Schaffer Corporation Limited

For personal use only

17 September 2021

ASX Market Announcements Office
Australian Securities Exchange Limited

Lodged electronically via ASX Online

2021 Annual Report

Please find attached the 2021 Annual Report for Schaffer Corporation Limited (ASX: SFC)

Yours sincerely



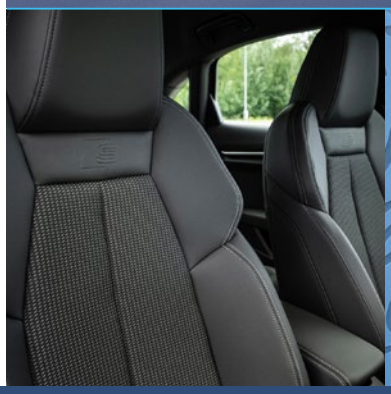
Jason Cantwell
Company Secretary

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 21







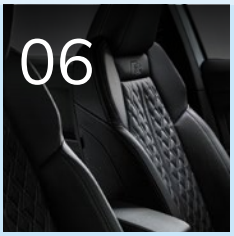
Schaffer Corporation Limited

For personal use only

About Schaffer Corporation 1
Managing Director's Report 2

Review of Operations:

Automotive Leather



Building Materials



Investments



Financial Statements 17
independent Auditor's Report 56
Directors' Report 61
Statement of Corporate Governance Practices 70
ASX Additional Information 75
Shareholder Information 77

For personal use only

ABOUT SCHAFFER CORPORATION

A DIVERSIFIED AUSTRALIAN INDUSTRIAL COMPANY

Schaffer Corporation Limited (SFC) is a diversified industrial and investment 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.

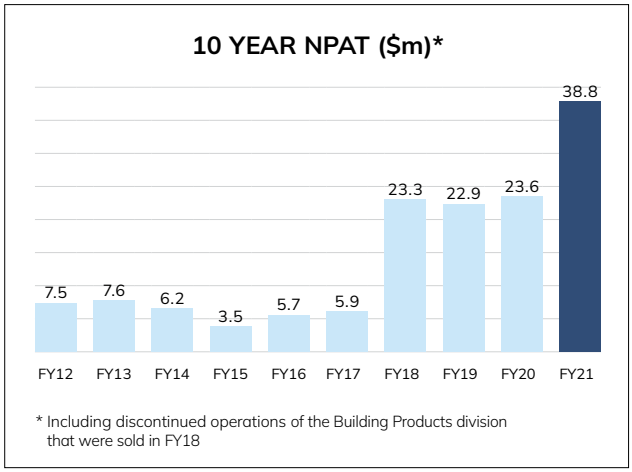
The Automotive Leather division is a world-class, globally competitive automotive leather producer, supplying quality interior leather products to such household brands as Land Rover, Audi, Mercedes, Porsche, Nissan and Ford. The division operates leather processing and finishing operations in Slovakia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

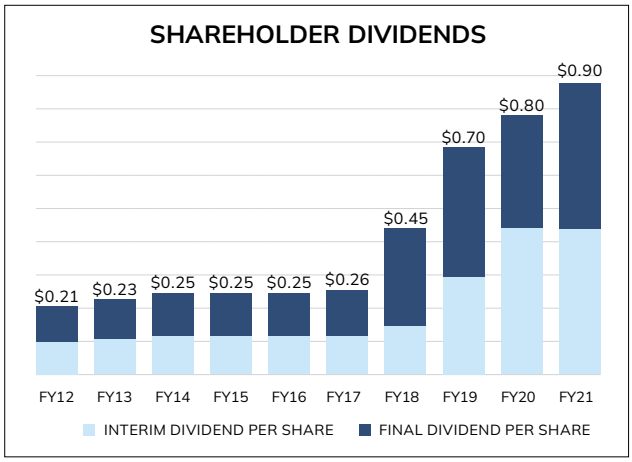
The Building Materials division comprises Delta Corporation which manufactures a range of custom made precast and prestressed concrete floor, beam and wall products, including TeeRoff beams, for major infrastructure, building and resources projects in Australia.

The Group's Investments division comprises 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 58 years since it was originally listed as Calsil Ltd in 1963. For the past 5 years, the company has paid approximately $43 million in fully franked dividends to shareholders.





