Corporation Limited shares held by D E Blain and her associates, and vice versa. The consequence of this is that each of the Substantial Shareholder notices lodged with the Regulatory Authorities by J M Schaffer and D E Blain show J M Schaffer's and D E Blain's combined interest at 30%, not their individual economic interests of 19% and 11% respectively.

### TWENTY LARGEST SHAREHOLDERS

As at 1 September 2017

	Number of shares	Percentage of issued ordinary shares
Swan Holdings Pty Ltd	1,305,374	9.32
National Nominees Limited	1,057,235	7.55
Schaffer Nominees Pty Ltd <JM Schaffer No 2 A/C>	980,482	7.00
Mrs Danielle Eva Blain	907,570	6.48
Mr John Michael Schaffer	799,554	5.71
JP Morgan Nominees Pty Ltd	680,918	4.86
Jobling Investments Pty Ltd	507,812	3.63
HSBC Custody Nominees (Australia) Limited	486,997	3.48
Mr Kenneth John Beer <Beer Super Fund A/C>	423,681	3.03
Mr David Schwartz <David Schwartz Fam Hlds A/C>	359,170	2.56
Mr Christopher Stephan Mayer	344,263	2.46
The Sports Café (Australia)	226,072	1.61
Frederick Bruce Wareham	160,006	1.14
Ago Pty Ltd <Superannuation Fund A/C>	159,809	1.14
Mr Milton Yanniss	144,004	1.03
Glennin Pty Ltd <Marilyn May Bookham Disc A/C>	143,252	1.02
Shann Investments Pty Ltd <Lynda Maree Jobling Disc A/C>	143,252	1.02
Mrs Glenda Claire Orgill	103,811	0.74
Mr Peter Canaway <Superannuation Fund A/C>	100,000	0.71
Debra Ruth Schaffer	92,870	0.66
	9,126,132	65.16

### ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 15 November 2017 at 11:30am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.

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## Corporate Timetable

Final 2017 dividend record date	1 September 2017
Final 2017 dividend payment date	15 September 2017
Despatch of 2017 Annual Report and notice of AGM	11 October 2017
Annual General Meeting	15 November 2017
2018 half-year earnings release and dividend announcement	February 2018
Interim 2018 dividend payment date	March 2018

# SHAREHOLDER INFORMATION

## Annual General Meeting

Schaffer Corporation will hold its Annual General Meeting on Wednesday 15 November 2017 at 11:30am at Pagoda Resort and Spa, 112 Melville Parade, Como, Western Australia.

## Direct Credit of Dividends

Schaffer Corporation provides shareholders with the option to have dividends paid electronically to a nominated bank, building society or credit union account. Payments are credited electronically on the dividend date and confirmed by a payment advice by mail.

The Company encourages shareholders not already using this facility to contact Computershare Investor Services Pty Limited, who can arrange for an instruction advice to be sent to shareholders for completion.

## Change of addresses/provide or update banking details

Shareholders who have changed their address or banking particulars should advise our share registry of their new details:

Computershare Investor Services  
Pty Limited  
GPO Box D182  
Perth WA 6840  
Australia  
Telephone: 1300 557 010 (in Australia)  
or +61 8 9323 2000  
Facsimile: +61 8 9323 2033  
Website: [www.computershare.com/au](http://www.computershare.com/au)

## Corporate Directory

Schaffer Corporation Limited  
ABN 73 008 675 689

ASX Code: **SFC**

## Head Office and Registered Office

1305 Hay Street  
West Perth WA 6005  
Australia  
Telephone: +61 8 9483 1222  
Facsimile: +61 8 9481 0439  
Website: [www.schaffer.com.au](http://www.schaffer.com.au)

## Board of Directors

### Executive Directors

JM Schaffer BCom(Hons), FCPA  
(Chairman and Managing Director)  
AK Mayer (Executive Chairman –  
Howe Automotive Ltd)

### Non-executive Directors

DE Blain BA  
MD Perrott AM, BCom, FAIM FAICD  
DJ Schwartz

### Chief Financial Officer

Ralph Leib BComm, BAcc

### Group Financial Controller and Company Secretary

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

### Share Registry

Computershare Investor  
Services Pty Limited  
GPO Box D182  
Perth WA 6840  
Australia  
Telephone: 1300 557 010 (in Australia)  
or +61 8 9323 2000  
Facsimile: +61 8 9323 2033  
Website: [www.computershare.com/au](http://www.computershare.com/au)

### Auditors

Ernst and Young  
11 Mounts Bay Road  
Perth WA 6000  
Australia  
Telephone: +61 8 9429 2222  
Facsimile: +61 8 9429 2436

### Solicitors

Ashurst  
Level 32 Exchange Plaza  
2 The Esplanade  
Perth WA 6000  
Australia  
Telephone: +61 8 9366 8000  
Facsimile: +61 8 9366 8111

