Schaffer Corporation Limited

For personal use only

18 September 2020

ASX Market Announcements Office
Australian Securities Exchange Limited

Lodged electronically via ASX Online

2020 Annual Report

Please find attached the 2020 Annual Report for Schaffer Corporation Limited (ASX: SFC)

Yours sincerely



Jason Cantwell
Company Secretary

Authorised for release by SFC's Board of Directors

Head Office: 1305 Hay Street, West Perth WA 6005 **Postal Address**: PO Box 770, West Perth WA 6872
Telephone: +61 8 9483 1222 **Facsimile**: +61 8 9481 0439 **Website**: www.schaffer.com.au
Schaffer Corporation Limited **ABN** 73 008 675 689

For personal use only

ANNUAL REPORT 20







Schaffer Corporation Limited

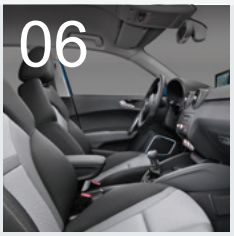
For personal use only

About Schaffer Corporation 1

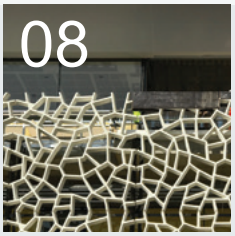
Managing Director's Report 2

Review of Operations:

Automotive Leather 06



Building Materials 08



Investments 11



Financial Statements 13

Independent Auditor's Report 51

Directors' Report 57

Statement of Corporate Governance Practices 67

ASX Additional Information 72

Shareholder Information 73

For personal use only

ABOUT SCHAFFER CORPORATION

A DIVERSIFIED AUSTRALIAN INDUSTRIAL COMPANY

Schaffer Corporation Limited (SFC) is a diversified industrial company with core operating divisions in Manufacturing (Automotive Leather and Building Materials) and Investments. Originally incorporated in 1955, the company was first listed on the Australian Securities Exchange (ASX) in 1963 and currently employs around 900 employees in three countries.

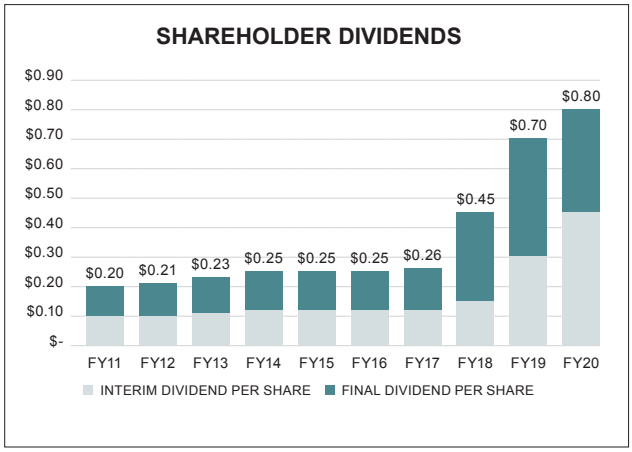
The Automotive Leather division is a world-class, globally competitive automotive leather producer, supplying quality interior leather products to such household names as Land Rover, Audi, Mercedes, Porsche, Nissan and Ford. The division operates leather processing and finishing operations in Slovakia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

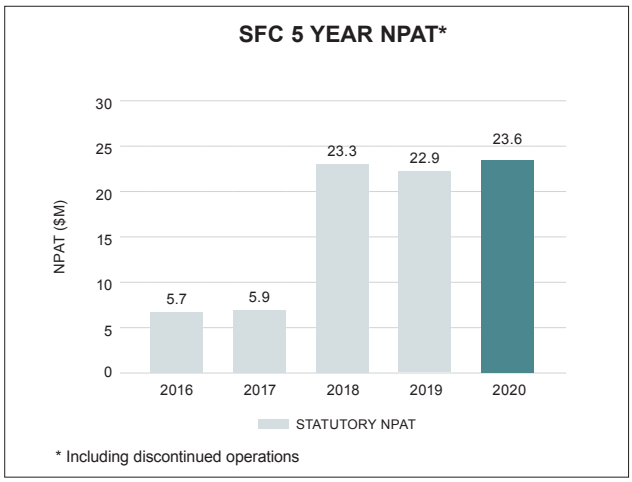
The Building Materials division comprises Delta Corporation which manufactures a range of custom made precast and prestressed concrete floor, beam and wall products, including TeeRoff beams, for major infrastructure, building and resource projects in Australia.

The Group's Investments division currently has a portfolio of various property and equity investment interests.

Group property interests include land held for future development in the Western Australian suburbs of Jandakot and North Coogee, a bulky goods property at Rockingham, Western Australia, and various syndicated interests in commercial, industrial, hotel, retail and residential properties across Australia and the United States.

Schaffer Corporation has a proud history of paying a dividend in every one of the past 57 years since it was originally listed as Calsil Ltd in 1963. For the past 20 years, the company has paid approximately $149 million in fully franked dividends to shareholders.





Board of directors



JOHN SCHAFFER AM | ANTON MAYER | DANIELLE BLAIN AM | DAVID SCHWARTZ | MICHAEL PERROTT AM





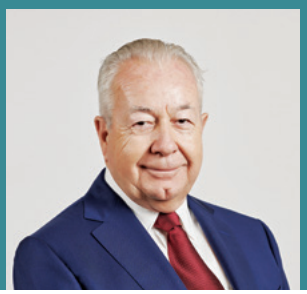
MANAGING DIRECTOR'S REPORT

EXECUTIVE MANAGEMENT TEAM



John Schaffer AM
BCom(Hons), FCPA
Age 69

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



Anton Mayer
Age 78

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.



Matt Perrella
NPCAA
Age 71

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 49

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



Jason Cantwell
BBus(Acc), CPA, MBA, GIA(Affiliated)
Age 48

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



Dan Birks
BAgrSc, MBA
Age 54

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



Jason Walsh
B Bus, MBA
Age 50

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

For personal use only

Key Financial Indicators	20	19	18	17	16	15
Revenue - *incl. discontinued operations* ($ millions)	**155.6**	203.6	235.7	215.0	213.6	157.3
Net Profit after tax* ($ millions)	**23.6**	22.9	23.3	5.9	5.7	3.5
Earnings per Share ($)	**$1.72**	$1.66	$1.67	$0.42	$0.41	$0.25
Return on Average Capital Employed (ROACE*)	**26%**	29%	38%	12%	10%	7%
Ordinary Dividend per Share	**$0.80**	$0.70	$0.45	$0.26	$0.25	$0.25

For personal use only

MAINTAINING FOCUS

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

Financial Performance

For the 2020 financial year, Schaffer Corporation achieved net profit after tax (NPAT*) of $23.6 million (2019: $22.9 million).

Automotive Leather

Automotive Leather's revenue decreased by 26% compared to the previous corresponding period.

During the first half of the financial year, we reported lower sales volumes in both European and Asian markets caused by slowing demand in Europe and ongoing trade issues between the US and China.

The Covid-19 pandemic severely impacted Automotive Leather's sales volumes in the second half of FY20. For two months from late January, the virus impacted China operations. Then, from March to late May, European vehicle production ceased. As a result, Automotive Leather had limited sales in that time. Chinese demand has now stabilised. Since late May, European production has reopened and sales volumes in Europe are encouraging.

Automotive Leather's management responded swiftly to right size the business, reducing costs and matching production to the decreased sales demand.

The outlook remains uncertain due to the ongoing pandemic. SFC however, expects volumes to continue to recover from the production shutdowns in the second half. In the first half of the current financial year, Automotive Leather will benefit from the commencement of new vehicle programs in Europe and China.

Group Investments

Group Investments comprises investments made by SFC and its 83%-owned subsidiary Gosh Capital. The division represents a growing proportion of the Group's underlying assets and valuation. The net equity value (pre-tax) of the portfolio at 30 June 2020 was $162.6 million, compared to $134.4 million a year ago, an increase of $28.2 million.

During the financial year, $17.6 million of new investments were made, comprising $5.8 million in listed and unlisted equities, $7.6 million in Australian syndicate property, $1.4m in US syndicate property, and the remaining $2.8 million was for investment commitments from the prior financial year.

The Group achieved approximately $7.7 million after tax in net unrealised, non-cash gains across its portfolio, with the largest gains from the Group's investment in Harvest Technology Group Limited (ASX: HTG)

In line with the accounting standards, SFC carries property assets at depreciated book values. The exception is units in property unit trusts, which are carried at fair value. The Group supports its estimates of market values with ongoing, recent independent accredited valuations. SFC acknowledges the valuation uncertainty created by Covid-19. Accordingly, approximately 58% of the value of the property portfolio is supported by independent valuations conducted at 30 June 2020. The remainder of the portfolio was valued with reference to the most recent independent valuation and guidance from industry professionals, investment managers and market research.

The difference between book value and market value across the directly owned property investments represents unrealised gains of $77.9 million before tax and $54.5 million after tax.

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

Delta

Delta produces precast and prestressed concrete products, predominantly for the Western Australian market.

Delta revenues decreased 9% compared to prior corresponding period and recorded a loss for the year as project complexity and schedule delays impacted performance.

Delta's management continues to maintain efficient cost structures relative to its quantity of work. This process is made more difficult by project delays that have become usual in the construction industry.

Conditions in the Western Australian construction market remain challenging and competitive, however there is some optimism due to large pending infrastructure projects in Western Australia and the potential for government policies and stimulus to help lift the economy impacted by the Covid-19 pandemic. The pandemic and the possibility of future outbreaks in Australia makes forecasting difficult.

Group Cash Flow and Net Debt

Net Debt increased by $22.0 million as cash resources were applied to fund new investments, pay SFC shareholder dividends and buy-back shares. Automotive Leather currently holds excess inventory created by the reduction of sales due to the cessation of European automotive production for approximately two months. SFC expects strong cash generation as sales volumes increase and inventory is reduced.

The Group's low overall gearing provides the capacity to endure the impacts of Covid-19 and provides funds for future investment opportunities.

The Group net debt position as at 30 June 2020 is set out in more detail below:

	Manufacturing	Group Investments				
All amounts in $m	Automotive Leather	SFC Investments	Syndicate Investment Properties[1]	Gosh Capital	Total 30 June 2020	Total 30 June 2019
Type of Debt:						
Bank debt	(25.1)	-	(21.7)	(6.6)	**(53.4)**	(29.2)
Equipment finance	(7.9)	-	-	-	**(7.9)**	(9.0)
Intercompany	-	1.0	-	(1.0)	**-**	-
Gross Debt*	**(33.0)**	**1.0**	**(21.7)**	**(7.6)**	**(61.3)**	**(38.2)**
Cash and term deposits	(11.4)	22.6	1.0	-	**35.0**	33.9
Net (Debt)/ Cash*	**(21.6)**	**23.6**	**(20.7)**	**(7.6)**	**(26.3)**	**(4.3)**
% debt recourse to SFC	0%		12%	0%		

1 Syndicate Investment Properties refers to SFC's share of debt for jointly held properties.

The debts associated with the jointly owned properties, Automotive Leather and Gosh Capital are primarily on a non-recourse basis to the other assets of the Group.

Sustainability

Schaffer Corporation is committed to working sustainably by caring for our people, the environment and the long-term future of our businesses.

Our Automotive Leather division has trusted partnerships with hide suppliers around the world and animal welfare is one of the main criteria in selecting our leather suppliers. We oppose animal cruelty and the Group ensures that suppliers adhere to various certifications and meet the requirements of various welfare regulations including the SENASA directive, FSIS Directive 9200, and regulation 1099/2009 for animal protection. The division sources a portion of its hides from New Zealand which is rated at "A", the highest rating on the Animal Protection Index.

Supply Chain transparency from farm to automotive cut parts is important for maintaining brand reputation but also for avoidance of animal welfare issues, forced or child labour issues, and to demonstrate a best practice supply chain to our customers. Our Automotive Leather division has established 100% traceability from each batch of hides to cut parts.

Automotive Leather has also conducted comprehensive Life Cycle Assessment (LCA) on our products to assess the potential for environmental impacts associated with the production of our cut leather throughout the entire production life cycle. This has allowed the identification of factors that lower carbon footprint. This includes factors influenced by the supplier such as breeding, feeding and raising the animals, our own leather finishing methods including energy consumption and waste treatment, and transport factors such as fuel consumption and packaging. Environmental considerations play an integral role in the way we source our materials, manufacture our products, and deliver to customers.

Automotive Leather has recently aligned with Mercedes Benz' ambition for the provision of CO2-neutral products by 2039. This initiative covers all stages of value creation, including the upstream supply chain that Automotive Leather relies on.

Delta Corporation has recently commenced working with Nudge, a for-purpose charity that focuses on getting young, disadvantaged people into jobs and training opportunities in various industries throughout WA. Delta has employed the services of the Nudge Trainee Programme to offer Aboriginal youth training and employment opportunities.

Schaffer Corporation is also committed to providing all our employees with a safe and healthy working environment. SFC continues to review and improve occupational health and safety management to further improve outcomes. Our Group Lost Time Injury Frequency Rate (LTIFR) has decreased by 28% over the past year and workers' compensation days have decreased by 22%.

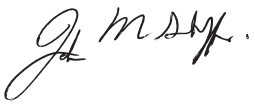
For personal use only

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, investment opportunities, liquidity needs and the availability of franking credits. We also reflect on prevailing economic conditions and uncertainty, including the ongoing Covid-19 pandemic, in setting dividends.

For the 2020 financial year, Schaffer Corporation has declared fully franked dividends totalling $0.80 per share, which is $0.10 per share (14%) more than the prior year.

This year's Annual General Meeting will be held on Wednesday, 18 November 2020, at which time I will provide a further update on the outlook for the 2021 financial year.



JOHN SCHAFFER AM
Managing Director

Non-IFRS Measures

* 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. Return on Average Capital Employed (ROACE) is calculated as EBIT (after interest on lease liabilities previously classified as operating leases prior to the adoption of AASB 16 on 1 July 2019) divided by the average of total assets (excluding cash and cash equivalents, deferred income tax assets, and right-of-use assets for leases previously classified as operating leases prior to the adoption of AASB 16 on 1 July 2019) less trade and other payables, and provisions over the period.

   EBIT (after interest on lease liabilities previously classified as operating leases prior to the adoption of AASB 16) is calculated as follows:

EBIT Reconciliation
All items after tax and minority interest

	Full-Year Ending	
	June 2020	June 2019
	$'000	$'000
Profit before income tax	38,530	38,568
Finance costs	2,640	2,433
Net impairment of assets	227	1,221
Other adjustments	(606)	406
EBIT	**40,791**	**42,628**
less interest on leases previously recognised as operating leases prior to the adoption of AASB 16	**(609)**	**-**
EBIT after interest on lease liabilities previously classified as operating leases prior to the adoption of AASB 16	**40,182**	**42,628**

2. Net Profit After Tax (NPAT) is profit/(loss) for the period attributable to owners of the parent.
3. Net Debt excluding lease liabilities for leases previously classified as operating leases calculated as follows:

Net Debt excluding lease liabilities for lease previously classified as operating leases

	As at	
	June 2020	June 2019
	$'000	$'000
Interest-bearing loans and borrowings	**53,333**	29,251
Lease liabilities	**33,624**	8,991
less lease liabilities relating to leases previously classified as operating leases	**(25,674)**	-
Gross Debt excluding lease liabilities relating to leases previously classified as operating leases	**61,283**	38,242
less cash and cash equivalents	**(35,016)**	(17,371)
less short-term term deposits (term 90 days or greater)	**-**	(16,515)
Net Debt excluding lease liabilities for leases previously classified as operating leases prior to the adoption of AASB 16	**26,267**	4,356

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. Net debt excluding lease liabilities for leases previously classified as operating leases prior to the adoption of AASB 16 on 1 July 2019 is used for comparative purposes.

Non-IFRS financial information has been extracted from the audited financial statements, except lease liabilities relating to leases previously classified as operating leases.

For personal use only

For personal use only

AUTOMOTIVE LEATHER









For personal use only

A GLOBAL BUSINESS IN A GLOBAL INDUSTRY

Supplier of leather to automotive manufacturers in Europe and Asia.

Schaffer Corporation owns 83% of the Automotive Leather division, which produces high-quality leather for the global automotive industry and focuses on supplying premium OEM customers such as Jaguar Land Rover, Audi, Mercedes and Porsche.

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

The division's global footprint provides a local presence in the key European and Asian automotive markets. This allows the business to be close to its key customers and provides the opportunity to be competitive and responsive in a highly demanding global environment.

Revenue decreased by 26% compared to the previous year, primarily because of the Covid-19 global pandemic. The pandemic resulted in all our EU automotive manufacturers closing their plants for extended periods during the months of April to May 2020 with gradual openings during the following two-month period.

During the 2020 financial year the division, completed a three-year capital investment programme, implementing and expanding existing operations with new technologies. These investments have already added significant benefits and improved operation efficiencies across all production facilities.

Products are sold in foreign currency and translated back to Australian Dollars for financial reporting purposes. Fluctuations in the Euro, US Dollar and Chinese Renminbi against the Australian Dollar can have a significant impact on the financial performance of the Automotive Leather division, and accordingly, management utilises hedges to manage these risks.

FEATURE PROJECT

Howe has been nominated to supply leather for the new Audi Q4 e-tron which is the newest member of Audi's cross over family. This vehicle is one of the initial electric models which will contribute to Audi's goal to produce 75 electric models by 2029.

Production will commence at the start of calendar year 2021.



DELTA
CORPORATION LIMITED

For personal use only

BUILDING MATERIALS









For personal use only

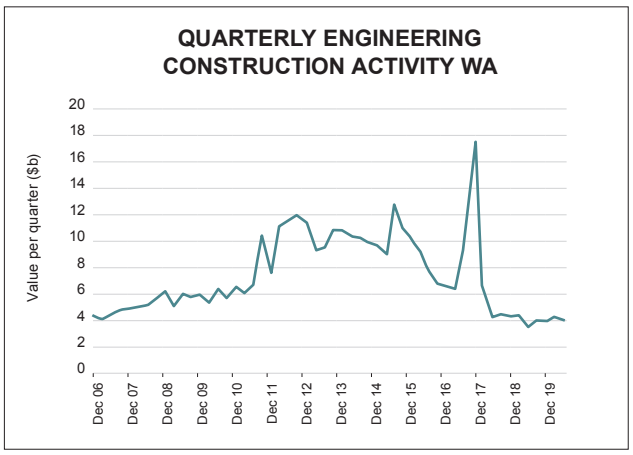
PROFITABLE NICHE FOCUS

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

Delta Corporation

www.deltacorp.com.au

Delta's financial performance over the past 12 months is reflective of the challenging conditions that have continued to prevail across the construction industry during the past five years. As evidenced by the Engineering Construction Activity in Western Australia report produced quarterly by the Australian Bureau of Statistics, there has been a dramatic decline in activity from a high of $42.1 billion in 2015 down to $16 billion in 2019. This has negatively impacted the industry where activity has declined more than 60%, resulting in activity being lower than December 2006 levels.



[Data Source: Australian Bureau of Statistics]

Despite the challenges presented by Covid-19, Delta managed to continue to operate during the various stages of restrictions introduced by the WA Government. This enabled the company to avoid employee standdowns and the ensuing disruption that would have been caused.

We have been involved in a number of projects over the past 12 months which include:

- Wanneroo Road & Joondalup Drive Grade Separation, Perth, WA
- Wanneroo Road & Ocean Drive Interchange, Perth, WA
- Reid Highway Dual Carriageway Project, Perth, WA
- Injune Way Joondalup Business Park Bridge, Joondalup, WA
- Casuarina Prison, WA
- Karingal Green Aged Care, WA
- Highway Stage 2 Development, Plympton, SA
- Westminster Senior School, SA
- Thomas More College, SA
- St Martin's Catholic School, SA
- Adelaide Mushrooms Expansion, SA

Our ongoing cost management measures, combined with having a diversified product range supplying to mutliple sectors within the construction market, puts Delta in a position to benefit from any increase in market activity. Delta has continued to work with designers and major contractors on the development of new projects and products like the Bridge Replacement Culverts for BHP, particularly in the infrastructure space which has become a priority for the government. Major projects, like the various stages of Metronet, should provide a solid platform from which Delta can build on going forward into the 2021 financial year.

SCHAFFER CORPORATION'S BUILDING MATERIALS DIVISION CONSISTS OF DELTA CORPORATION WHICH IS WA'S PRE-EMINENT MANUFACTURER OF PRECAST AND PRESTRESSED CONCRETE PRODUCTS.

For personal use only

FEATURE PROJECT

Low level bridge replacement – BHP Billiton Iron Ore





The Low Level Bridge Replacement Program involved the replacement of seven existing steel bridges on the BHP Newman Main Rail with new precast concrete culvert structures to ensure sustainable, safe operation of the railway and consider future haul capacity expansion.

Due to the client's operating requirements, each bridge had to be replaced within a twelve hour shutdown window. Each new concrete bridge was constructed offline approximately ten metres adjacent to the existing bridge. The existing steel bridge was lifted and slid out of the rail alignment, with the new bridge then being lifted, slid and lowered into position into the new rail alignment. With extremely tight tolerances and installation of the culverts completed within a two-hour duration, the subsequent rail and finishing works were able to be completed on time.

Project Contractors Laing O'Rourke awarded Delta Corporation the supply contract to manufacture and deliver to site all 39 bridge culverts and 17 approach elements required to complete the project.

The overall dimensions of the bridge culverts were generally 7,500mm long x 4,500mm wide x 4,165mm high and weighed in at between 65 to 73 tonne each. The approach unit dimensions were 6,500mm long x 4,500mm wide x 1,165mm high and weighed between 36 and 44 tonne each.

The bridge culverts were manufactured using a high strength concrete and were heavily reinforced with 435kgs of steel per cubic metre in order to sustain the enormous iron ore train loads for the service life of the bridge.

Delta worked closely with Laing O'Rourke and their design team to develop a unique manufacturing method in order to reduce the cost to meet budget and program constraints.

All elements were successfully manufactured and delivered to site over a number of planned shutdowns to accommodate the site construction program.

For personal use only

SFC INVESTMENTS

QUALITY INVESTMENTS AND LAND ASSETS WITH REDEVELOPMENT POTENTIAL

Group Investments

The aim of Group Investments is to maximise shareholders' value over the medium to long-term through SFC's access to unique investment opportunities and investing in businesses and people with proven track records. The investment approach remains flexible and opportunistic.

Portfolio Summary

	Cost[2] ($m)	Book Value ($m)	Market Value ($m)	Net Equity Value Pre-Tax[1] ($m)	Net Equity Value Pre-Tax[1] Per Share	Net Equity Value[3] ($m)
Property Used by SFC Operations	$6.4	$6.4	$9.7	$9.7	$0.71	$8.8
Rental Properties	$38.0	$36.9	$75.0	$48.9	$3.59	$36.4
Development Sites	$10.8	$10.7	$47.2	$46.2	$3.39	$34.4
Total Property	**$55.2**	**$54.0**	**$131.9**	**$104.8**	**$7.69**	**$79.6**
Equities	$17.8	$33.4	$33.4	$33.4	$2.46	$28.7
Fixed Income	$1.8	$1.8	$1.8	$1.8	$0.13	$1.8
Investment Assets	**$74.8**	**$89.2**	**$167.1**	**$140.0**	**10.28**	**$110.1**
Cash and Term Deposits	$22.6	$22.6	$22.6	$22.6	$1.66	$22.6
Total	**$97.4**	**$111.8**	**$189.7**	**$162.6**	**$11.94**	**$132.7**

All values represent SFC's share, i.e. 83.17% for Gosh Capital and other subsidiary held assets

1. Market value less debt
2. Depreciated cost applicable for directly owned property
3. Market value less debt and notional tax on capital gain or loss

Lot 701, 702 & 703 Jandakot Road

SFC owns a strategic 54.4 hectare property in Jandakot, Western Australia, that is only 15 minutes south of the Perth central business district.

15.6 hectares is designated as Bush Forever and protected wetland. An approved local scheme allows warehouses, showrooms, masonry production and nurseries on the remaining 38.8 hectares. After subdivision to allow for road development, drainage and buffers, the remaining developable area is approximately 33 hectares of which 6.2 hectares is a production facility currently leased to Austral Masonry Holdings. A subdivision application and a local development plan were approved by the West Australian Planning Commission (WAPC) and City of Cockburn respectively during the second half of the 2020 financial year and plans are progressing to develop the site.

The site was independently revalued at 30 June 2020 to $45.2 million on an "as is" basis from the previous valuation of $37.2 million.

Bennett Avenue, North Coogee

The Group owns a 2.1 hectare property in North Coogee, Western Australia that was previously rezoned high density residential from industrial.

The stimulus announced by the State and Federal Government to boost the housing construction market through the Covid-19 pandemic has had a positive impact on the demand for residential land in Western Australia. We are accelerating our plans to develop our site with the aim to have titles for Phase 1 of our subdivision ready by March 2021. A subdivision application has been approved by the Department of Planning, Land and Heritage (DPLH) and groundworks are scheduled to commence immediately.

The site is currently valued at $10.5 million (SFC's share: $8.7 million).

The following table represents the 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 ($m)	Notional Tax on Capital Gain ($m)	Net Equity Value ($m)
Property used by SFC operations										
218 Campersic Road, Herne Hill, WA	Delta	SFC Direct	134,305	-	100%	5.7	8.0	-	(0.6)	7.4
1305 Hay Street, West Perth, WA	Head Office	SFC Direct	413	-	100%	0.7	1.7	-	(0.3)	1.4
						6.4	**9.7**	**-**	**(0.9)**	**8.8**
Rental Properties										
Hometown, 1480 Albany Hwy, Cannington, WA	Bulky Goods	Jointly Held	59,319	20,637	25%	5.3	16.5	(9.7)	(3.5)	3.3
39 Dixon Rd, Rockingham, Western Australia	Bulky Goods	Gosh Direct	12,047	5,434	83%	7.8	9.1	(5.5)	(1.2)	2.4
Tamworth Homespace, Tamworth, NSW	Bulky Goods	Syndicate	31,160	13,050	25%	2.4	2.4	-	-	2.4
Auburn Megamall, 265 Parramatta Road, NSW	Bulky Goods	Gosh Syndicate	24,690	32,348	2%	1.1	1.1	-	(0.2)	0.9
IBM Centre, 1060 Hay Street, West Perth, WA	Commercial	Jointly Held	5,797	8,466	22%	1.3	12.9	(7.2)	(3.2)	2.5
Buller Street, Port Macquarie, NSW	Commercial	Syndicate	5,042	6,214	5%	0.8	0.8	-	0.1	0.9
Fairfield Road, Brisbane, QLD	Commercial	Syndicate	3,600	4,198	5%	0.9	0.9	-	-	0.9
Faulding Street, Symonston, ACT	Commercial	Syndicate	7,360	3,479	6%	0.4	0.4	-	-	0.4
6 Centro Avenue, Subiaco, WA	Commercial	Syndicate	1,607	1,018	50%	1.0	1.0	-	-	1.0
Doubletree Hotel, Burlington, Vermont, USA	Hotel	SFC US Syndicate	64,600	309 rooms	6%	1.2	1.2	-	-	1.2
Marriott Hotel, Yonkers, New York, USA	Hotel	SFC US Syndicate		17,100	4%	1.2	1.2	-	-	1.2
Pacific Brisbane Hotel, Brisbane, QLD	Hotel	SFC Direct	2,899	7,759	4%	0.9	0.9	-	0.1	1.0
Pacific Suites, Canberra, ACT	Hotel	Gosh Syndicate	-	16,045	2%	0.8	0.8	-	0.1	0.9
Embassy Suites, Portland, Maine, USA	Hotel	SFC US Syndicate	11,250	11,250	7%	0.7	0.7	-	-	0.7
Seasons Hotel, Newman, WA	Hotel	Syndicate	29,000	82 rooms	5%	0.3	0.3	-	-	0.3
Coral Cat Resort, Mackay, QLD	Hotel	Syndicate	9,148	82 rooms	5%	0.3	0.3	-	-	0.3
Lot 701 Jandakot Road, Jandakot, WA	Industrial	SFC Direct	62,097	-	100%	3.0	12.2	-	(2.9)	9.3
Willung Rd, Rosedale, Victoria	Industrial/ Rural	Subsidiary Direct	510,530	9,854	83%	1.9	2.4	-	(0.5)	1.9
Shaw Road, Townsville	Industrial	Syndicate	14,650	4,728	10%	0.8	0.8	-	0.1	0.9
Magnesium Drive, Crestmead, QLD	Industrial	Syndicate	16,800	8,800	12%	0.8	0.8	-	0.1	0.9
Cope Logistics – 7 properties nationwide	Industrial	Gosh Syndicate	78,042	23,575	3%	0.4	0.4	-	-	0.4
Pier 5350 Apartments, Jacksonville, Florida, USA	Residential	SFC US Syndicate	89,000	43,200	7%	1.7	1.7	-	(0.1)	1.6
Parks Shopping Centre, Bunbury, WA	Retail	Jointly Held	30,804	10,622	17%	1.9	6.2	(3.8)	(1.3)	1.1
						36.9	**75.0**	**(26.2)**	**(12.4)**	**36.4**
Development sites										
Lot 702 Jandakot Road, Jandakot, WA	Commercial	SFC Direct	32,442	500	100%	1.2	7.0	-	(2.1)	4.9
Lot 561 Paris Road, Australind, WA	Commercial	Gosh - Unit Trust	12,000	-	4%	0.4	0.4	-	-	0.4
Lot 703 Jandakot Road, Jandakot, WA	Industrial	SFC Direct	449,639	-	100%	3.2	26.0	-	(7.2)	18.8
170 Flynn Drive, Neerabup, WA	Industrial	Jointly Held	260,000	-	20%	1.5	2.8	(1.0)	(0.4)	1.4
62 Cosgrove Road, Enfield, NSW	Industrial	Syndicate	23,267	-	6%	1.0	1.0	-	-	1.0
10 Bennett Avenue, North Coogee, WA	Residential	Gosh Direct	21,035	-	83%	2.1	8.7	-	(2.1)	6.6
South Ocean Real Estate Fund	Residential	SFC US			1%	1.1	1.1	-	(0.1)	1.0
Part Lot 602 Yanchep Beach Road, WA	Residential	Gosh - Unit Trust	42,600	-	3%	0.2	0.2	-	0.1	0.3
						10.7	**47.2**	**(1.0)**	**(11.8)**	**34.4**
Total SFC Property Value						**54.0**	**131.9**	**(27.2)**	**(25.1)**	**79.6**

All values represent SFC's share, i.e. 83.17% for Gosh Capital and other subsidiary held assets.
Included in SFC's share of debt is $21.7m relating to jointly held properties.

For personal use only

For personal use only

2020

SCHAFFER CORPORATION LIMITED

ABN 73 008 675 689

FINANCIAL REPORT

at 30 June 2020

Consolidated Statement of Comprehensive Income	14
Consolidated Statement of Financial Position	15
Consolidated Statement of Changes in Equity	16
Consolidated Statement of Cash Flows	17
Notes to the Consolidated Financial Statements	18
Directors' Declaration	50
Independent Auditor's Report	51
Directors' Report	57
Statement of Corporate Governance Practices	67
ASX Additional Information	72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue			
Revenue from contracts with customers	3	**148,703**	196,586
Rental income	4(a)	**5,422**	5,875
Finance income	4(b)	**513**	681
Distribution revenue		**935**	481
Total revenue		**155,573**	203,623
Cost of sales and services rendered		**(111,679)**	(143,701)
Gross profit		**43,894**	59,922
Impairment – property, plant & equipment	18	**(1,448)**	–
Impairment reversal / (loss) – investment property	19	**1,221**	(1,221)
Share of profit of associate		**11**	–
Other income	4(c)	**9,722**	2,126
Marketing expenses		**(623)**	(628)
Administrative expenses		**(11,607)**	(19,198)
Profit before tax and finance costs		**41,170**	41,001
Finance costs	4(b)	**(2,640)**	(2,433)
Profit before income tax		**38,530**	38,568
Income tax expense	5	**(11,377)**	(10,868)
Net profit for the period		**27,153**	27,700
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation gain attributable to parent		**420**	631
		420	631
Items that may not be reclassified subsequently to profit or loss			
Foreign currency translation gain attributable to non-controlling interest		**58**	92
Other comprehensive income for the period, net of tax		**478**	723
Total comprehensive income for the period		**27,631**	28,423
Profit for the period is attributable to:			
Non-controlling interest	32	**3,603**	4,801
Owners of the parent	24	**23,550**	22,899
		27,153	27,700
Total comprehensive income for the period attributable to:			
Non-controlling interest		**3,661**	4,893
Owners of the parent		**23,970**	23,530
		27,631	28,423
Earnings per share (EPS)			
Basic EPS	7	**171.9¢**	165.6¢
Diluted EPS	7	**170.6¢**	164.2¢
Dividends paid per share		**80.0¢**	70.0¢

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**35,016**	17,371
Trade and other receivables	9	**17,496**	29,310
Inventories	11	**40,909**	40,062
Contract assets	10	**2,589**	3,553
Prepayments and deposits	12	**2,075**	4,976
Derivative financial instruments	13	**166**	131
Other financial assets	13	**–**	19,336
Total current assets		**98,251**	114,739
Non-current assets			
Property, plant and equipment	18	**13,637**	26,766
Investment properties	19	**31,794**	29,576
Right-of-use assets	20	**37,834**	–
Investment in associate		**311**	–
Deferred income tax asset	5	**5,075**	7,552
Goodwill	21	**1,299**	1,299
Other financial assets	13	**54,957**	28,278
Total non-current assets		**144,907**	93,471
Total assets		**243,158**	208,210
LIABILITIES			
Current liabilities			
Trade and other payables	14	**12,485**	27,000
Contract liabilities	10	**277**	415
Interest-bearing loans and borrowings	15	**13,499**	15,255
Lease liabilities	20	**5,438**	3,075
Income tax payable		**–**	4,827
Provisions	17	**6,804**	8,895
Derivative financial instruments	13	**1,762**	711
Total current liabilities		**40,265**	60,178
Non-current liabilities			
Interest-bearing loans and borrowings	15	**39,834**	13,996
Lease liabilities	20	**28,186**	5,916
Deferred income tax liabilities	5	**2,235**	2,107
Provisions	17	**8,839**	9,969
Total non-current liabilities		**79,094**	31,988
Total liabilities		**119,359**	92,166
Net assets		**123,799**	116,044
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	23	**11,227**	13,991
Reserves	24	**3,488**	2,978
Retained earnings	24	**100,522**	88,643
Total parent entity interest in equity		**115,237**	105,612
Non-controlling interests	32	**8,562**	10,432
Total equity		**123,799**	116,044

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

For personal use only

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Attributable to equity holders of the parent								
		Reserves							
	Issued capital	Retained earnings	Asset revaluation	Share-based payments	Net unrealised gains/ (losses)	Foreign currency translation	Total	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2019	**13,991**	**88,643**	**2,585**	**(882)**	**–**	**1,275**	**105,612**	**10,432**	**116,044**
Profit for the year	**–**	**23,550**	**–**	**–**	**–**	**–**	**23,550**	**3,603**	**27,153**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**420**	**420**	**58**	**478**
Total comprehensive income for the year	**–**	**23,550**	**–**	**–**	**–**	**420**	**23,970**	**3,661**	**27,631**
Transactions with owners in their capacity as owners:									
Shares acquired under buy-back scheme	**(3,166)**	**–**	**–**	**–**	**–**	**–**	**(3,166)**	**–**	**(3,166)**
Employee share options exercised	**402**	**–**	**–**	**–**	**–**	**–**	**402**	**–**	**402**
Share-based payments	**–**	**–**	**–**	**90**	**–**	**–**	**90**	**–**	**90**
Equity dividends	**–**	**(11,671)**	**–**	**–**	**–**	**–**	**(11,671)**	**(5,531)**	**(17,202)**
At 30 June 2020	**11,227**	**100,522**	**2,585**	**(792)**	**–**	**1,695**	**115,237**	**8,562**	**123,799**
At 1 July 2018	14,540	72,101	2,585	(950)	1,942	644	90,862	11,724	102,586
Reclassification on adoption of AASB 9	–	1,942	–	–	(1,942)	–	–	–	–
At 1 July 2018 (restated)	14,540	74,043	2,585	(950)	–	644	90,862	11,724	102,586
Profit for the year	–	22,899	–	–	–	–	22,899	4,801	27,700
Other comprehensive income	–	–	–	–	–	631	631	92	723
Total comprehensive income for the year	–	22,899	–	–	–	631	23,530	4,893	28,423
Transactions with owners in their capacity as owners:									
Shares acquired under buy-back scheme	(719)	–	–	–	–	–	(719)	–	(719)
Employee share options exercised	170						170	–	170
Share-based payments	–	–	–	68	–	–	68	–	68
Equity dividends	–	(8,299)	–	–	–	–	(8,299)	(6,185)	(14,484)
At 30 June 2019	13,991	88,643	2,585	(882)	–	1,275	105,612	10,432	116,044

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

For personal use only

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**164,701**	208,962
Interest received		**422**	681
Distributions received		**624**	224
Rental income		**5,040**	5,875
Payments to suppliers and employees		**(133,128)**	(162,570)
Government subsidies		**956**	–
Interest paid		**(2,640)**	(2,433)
Income taxes paid		**(15,374)**	(17,791)
Goods and services tax paid		**(191)**	(81)
Proceeds from exercise of employee share options		**402**	170
Net cash flows from operating activities	8	**20,812**	33,037
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in term deposits		**(6,000)**	(42,515)
Proceeds on maturity of term deposits		**22,515**	32,000
Acquisition of property, plant and equipment	18	**(5,494)**	(5,409)
Proceeds on sale of property, plant and equipment		**413**	425
Improvements to investment properties		**(1,841)**	(394)
Acquisition of financial assets at fair value through profit or loss		**(17,258)**	(17,583)
Investment in associate		**(300)**	–
Capital distribution from financial assets at fair value through profit or loss		**469**	–
Proceeds on disposal of financial assets at fair value		**4,400**	1,360
Net cash flows used in investing activities		**(3,096)**	(32,116)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**31,273**	19,267
Repayment of borrowings		**(7,191)**	(15,143)
Lease principal receipts		**1,450**	3,347
Lease principal repayments		**(5,182)**	(2,479)
Dividends paid	6(a)	**(17,202)**	(14,484)
Shares acquired under share buy-back scheme		**(3,166)**	(719)
Net cash flows used in financing activities		**(18)**	(10,211)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**17,698**	(9,290)
Net foreign exchange differences		**(53)**	723
Cash and cash equivalents at the beginning of the period		**17,371**	25,938
Cash and cash equivalents at the end of the period	8	**35,016**	17,371

The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

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

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

For personal use only

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 2020 was authorised for issue in accordance with a resolution of the Directors on 18 September 2020.

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 22.

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 financial instruments held at fair value through profit or loss 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 Group applied AASB 16 *Leases* and AASB Interpretation 23 *Uncertainty over Income Tax Treatment* for the first time. The nature and effect of this new accounting standard and interpretation are described below.

Several other amendments and interpretations apply for the first time as of 1 July 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

AASB 16 Leases ("AASB 16")

AASB 16 supersedes AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under AASB 16 is substantially unchanged under AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 did not have an impact for leases where the Group is the lessor.

Impact of Adoption

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application and the comparative information has therefore not been restated for adoption of AASB 16.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adopting AASB 16 as at 1 July 2019 (increase/(decrease)) is as follows:

	$'000
Assets	
Right-of-use assets	41,041
Property, plant and equipment	(13,374)
Prepayments	(393)
Total assets	27,274
Liabilities	
Lease liabilities	37,345
Interest-bearing loans and borrowings	(8,991)
Trade and other payables	(1,080)
Total liabilities	27,274

(i) *Nature of the effect of adoption of AASB 16*

The Group has lease contracts for factory and office buildings and various items of plant, machinery, vehicles and other equipment. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability.

For an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

- *Leases previously classified as finance leases*
  The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under AASB 117). The requirements of AASB 16 were applied on these leases from 1 July 2019.
- *Leases previously accounted for as operating leases*
  The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application;
- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- elected not to apply the requirements of the standard for leases of low value; and
- elected not to reassess whether existing contracts contain a lease as defined at the date of initial application.

Based on the foregoing, as at 1 July 2019:

- Right-of-use assets of $41,041,000 were recognised and presented separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of $13,374,000 that were reclassified from property, plant and equipment.
- Additional lease liabilities of $28,354,000 were recognised.
- Prepayments of $393,000 and trade and other payables of $1,080,000 related to previous operating leases were derecognised.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	$'000
Operating lease commitments as at 30 June 2019	**18,272**
Weighted average incremental borrowing rate as at 1 July 2019	**2.62%**
Discounted operating lease commitments at 1 July 2019	**17,086**
Less:	
Commitments relating to short-term leases	(124)
Commitments relating to leases of low-value assets	(8)
Add:	
Commitments relating to leases previously classified as finance leases	8,991
Optional extension periods not recognised as at 30 June 2019	11,400
Lease liabilities as at 1 July 2019	**37,345**

(ii) *Accounting policies*

The new accounting policies of the Group upon adoption of AASB 16 are presented in note 2(t).

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group has considered its response to Covid-19 when making this judgment and concluded that it did not impact the Group's assessment of the lease terms of the Group's various leases.

The Group included the renewal period as part of the lease term for specific factory and office leases due to the significance of these assets to its operations. Any renewal options for plant, equipment and motor vehicles were not included as part of the lease term because these assets are not significant to the operations.

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of AASB 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgment in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards and Interpretations not yet applicable

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2020. New Standards which are not yet effective and which may have a material impact on the Group include:

Pronouncement	Title	Summary	Application date of standard	Application date for Group
Conceptual Framework	*Conceptual Framework for Financial Reporting*	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: ► Chapter 1 – The objective of financial reporting ► Chapter 2 – Qualitative characteristics of useful financial information ► Chapter 3 – Financial statements and the reporting entity ► Chapter 4 – The elements of financial statements ► Chapter 5 – Recognition and derecognition ► Chapter 6 – Measurement ► Chapter 7 – Presentation and disclosure ► Chapter 8 – Concepts of capital and capital maintenance AASB 2019-1 has also been issued, which sets out the amendments to other pronouncements for references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the *Framework for the Preparation and Presentation of Financial Statements* (July 2004), and not the definitions in the revised Conceptual Framework.	1 January 2020	1 July 2020
AASB 2019-1	*Amendments to Australian Accounting Standards – Reference to the Conceptual Framework*			
AASB 2018-7	*Amendments to Australian Accounting Standards – Definition of Material*	This Standard amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.	1 January 2020	1 July 2020
AASB 2019-5	*Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards.	1 January 2020	1 July 2020
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	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 *Business Combinations*. 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.	1 January 2022	1 July 2022

(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 right.

The Group re-assesses whether 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 Ltd 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

For personal use only

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

(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 impact of Covid-19 was considered when assessing the future earnings input used in these estimations. Future earnings estimates have been reduced to assume ongoing negative global economic impact and the possibility of temporary plant closures that may impact future sales. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 21.

Employee participation units

The Group measures the cost of cash-settled EPU termination payments in accordance with a valuation formula based on the future three-year average of 5.5 times Automotive Leather's estimated earnings before interest and tax minus the future three-year average estimated debt, discounted based on the estimated period until payment using a risk-free rate of return. The impact of Covid-19 was considered when assessing the future earnings input used in these estimations. Future earnings estimates have been reduced to assume ongoing negative global economic impact and the possibility of temporary plant closures that may impact future sales. The valuation has sensitivity to the estimate of future earnings. A 10% reduction in the estimate of future earnings would reduce the provision $959,000. Refer note 27(c).

Construction contracts

Refer note 2(m).

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.

Variable consideration

The Group estimates variable consideration to be included in the transaction price for the sale of automotive leather components with rights to claim a refund.

At each reporting date, the Group estimates forecast claims as the larger value of the 12-month historical claims as a percentage of revenue from sales of automotive leather components applied to the current trade receivables balance, or the value of identified return materials authorities (RMAs) that have not yet been credited.

The Group estimates variable consideration to be included in the transaction price for the construction of precast concrete elements with rights for liquidated damages. The Group has no history of liquidated damages and accordingly has estimated forecasted liquidated damages to be nil.

Estimates of expected variable consideration are sensitive to changes in circumstances and the Group's past experience may not be representative of actual customer claims and liquidated damages in the future. Any significant change in experience as compared to history will impact the expected variable consideration in the future.

Provision for expected credit losses of trade receivables and contract assets

The provision for expected credit losses of trade receivables and contract assets is based on the historical default rates experienced by the Group, forecast economic conditions, financial strength of ongoing customers and the Group's credit policies, adjusted for forward looking factors specific to the debtors and the economic environment. The Group has suffered negligible default rates in recent years however the Group's credit loss experience may not be representative of actual customer defaults in the future, particularly due to Covid-19. Management have provided for an amount of expected credit loss with consideration of Covid-19, based on the overall strength of the sectors to which the Group supplies.

Fair value of financial instruments

The Group owns certain financial instruments that are not valued using quoted market prices. The fair value of each these financial instruments is based on available information including guidance provided by investment managers, external valuations by independent third-party valuers, and market research. The varied impacts of Covid-19 on the market sectors to which the individual investments pertained were considered in the assessments of fair value. Refer note 16(c).

(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 31) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(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

(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 re-assessment 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

Debt instruments at amortised cost

The Group's debt financial assets included in other financial assets are classified as debt instruments at amortised cost where they are held with the objective of holding the financial asset to collect contractual cash flows and the cash flows are solely payments of principal and interest.

Financial assets at fair value through profit or less

The Group's other financial assets are classified as financial assets at FVTPL and comprise derivative instruments, plus quoted and unquoted equity instruments which the Group has not irrevocably elected, at initial recognition or transition, to classify at FVOCI.

(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.

(l) Trade and other receivables

Trade and other receivables are classified as debt instruments at amortised cost. An allowance is recognised for expected credit loss based on the Group's historical loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the Group.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Contract assets and liabilities

Contract work in progress

Contract work in progress is classified as contract assets or contract liabilities in accordance with AASB 15.

Contract work in progress is stated at cost plus profit recognised to date calculated in accordance with the percentage of completion method, less an allowance for expected credit loss and progress payments received to date.

An allowance for expected credit loss is based on the Group's historical loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

The gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeded progress billings, is presented in contract assets.

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

(n) Cash and short-term deposits

Cash and short-term deposits in the Consolidated Statement of Financial Position comprises cash at banks and on hand and short-term deposits with a maturity of 90 days or less.

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

(o) Interest-bearing loans and borrowings

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

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

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

(p) Provisions

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

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

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

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

Restructure provisions

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

(q) Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave, and associated taxes and on-costs. 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.

(r) Executive share option arrangement

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

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

The options hold no voting or dividend rights and are not transferable. Schaffer Corporation Limited does not provide 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 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). There are no non-vesting conditions attached to the employee share scheme.

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 7).

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) 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(c).

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 Group records a provision for EPU termination entitlements calculated using estimates of the probable future EPU cash payments for issued EPUs discounted based on the estimated period until payment using a risk-free rate of return. The amount estimated for EPU cash payments on termination is calculated in accordance with an equity valuation formula based on the three-year average, including one full year following termination, of 5.5 times Howe Automotive Limited's estimated earnings before interest and tax minus debt.

EPUs are cancelled once they are paid out. EPUs 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, is disparaging to Howe or any of its businesses, does anything which is illegal, fraudulent, dishonest or serious misconduct, discloses confidential information, 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.

(t) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- buildings – 6 to 12 years
- plant and equipment – 5 to 15 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment assessments. Refer to note 2(i).

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of plant and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of plant and equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(u) Revenue recognition

Sale of Goods

Automotive leather components – Revenue is recognised at the point in time when control of the goods is transferred to the customer, generally on collection by the customer. The contracts for the sale of automotive leather components provide customers with the right to claim a credit or refund for components that do not satisfy agreed quality standards. The customer's right to claim is a variable consideration that is estimated at contract inception and constrained until the associated uncertainty is resolved. The estimate of constrained revenue is based on all available information including historic performance and is recognised to the extent that it is highly probable that a significant reversal of revenue will not occur. Payment terms are generally 30 to 90 days.

Hospitality sales

Revenue is recognised at the point in time when control of the goods is transferred to the customer.

Construction contracts

The Group recognises construction services revenue and expenses on an individual contract basis using the percentage of completion method based on cost inputs which align with the calculation of the contractually enforceable obligation a customer must pay for work completed to date. Once the financial outcome of a construction contract can be estimated reliably, contract revenues and expenses are recognised in the Consolidated Statement of Comprehensive Income in proportion to the stage of completion of the contract. Where modifications in design or contract requirements are entered into, the transaction price is updated to reflect these. Where the price of a modification has not been confirmed, an estimate is made of the amount of revenue to recognise whilst also considering any constrained revenue requirement. Payment terms are generally 30 to 45 days. The Group generally warrants that it will rectify construction works deemed defective for between 5 and 10 years from completion of the works.

Transport

The Group recognises transport revenue on an individual contract basis over the period the service is completed. Payment terms are generally 30 to 45 days.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

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 and distributions

Revenue is recognised when the shareholders' or unitholders' 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.

(v) Income tax

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

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- where taxable temporary differences associated with investments in subsidiaries, associates and 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.

(w) 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.

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.

(x) Derivative financial instruments

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

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

Forward exchange contracts

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

Interest rate swaps

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

(y) Contributed equity

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

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Parent adjusted to exclude costs of servicing equity (other than dividends), 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.

(aa) Borrowing costs

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

(ab) Trade and other payables

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

(ac) Research costs

Research costs are expensed as incurred,

(ad) 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 acquire, the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

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

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

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

(ae) Discontinued operations

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

(af) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs 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.

(ag) Government subsidies

Government subsidies are recognised when there is reasonable assurance that the subsidy will be received, and all attached conditions are complied with. When the subsidy relates to an expense item, it is recognised as income on a systemic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

For personal use only

NOTE 3
REVENUE FROM CONTRACTS WITH CUSTOMERS

	Automotive Leather	Group Investments	Building Materials	Total
For the year ended 30 June 2020				
Segments	**$'000**	**$'000**	**$'000**	**$'000**
Type of goods or service				
Sale of automotive leather components	**130,141**	**–**	**–**	**130,141**
Construction services	**–**	**–**	**13,675**	**13,675**
Transport income	**–**	**–**	**4,083**	**4,083**
Sale of goods – hospitality business	**–**	**804**	**–**	**804**
Total revenue from contracts with customers	**130,141**	**804**	**17,758**	**148,703**
Geographical Markets				
Europe	**98,445**	**–**	**–**	**98,445**
Asia	**31,696**	**–**	**–**	**31,696**
Australia	**–**	**804**	**17,758**	**18,562**
Total revenue from contracts with customers	**130,141**	**804**	**17,758**	**148,703**
Timing of revenue recognition				
Goods transferred at a point in time	**130,141**	**804**	**–**	**130,945**
Services transferred over time	**–**	**–**	**17,758**	**17,758**
Total revenue from contracts with customers	**130,141**	**804**	**17,758**	**148,703**
Relating to prior period performance	**–**	**–**	**–**	**–**
Relating to current period performance	**130,141**	**804**	**17,758**	**148,703**
Total revenue from contracts with customers	**130,141**	**804**	**804**	**148,703**

	Automotive Leather	Group Investments	Building Materials	Total
For the year ended 30 June 2019				
Segments	$'000	$'000	$'000	$'000
Type of goods or service				
Sale of automotive leather components	176,251	–	–	176,251
Construction services	–	–	15,542	15,542
Transport income	–	–	3,985	3,985
Sale of goods – hospitality business	–	808	–	808
Total revenue from contracts with customers	176,251	808	19,527	196,586
Geographical Markets				
Europe	136,802	–	–	136,802
Asia	39,449	–	–	39,449
Australia	–	808	19,527	20,335
Total revenue from contracts with customers	176,251	808	19,527	196,586
Timing of revenue recognition				
Goods transferred at a point in time	176,251	808	–	177,059
Services transferred over time	–	–	19,527	19,527
Total revenue from contracts with customers	176,251	808	19,527	196,586
Relating to prior period performance	–	–	–	–
Relating to current period performance	176,251	808	19,527	196,586
Total revenue from contracts with customers	176,251	808	19,527	196,586

At 30 June 2020 and 30 June 2019, the Group had no portion of transaction price allocated to remaining unfulfilled performance obligations for contracts with a duration of over 12 months.

NOTE 4
SIGNIFICANT OTHER INCOME AND EXPENSES

		Consolidated 2020 $'000	Consolidated 2019 $'000
(a)	**Net rental income**		
	Rental property income	**5,422**	5,875
	Rental property expenses	**(3,260)**	(2,751)
	Net rental income	**2,162**	3,124
(b)	**Finance (costs)/income**		
	Interest on loans	**(1,820)**	(2,277)
	Interest on leases	**(820)**	(156)
	Total finance costs	**(2,640)**	(2,433)
	Interest on cash and term deposits	**513**	681
	Total finance income	**513**	681
(c)	**Other income/(losses)**		
	Gain on disposal of property, plant and equipment	**192**	5
	Net (loss)/gain on derivatives	**(1,460)**	1,111
	Foreign currency losses	**(2,900)**	(1,950)
	Foreign currency gains	**2,469**	1,714
	Realised (losses)/gains on other financial assets at fair value through profit or loss	**(370)**	261
	Unrealised gains on other financial assets at fair value through profit or loss	**10,835**	985
	Government subsidies	**956**	–
		9,722	2,126
(d)	**Depreciation, amortisation and impairment included in the consolidated statement of comprehensive income**		
	Depreciation included in:		
	Cost of sales	**7,013**	3,793
	Rental property expenses	**717**	587
	Marketing and administrative expenses	**63**	290
	Total depreciation	**7,793**	4,670
	Impairment included in:		
	Impairment loss – property, plant and equipment	**1,448**	–
	Impairment (reversal) / loss – investment property	**(1,221)**	1,221
		227	1,221
	Total depreciation includes depreciation on right-of-use assets first recognised on the adoption of AASB 16 on 1 July 2019 – $2,944,000 (2019:$nil)		
(e)	**Employee benefit expense**		
	Wages, salaries and bonuses	**34,515**	40,494
	Post-employment benefits provisions (reversal)/ increase	**(1,091)**	3,614
	Long service leave provision	**160**	75
	Worker's compensation costs	**287**	296
	Superannuation costs	**1,021**	994
	Share-based payments expense	**89**	68
		34,981	45,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 5
INCOME TAX

	Consolidated 2020 $'000	Consolidated 2019 $'000
The major components of income tax expense are:		
Consolidated statement of comprehensive income		
Current income tax		
Current income tax charge	**8,962**	13,327
Adjustment in respect of current income tax of previous years	**(190)**	(700)
Deferred income tax		
Total deferred income tax recognised for the period	**2,605**	(1,759)
Income tax expense reported in the consolidated statement of comprehensive income	**11,377**	10,868
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before tax from continuing operations	**38,530**	38,568
At the Group's statutory income tax rate of 30% (2019 – 30%)	**11,560**	11,570
– overseas currency translation adjustment	**63**	16
– expenses not deductible for income tax purposes	**79**	130
– other items	**(157)**	(148)
– effect of lower tax rates in the United States	**22**	–
– over-provision of current income tax of previous years	**(190)**	(700)
Income tax expense reported in the consolidated statement of comprehensive income – continuing operations at the effective tax rate of 30% (2019 – 28%)	**11,377**	10,868

NOTE 5
INCOME TAX (CONTINUED)

	Note	Consolidated Statement of Financial Position 2020 $'000	Consolidated Statement of Financial Position 2019 $'000	Consolidated Statement of Comprehensive Income 2020 $'000	Consolidated Statement of Comprehensive Income 2019 $'000
Deferred income tax					
Deferred income tax at 30 June relates to the following:					
Consolidated					
Deferred tax liabilities					
Accelerated depreciation for tax purposes		**1,051**	994	**(57)**	(42)
Expenses deducted for income tax purposes but deferred for accounting purposes		**185**	52	**(133)**	13
Deferred gains and losses on foreign exchange contracts and translations		**–**	14	**14**	36
Income taken up for accounting purposes currently not assessable for income tax purposes		**132**	192	**60**	(56)
Unrealised gain on other financial assets to fair value		**4,532**	1,232	**(3,300)**	(233)
Share of net profit of associates accounted for using the equity method		**3**	–	**(3)**	–
Depreciation on right-of-use assets not deducted for tax purposes	(i)	**7,424**	–	**876**	–
Prepaid lease expenses deducted for tax purposes		**360**	–	**(36)**	–
Deferred gain for income tax purposes on rollover of freehold property		**1,265**	1,265	**–**	–
Gross deferred income tax liabilities		**14,952**	3,749		
Offset		**(12,717)**	(1,642)		
		2,235	2,107		
Consolidated					
Deferred tax assets					
Employee entitlements		**3,856**	4,151	**(295)**	481
Allowance for doubtful debts		**–**	–	**–**	(6)
Accelerated depreciation for accounting purposes		**1,699**	1,683	**16**	302
Deferred gains and losses on foreign exchange contracts and translations		**831**	501	**330**	501
Expenses not immediately deductible for tax purposes		**518**	487	**(87)**	(50)
Lease payments deductible for tax purposes	(ii)	**7,702**	–	**(804)**	–
Deferred losses on interest rate swap contracts		**201**	145	**56**	131
Foreign tax credits deductible in a future period		**88**	150	**(62)**	150
Income taken up for tax purposes but not for accounting purposes		**35**	35	**–**	35
Unrealised loss on other financial assets to fair value		**78**	13	**65**	13
Losses carried forward		**2,784**	2,029	**755**	484
Gross deferred income tax assets		**17,792**	9,194		
Offset		**(12,717)**	(1,642)		
		5,075	7,552		
Deferred tax (expense)/benefit				**(2,605)**	1,759

(i) Depreciation is not deductible for tax purposes for right-of-use assets relating to leases recognised as operating leases prior to the adoption of AASB 16. Depreciation is deductible for right-of-use assets relating to leases recognised as finance leases prior to the adoption of AASB 16.

(ii) Lease payments are deductible for tax purposes for lease liabilities relating to leases recognised as operating leases prior to the adoption of AASB 16. Lease payments are not deductible for lease liabilities relating to leases recognised as finance leases prior to the adoption of AASB 16.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

For personal use only

NOTE 6
DIVIDENDS PROVIDED FOR OR PAID

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
(a) Dividends paid			
Final 2019 – 40¢ per share paid in September 2019 (2018 – 30¢)		**5,518**	4,151
Interim 2020 – 45¢ per share paid in March 2020 (2019 – 30¢)		**6,153**	4,148
Fully franked dividends paid by the parent		**11,671**	8,299
Dividend paid by controlled entity to minority shareholder fully franked	31	**5,531**	6,185
Total fully franked dividends paid		**17,202**	14,484
(b) Not recognised as a liability as at 30 June 2020			
Dividends on ordinary shares			
Final fully franked dividend for 2020 – 35¢ (2019 – 40¢)	32	**4,765**	5,518
The dividends were declared after 30 June 2020 (refer note 32).			
(c) The tax rate at which dividends have or will be franked is interim 30% (2019 – 30%), final 30% (2019 – 30%)			
Franking account balance			
The amount of franking credits available for the subsequent financial year are detailed below:			
The franking account balance disclosures have been calculated using the franking rate at 30 June 2020			
Franking account balance brought forward		**17,539**	7,927
Fully franked dividends paid during 2020 – 85c (2019 – 60c)		**(5,002)**	(3,557)
Tax (refunded)/paid		**–**	–
Franked dividends received from other corporations		**11,714**	13,169
Franking account balance at the end of the financial year		**24,251**	17,539
Franking credits that will (reduce)/arise from the (refund)/payment of income tax (refundable)/payable as at the end of the financial year by the parent		**–**	–
Franking credits that will be available on (refund)/payment of income tax (refundable)/payable as at the end of the financial year by the parent		**24,251**	17,539
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		**56,586**	40,924

NOTE 7
EARNINGS PER SHARE

	Consolidated 2020	Consolidated 2019
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).	**171.9¢**	165.6¢
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).	**170.6¢**	164.2¢

	Consolidated 2020 $'000	Consolidated 2019 $'000
The following reflects the income and share data used in the calculation of basic and diluted earnings per share:		
Net profit attributable to ordinary equity holders of the parent from continuing operations	**23,550**	22,899

	Number of shares 2020	Number of shares 2019
Weighted average number of ordinary shares for basic earnings per share	**13,698,858**	13,826,955
Weighted average number of ordinary shares adjusted for the effect of dilution	**13,801,399**	13,946,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

For personal use only

NOTE 8
CASH AND SHORT-TERM DEPOSITS

	Consolidated 2020 $'000	Consolidated 2019 $'000
(a) Reconciliation of cash		
Cash balance comprises:		
Cash at bank and on hand	**31,501**	17,371
Short-term deposits (term 90 days or less)	**3,515**	–
Closing cash balance per consolidated statement of cash flows	**35,016**	17,371
(b) Reconciliation of operating profit after income tax to the net cash flows from operations		
Net profit	**27,153**	27,700
Adjustment for:		
Depreciation and amortisation	**7,793**	4,670
Impairment of assets (net)	**227**	1,221
Unrealised gains on valuing other financial assets to fair value through profit or loss	**(10,835)**	(985)
Share-based payments expense	**90**	68
Allowance for expected credit losses	**110**	–
Foreign currency translation loss/(gain)	**210**	(656)
Profits of equity accounted associate	**(11)**	–
Profit on disposal of property, plant and equipment	**(192)**	(5)
Distributions reinvested	**(310)**	(193)
Realised losses/(gains) on other financial assets at fair value through profit or loss	**370**	(261)
Proceeds from exercise of employee share options	**402**	170
Changes in assets and liabilities:		
Decrease in trade and other receivables	**11,555**	13,452
Increase in interest-bearing loan receivable	**(91)**	–
Increase in inventories	**(853)**	(458)
Increase/(decrease) in contract assets	**964**	(3,553)
Decrease/(increase) in prepayments	**2,104**	(2,486)
Decrease/(increase) in deferred income tax asset	**2,471**	(1,476)
Decrease in trade and other payables	**(13,873)**	(1,894)
(Decrease)/increase in contract liabilities	**(138)**	415
Decrease/(increase) in employee entitlement provisions	**(2,651)**	809
Decrease in income tax payable	**(4,827)**	(5,165)
Increase/(decrease) in deferred tax liability	**128**	(283)
Decrease in derivatives	**1,016**	1,947
Net cash flows from operating activities	**20,812**	33,037

(c) Bank facilities (refer note 15)

NOTE 9
TRADE AND OTHER RECEIVABLES

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Trade debtors	(i)	**13,978**	25,684
Provision for expected credit loss	(ii)	**(110)**	–
		13,868	25,684
Sundry debtors	(iii)	**3,628**	3,626
		17,496	29,310

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 to 90-day terms.

(ii) An allowance is recognised for expected credit loss based on the Group's historical loss experience, adjusted for forward looking factors specific to the debtors and the economic environment. Refer note 16(e) for credit risk disclosures.

Movement in allowance for expected credit loss	Consolidated 2020 $'000	Consolidated 2019 $'000
At 1 July	**–**	330
Provided/(released) during the year	**110**	(330)
At 30 June	**110**	–

(iii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

The carrying amount of trade and other receivables is at amortised cost and approximates fair value.

NOTE 10
CONTRACT ASSETS AND LIABILITIES

Contract work in progress is classified as contract assets or contract liabilities in accordance with AASB 15. Contract work in progress is stated at cost plus profit recognised to date calculated in accordance with the percentage of completion method, less an allowance for expected credit loss and progress payments received to date.

Contracts for the construction of precast concrete elements generally require customer certification of work completed, generally within 10 business days of a submitting a monthly claim to the customer. An invoice is then raised for the completed work and is payable by the customer generally between 30 to 60 days.

The gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeded progress billings, is presented in contract assets.

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

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
(a) Contract assets			
Contract work in progress	(c)	**2,589**	3,553
Total contract assets		**2,589**	3,553
(b) Contract liabilities			
Contract work in progress	(c)	**146**	41
Provision for refunds – customer claims		**131**	374
Total contract liabilities		**277**	415
(c) Contract work in progress			
Construction costs incurred to date:			
Gross cost plus profit recognised to date		**11,843**	11,843
Less: Progress billings		**(9,400)**	(8,331)
Net construction work in progress		**2,443**	3,512
Represented by:			
Amounts due from customers (contract assets)		**2,589**	3,553
Amounts due to customers (contract liabilities)		**(146)**	(41)
		2,443	3,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 10
CONTRACT ASSETS AND LIABILITIES (CONTINUED)

	Consolidated		
	Work in progress	Customer claims	Total
	$'000	$'000	$'000
Movement in contract assets			
At 1 July 2019	**3,553**	**–**	**3,553**
Movement in contract work in progress	**(964)**	**–**	**(964)**
At 30 June 2020	**2,589**	**–**	**2,589**
At 1 July 2018	–	–	–
Reallocated from trade receivables	2,845	–	2,845
Movement in contract work in progress	708	–	708
At 30 June 2019	3,553	–	3,553
Movement in contract liabilities			
At 1 July 2019	**41**	**374**	**415**
Movement in provision for refunds – customer claims	**–**	**(243)**	**(243)**
Movement in contract work in progress	**105**	**–**	**105**
At 30 June 2020	**146**	**131**	**277**
At 1 July 2018			
Reallocated from trade payables	423	–	423
Movement in provision for refunds – customer claims	–	374	374
Movement in contract work in progress	(382)	–	(382)
At 30 June 2019	41	374	415

NOTE 11
INVENTORIES

	Consolidated	
	2020	2019
	$'000	$'000
Raw materials – at cost	**22,356**	22,038
Work in progress – at cost	**11,489**	10,571
Finished goods – at cost	**7,064**	7,453
	40,909	40,062

Inventory write-downs recognised as an expense for the year ended 30 June 2020 totalled $438,000 (2019: $862,000)

NOTE 12
PREPAYMENTS AND DEPOSITS

	Consolidated	
	2020	2019
	$'000	$'000
Prepayments	**2,075**	4,551
Deposit paid on acquisition of financial asset at fair value through profit or loss	**–**	425
	2,075	4,976

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

NOTE 13
FINANCIAL ASSETS AND LIABILITIES

		Consolidated	
		2020	2019
	Note	**$'000**	$'000
Financial assets by nature:			
Financial assets at amortised cost			
Short-term deposits (terms over 90 days)		**–**	16,515
Trade and other receivables	9	**17,496**	29,310
Contract assets	10	**2,589**	3,553
Interest-bearing loans receivable		**1,791**	–
Financial assets at fair value through profit or loss			
Unlisted investments in property unit trusts and LLCs		**18,769**	10,443
Units in managed equity funds		**4,418**	6,418
Listed equity shares		**7,714**	1,761
Unlisted equity shares		**9,244**	9,656
Convertible notes		**13,021**	–
Units in unlisted loan trusts		**–**	2,821
Derivatives not recognised as hedging instruments			
Forward exchange contracts		**166**	131
Total		**75,208**	80,608
Financial assets by balance sheet classification:			
Current			
Trade and other receivables	9	**17,496**	29,310
Contract assets	10	**2,589**	3,553
Derivative financial instruments		**166**	131
Other financial assets		**–**	19,336
Total current assets		**20,251**	52,330
Non-current			
Other financial assets		**54,957**	28,278
Total non-current assets		**54,957**	28,278
Total assets		**75,208**	80,608
Financial liabilities by nature:			
Financial liabilities at amortised cost			
Trade and other payables	14	**12,485**	27,000
Contract liabilities	10	**277**	415
Interest-bearing loans and borrowings	15	**53,333**	38,242
Lease liabilities	20	**33,624**	–
Financial liabilities at fair value through profit or loss			
Derivatives not recognised as hedging instruments			
Forward exchange contracts		**1,091**	228
Interest rate swaps		**671**	483
Total liabilities		**101,481**	66,368
Financial liabilities by balance sheet classification:			
Current			
Trade and other payables		**12,485**	27,000
Contract liabilities		**277**	415
Interest-bearing loans and borrowings	15	**13,499**	15,255
Lease liabilities	20	**5,438**	3,075
Derivative financial instruments		**1,762**	711
Total current liabilities		**33,461**	46,456
Non-current			
Interest-bearing loans and borrowings	15	**39,834**	13,996
Lease liabilities	20	**28,186**	5,916
Total non-current liabilities		**68,020**	19,912
Total liabilities		**101,481**	66,368

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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 13
FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(i) Forward currency contracts

The Group has the following contracts outstanding at balance date:

	2020 $'000	2019 $'000	2020 Average exchange rate	2019 Average exchange rate
Sell Euro € / Buy US $				
Maturity 0-12 months	**1,337**	7,927	**1.1358**	1.1589
Sell Euro € / Buy Australian $				
Maturity 0-12 months	**14,042**	21,804	**1.6515**	1.6157
Sell Australian $ / Buy Euro €				
Maturity 0-12 months	**14,042**	–	**0.5679**	–
Sell RMB ¥ / Buy US $				
Maturity 0-12 months	**–**	3,127	**–**	0.1462

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 the Group's forward currency contracts during the year was $1,460,000 loss (2019: $1,111,000 gain).

(ii) Foreign currency option

The Group has a AUD:EUR foreign currency Call Option at 30 June 2020 that provides Automotive Leather Division with the right, not obligation, to buy €7,600,000 (2019: $nil) and sell A$12,624,000 at a AUD:EUR exchange rate of 0.6020. The contract is fair valued by using the Black-Scholes principles.

(iii) Interest rate swaps

Interest-bearing loans of the Group currently bear an average variable interest rate of 2.10% (2019 – 3.38%). 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 50% (2019 – 57%) of the principal outstanding.

At 30 June 2020, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	Consolidated 2020 $'000	2019 $'000
0 – 1 years	**–**	–
1 – 2 years	**3,536**	–
2 – 3 years	**–**	3,536
3 – 4 years	**7,416**	–
4 – 5 years	**–**	7,416
	10,952	10,952

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

The fair value of interest rate swaps at 30 June 2020 is a liability of $671,000 (2019 – $483,000 liability) which is recorded on the Consolidated Statement of Financial Position.

NOTE 14
TRADE AND OTHER PAYABLES

	Consolidated 2020 $'000	2019 $'000
Trade creditors	**12,034**	25,510
Goods and services tax (net)	**132**	129
Other creditors	**319**	1,361
	12,485	27,000

The carrying value of trade and other payables is at amortised cost and approximate fair value.

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

NOTE 15
INTEREST-BEARING LOANS AND BORROWINGS

	Note	Consolidated 2020 $'000	2019 $'000
Current			
Syndicate bank loans – secured	(i)	**13,499**	8,112
Commercial bills – secured		**–**	6,060
Revolving loan facility	(iii)	**–**	1,083
Total interest-bearing loans and borrowings (current)		**13,499**	15,255
Non-current			
Syndicate bank loans – secured	(i)	**8,195**	11,019
Other bank loan – secured	(ii)	**6,560**	–
Revolving loan facility	(iii)	**25,079**	2,977
Total interest-bearing loans and borrowings (non-current)		**39,834**	13,996
Total interest-bearing loans and borrowings		**53,333**	**29,251**

(i) Syndicate bank loans

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

			Group's share of loans at 30 June 2020		
Maturity date	Interest rate		Current $'000	Non-current $'000	Carrying value of assets $'000
Dec 2020	**4.15%**	**Fixed**	**3,841**	**–**	**2,361**
Feb 2021	**1.75%**	**Variable**	**6,083**	**–**	
Feb 2021	**3.64%**	**Fixed**	**3,575**	**–**	**6,055**
Aug 2021	**4.64%**	**Variable**	**–**	**990**	**1,602**
Apr 2022	**2.00%**	**Variable**	**–**	**3,669**	
Apr 2022	**4.23%**	**Fixed**	**–**	**3,536**	**1,808**
			13,499	**8,195**	**11,826**

			Group's share of loans at 30 June 2019		
Maturity date	Interest rate		Current $'000	Non-current $'000	Carrying value of assets $'000
Jul 2019	5.68%	Variable	1,040	–	1,594
Oct 2019	3.25%	Variable	3,536	–	
Oct 2019	4.38%	Fixed	3,536	–	1,789
Dec 2020	5.64%	Fixed	–	3,841	2,374
Feb 2021	2.85%	Variable	–	3,603	
Feb 2021	3.64%	Fixed	–	3,575	6,010
			8,112	11,019	11,767

*Fixed interest rate loans are variable interest rate loans hedged with a corresponding interest rate swap at a fixed interest rate for the term of the loan. Note hedge accounting is not applied.

(ii) Other bank loan

During the 2020 financial year, the Group's commercial bill facility was replaced with a bank loan for $6,560,000 secured by the property at 39 Dixon Road, Rockingham. The interest rate on the bank loan is BBSY plus a margin. The facility expires on 8 January 2023.

(iii) Revolving loan

The Automotive Leather division has a revolving loan facility with a maturity date of 30 September 2021, to be available for working capital requirements. The facility limit at 30 June 2020 was €20,000,000 and the interest rate is EURIBOR 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 2020, drawings from this facility amounted to €15,333,000 (2019 – €2,500,000).

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 15
INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

		Consolidated	
		2020	2019
Financing facilities available		**$'000**	$'000
Financing facilities used and available	Note		
At reporting date, the following financing facilities had been negotiated and were available:			
Total facilities			
– Bankers undertaking		**8,500**	8,500
– Asset finance	(a)	**7,950**	8,991
– Bank loans		**28,254**	19,131
– Revolving loan facility		**32,712**	24,363
– Commercial bills		**–**	6,060
		77,416	67,045
Facilities used at reporting date			
– Bankers undertaking		**3,914**	5,131
– Asset finance		**7,950**	8,991
– Bank loans		**28,254**	19,131
– Revolving loan facility		**25,079**	4,060
– Commercial bills		**–**	6,060
		65,197	43,373
Facilities unused at reporting date			
– Bankers undertaking		**4,586**	3,369
– Asset finance		**–**	–
– Bank loans		**–**	–
– Revolving loan facility		**7,633**	20,303
– Commercial bills		**–**	–
		12,219	23,672
Total facilities			
Facilities used at reporting date		**65,197**	43,373
Facilities unused at reporting date		**12,219**	23,672
		77,416	67,045

(a) Asset finance sale and leaseback agreements have an average term of 5 years. The average discount implicit in the agreements is 1.82% per annum (2019: 1.68% per annum). The lease liabilities relating to these asset finance sales and leaseback agreements are secured by charges over the leased-back assets.

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

NOTE 16
FINANCIAL INSTRUMENTS

Financial risk management, objectives and policies

The Group's financial instruments comprise bank loans, overdrafts, leases, foreign exchange contracts, interest rate swaps, cash and short-term deposits, trade receivables, contract assets, trade payables and contract liabilities.

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.

NOTE 16
FINANCIAL INSTRUMENTS (CONTINUED)

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

(a) Cash flow interest rate risk

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

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, including the use of interest rate swaps (refer note 13(iii)).

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

	Consolidated	
	2020	2019
	$'000	$'000
Financial assets		
Cash and short-term deposits	**35,016**	33,886
	35,016	33,886
Financial liabilities		
Bank loans	**(28,253)**	(19,131)
Offset by interest rate swaps on bank loans (refer note 13)	**10,952**	10,952
Commercial bills	**–**	(6,060)
Revolving loan	**(25,079)**	(4,060)
	(42,380)	(18,299)
Net exposure	**(7,364)**	15,587

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 on borrowings using a mix of fixed rate debt, variable rate debt and interest rate swaps At 30 June 2020 approximately 30.8% of the Group's borrowings are at a fixed rate of interest after applying interest rate swaps. (2019 –52.1%). The Group does not include lease liabilities for leases previously recognised as operating leases prior to the introduction of AASB 16 on 1 July 2019 in the definition of borrowings.

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 2020, if interest rates had moved, as illustrated in the table below, with all other variables held constant, after tax profit and equity would have been affected as follows:

	2020	2019
Judgments of reasonably possible movements:	**$'000**	$'000
Consolidated		
+0.25 (25 basis points)	**(13)**	27
-0.25 (25 basis points)	**13**	(27)

The movements in profit are due to variable interest costs from variable rate debt and cash and short-term deposit balances. The sensitivity reflects a net variable rate debt position in 2020 and a net variable rate cash position in 2019.

For 2020 and 2019 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. Management has considered the current low interest rates and the impact of Covid-19 on the estimate of future interest rate movements.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 16
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 2020	Consolidated 2019
Current	**$'000**	$'000
Floating charges		
Cash and cash equivalents	**15,880**	17,000
Receivables	**16,596**	27,061
Inventories	**39,682**	38,745
Other financial assets	**–**	750
Total current assets pledged as security	**72,158**	83,556
Non-current		
Floating charges		
Plant and equipment	**7,154**	4,810
Other financial assets	**375**	–
First mortgages		
Freehold land and buildings	**–**	662
Investment properties	**22,286**	20,249
	29,815	25,271
Leases		
Plant and equipment	**13,087**	13,374
Total non-current assets pledged as security	**42,902**	38,645

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

Cash and cash equivalents, inventories, receivables, freehold land and buildings, other financial assets and plant and equipment are pledged against the banker's undertaking facilities and revolving loan facility on an ongoing floating basis (refer note 15 for more details).

Investment properties are pledged as security for syndicate bank loans and other bank loans (refer note 15(i) and 15(ii)).

(c) Net fair values

Financial assets at fair value through profit or loss and derivatives held for trading 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.

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
Year ended 30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**
Consolidated				
Financial assets				
Financial assets at fair value				
Listed investments	**7,714**	**–**	**–**	**7,714**
Unlisted investments	**4,418**	**13,021**	**28,013**	**45,452**
Derivative instruments				
Foreign exchange contracts	**–**	**166**	**–**	**166**
	12,132	**13,187**	**28,013**	**53,332**
Financial liabilities				
Derivative instruments				
Foreign exchange contracts	**–**	**1,091**	**–**	**1,091**
Interest rate swaps	**–**	**671**	**–**	**671**
	–	**1,762**	**–**	**1,762**
Year ended 30 June 2019				
Consolidated				
Financial assets				
Financial assets at fair value				
Listed investments	1,761	–	–	1,761
Unlisted investments	6,418	–	22,920	26,517
Derivative instruments				
Foreign exchange contracts	–	131	–	131
	8,179	131	22,920	28,409
Financial liabilities				
Derivative instruments				
Foreign exchange contracts	–	228	–	228
Interest rate swaps	–	483	–	483
	–	711	–	711

Level 1 assets' fair value is 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 and investments in unlisted managed equity funds are based on quoted market prices at the reporting date.

Level 2 assets include the fair value as of 30 June 2020 of the Group's original $2,000,000 investment in convertible notes issued by Harvest Technology Group ("HTG").

The notes are convertible at $0.022 cents with an expiry date of 5 years. The financial instrument is classified as fair value through profit or loss. The convertible notes comprise two components, a debt component and an equity option component. The equity option component of the convertible note has been valued using Black-Scholes.

The share price used in the valuation is $0.135, which is below the $0.185 closing share price of HTG at 30 June 2020. The discount to the closing price takes into consideration the significant volume of HTG shares held by the Group and the mid-June $10,000,000 capital raise by HTG whereby they raised equity from shareholders at a share price of $0.135, a 25% discount to the 10-day VWAP.

At 30 June 2020, the convertible notes have been recognised at $13,021,000 comprising the option valuation of $10,753,000 and a debt component of $2,267,000. The profit and loss for the year ending 30 June 2020 includes an unrealised gain on the investments of $11,021,000 and interest received of $106,000.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 16
FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 assets include unlisted equity investments, unlisted property trust investments and unlisted loan trust investments.

(a) Fair value for the unlisted property trust investments and unlisted loan trust investments 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. Fair value of the net assets of the investment entity is determined by available information including independent external valuations, guidance from the investment managers, and industry market research. Covid-19 has had an impact on capitalisation rates which is a key input into to determine fair value. A reasonably possible movement of 10% in the value of the net assets of the unlisted property and loan trust investments would result in a further movement of $1,979,000 to unrealised gains/(losses) on financial assets at fair value before tax (2019: $1,471,000).

(b) Unlisted equity investments include the Group's investment in a technology company. The fair valuation of the investment used a revenue multiple of 13.9 times which is comparable to other technology and high-growth companies. Covid-19 may have an impact on revenue multiples and a reasonably possible movement of 10% on revenue multiple would result in a further movement of $821,000 to unrealised gains/(losses) on financial assets at fair value before tax (2019: $881,000)

Reconciliation of the fair value measurement of Level 3 unlisted investments

	2020 $'000	2019 $'000
Balance as at 1 July	**22,920**	5,635
Delisting of investment in equity shares	**–**	2,850
Purchase of units in unlisted unit trusts and LLC's	**10,777**	14,889
Profit received from disposal of trust assets	**–**	261
Proceeds from divestments	**(3,169)**	(1,360)
Capital distribution	**(136)**	–
Foreign currency translation adjustment	**177**	129
Remeasurement recognised in profit and loss	**(2,556)**	516
Balance at the end of the financial period.	**28,013**	22,920

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Interest rate swaps and foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.

(d) Equity price risk

Equity price risk is the risk that changes in listed equity prices will affect the fair value of a financial instrument.

The Group is an investor in companies and trusts and is therefore exposed to market risk through the movement of the share/unit prices of the companies and trust in which it is invested.

The fair value of the portfolio changes continuously because the equity price of individual listed companies within the portfolio fluctuates throughout the day. The change in the fair value of the portfolio is recognised through the profit or loss. Listed investments and investments with value that is derived from listed company share prices represent 39% (2019: 6%) of total financial assets at fair value.

At 30 June 2020, a 10% movement in the market value of these assets would have resulted in a movement of $1,212,000 to unrealised gains/(losses) on financial assets at fair value before tax (2019: $818,000).

The performance of the companies within the portfolio, both individually and as a whole, is monitored by management and the Board.

The Group seeks to reduce equity price risk at the investment portfolio level by ensuring that it is not, in the opinion of management, overly exposed to one economic sector or region.

(e) 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, contract assets, loans receivable, convertible notes, 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.

Cash and cash equivalents

Credit risk from cash and cash equivalent balances with banks is managed by placing short-term deposits with reputable financial institutions with strong investment grade credit ratings.

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

Trade receivables

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.

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

	Maximum credit risk exposure			
	Consolidated			
	Trade debtors			
	2020 %	2019 %	2020 $'000	2019 $'000
Industry				
Automotive leather	**96**	92	**13,480**	23,538
Building materials	**4**	8	**498**	2,146
Total	**100**	100	**13,978**	25,684

There are no trade debtors held in the parent entity.

The Group has a credit policy 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 16
FINANCIAL INSTRUMENTS (CONTINUED)

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

	Consolidated	
	2020	2019
Trade receivables at 30 June	**$'000**	$'000
Not past due in the following periods		
Trade receivables not past due	**13,384**	25,456
Debtors past due in the following periods		
31 to 60 days	**30**	165
61 to 90 days	**46**	–
Over 90 days	**518**	63
Total trade receivables	**13,978**	**25,684**

An impairment analysis is performed at each reporting date. The trade receivables and contract assets are grouped by product type and the analysis considers supportable information regarding historical default rates experienced by the Group, forecast economic conditions, financial strength of ongoing customers and the Group's credit policies.

Given the significant macro-economic impact and uncertainty created by Covid-19, credit risk for the Group has increased. The Group has recognised a provision for credit loss of $110,000 on trade receivables at 30 June 2020 (2019: $nil). This assessment was based on default rates of corporate bond and loans in relevant geographical regions where our businesses operate, adjusted for a judgment on probability related to the credit strength of the industry.

Trade receivables are written off if they have been past due for over a year and are not subject to enforcement activity. No trade receivables have been written off during the year ending 30 June 2020 (2019: nil).

Financial assets

The Group's Investments division owns debt related financial assets in the form of convertible notes and a loan receivable.

The convertible note investment comprises two components, a debt component and an equity option component. The debt is secured over assets of the counterparty and all its subsidiaries. It is however expected that the security would not have significant value in the event that the counterparty was liquidated or defaulted on the convertible note. The risk of this investment is mitigated by its limited size in the Group's investment portfolio, the interest rate payable and conversion into equity option received.

The loan receivable is secured by a second mortgage on a residential development property. The first mortgage is limited to a 50% loan-to-valuation ratio (LVR), therefore requiring approximately 50% of the residential units developed to be sold for the second mortgage holders to be covered, in the event of a default.

At 30 June, the Group investments debt assets are as follows:

	Consolidated	
	2020	2019
	$'000	$'000
Interest-bearing loan receivable (at amortised cost)	**1,791**	–
Convertible notes – debt component (at fair value through profit and loss)	**2,267**	–
	4,058	–

(f) 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 2020, the Group has the following undrawn borrowing facilities available (refer note 15):

	2020		2019	
	$'000	**Expiry**	$'000	Expiry
Australian banks				
Bankers' undertaking	**4,586**	**2021**	3,369	2020
Global finance company				
Revolving loan facility	**7,633**	**2021**	20,303	2020
	12,219		23,672	

In addition, there are the following banker's undertakings issued at 30 June 2020 (refer note 15):

Performance guarantees to third parties (refer note 26(b))	**2,344**	**< 1 year**	1,133	< 1 year
	1,570	**> 1 year**	3,998	> 1 year
	3,914		5,131	

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 expected lease payments with respect to leases. Derivative financial instruments consist of interest rate swaps (refer note 13(iii)).

Bank loans 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	**Within 1 Year**	**1 to 2 Years**	**2 to 3 Years**	**3 to 4 Years**	**4 to 5 Years**	**Over 5 Years**
2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	**12,485**	**–**	**–**	**–**	**–**	**–**
Leases *	**5,929**	**6,118**	**5,047**	**4,844**	**4,377**	**10,285**
Bank loans	**14,146**	**8,528**	**6,634**	**–**	**–**	**–**
Revolving loan	**426**	**25,186**	**–**	**–**	**–**	**–**
Derivative financial instruments	**123**	**120**	**119**	**2**	**–**	**–**
Contract liabilities	**277**	**–**	**–**	**–**	**–**	**–**
	33,386	**39,952**	**11,800**	**4,846**	**4,377**	**10,285**
2019						
Trade and other payables	27,000	–	–	–	–	–
Leases *	3,194	2,885	1,540	1,048	544	–
Commercial bills	6,142	–	–	–	–	–
Bank loans	8,653	11,285	–	–	–	–
Revolving loan	1,158	1,138	1,902	–	–	–
Derivative financial instruments	166	166	153	4	–	–
Contract liabilities	41	–	–	–	–	–
	46,354	15,474	3,595	1,052	544	–

*The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

Debt associated with the Automotive Leather and Group Investments segments represents 100% (2019 – 100%) of Group borrowings. At 30 June, 96% (2019 – 94%) of Group debt was non-recourse to the Parent.

Debt associated with syndicate investment property totals $21,694,000 at 30 June 2020 (2019 – $19,131,000). SFC's minority property interests are managed external to the Group. Accordingly, SFC does not control the funding structure. SFC, and other joint operators to an investment, have the discretion to approve finance facility agreements when presented by the investment manager.

SFC's objective is for property borrowing to be predominantly non-recourse to SFC. At 30 June 2020, 89% (2019 – 88%) of the property borrowings were non-recourse to the Parent.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 16
FINANCIAL INSTRUMENTS (CONTINUED)

(g) Changes in liabilities arising from financing activities

	1 July 2019	AASB 16 adoption	Cash payments	Cash receipts	Non-cash lease addition and modifications	Changes in fair value	Foreign exchange adjustments	30 June 2020
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Interest-bearing loans and borrowings	**29,251**	**–**	**(7,191)**	**31,273**	**–**	**–**	–	**53,333**
Lease liabilities	**8,991**	**28,354**	**(5,182)**	**1,450**	**(112)**	**–**	123	**33,624**
Derivative financial instruments	**711**	**–**	**–**	**–**	**–**	**1,051**	–	**1,762**
Total liabilities from financing activities	**38,953**	**28,354**	**(12,373)**	**32,723**	**(112)**	**1,051**	**123**	**88,719**

	1 July 2018	Cash payments	Cash receipts	Non-cash lease addition and modifications	Changes in fair value	Foreign exchange adjustments	30 June 2019
	$'000	$'000	$'000	$'000	$'000		$'000
Interest-bearing loans and borrowings	25,127	(15,143)	19,267	–	–	–	29,251
Lease liabilities	8,123	(2,479)	3,347	–	–	–	8,991
Derivative financial instruments	46	–	–	–	665	–	711
Total liabilities from financing activities	33,296	(17,622)	22,614	–	665	–	38,953

(h) Foreign exchange risk

The consolidated entity operates globally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (EUR), US Dollar (USD) and Chinese Renminbi (RMB). Foreign exchange risk arises from the translation of the Group's balance sheet into AUD as well as from the 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.

To manage the foreign exchange risk arising from future commercial transactions, the Group regularly considers the use of forward foreign exchange contracts with reference to existing and future currency exposure levels, sensitivity, and financial capacity to tolerate currency rate fluctuations. The foreign exchange risk management policy allows up to 100% of future foreign exchange exposure from the Group's balance sheet as well as from the Group's commercial transactions to the EUR, USD and RMB to be managed using forward foreign exchange hedge contracts, for a maximum tenor of 24 months.

At 30 June 2020, the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

	Consolidated (AUD)	
	2020	2019
	$'000	$'000
Financial assets		
Cash and cash equivalents	**3,082**	3,786
Trade and other receivables	**381**	1,793
Other financial assets	**14,884**	13,884
Forward rate agreements	**1,337**	11,241
	19,684	30,704
Financial liabilities		
Trade and other payables	**(2,833)**	(16,638)
	(2,833)	(16,638)
Net exposure	**16,851**	14,300

At 30 June 2020, the Group had the following exposure to EUR foreign currency that is not designated in cash flow hedges:

	Consolidated (AUD)	
	2020	2019
	$'000	$'000
Financial assets		
Cash and cash equivalents	**8,839**	6,435
Trade and other receivables	**8,433**	18,645
Foreign exchange option	**2,087**	–
	19,359	25,080
Financial liabilities		
Trade and other payables	**(4,709)**	(8,223)
Leases*	**(27,017)**	(8,991)
Revolving loan	**(25,079)**	(4,060)
Forward rate agreements	**(1,325)**	(29,787)
	(58,130)	(51,061)
Net exposure	**(38,771)**	(25,981)

*The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

At 30 June 2020, the Group had the following exposure to RMB foreign currency that is not designated in cash flow hedges:

	Consolidated (AUD)	
	2020	2019
	$'000	$'000
Financial assets		
Cash and cash equivalents	**1,165**	2,159
Trade and other receivables	**6,229**	5,596
	7,394	7,755
Financial liabilities		
Trade and other payables	**(2,504)**	(1,395)
Leases*	**(1,462)**	–
Forward rate agreements	**–**	(3,119)
	(3,966)	(4,514)
Net exposure	**3,428**	3,241

*The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 16
FINANCIAL INSTRUMENTS (CONTINUED)

At 30 June 2020 had the Australian dollar moved as illustrated in the table below, with all other variables held constant, after tax profit would have been affected as follows:

Sensitivity to reasonably possible currency movements

	Change in foreign exchange rate		Effect on profit after tax	
	2020	2019	**2020**	2019
Consolidated			**$'000**	$'000
AUD/USD	**+10%**	+10%	**(1,072)**	(910)
AUD/USD	**–10%**	–10%	**1,311**	1,112
Sensitivity has increased due to a larger net USD exposure compared to prior year.				
AUD/EUR	**+10%**	+10%	**789**	1,653
AUD/EUR	**–10%**	-10%	**4,858**	(2,021)
Sensitivity for 2020 includes forward foreign exchange contracts and a foreign exchange call option providing the Group with the right not obligation, to purchase EUR7,600,000 at an AUD/EUR of 0.6020. The option mitigates a significant portion of foreign exchange risk that would be caused by a falling AUD/EUR, and provides limited downside exposure with unlimited upside protection from a weaker AUD/EUR.				
AUD/RMB	**+10%**	+10%	**(218)**	(206)
AUD/RMB	**-10%**	-10%	**267**	252
Sensitivity is similar to the previous financial year.				

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. Covid-19 has increased currency volatility however management has retained the reasonably possible movement at 10% as management considers that to be representative of the likely average movement over a 12-month period including the implications of Covid-19.

Net unhedged foreign currency assets and liabilities:

	USD	EUR	RMB	HKD
2020	**000's**	**000's**	**000's**	**000's**
Cash and bank balances	**2,120**	**5,404**	**5,673**	**58**
Trade and other receivables	**262**	**5,156**	**30,320**	**–**
Other financial assets	**10,239**	**–**	**–**	**–**
Trade and other payables	**(1,949)**	**(2,879)**	**(12,189)**	**(56)**
Lease liabilities*	**–**	**(16,518)**	**(7,114)**	**–**
Revolving loan	**–**	**(15,333)**	**–**	**–**
Forward rate agreements	**920**	**(810)**	**–**	**–**
Foreign exchange option	**–**	**2,087**	**–**	**–**
Net FX exposure	**11,592**	**(24,980)**	**(16,690)**	**2**
Year end exchange rates	**0.6879**	**0.6114**	**4.8676**	**5.3316**
2019				
Cash and bank balances	2,647	3,962	10,384	50
Trade and other receivables	1,254	11,480	26,915	–
Other financial assets	9,707	–	–	–
Trade and other payables	(11,470)	(5,063)	(6,709)	(61)
Lease liabilities*	–	(5,536)	–	–
Revolving loan	–	(2,500)	–	–
Forward rate agreements	7,860	(18,340)	(15,000)	–
Net FX exposure	9,998	(15,997)	15,590	(11)
Year end exchange rates	0.6992	0.6157	4.8099	5.4626

*The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

(i) Capital management

Capital management is undertaken to ensure that a secure, cost-effective and flexible supply of capital is available to meet the Group's operating, investing and capital expenditure requirements. A stable capital base is maintained from which the Group can pursue its operating, growth and investment objectives, while maintaining a flexible capital structure that allows access to a range of debt and equity markets to both draw upon and repay capital. The Group does not have a target debt/equity ratio.

The Group's total capital is defined as Schaffer Corporation Limited's shareholders' funds plus amounts attributable to non-controlling shareholders plus net debt (excluding liabilities arising under AASB 16 *Leases* adopted on 1 July 2019). This amounted to $149,203,000 at 30 June 2020 (2019 – $120,400,000). Leases previously classified as finance leases prior to 1 July 2019 are included in total capital and are thought differently to other leases because they are finite (< 5 years), don't require judgments on length of term, don't have the ability to be subleased to mitigate liabilities, and title to the financed asset is transferred to the Group at the end of the term.

The Group currently maintains back up liquidity by way of a revolving loan facility and banker's undertaking facilities. Facilities undrawn at 30 June 2020 amounted to $6,528,000 (2019 – $23,672,000). The Group's committed and standby credit facilities contain financial undertakings relating to interest cover and borrowing base ratios. A compliance certificate must be produced quarterly attesting to compliance with the covenants.

During the financial year, SFC paid dividends of $11,671,000 (2019 – $8,299,000) (refer to note 6).

The Board assesses 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, subsequent to 30 June 2020, the Company declared a final dividend of $0.35 per share (fully franked) payable to shareholders on record on 8 September 2020. Dividends relating to the 2020 financial year totalled $0.80 per share (fully franked).

Management monitor capital through the gearing ratio (net debt/total capital). The gearing ratios based on continuing operations at 30 June 2020 and 2019 were as follows:

	Consolidated	
	2020	2019
	$'000	$'000
Total interest-bearing loans and borrowings	**53,333**	29,251
Total leases (excluding liabilities arising under AASB 16 *Leases* adopted on 1 July 2019)	**7,950**	8,991
Less cash and cash equivalents	**(35,016)**	(33,886)
Net debt	**26,267**	4,356
Total equity	**123,799**	116,044
Total capital	**150,066**	120,400
Gearing ratio	**18%**	4%

NOTE 17
PROVISIONS

		Consolidated	
		2020	2019
	Note	**$'000**	$'000
Provision for employee entitlements			
Current	27	**6,804**	8,895
Non-current	27	**8,839**	9,969
Total		**15,643**	18,864

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 18
PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2020 $'000	Consolidated 2019 $'000
Freehold land		
At cost	**1,145**	1,145
Buildings on freehold land		
At cost	**8,032**	8,031
Accumulated depreciation	**(2,791)**	(2,641)
	5,241	5,390
Net carrying amount of land and buildings	**6,386**	6,535
Plant and equipment		
At cost	**44,177**	42,153
Accumulated depreciation and impairment	**(36,926)**	(35,296)
Net carrying amount	**7,251**	6,857
Plant and equipment under lease and hire purchase		
At cost	**–**	17,549
Accumulated amortisation	**–**	(4,175)
	–	13,374
Net carrying amount of plant and equipment	**7,251**	20,231
Total property, plant and equipment		
At cost	**53,354**	68,878
Accumulated depreciation, amortisation and impairment	**(39,717)**	(42,112)
Total net carrying amount of property, plant and equipment	**13,637**	26,766

Assets pledged as security

Included in the balances of property, plant and equipment are assets over which charges have been granted as security over bank facilities (refer note 16(b)). 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 note 16(b)).

	Consolidated 2020 $'000	Consolidated 2019 $'000
The carrying value of assets pledged as security are:		
Property, plant and equipment	**7,189**	20,898
Reconciliations of the carrying amounts		
Freehold land		
Carrying amount at beginning	**1,145**	1,698
Reclassification to investment property	**–**	(553)
	1,145	1,145
Buildings on freehold land		
Carrying amount at beginning	**5,390**	7,498
Reclassification to investment property	**–**	(1,892)
Additions	**–**	51
Depreciation expense	**(149)**	(267)
	5,241	5,390
Net carrying amount of land and buildings	**6,386**	6,535
Plant and equipment		
Carrying amount at beginning	**6,857**	7,208
Additions	**5,494**	1,500
Transfers to right-of-use assets (sale and leaseback)	**(1,556)**	–
Transfers from right-of-use assets	**76**	414
Depreciation expense	**(1,969)**	(2,135)
Impairment	**(1,448)**	–
Foreign currency translation adjustment	**18**	150
Disposals	**(221)**	(280)
	7,251	6,857
Plant and equipment under lease		
Carrying amount at beginning	**13,374**	11,241
Reclassified to right-of-use assets	**(13,374)**	–
Additions	**–**	3,858
Transfer to plant and equipment	**–**	(414)
Depreciation expense	**–**	(1,553)
Foreign currency translation adjustment	**–**	377
Disposals	**–**	(135)
	–	13,374
Total carrying amount of plant and equipment	**13,637**	26,766

Impairment

The carrying values of cash generating units are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate an impairment trigger and that the carrying value may be impaired.

The recoverable amount of a cash generating unit 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.

The impairment trigger for the Delta cash generating unit was a loss incurred for the second half of the financial year to 30 June 2020. This was due to a combination of the project delays, project budget overruns caused by complexity, and cancellation of projects due to Covid-19.

The Delta value-in-use model is a 5-year model and assumes revenue growth excluding CPI of 2.0% (June 2019: 2.0%), pre-tax discount rate of 14% (June 2019: 14%) and a termination multiple of 6 times EBITDA.

An impairment exists when the carrying value of an asset or cash generating units exceeds its estimated recoverable amount. The outcome of the Delta impairment assessment was that the carrying value of the Delta precast cash generating unit assets exceeded their recoverable value of $10,226,000 by $1,448,000. The Delta precast cash generating unit property, plant and equipment was written down by this amount at 30 June 2020. Any reasonably possible movements in assumptions would not have a material effect on recoverable value. The future economic uncertainty created by Covid-19 had a minor impact on management's assumptions for the impairment assessment.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 19
INVESTMENT PROPERTY

	Consolidated 2020 $'000	2019 $'000
Land and buildings		
At cost	**39,680**	38,027
Accumulated depreciation and impairment	**(10,369)**	(10,461)
	29,311	27,566
Improvements		
At cost	**5,195**	4,617
Accumulated depreciation	**(2,712)**	(2,607)
	2,483	2,010
Total		
At cost	**44,875**	42,644
Accumulated depreciation and impairment	**(13,081)**	(13,068)
Net carrying amount of investment properties	**31,794**	29,576

Investment properties are recognised at cost less accumulated depreciation. The fair value of the investment property at 30 June 2020 as estimated by Directors is $108,447,000 (2019 $103,143,000) based on valuations not older than 3 years 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. 78% of the estimated fair value was based on independent valuations conducted at 30 June 2020.

A reversal in impairment of an investment property was identified based on a recent property valuation. The asset values associated with the investment property were written up by $1,221,000 at 30 June 2020, being a reversal of the write-down of $1,221,000 in the previous year.

	Note	Consolidated 2020 $'000	2019 $'000
Rental income derived from investment properties		**5,422**	5,875
Direct operating expenses (including repairs and maintenance) generating rental income (included in cost of sales)		**(3,139)**	(2,631)
Direct operating expenses (including repairs and maintenance) that did not generate rental income (included in cost of sales)		**(121)**	(120)
Profit arising from investment properties carried at cost	4(a)	**2,162**	3,124

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.

Valuation approach	Valuation technique non-market observable inputs (Level 3) $'000
Capitalisation and discounted cash flow	**68,382**
Market comparison	**40,065**
	108,447

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 16(b)). 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 2020 $'000	2019 $'000
The carrying value of assets pledged as security are:		
Investment properties	**22,286**	20,249
Reconciliation of the carrying amount		
Land and buildings		
Carrying amount at beginning	**27,566**	26,768
Reclassification to investment property	**–**	2,445
Additions	**1,266**	42
Impairment reversal/(write-down)	**1,146**	(1,145)
Depreciation expense	**(667)**	(544)
Total carrying amount	**29,311**	27,566
Improvements		
Carrying amount at beginning	**2,010**	1,910
Additions	**575**	352
Impairment write-down	**76**	(76)
Depreciation expense	**(178)**	(176)
Total carrying amount	**2,483**	2,010
Net carrying amount of investment properties	**31,794**	29,576

Digital Financial Report

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

For personal use only

NOTE 20
LEASES

The Group has lease contracts for various items of property, plant and equipment used in its operations. Leases of property generally have lease terms between 3 and 10 years. Plant and equipment generally have lease terms between 1 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments. These options are negotiated by management to provide flexibility in managing the leased property and align with the Group's business needs. Management exercises significant judgment in determining whether these extension options are not included in the lease term. Extension options not included in the lease term are too distant in the future for management to judge that exercising the option is reasonably certain.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

	Factory premises	Plant and machinery	Total
	$'000	$'000	$'000
Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:			
As at 1 July 2019	27,250	418	**27,668**
Reallocated from property, plant and equipment 1 July 2019	–	13,374	**13,374**
Transfers to property, plant and equipment	–	(76)	**(76)**
Additions	3	1,568	**1,571**
Modifications	(99)	(6)	**(105)**
Depreciation expense	(2,794)	(2,041)	**(4,835)**
Foreign currency translation adjustment	151	86	**237**
As at 30 June 2020	**24,511**	**13,323**	**37,834**
Set out below are the carrying amounts of lease liabilities and the movements during the period:			
As at 1 July 2019	27,937	9,408	**37,345**
Additions	3	1,462	**1,465**
Modifications	(99)	(6)	**(105)**
Interest expense	684	133	**817**
Payments	(3,253)	(2,864)	**(6,117)**
Foreign currency translation adjustment	132	87	**219**
As at 30 June 2020	**25,404**	**8,220**	**33,624**
Current	2,834	2,604	**5,438**
Non-current	22,570	5,616	**28,186**
	25,404	**8,220**	**33,624**
The following are the amounts recognised in profit or loss:			
Depreciation expense of right-of-use assets	2,794	2,041	**4,835**
Interest expense on lease liabilities	684	133	**817**
Expenses relating to short-term leases (included in cost of sales)	–	188	**188**
Expenses relating to leases of low-value assets (included in cost of sales)	–	5	**5**
Total amount recognised in profit or loss	**3,478**	**2,367**	**5,845**

The Group has total cash outflows for leases of $6,310,000 for the year ended 30 June 2020 (2019: $3,135,000). The cash outflow for leases for the year ended 30 June 2020 includes $3,408,000 for lease previously classified as operating leases prior to 1 July 2019 that are not included in the comparative.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension that are not included in the lease term:

	Within five years	More than five years	Total
	$'000	$'000	$'000
Extension options not included in lease term	–	21,573	21,573

NOTE 21
GOODWILL

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

	Automotive Leather	Investment Properties	Total
Consolidated	**$'000**	**$'000**	**$'000**
2020	**1,215**	**84**	**1,299**
2019	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% (2019: 14%), expected revenue and margins. Expected revenue has been reduced on consideration of reasonably possible ongoing impact on Covid-19 on the macro-economic environment that may affect sales demand. Reasonably possible scenarios relating to Covid-19 including temporary plant closures, such as those that have already occurred in Slovakia, China and Australia, have been considered and management did not identify an impairment for this cash generating unit.

Investment Property

The recoverable amount of individual properties within 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 19). Management did not identify an impairment of goodwill for this cash generating unit.

NOTE 22
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. Discreet 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 sells precast and prestressed concrete elements.

The Group Investments segment includes the Group's share of syndicated property, 100% owned investment property, investments in managed equity funds and direct investment in equity instruments. The activities of the segment include the leasing of office, factory and retail properties, the development and sale of property assets, and general investing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 22
SEGMENT INFORMATION (CONTINUED)

Major customers

The Group has a number of major clients to which it provides both products and services. There were two customers within the Automotive Leather segment which individually accounted for more than 10% of Group revenue (2019 – two customers).

Sales to major customers	2020		2019	
	$'000	**% of total revenue**	$'000	% of total revenue
Customer 1	**38,241**	**25%**	49,689	24%
Customer 2	**24,268**	**16%**	32,073	16%
Sales to major customers	**62,509**	**41%**	81,762	40%
Revenue from continuing operations	**155,573**		203,623	

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2. 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.

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 2020 and 30 June 2019.

Business segment information	Automotive Leather		Group Investments		Building Materials		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenue	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from contracts with customers	**130,141**	176,251	**804**	808	**17,758**	19,527	**148,703**	196,586
Other revenue	**11**	2	**6,854**	7,024	**5**	11	**6,870**	7,037
Total revenue							**155,573**	203,623
Results								
Underlying net profit/(loss) after tax	**21,152**	28,183	**9,262**	2,736	**(565)**	(8)	**29,849**	30,911
Impairment of assets after tax	**–**	–	855	(855)	**(1,014)**	–	**(159)**	(855)
Net profit/(loss) after tax	**21,152**	28,183	**10,117**	1,881	**(1,579)**	(8)	**29,690**	30,056
Less profit attributable to non-controlling interests	**(3,560)**	(4,743)	**(43)**	(58)	**–**	–	**(3,603)**	(4,801)
Profit/(loss) attributable to owners of the parent	**17,592**	23,440	**10,074**	1,823	**(1,579)**	(8)	**26,087**	25,255
Unallocated items:								
Profit of equity accounted associate							**11**	–
Finance costs							**(47)**	(31)
Corporate overheads							**(3,698)**	(3,231)
Minority interest							**–**	–
Income tax benefit							**1,197**	906
Profit after tax							**23,550**	22,899
Assets								
Total segment non-current assets	**49,665**	23,226	**87,076**	54,763	**5,723**	9,045	**142,464**	87,034
Unallocated							**2,443**	6,437
Total non-current assets							**144,907**	93,471
Total segment assets	**118,292**	107,414	**109,828**	80,603	**12,541**	16,411	**240,661**	204,428
Unallocated							**2,497**	3,782
Total assets							**243,158**	208,210
Liabilities								
Segment liabilities	**82,856**	57,826	**31,413**	28,345	**2,364**	3,348	**116,633**	89,519
Unallocated							**2,726**	2,647
Total liabilities							**119,359**	92,166
Other segment information								
Segment capital expenditure	**5,305**	5,357	**1,842**	388	**145**	29	**7,292**	5,774
Unallocated							**43**	29
Total capital expenditure							**7,335**	5,803
Segment depreciation and amortisation	**6,468**	3,306	**730**	712	**565**	615	**7,763**	4,633
Unallocated							**30**	37
Total depreciation and amortisation							**7,793**	4,670
Other non-cash expenses/(revenues)	**(2,501)**	511	**(11,434)**	(298)	**1,085**	129	**(12,850)**	342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 22
SEGMENT INFORMATION (CONTINUED)

	Consolidated	
	2020	2019
	$'000	$'000
Unallocated assets and liabilities including the following material items:		
Non-current assets		
Property, plant and equipment	**738**	752
Other financial assets	**311**	–
Deferred income tax asset	**1,395**	2,490
Prepayments	**29**	452
Receivables	**24**	88
	2,497	3,782
Liabilities		
Trade creditors	**763**	714
Provision for employee entitlements	**1,963**	1,933
	2,726	2,647

Revenue from external customers by geographical locations is detailed below.

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

	2020	2019
	$'000	$'000
Australia	**25,432**	27,372
Asia	**31,696**	39,449
Europe	**98,445**	136,802
Total revenue	**155,573**	203,623

Non-current assets (excluding deferred tax assets and financial instruments) by geographic location comprise:

Non-current assets	**Australia**	**Asia**	**Europe**	**Total**
2020	**$'000**	**$'000**	**$'000**	**$'000**
Property, plant and equipment	**9,000**	**1,736**	**2,901**	**13,637**
Right-of-use assets*	**4,778**	**1,451**	**31,605**	**37,834**
Investment properties	**31,794**	**–**	**–**	**31,794**
Goodwill	**1,299**	**–**	**–**	**1,299**
	46,871	**3,187**	**34,506**	**84,564**
2019				
Property, plant and equipment	8,920	1,235	16,611	26,766
Investment properties	29,576	–	–	29,576
Goodwill	1,299	–	–	1,299
	39,795	1,235	16,611	57,641

*The Group has applied AASB 16 using the modified retrospective approach. Under this method, comparative information has not been restated for adoption of AASB 16.

NOTE 23
CONTRIBUTED EQUITY

		2020	2019
		$'000	$'000
a)	**Issued and paid up capital**		
	As at 30 June 2020		
	13,615,325 ordinary fully paid shares (2019 – 13,809,152)	**11,227**	13,991

		2020		2019	
		Number of shares	**$'000**	Number of shares	$'000
b)	**Movement in ordinary shares on issue**				
	At the beginning of the financial year	**13,809,152**	**13,991**	13,840,878	14,540
	Options exercised under an employee share scheme	**42,500**	**402**	22,500	170
	Shares acquired under a share buy-back scheme	**(236,327)**	**(3,166)**	(54,226)	(719)
	At the end of the financial year	**13,615,325**	**11,227**	13,809,152	13,991

For details of movement in options and details of employee share options plan refer to notes 27 and 28.

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.

NOTE 24
RESERVES AND RETAINED PROFITS

	Consolidated	
	2020	2019
	$'000	$'000
Reserves		
Asset revaluation	**2,585**	2,585
Share-based payment – EPUs	**(1,082)**	(1,082)
Share-based payment – SFC options	**290**	200
Foreign currency translation reserve	**1,695**	1,275
	3,488	2,978

Nature and purpose of reserve

Asset revaluation

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

Share-based payment – EPUs

This reserve was previously used to record the value of EPUs provided to employees and directors as part of their remuneration prior to a change in accounting policy that reflects the likelihood of cash as payment instead of SFC shares. 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 24
RESERVES AND RETAINED PROFITS (CONTINUED)

Net unrealised gains reserve

Prior to the adoption of AASB 9 at 1 July 2018, the net unrealised gains reserve was used to record increments and decrements in the fair value of available-for-sale investments net of tax. On transition, this balance was transferred to retained earnings.

	Consolidated 2020 $'000	2019 $'000
Retained profits		
Balance 1 July	**88,643**	72,101
Reclassification on adoption of AASB 9	**–**	1,942
Net profit attributable to members of the parent entity	**23,550**	22,899
Dividends provided for or paid	**(11,671)**	(8,299)
Balance 30 June	**100,522**	88,643

NOTE 25
AUDITORS REMUNERATION

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

	Consolidated 2020 $	2019 $
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reportsof any controlled entities	**162,401**	162,501
Fees for other services		
– Tax compliance	**71,000**	60,649
– Research and development claims	**14,394**	17,509
Total fees to Ernst & Young (Australia) (A)	**247,795**	240,659
Fees to other overseas member firms of Ernst & Young (Australia)		
Fees for auditing the financial report of any controlled entities	**40,000**	35,000
Total fees to overseas member firms of Ernst & Young (Australia) (B)	**40,000**	35,000
Total auditor's remuneration (A) + (B)	**287,795**	275,659
Amounts received or due and receivable by non-Ernst & Young audit firms for audit services.	**25,892**	22,336

NOTE 26
CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS

	Consolidated 2020 $'000	2019 $'000
(a) Expenditure commitments		
Estimated expenditure contracted for at balance date but not provided for:		
– payable not later than 1 year	**581**	5,698
(b) 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 amount to:	**3,914**	5,131

NOTE 27
EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

	Note	Consolidated 2020 $'000	2019 $'000
The aggregate employee entitlement liability is comprised of accrued wages, salaries and on costs		**58**	91
Provisions (current)	17	**6,804**	8,895
Provisions (non-current)	17	**8,839**	9,969
		15,701	18,955

(a) Superannuation commitments

The consolidated entity contributes to superannuation plans elected by individual employees, generally at the rate of 9.5% of gross salaries and wages.

The company complies with the Superannuation Guarantee Charge obligations legislated in the *Superannuation Guarantee (Administration) Act 1992.*

The amount of superannuation expense for the year ended 30 June 2020 is $1,021,000 (2019 – $994,000).

(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. Once issued, the options cannot be transferred and will not be quoted on the ASX. At any time, the number of unexercised options issued is limited to 5% of the number of shares on issue. The Directors have discretion over the vesting of the options.

For issues dated 6 September 2017 and 2 August 2018, options may be exercised as follows:

(i) 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;
(ii) 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;
(iii) 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;
(iv) after 36 months 100% of the options may be exercised.

For issues dated 15 May 2020, options may be exercised as follows:

(i) during the first 12 months of each option period and including each date of issue, no more than 50% of the options issued to that participant on that date of issue;
(ii) during the period of 24 months from and including each date of issue exercise no more than 62.5% of the options issued to that participant on that date of issue;
(iii) 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;
(iv) during the period of 48 months from and including each date of issue exercise no more than 87.5% of the options issued to that participant on that date of issue;
(v) after 48 months 100% of the options may be exercised.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 27
EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

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

Date issued	No. on issue 30 June 2019	Issued during the year	Forfeited during the year	Exercised during the year	No. on issue 30 June 2020	Exercise price	First exercise date	Last exercise date
6 Sept 2017	47,500	–	–	30,000	17,500	$7.54	06-Sep-17	06-Sep-22
2 Aug 2018	70,000	–	–	12,500	57,500	$14.10	02-Aug-18	02-Aug-23
15 May 2020	–	70,000	–	–	70,000	$10.50	15-May-20	15-May-25
Total	**117,500**	**70,000**	**–**	**42,500**	**145,000**			

The Company has calculated the value at the respective issue dates of all options issued to employees pursuant to the Employee Share Option Plan (ESOP) 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:

(i) the Schaffer Corporation Limited share price on issue date;
(ii) the exercise price;
(iii) the volatility of Schaffer Corporation Limited shares over the 12 months ended immediately prior to the issue date;
(iv) the expiry date;
(v) dividend yield for the financial year ended immediately prior to the issue date;
(vi) the risk-free rate over the life of the option, estimated from the yield of 5-year Commonwealth Government Bonds on the grant date, and extrapolating to a 5-year term.

The table below summarises, for each issue not expired, the inputs into the model used this year to assess the options' values:

Date issued	Expiry Date	Current price	Exercise Price	Volatility	Risk-free rate (estimated)	Dividends per annum	Valuation
6 Sept 2017	6 Sept 2022	$7.60	$7.54	22%	2.18%	$0.37	$0.86
2 Aug 2018	2 Aug 2023	$14.75	$14.10	28%	2.34%	$0.64	$2.53
15 May 2020	15 May 2025	$10.52	$10.50	36%	0.39%	$0.53	$2.01

(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 total combined number of shares plus EPUs issued by Howe Automotive Limited.

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

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

For cash payments, other than upon a liquidity event, the amount is dependent on vesting and the financial performance of Howe Automotive Limited (refer to remuneration report for details). The vesting requirements are:

(i) up to 3 years – nil
(ii) 3 years to 4 years – 33.3%
(iii) 4 years to 5 years – 66.7%
(iv) over 5 years – 100%

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

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

The amount of payment, other than for a liquidity event, is calculated in accordance with a 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.

For a liquidity event, the amount of payment is calculated in accordance with a valuation based on the consideration to be paid for ownership of Howe Automotive Limited less associated costs.

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

EPU Tranche	Issue number	Grant date	Number issued	Number redeemed	Number cancelled	Balance of EPUs outstanding	Balance as a % of Howe's capital plus issued EPUs	Number vested
Series 1		04-October-2000	3,383,634	2,289,591	958,697	135,346	0.2%	135,346
Series 2	Issue 1	21-December-2001	2,884,434	931,733	1,770,405	182,296	0.3%	182,296
	Issue 2	01-July-2002	120,000	20,000	40,000	60,000	0.1%	60,000
	Issue 3	01-July-2003	245,000	31,667	163,333	50,000	0.1%	50,000
	Issue 4	01-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	01-July-2005	1,350,000	350,000	500,000	500,000	0.8%	500,000
	Issue 7	21-August-2006	500,000	–	–	500,000	0.8%	500,000
	Issue 8	01-July-2007	200,000	200,000	–	–	0.0%	–
	Issue 9	01-July-2017	1,450,000	–	100,000	1,350,000	2.1%	–
Series 3	Issue 1	01-January-2008	1,150,000	433,333	416,667	300,000	0.5%	300,000
	Issue 2	01-July-2009	100,000	100,000	–	–	–	–
	Issue 3	01-January-2011	250,000	–	–	250,000	0.4%	250,000
	Issue 4	01-July-2013	1,075,000	150,000	275,000	650,000	1.0%	650,000
	Issue 5	01-July-2014	200,000	66,667	133,333	–	0.0%	–
	Issue 6	01-July-2016	330,000	–	30,000	300,000	0.5%	100,000
Series 4	Issue 1	01-July-2018	1,275,000	–	50,000	1,225,000	1.9%	–
	Issue 2	01-July-2019	275,000	–	–	275,000	0.4%	–
			14,995,740	4,572,991	4,620,107	5,802,642	9.1%	2,752,642

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 28
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	
	2020 $'000	2019 $'000
Short-term	**4,959**	4,957
Long-term incentives	**21**	43
Share-based payments	**89**	69
Post-employment	**(380)**	973
	4,689	6,042

(b) Option holdings of Key Management Personnel

30 June 2020

					Vested as at 30-June-2020	
Executives	**Balance at 30 June 2019**	**Granted as remuneration during the period**	**Options exercised during the period**	**Balance at end of period**	**Vested**	**Not vested**
R Leib	87,500	50,000	(37,500)	100,000	37,500	62,500
J Cantwell	30,000	20,000	(5,000)	45,000	20,000	25,000
Total	**117,500**	**70,000**	**(42,500)**	**145,000**	**57,500**	**87,500**

30 June 2019

					Vested as at 30-June-2019	
Executives	**Balance at 30 June 2018**	**Granted as remuneration during the period**	**Options exercised during the period**	**Balance at end of period**	**Vested**	**Not vested**
R Leib	50,000	50,000	(12,500)	87,500	25,000	62,500
J Cantwell	20,000	20,000	(10,000)	30,000	5,000	25,000
Total	70,000	70,000	(22,500)	117,500	30,000	87,500

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

(c) EPU holdings of Key Management Personnel

30 June 2020

						Vesting status as at 30-June-2020	
Executives	**Balance at 30 June 2019**	**Granted as remuneration during the period**	**Redeemed during the period**	**Cancelled during the period**	**Balance at 30 June 2020**	**Vested**	**Not vested**
D Birks	1,200,000	–	–	–	1,200,000	1,000,000	200,000
R Leib	500,000	–	–	–	500,000	–	500,000
Total	**1,700,000**	**–**	**–**	**–**	**1,700,000**	**1,000,000**	**700,000**

30 June 2019

						Vesting status as at 30-June-2019	
Executives	**Balance at 30 June 2018**	**Granted as remuneration during the period**	**Redeemed during the period**	**Cancelled during the period**	**Balance at 30 June 2019**	**Vested**	**Not vested**
D Birks	1,200,000	–	–	–	1,200,000	1,000,000	200,000
R Leib	300,000	200,000	–	–	500,000	–	500,000
Total	1,500,000	200,000	–	–	1,700,000	1,000,000	700,000

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

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

For personal use only

NOTE 29
RELATED PARTY DISCLOSURES

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

Schaffer Corporation Limited holds 83.17% (2019: 83.17%) of the share capital of Howe Automotive Limited of which Mr J M Schaffer AM and Mr A K Mayer are Directors. Dividends were received during the year amounting to $27,332,263 (2019: $30,565,016).

The Group is a part owner of particular investment properties through several property syndicates. A company for which Mr D J Schwartz has significant influence provides property management and consultancy services in relation to the properties. The Group's share of the syndicate property costs paid to that company for the period is $147,000 (2019: $98,000).

During the year, the Group invested $300,000 for a 30% interest in a property asset management company controlled by Mr T J Schaffer, son of Mr J M Schaffer AM. The Group received property asset management services from the same company amounting to $180,000 (2019: $nil).

During the year, the Group invested $3,000,000 for listed shares in Primewest Management Limited (ASX:PWG), a company for which Mr D J Schwartz has significant influence.

All transactions with related parties are conducted at "arm's length".

NOTE 30
PARENT ENTITY INFORMATION

	2020 $'000	2019 $'000
Information relating to Schaffer Corporation Limited:		
Current assets	**21,184**	23,527
Total assets	**104,850**	80,497
Current liabilities	**12,401**	3,716
Total liabilities	**26,658**	23,236
Issued capital	**10,491**	13,255
Retained earnings	**65,127**	41,524
Share-based payments reserve – SFC options	**290**	200
Asset revaluation reserve	**2,283**	2,283
Total shareholders' equity	**78,191**	57,262
Profit of the parent entity	**35,274**	29,063
Total other comprehensive income of the parent entity	**–**	32

The parent entity has entered into Deeds of Cross Guarantee with controlled entities as disclosed in note 31.

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:

	2020 $'000	2019 $'000
Major components of tax consolidation contributions by (or distributions to) equity participants		
Net assumptions of tax liabilities of members of the tax- consolidated group	**(131)**	114
Tax funding contribution receivable from controlled entities	**131**	(114)
Excess of tax funding contributions over tax liabilities assumed	**–**	–

NOTE 31
CONTROLLED ENTITIES

Controlled entity	Beneficial percentage held by the Group 2020 %	2019 %	Place of incorporation
Schaffer Properties Pty Ltd*	**100**	100	Australia
Delta Corporation Limited*	**100**	100	Australia
Garden Holdings Pty Ltd*	**100**	100	Australia
SFC US Limited	**100**	100	United States of America
SFC US1 LLC	**100**	100	United States of America
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 & Co Pty Ltd**	**83.17**	83.17	Australia
Howe Slovensko S.R.O.	**83.17**	83.17	Slovakia
Howe Leather (Shanghai) Co. Ltd.****	**83.17**	83.17	People's Republic of China
Howe Hong Kong Pty Limited	**83.17**	83.17	Hong Kong

* 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.

*** 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 Gosh Holdings '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 2020

NOTE 31
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	
	2020	2019
	$'000	$'000
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AND RETAINED EARNINGS RECONCILIATION		
Profit from continuing operations before income tax	**35,574**	29,340
Income tax expense	**(2,376)**	439
Net profit for the year	**33,198**	29,779
Other comprehensive income	**–**	32
Total comprehensive income	**33,198**	29,811
Retained earnings at the beginning of the year	**52,614**	31,102
Total profit for the year	**33,198**	29,811
Dividends provided for or paid	**(11,671)**	(8,299)
Retained earnings at the end of the year	**74,141**	52,614
CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets		
Cash and short-term deposits	**23,598**	4,272
Trade and other receivables	**901**	2,465
Inventories	**1,264**	1,359
Contract assets	**2,589**	3,553
Other financial assets	**–**	19,336
Prepayments and deposits	**554**	906
Total current assets	**28,906**	31,891
Non-current assets		
Other financial assets	**59,847**	33,794
Investment in associate	**311**	–
Receivables	**1,305**	–
Property, plant and equipment	**6,448**	8,313
Investment properties	**17,599**	17,424
Right-of-use assets	**7**	**–**
Goodwill	**84**	84
Deferred income tax assets	**1,601**	3,977
Total non-current assets	**87,202**	63,592
Total assets	**116,108**	95,483

	Schaffer Closed Group	
	2020	2019
	$'000	$'000
LIABILITIES		
Current liabilities		
Trade and other payables	**2,060**	3,253
Interest-bearing loans and borrowings	**13,505**	8,112
Derivative financial instruments	**671**	483
Provisions	**3,179**	2,970
Total current liabilities	**19,415**	14,818
Non-current liabilities		
Interest-bearing loans and borrowings	**8,195**	11,019
Provisions	**43**	44
Total non-current liabilities	**8,238**	11,063
Total liabilities	**27,653**	25,881
Net assets	**88,455**	69,602
EQUITY		
Issued capital	**11,439**	14,203
Reserves	**2,875**	2,785
Retained profits	**74,141**	52,614
Total equity	**88,455**	69,602

	Howe Automotive Limited	Gosh Holdings Pty Ltd
	$'000	**$'000**
Accumulated balances of material non-controlling interest		
2020	**6,600**	**1,914**
2019	8,526	1,906
Profit allocated to material non-controlling interest		
2020	**3,547**	**8**
2019	4,799	2
Summarised statement of profit or loss for 2020		
Revenue	**130,152**	**1,048**
Profit before tax and finance costs	**31,515**	**249**
Finance costs	**(1,536)**	**(190)**
Profit before tax	**29,979**	**59**
Income tax	**(8,903)**	**(1)**
Profit for the year	**21,076**	**58**
Other comprehensive income	**344**	**–**
Total comprehensive income	**21,420**	**58**
Attributable to non-controlling interests	**3,605**	**8**
Dividends paid to non-controlling interests	**5,531**	–

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2020

NOTE 31
CONTROLLED ENTITIES (CONTINUED)

	Howe Automotive Limited	Gosh Holdings Pty Ltd
	$'000	$'000
Summarised statement of profit or loss for 2019		
Revenue	176,253	1,312
Profit before tax and finance costs	40,739	237
Finance costs	(909)	(221)
Profit before tax	39,830	16
Income tax	(11,317)	–
Profit for the year	28,513	16
Other comprehensive income	547	1,910
Total comprehensive income	29,060	1,926
Attributable to non-controlling interests	4,891	2
Dividends paid to non-controlling interests	6,185	–
Summarised statement of financial position at 2020		
Current assets	**68,627**	**715**
Non-current assets	**53,444**	**19,486**
Current liabilities	**(20,795)**	**(55)**
Non-current liabilities	**(62,061)**	**(8,770)**
Total equity	**39,215**	**11,376**
Attributable to:		
Equity holders of parent	**32,615**	**9,462**
Non-controlling interest	**6,600**	**1,914**
Summarised statement of financial position at 2019		
Current assets	80,993	422
Non-current assets	27,491	19,793
Current liabilities	(39,013)	(6,345)
Non-current liabilities	(18,813)	(2,550)
Total equity	50,658	11,320
Attributable to:		
Equity holders of parent	42,132	9,415
Non-controlling interest	8,526	1,905
Summarised cash flow information for year ended 30 June 2020		
Operating	**20,435**	**(473)**
Investing	**(4,918)**	**(1,251)**
Financing	**(15,560)**	**1,526**
Net foreign exchange difference	**(10)**	–
Net decrease in cash and cash equivalents	**(53)**	**(198)**
Summarised cash flow information for year ended 30 June 2019		
Operating	33,446	706
Investing	(5,440)	(450)
Financing	(31,815)	(50)
Net foreign exchange difference	547	–
Net (decrease)/increase in cash and cash equivalents	(3,262)	206

NOTE 32
NON-CONTROLLING INTEREST

	2020 $'000	2019 $'000
Reconciliation of non-controlling interest in controlled entities:		
At 1 July	**10,432**	11,724
– Add share of operating profit	**3,603**	4,801
– Share of foreign currency translation reserve movement	**58**	92
– Dividends paid	**(5,531)**	(6,185)
At 30 June	**8,562**	10,432

NOTE 33
SIGNIFICANT EVENTS AFTER BALANCE DATE

Following the end of the reporting period, a final fully franked dividend of 35c per share to shareholders has been declared payable on 18 September 2020.

No other matter or circumstance has arisen since the end of the financial year which materially 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.

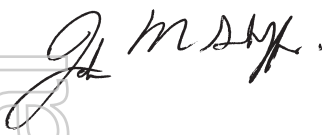
For personal use only

DIRECTORS' DECLARATION
year ended 30 June 2020

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 2020 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.
2. 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 2020.
3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 31 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 AM

Chairman and Managing Director

Perth, 18 September 2020

For personal use only

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCHAFFER CORPORATION LIMITED
year ended 30 June 2020

For personal use only

Building a better working world

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

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 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

b) 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ("the Code") that are relevant to our audit of the financial report in Australia. We have also 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 each matter below, our description of how our audit addressed the matter is provided in that context.

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

year ended 30 June 2020

For personal use only

Building a better working world

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Repor*t 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 report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Construction services revenue

Why significant	How our audit addressed the key audit matter

For the year ended 30 June 2020, the Building Materials segment of the Group recognised $17.8 million in revenue from construction and transportation services.
 	
Revenue from construction and transportation services is recognised over time by reference to its percentage of completion.
 	
The measurement of revenue from construction and transportation services was considered a key audit matter due to the judgement required to be exercised by the Group in relation to the estimation of transaction price, total contract costs and the stage of completion of the contract.
	Our audit procedures included the following:
	
	► We evaluated the Group's process to recognise contract revenues
	► We assessed the operating effectiveness of management's controls over the revenue process including managements periodic assessment of the percentage of completion, actual contract costs incurred to date and estimated total contract costs
	► We assessed the qualifications, competence and objectivity of management's expert used in the calculations
	► For a sample of contracts, we performed the following procedures:
	  ► We agreed total contract revenue to the original contract and approved variations or claims
	  ► We agreed actual contract costs incurred to date to source documentation, such as timesheets and vendor invoices
	  ► We considered the Groups' historic ability to accurately forecast project gross margin and total contract cost by comparing the accuracy of prior period forecasts to actual outcomes across the year ended 30 June 2020
	  ► We enquired of management's experts with direct oversight over the contract portfolio to understand the performance and status of the contracts at 30 June 2020 and the impact of COVID-19 on the costs to complete the contracts and remaining project value
	► We assessed the adequacy of the disclosures in relation to construction and transportation services revenue in Note 3 to the financial report.

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

year ended 30 June 2020

For personal use only

Building a better working world

Fair value of financial instruments

Why significant	How our audit addressed the key audit matter
As detailed in Note 13, at 30 June 2020, the Group has $53.3 million in financial assets recognised at fair value through the profit or loss. These financial assets include unlisted investments in property unit trusts and LLCs, units in managed equity funds, listed equity shares, unlisted equity shares, convertible notes, units in unlisted loan trusts and derivatives not designated as hedging instruments. Depending on the underlying nature of the financial instrument the valuations may be classified as level 1, 2 or 3 in the Group's fair value hierarchy. This was considered a key audit matter as the valuations can be complex and involve a combination of market, non-market and judgemental inputs. In addition, the current uncertainty and volatility in economic conditions arising from the COVID-19 pandemic may result in significant movements in the valuation of these financial instruments.	Our audit procedures included the following: ► We verified the existence of financial instruments through supporting documentation including third-party confirmations and inspection of share certificates ► We agreed listed equity valuations to the closing share price as at 30 June 2020 ► For valuations which depend on observable and unobservable inputs, we evaluated the assumptions, methodologies and models used by management ► We tested the clerical accuracy of valuation models ► For unlisted property unit trusts we involved EY Real Estate Advisory Services to assess the Group's determination of fair value of the underlying property ► We considered the impact of COVID-19 related market volatility on the judgements made and valuations prepared by management ► For a sample of financial instruments, we utilised EY Valuation, Modelling and Economics specialists to review the methodology and assumptions applied in the valuation models ► We assessed the adequacy of the disclosures in relation to financial instruments in Note 13 to the financial report.

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2020 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 accordingly 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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCHAFFER CORPORATION LIMITED
year ended 30 June 2020

For personal use only



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.

Responsibilities of the Directors 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 relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to 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 the 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 the 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCHAFFER CORPORATION LIMITED
year ended 30 June 2020

For personal use only



- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 financial report represents 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, actions taken to eliminate the threats or safeguards applied.

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 audit of 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 2020.

In our opinion, the Remuneration Report of Schaffer Corporation Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

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

year ended 30 June 2020

For personal use only

Building a better working world

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 & Young

Philip Teale
Partner
Perth
18 September 2020

DIRECTORS' REPORT
year ended 30 June 2020

Your directors submit their report for the year ended 30 June 2020 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 AM BCom(Hons) FCPA Managing Director Executive Director since 6/9/1972	Mr John Schaffer AM joined the company in 1972. Mr Schaffer has held the position of Managing Director since 1987.
D E BLAIN AM BA Non-executive Director Appointed 5/6/1987	Mrs Danielle Blain AM joined the company in 1987. Mrs Blain served as Managing Director of Gosh Leather Pty Ltd from 1993 to 2001 and is currently a non-executive director of Howe Automotive Limited. Mrs Blain has diverse experience serving on a number of NGO boards and is also a past Pro Chancellor of Edith Cowan University.
A K MAYER Executive Director Appointed 21/11/2001	Mr Anton Mayer is the Executive Chairman of Howe Automotive Limited. Mr Mayer has over 50 years of international leather experience, broad business skills and a global business perspective.
M D PERROTT AM BCom FAIM FAICD Independent Director Appointed 23/2/2005	Mr Michael Perrott AM joined the Board as an independent director in February 2005. Mr Perrott AM has over 40 years' experience in the construction and contracting industry.
D J SCHWARTZ Independent Director Appointed 29/6/1999	Mr David Schwartz joined the Board as an independent director in June 1999. He has over 25 years' experience negotiating acquisitions and overseeing the development of property. Over the past 40 years, David has been involved in many different businesses including retail, manufacturing and distribution. During the past three years, Mr Schwartz has also served as a director of the following listed company: Primewest Management Ltd 8 November 2019 – present

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

COMPANY SECRETARY

J M CANTWELL BBus(Acc) CPA MBA GIA(Affiliate)
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 an Affiliated Member of the Governance Institute of Australia.

ATTENDANCE AT BOARD MEETINGS

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

	Meetings eligible to attend	Meetings attended
J M Schaffer AM	10	10
D E Blain AM	10	10
A K Mayer	10	10
M D Perrott AM	10	10
D J Schwartz	10	10

In accordance with the Articles of Association:

At the SFC Annual General Meeting scheduled for 18 November 2020, Mr M D Perrott AM 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 AM 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 AM, Mr M D Perrott AM and Mr D J Schwartz. The Nomination and Remuneration Committee held two meetings during the year with all committee members attending.

INTERESTS IN THE SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

On 18 September 2020, 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 AM	2,769,430	–
D E Blain AM	1,562,360	–
D J Schwartz	594,542	–
A K Mayer	347,185	–
M D Perrott AM	8,500	–

PRINCIPAL ACTIVITIES

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

RESULTS

The consolidated entity's operating profit after tax for the financial year was a profit of $27,153,000 (2019 – $27,700,000).

OPERATING AND FINANCIAL REVIEW

Please refer to Managing Director's report for details.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the second half of the financial year, the Covid-19 pandemic had an impact on the global economy and the Group. Government implemented lockdowns have caused automotive manufacturers to halt production, causing disruption to the automotive supply chain, including the Automotive Leather division. All of our production facilities have been impacted, including our cutting plant in China, all of our plants in Slovakia and our finishing plant in Victoria, Australia. The temporary closures have impacted this year's financial results and the economic consequence of Covid-19 continues to weigh on overall demand in the automotive industry. Post financial year end, the Group has seen improving conditions and is cautiously optimistic for growth and profit opportunities. However, the pandemic and its economic impact continues to make the business operating environment volatile.

In the opinion of the Directors of the consolidated entity, there has not arisen any other 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.

	$'000
On ordinary shares	
– 40¢ per share final, paid on 20 September 2019	**5,518**
– 45¢ per share interim, paid on 13 March 2020	**6,153**
	11,671
Dividends paid for the year ended 30 June 2019	
On ordinary shares	
– 30¢ per share final, paid on 15 September 2018	**4,151**
– 30¢ per share interim, paid on 15 March 2019	**4,148**
	8,299
Not recognised as a liability as at 30 June 2020	
Final franked dividend for 2020 – 35¢ (2019 – 40¢)	**4,765**

For personal use only

DIRECTORS' REPORT
year ended 30 June 2020

REVIEW OF OPERATIONS

The consolidated entity's revenue from continuing operations decreased by 24% to $155,573,000 from $203,623,000 this year. The pre-tax operating profit of $38,530,000 was a decrease compared to $38,568,000 for last year. The consolidated entity's net profit after tax, excluding non-controlling interests, increased by 3% to $23,550,000 from $22,899,000. Covid-19 was the primary reason for the 26% reduction in Automotive Leather revenue and the 25% reduction in net profit after tax attributable to that division. Covid-19 did not materially impact the overall revenue and profit of Group Investments and Building Materials.

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

Following the end of the reporting period, a final fully-franked dividend of 35c per share has been declared payable on 18 September 2020.

No other matter or circumstance has arisen since the end of the financial year which materially 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 confidentiality 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 AM	Managing Director
D E Blain AM	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 Limited
R Leib	Chief Financial Officer
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.

For personal use only

DIRECTORS' REPORT
year ended 30 June 2020

For personal use only

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. 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 General Manager 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 2019, a 2% increase was applied for Senior Executives. Due to the economic impacts of Covid-19, there is no increase to the Group's base salaries from 1 July 2020, other than prescribed by existing workplace agreements.

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 Executive Director and the SFC Board. The scheme provides for a bonus pool of 5% of actual EBIT, which becomes payable when a 15% return on capital employed (ROACE) has been achieved as at 30 June balance date.

The profit participation bonus is subject to approval by the shareholders of Howe Automotive Limited. A full year 2020 bonus was approved (2019 – approved) and this bonus was reduced to align with the reduced profitability of the Automotive Leather division. ROACE have been chosen as the relevant performance conditions as this performance measure is readily monitored and available. ROACE 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. Covid-19 was the primary reason that EBIT for the Automotive Leather division fell by 24% for the financial year which has a direct impact on the bonus pool available for distribution.

Delta – Management Bonus Incentive Scheme

The Company operates a Management Bonus Incentive Scheme (MBIS) for the management group of Delta Corporation. Prior to the commencement of each financial year Delta Corporation 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 was approved for the year ended 30 June 2020 (2019 – 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

(a) *Short-Term Incentive Plan*

SFC has implemented a formal Short-Term Incentive (STI) Plan for the Group Managing Director, Chief Financial Officer 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 $266,366 for the Group Managing Director, $91,800 for the Chief Financial Officer and $65,557 for the Group Financial Controller, for the year ended 30 June 2020. The minimum possible award for the Group Managing Director, Chief Financial Officer and the Group Financial Controller is nil. 60% of any STI award is based on achievement of 15% Group ROACE. 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 2020 year on 18 August 2020. The Managing Director received an STI award of 97.5% (2019: 100%) of the maximum possible award. The Chief Financial Officer received an STI award of 97.5% (2019: 100%). The Group Financial Controller received an STI award of 92.5% (2019: 100%) of the maximum possible award.

(b) *Discretionary Bonuses*

The Nominations and Remuneration Committee has the discretion to award additional STI bonus to the participants of the STI plan, capped at 30% of each participant's base annual remuneration. The discretionary bonus is applied in financial years of superior profit earnings and performance. The Nominations and Remuneration Committee has approved Discretionary STI awards for the 2020 year on 18 August 2020. The Managing Director received a discretionary STI of $266,000 (2019: $250,000). The Chief Financial Officer received an STI award of $91,800 (2019: $50,000). The Group Financial Controller received a Discretionary STI award of $30,000 (2019: $20,000). The Group recognised a record profit for the year to 30 June 2020. The negative financial impacts of Covid-19 were successfully minimised, and superior gains were recognised for the Group's investment portfolio.

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:

DIRECTORS' REPORT
year ended 30 June 2020

Howe Automotive Limited Employee Participation Units Plan

Howe Automotive Limited operates an employee incentive 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 total combined number of shares plus EPUs issued by Howe Automotive Limited. Howe Automotive Limited dividends, divided by the total number of shares and EPUs on issue, is applied to reduce a bonus threshold for each EPU until the balance of the bonus threshold is reduced to nil. Once the threshold is nil, each EPU receives a remuneration bonus payment when Howe Automotive Limited makes a dividend payment, calculated based on the total dividends divided by the total number of shares and EPUs on issue.

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, other than upon a liquidity event, 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, other than upon a liquidity event, 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. For a liquidity event, the amount of payment is calculated in accordance with a valuation based on the consideration to be paid for ownership of Howe Automotive Limited. The formulas are 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 145,000 options on issue (2019: 117,500)

For issues dated 6 September 2017 and 2 August 2018, options may be exercised as follows:
(i) 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;
(ii) 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;
(iii) 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;
(iv) after 36 months 100% of the options may be exercised.

For issues dated 15 May 2020, options may be exercised as follows:
(i) during the first 12 months of each option period and including each date of issue, no more than 50% of the options issued to that participant on that date of issue;
(ii) during the period of 24 months from and including each date of issue exercise no more than 62.5% of the options issued to that participant on that date of issue;
(iii) 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;
(iv) during the period of 48 months from and including each date of issue exercise no more than 87.5% of the options issued to that participant on that date of issue;
(v) after 48 months 100% of the options may be exercised.

While the ESOP contains vesting conditions, the exercising of ESOP options is not dependent on a performance condition because:
(i) ESOP options have been issued with an exercise price at or above the VWAP of the share price on five preceding days that SFC shares traded on the ASX before the issue date;
(ii) ESOP options do not participate in dividends; and
(iii) 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.

The following table details the proportion of fixed remuneration and variable remuneration paid for the year ended 30 June 2020 as detailed in this report:

2020 Remuneration Structure	% Fixed	% Variable
Specified Directors		
J M Schaffer AM	63	37
D E Blain AM	100	–
A K Mayer	67	33
M D Perrott AM	100	–
D J Schwartz	100	–
Specified Executives		
D Birks	67	33
R Leib	45	55
J Walsh	100	–
M Perrella	100	–
J Cantwell	76	24

For personal use only

DIRECTORS' REPORT
year ended 30 June 2020

For personal use only

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 13 November 2019 when shareholders approved an aggregate remuneration limit of $500,000 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 AM, 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 AM 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 42%.

	1 Sept 2016	1 Sept 2017	1 Sept 2018	1 Sept 2019	1 Sept 2020
Tax rate	30%	30%	30%	30%	**30%**
Share price	$5.46	$7.55	$17.05	$14.81	**$16.25**
Ord dividends	$0.25	$0.26	$0.45	$0.70	**$0.80**
Imputation credit	$0.11	$0.11	$0.19	$0.30	**$0.34**
TSR	$1.01	$2.46	$10.14	($1.24)	**$2.58**
TSR	21%	45%	134%	(7%)	**17%**

At the date of this report, on an aggregate dollar paid basis, SFC paid to shareholders $10.9 million fully-franked dividends in respect of 2020 and a total of $33.9 million was paid in fully-franked ordinary dividends over the past 5 years.

Earnings Per Share (EPS)

SFC's average EPS over the past five years has been 117.3¢.

	June 2016	June 2017	June 2018	June 2019	June 2020
EPS	40.6¢	41.8¢	166.7¢	165.6¢	**171.9¢**

Remuneration of Key Management Personnel for the year ended 30 June 2020

	Short – term		Long-term benefits		Post-employment			
	Salary & fees	Cash bonus	Long service leave [2]	Share-based payment [4]	Superannuation	Termination benefit	Total	Performance related
30/06/2020	**$**	**$**	**$**	**$**	**$**	**$**	**$**	
Directors								
J M Schaffer AM	**847,127**	**512,318** [3]	**7,993**	**–**	**25,000**	**–**	**1,392,438**	**36.79%**
D E Blain AM	**75,800**	**–**	**–**	**–**	**7,201**	**–**	**83,001**	**0.00%**
A K Mayer	**719,718**	**357,654**	**–**	**–**	**–**	**–**	**1,077,372**	**33.20%**
M D Perrott AM	**83,001**	**–**	**–**	**–**	**–**	**–**	**83,001**	**0.00%**
D J Schwartz	**83,001**	**–**	**–**	**–**	**–**	**–**	**83,001**	**0.00%**
Executives								
D Birks	**331,530**	**532,247**	**856**	**–**	**25,000**	**(621,718)**[1]	**267,915**	**(33.40%)**
R Leib	**276,672**	**361,788**	**4,766**	**63,710**	**29,468**	**95,397**[1]	**831,801**	**54.96%**
J Walsh	**329,027**	**–**	**(2,793)**	**–**	**24,999**	**–**	**351,233**	**0.00%**
M Perrella	**159,719**	**–**	**7,145**	**–**	**14,851**	**–**	**181,715**	**0.00%**
J Cantwell	**208,321**	**81,321**	**3,338**	**25,485**	**19,562**	**–**	**338,027**	**24.06%**
	3,113,916	**1,845,328**	**21,305**	**89,195**	**146,081**	**(526,321)**	**4,689,504**	

(1) Termination benefits for Mr Birks and Mr Leib include a provision for EPUs based on projections of future earnings and a vesting profile. This provision can increase or decrease based on profit expectations of Howe Automotive Limited.
(2) Net of long service leave taken during the period.
(3) $250,000 of Mr Schaffer's cash bonus relates to performance for the year ending 30 June 2019.
(4) Includes the value of options issued under the SFC Employee Share Options Plan (ESOP) using the Black-Scholes model.

DIRECTORS' REPORT
year ended 30 June 2020

Remuneration of Key Management Personnel for the year ended 30 June 2019

	Short – term		Long-term benefits		Post-employment			
	Salary & fees	Cash bonus	Long service leave [2]	Share-based payment [4]	Superannuation	Termination benefit	Total	Performance related
30/06/2019	$	$	$	$	$	$	$	
Directors								
J M Schaffer AM	872,070	458,532 [3]	20,883	–	25,000	17,410	1,393,895	27.03%
D E Blain AM	56,374	–	–	–	25,000	1,627	83,001	0.00%
A K Mayer	670,221	281,315	–	–	–	–	951,536	33.02%
M D Perrott AM	81,374	–	–	–	–	–	81,374	0.00%
D J Schwartz	81,374	–	–	–	–	2,565	83,939	0.00%
Executives								
D Birks	328,583	730,145	813	–	25,000	571,413[1]	1,655,954	78.60%
R Leib	278,618	381,909	6,656	49,178	20,531	219,297[1]	956,189	62.88%
J Walsh	320,883	–	5,265	–	24,999	–	351,147	0.00%
M Perrella	156,414	–	5,292	–	21,314	–	183,020	0.00%
J Cantwell	196,661	62,500	3,816	19,671	19,073	–	301,721	25.38%
	3,042,572	1,914,401	42,725	68,849	160,917	812,312	6,041,776	

[1] Termination benefits for Mr Birks and Mr Leib include a provision for EPUs based on projections of future earnings and a vesting profile. This provision can increase or decrease based on profit expectations of Howe Automotive Limited. The termination benefits for Mr Birks and Mr Leib are restated compared to the 2019 Remuneration Report to correctly provide for the EPU vesting profile.
[2] Net of long service leave taken during the period.
[3] $200,000 of Mr Schaffer's cash bonus relates to performance for the year ending 30 June 2018.
[4] Includes the value of options issued under the SFC Employee Share Options Plan (ESOP) using the Black-Scholes model.

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 2020	Balance at beginning of year	Exercise of employee share options	Net change other	Balance at end of year
Specified directors				
J M Schaffer AM	2,756,930	–	12,500	2,769,430
D E Blain AM	1,562,360	–	–	1,562,360
D J Schwartz	585,726	–	8,816	594,542
A K Mayer	347,185	–	–	347,185
M D Perrott AM	1,000	–	7,500	8,500
Specified executives				
M Perrella	59,834	–	–	59,834
R Leib	12,500	37,500	(17,500)	32,500
J Cantwell	10,450	5,000	–	15,450
J Walsh	2,500	–	403	2,903
Total	**5,338,485**	**42,500**	**11,719**	**5,392,704**

For personal use only

DIRECTORS' REPORT
year ended 30 June 2020

SHARE OPTIONS AND EPUS

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

Date issued	No. on issue 30 June 2019	Issued during the year	Forfeited during the year	Exercised during the year	No. on issue 30 June 2020	Exercise price	First exercise date	Last exercise date
6 Sept 2017	47,500	–	–	30,000	17,500	$7.54	06-Sep-17	06-Sep-22
12 Aug 2018	70,000	–	–	12,500	57,500	$14.10	02-Aug-18	02-Aug-23
15 May 2020	–	70,000	–	–	70,000	$10.50	15-May-20	15-May-25
Total	**117,500**	**70,000**	**–**	**42,500**	**145,000**			

b) Remuneration options: Granted and vested during the year

The table below discloses the number of share options granted, vested or lapsed during the year. Share options do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met. There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

30 June 2020

									Vested as at 30 June 2020	
Executives	Options issued during the year	Grant date	Value per option at grant date	Value of options granted during the year ($)	Exercise price per share	No.vested during year	No. exercised during year	Value of options exercised during the year ($)	Vested	Not vested
R Leib	50,000	15 May 2020	$2.01	100,500	$10.50	25,000	–	–	25,000	25,000
R Leib	–	2 Aug 2018	$2.53	–	$14.10	12,500	12,500	31,625	12,500	25,000
R Leib	–	6 Sept 2017	$0.86	–	$7.54	12,500	25,000	21,500	–	12,500
J M Cantwell	20,000	15 May 2020	$2.01	40,200	$10.50	10,000	–	–	10,000	10,000
J M Cantwell	–	2 Aug 2018	$2.53	–	$14.10	5,000	–	–	10,000	10,000
J M Cantwell	–	6 Sept 2017	$0.86	–	$7.54	5,000	5,000	4,300	–	5,000
Total	**70,000**			**140,700**		**70,000**	**42,500**	**57,425**	**57,500**	**87,500**

30 June 2019

									Vested as at 30 June 2019	
Executives	Balance at beginning of period	Grant date	Value per option at grant date	Value of options granted during the year ($)	Exercise price per share	No. vested during year	No. exercised during year	Value of options exercised during the year ($)	Vested	Not vested
R Leib	50,000	2 Aug 2018	$2.53	126,500	$14.10	12,500	–	–	12,500	37,500
R Leib	–	6 Sept 2017	$0.86	–	$7.54	12,500	12,500	10,750	12,500	25,000
J M Cantwell	20,000	2 Aug 2018	$2.53	50,600	$14.10	5,000	–	–	5,000	15,000
J M Cantwell	–	6 Sept 2017	$0.86	–	$7.54	5,000	10,000	8,600	–	10,000
Total	**70,000**			**177,100**		**35,000**	**22,500**	**19,350**	**30,000**	**87,500**

(c) EPUs held by Key Management Personnel

30 June 2020

						Vested as at 30 June 2020	
Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested	Not vested
D Birks	1,200,000	–	–	–	1,200,000	1,000,000	200,000
R Leib	300,000	200,000	–	–	500,000	–	500,000
Total	**1,500,000**	**500,000**	**–**	**–**	**1,700,000**	**1,000,000**	**700,000**

30 June 2019

						Vested as at 30 June 2019	
Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested	Not vested
D Birks	1,200,000	–	–	–	1,200,000	1,000,000	200,000
R Leib	300,000	200,000	–	–	500,000	–	500,000
Total	**1,000,000**	**500,000**	**–**	**–**	**1,700,000**	**1,000,000**	**700,000**

(d) Shares issued on exercise of compensation options and EPUs

42,500 shares were issued during the current year on exercise of compensation options (2019: 22,500)

For personal use only

DIRECTORS' REPORT
year ended 30 June 2020

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 was renewed for the period 1 July 2018 to 30 June 2021. 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 one month unless termination is for serious misconduct in which case no notice period is applicable.

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.

For personal use only

For personal use only

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

Building a better working world

Auditor's independence declaration to the Directors of Schaffer Corporation Limited

As lead auditor for the audit of the financial report of Schaffer Corporation Limited for the financial year ended 30 June 2020, 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 & Young

Ernst & Young

Philip Teale
Partner
18 September 2020

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

DIRECTORS' REPORT
year ended 30 June 2020

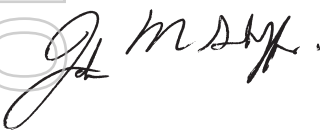
NON-AUDIT SERVICES

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 $85,394

Signed in accordance with a resolution of the directors.



J M Schaffer AM

Chairman and Managing Director

Perth, 18 September 2020

For personal use only

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2020

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 of SFC's size and structure.

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

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

STRUCTURE THE BOARD TO ADD VALUE

The Schaffer Board currently consists of five directors: two independent; one non-executive; and two executive directors namely the Executive Chairman of the Leather division and the Group Managing Director 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 AM *Chairman and Managing Director*
(Age 69)

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 AM *Non-executive Director*
(Age 76)

Danielle joined the Board in 1987. Mrs Blain is currently a non-executive director of Howe Automotive Limited having previously 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 and is a member on several NGO boards. Mrs Blain is a member of the Board's Audit Committee and the Nomination and Remuneration Committee.

Michael Perrott AM *Independent Director*
(Age 74)

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 78)

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 50 years of international leather experience, broad business skills and a global business perspective.

David Schwartz *Independent Director*
(Age 66)

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	Nomination & Remuneration Committee	Economic Interest in SFC	Retiring at next AGM	Seeking Re-election
J M Schaffer AM	1972	Chairman/Executive	–	–	20.3%	No	N/A
D E Blain AM	1987	Non-executive	Member	Member	11.5%	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	4.4%	No	N/A

For personal use only

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2020

Board committees

The Board may from time to time establish committees where the Board is of the opinion that the establishment of such a committee will improve the performance and efficiency 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 it is of sufficient size to warrant the establishment of additional dedicated Board Committees.

Board meetings

Management provides the Board with information in a form, timeframe and quality that facilitates the Board in effectively discharging its duties. The Board meets at least 8 times per year. Board papers are, where possible, provided to directors at least four days prior to the relevant meeting. The non-executive Board members are joined at Board meetings by the Group's Managing Director, the Executive Chairman of Howe Automotive Limited and the Company's 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 assesses 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 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 and SFC's immaterial interest in Primewest Management Limited. 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 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 contribute unbiased and differing ideas, views 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 20.3%) and has served on the Board since 1972;
- Mrs Blain is a substantial shareholder of SFC (with an economic interest of 11.5%), 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 39% of SFC's issued capital representing a large proportion of each director's personal asset base.

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.

Diversity policy

SFC recognises the benefits to be gained from a variety of skills, backgrounds and experiences being applied to specific work objectives. Therefore, SFC is committed to diversity throughout our workforce.

SFC has established a diversity policy which includes the requirement for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. The copy of the Company's Diversity Policy can be accessed from the corporate governance section of the Company's website – www.schaffer.com.au

Our commitment to diversity will be supported by:

Communication – SFC will maintain an inclusive workplace culture via the organisation-wide awareness of workplace diversity principles and benefits. Management will ensure ongoing communication of these principles to the workforce.

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.

Lodged with the Australian Securities Exchange

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2020

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)	The annual compliance notification was received on 23 July 2020 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 2020, women represented 52% (2019: 50%) of the Group's workforce, 23% (2019: 16%) of senior executive positions, and 20% (2019: 20%) of the Board.

PROMOTE RESPONSIBLE AND ETHICAL DECISION MAKING

Values

SFC's core values are:

- **Safety** – we provide safe environments for our valued employees where they can work collaboratively and thrive.
- **Excellence** – we strive for excellence, seeking outcomes aligned to shareholder wealth creation.
- **Quality**– we are committed to the production of high-quality products and service delivery that meets or exceeds our customer's expectations
- **Relationships** – we focus on developing valuable relationships with our business partners, customers, and employees.
- **Environment** – we support sustainable methods of production that reduce environmental impacts.
- **Adaptable** – we continually respond and adapt to our changing environment through effective decision making and continual improvement of our processes and systems.

Conduct and ethics

The Company operates under a Code of Conduct a copy of which is posted to the corporate governance section of the Company's website – www.schaffer.com.au

The Company's Code of Conduct describes how SFC relates to its employees, customers, suppliers, shareholders and the community. SFC is committed to promoting integrity and maintaining the highest standard of ethical conduct in all of its activities.

Our business success is dependent on the development and maintenance of trusting relationships, underpinned by the continuous demonstration of corporate integrity.

The purpose of this Code of Conduct is to provide a common behavioural framework for all SFC personnel which recognises social responsibility, complies with applicable laws and standards, and is in keeping with the spirit and rules of the Australian and international markets in which SFC operates. This Code of Conduct applies to SFC and its controlled affiliates.

SFC's directors and management team lead by example, demonstrating their commitment to this Code of Conduct at all times through their personal behaviour and through guidance provided to our personnel.

Securities trading policy

SFC's Securities Trading Policy regulates dealing by SFC Directors and senior executives in SFC securities. Restrictions imposed by law on prohibiting anyone dealing in SFC's securities if in possession of unpublished SFC price-sensitive information have been supplemented by Board imposed restrictions specific to SFC Directors and senior executives. Price sensitive information is information a reasonable person would expect to have a material effect on the price or value of SFC securities.

This policy provides that in addition to Directors and senior executives being prohibited from trading in the Company's securities at any time if they possess any unpublished price sensitive information, Directors and senior executives may buy or sell the Company's securities only within limited trading windows.

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 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

Whistleblower policy

SFC recognises that any genuine commitment to detecting and preventing illegal and other undesirable conduct must include, as a fundamental cornerstone, a mechanism whereby employees and others can report their concerns freely and without fear of repercussion.

SFC has established a whistleblower policy as the mechanism that encourages the reporting such conduct. All employees, officers, contractors, partners and consultants of SFC are encouraged to report on behaviours they honestly believe contravenes SFC's Code of Conduct, the Company's policies, or the law. All reports are investigated appropriately, and when requested, anonymously. The SFC Board is provided with information on whistleblower reports on a regular basis.

Anti-bribery and corruption policy

SFC is committed to operate within the laws of any jurisdiction in which it does business, and in a way that is consistent with the SFC Code of Conduct.

SFC has established and anti-bribery and corruption policy to deter and prevent bribery and corruption which is available at the SFC's website. The policy applies to SFC employees, officers, contractors, partners and consultants who provide services to SFC. Employees are encouraged to report suspected corrupt activities under SFC's whistleblower policy.

For personal use only

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2020

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

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 (Independent Director). Accordingly, SFC's Audit Committee complies with the Council's Audit Committee structure guidelines.

Where a periodic corporate report is not required to be audited or reviewed by an external auditor, SFC conducts an internal verification process to confirm the integrity of the report, to ensure that the content of the report is materially accurate, and to provide investors with appropriate information to make informed investment decisions.

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 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.
- Copies of all material market announcements are also required to be circulated to the Board promptly, to ensure the Board has timely oversight of the nature and quality of information being disclosed to the market.

RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder communications strategy

SFC aims to ensure that investors and the market are kept informed of all major developments affecting the Company.

Information is communicated to investors and the market in accordance with SFC's periodic and continuous disclosure obligations pursuant to the ASX Listing Rules and the Corporations Act. SFC's disclosure practices are aimed at ensuring timely access for all investors to Company information.

To achieve these objectives and to satisfy regulatory requirements, SFC provides information to investors and the market in a number of ways:

- SFC's principal communication with investors is by provision of the Annual Report and financial statements, the Interim Report and the Annual General Meeting.
- Periodic and continuous disclosure announcements are released directly to the market via the ASX using ASX's electronic lodgement service. These announcements are immediately placed on the Company's website, at www.schaffer.com.au and typically mailed to shareholders.
- The release of Interim and Final results is typically followed by investor briefings and road shows. The purpose of the investor briefings/road shows is for explanation and clarification of previously released information and non-material company or industry specific information. Site visits are also arranged to give those who advise investors a better understanding of the Groups operating facilities.
- SFC's website contains further information about the Group and its activities, including copies of recent Annual and Interim Reports, the full text of notices of meetings and explanatory notes and copies of road-show presentations and presentations to brokers/analysts.
- The Annual General Meeting provides an opportunity for the Board to communicate with shareholders and investors through the presentation of the Chairman's Address and shareholders, through the Chairman, are given the opportunity to ask general questions of directors. SFC's external auditor attends each 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. All substantive resolutions at a meeting of shareholders are decided by a poll, rather than by a show of hands.

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.

For personal use only

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2020

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 at 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 is 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.

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 Incentives – 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 Incentives – 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 $500,000 per annum was approved by shareholders at SFC's 2019 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 2020 financial year of $83,001 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 AM 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.

For personal use only

ASX ADDITIONAL INFORMATION
year ended 30 June 2020

Additional information required by the Australian Securities Exchange is as follows.

TOTAL SHARE CAPITAL

Issued as at 1 September 2020 – 13,615,325 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 2020

Shareholdings	Shareholders
1 – 1,000	711
1,001 – 5,000	445
5,001 – 10,000	100
10,001 – 100,000	95
100,001 – and over	22

Number of shareholders holding less than a marketable parcel i.e. less than 34 shares: 58.

SUBSTANTIAL SHAREHOLDERS

As at 1 September 2020 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 AM & Associates	2,116,743	15.55%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.79%
	2,769,430	20.34%
Mrs D E Blain AM & Associates	909,673	6.68%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.79%
	1,562,360	11.47%
* Combined interest of Mr Schaffer & Mrs Blain	4,331,790	31.81%
Sterling Equity Pty Limited and Associates	1,171,679	8.61%

*Pursuant to the Corporation Act (2001), by virtue of the Swan Holdings Pty Ltd Voting Deed conferring on Mr Schaffer the power to vote all Swan Holdings Pty Ltd's interest in Schaffer Corporation Limited's shares, Mr Schaffer is also deemed to have an interest in all the Schaffer Corporation Limited shares held by Mrs 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 Mr Schaffer and Mrs Blain show Mr Schaffer's and Mrs Blain's combined interest at 31.81%, not their individual economic interests of 20.34% and 11.47%.

TWENTY LARGEST SHAREHOLDERS

As at 1 September 2020

	Number of shares	Percentage of issued ordinary shares
SWAN HOLDINGS PTY LTD	1,305,374	9.54
MUTUAL TRUST PTY LTD	1,056,969	7.76
CIMBROOK NOMINEES PTY LTD	980,482	7.20
MRS DANIELLE EVA BLAIN	907,570	6.67
MR JOHN MICHAEL SCHAFFER	799,554	5.87
JOBLING INVESTMENTS PTY LTD	507,812	3.73
MR DAVID SCHWARTZ	368,470	2.71
MR CHRISTOPHER STEPHAN MAYER	344,263	2.53
MAITRI PTY LTD <COCI SUPER FUND A/C>	293,071	2.15
MR KENNETH JOHN BEER <BEER SUPER FUND A/C>	290,848	2.14
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	264,114	1.94
THE SPORTS CAFE (AUSTRALIA)	226,072	1.66
CITICORP NOMINEES PTY LIMITED	171,290	1.26
FREDERICK BRUCE WAREHAM	160,006	1.18
MR PETER CANAWAY <SUPERANNUATION FUND A/C>	160,000	1.18
SCE SUPERANNUATION PTY LTD <SCE SUPERANNUATION A/C>	152,500	1.12
GLENNLIN PTY LTD <MARILYN MAY BOOKHAM DISC A/C>	143,252	1.05
SHANN INVESTMENTS PTY LTD <LYNDA MAREE JOBLING DISC A/C>	143,252	1.05
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	122,123	0.90
MR MILTON YANNIS	108,472	0.80
	8,505,494	62.49

ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 18 November 2020 at 11:30am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.

For personal use only

Corporate Timetable

Final 2020 dividend record date	8 September 2020
Final 2020 dividend payment date	18 September 2020
Despatch of 2020 Annual Report and notice of AGM	9 October 2020
Annual General Meeting	18 November 2020
2021 half-year earnings release and dividend announcement	February 2021
Interim 2021 dividend payment date	March 2021

For personal use only

SHAREHOLDER INFORMATION

Annual General Meeting

Schaffer Corporation will hold its Annual General Meeting on Wednesday 18 November 2020 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

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

Board of Directors

Executive Directors

JM Schaffer AM BCom(Hons), FCPA
(Chairman and Managing Director)
AK Mayer (Executive Chairman – Howe Automotive Limited)

Non-executive Directors

DE Blain AM, BA
MD Perrott AM, BCom, FAIM FAICD
DJ Schwartz

Chief Financial Officer

R Leib BComm BAcc

Group Financial Controller and Company Secretary

J Cantwell B Bus(Acc), CPA, MBA, GIA(Affiliated)

Share Registry

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

Website: www.computershare.com/au

Auditors

Ernst & Young
11 Mounts Bay Road
Perth WA 6000
Australia

Telephone: +61 8 9429 2222

Facsimile: +61 8 9429 2436

Solicitors

Ashurst
Brookfield Place Tower II
Levels 10 & 11
123 St Georges Terrace
Perth WA 6000
Australia

Telephone: +61 8 9366 8000
Facsimile: +61 8 9366 8111

For personal use only