Board of directors



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





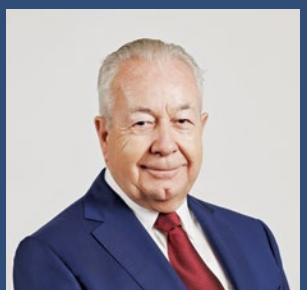
MANAGING DIRECTOR'S REPORT

EXECUTIVE MANAGEMENT TEAM



John Schaffer AM
BCom(Hons), FCPA
Age 70

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



Anton Mayer
Age 79

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 72

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 50

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 49

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



Dan Birks
BAgrSc, MBA
Age 55

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 51

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	21	20	19	18	17	16
Revenue - *incl. discontinued operations* ($ millions)	**196.3**	155.6	203.6	235.7	215.0	213.6
Net Profit after tax* ($ millions)	**38.8**	23.6	22.9	23.3	5.9	5.7
Earnings per Share	**$2.85**	$1.72	$1.66	$1.67	$0.42	$0.41
Return on Average Capital Employed (ROACE*)	**37%**	26%	29%	38%	12%	10%
Ordinary Dividend per Share	**$0.90**	$0.80	$0.70	$0.45	$0.26	$0.25

For personal use only

MAINTAINING FOCUS

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

Financial Performance

For the 2021 financial year, Schaffer Corporation achieved net profit after tax (NPAT*) of $38.8 million (2020: $23.6 million).

Automotive Leather

The Automotive Leather division had a strong performance in comparison to the 2020 financial year. The second half of the prior year was severely impacted by Covid-19, which resulted in global automotive industry shutdowns. This year, revenue increased by 27% and profit by 38%.

The division's performance included the commencement of two new programs and the strong recovery in sales volumes by our customers. Automotive Leather's management team responded well to the challenges, including rapidly increasing employee numbers to match the significant increase in sales volumes experienced from September. In addition to this, our European operations successfully renewed key programs with Jaguar Land Rover and won new programs with Mercedes and Audi. These programs were renewed/won under competitive market conditions but should see sales volumes grow from 2023 onwards.

While the global demand for new cars remains strong, the outlook for the division is uncertain. Since February 2021, the global semiconductor chip shortage impact has progressively deteriorated, with all our European customers having implemented various shutdowns and warning of further volatility and reduction in production volumes.

Group Investments

The division represents a growing proportion of the Group's underlying assets and valuation. We continue to grow Group Investments opportunistically, with the objective of maximising shareholder value over the medium and long-term.

During the financial year, pre-tax net equity value grew from $162.6 million to $191.7 million, an increase of $29.1 million.

SFC made new investments totalling $16.1 million, including $9.2 million in equities and $6.9 million in property.

The division contributed NPAT of $16.1 million, including significant non-cash, unrealised gains of $10.2 million (after tax). Unrealised gains included $7.6 million after-tax from the revaluation of the investment in Harvest Technology Group (ASX:HTG).

SFC generally carries property assets at depreciated book values. The exception is units in property unit trusts, which are carried at fair value in line with Accounting Standards. The Group supports its estimates of market values with ongoing, recent independent accredited valuations. The difference between book value and market value across the directly owned property and equity accounted investments represents unrealised gains of $81.8 million before tax and $57.5 million after tax.

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

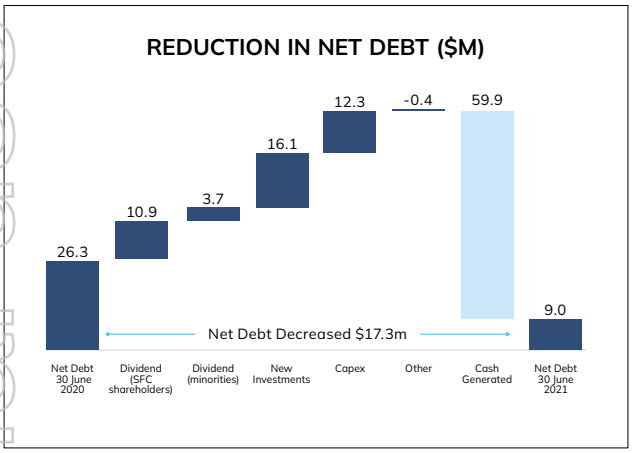
Delta

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

Delta returned to profit for the first half and was close to break-even for the second half. A large infrastructure project that was due to commence in the second half was delayed. Delays are common which makes scheduling difficult, and this increases downtime and reduces profitability. Additionally, the temporary border controls that are continuing in Western Australia due to Covid-19 have made it difficult to source labour, putting upward pressure on labour costs.

Group Cash Flow and Net Debt

Net Debt decreased $17.3 million during the financial year, from $26.3 million to $9.0 million, as strong cash flow was generated from the Automotive Leather division as excess working capital was released.



Net Debt excludes $19.8m (June 2020: $25.7m) of lease liabilities that would have been classified as operating leases prior to the adoption of AASB 16 on 1 July 2019.

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

Sustainability

Schaffer Corporation is committed to working sustainably by caring for our people, the environment, and the long-term future of our businesses. During 2021 we have developed sustainability goals to focus and reinforce our effort in this regard (refer page 14).

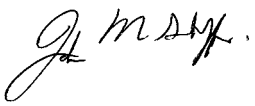
The Group's goals are based on 5 of the United Nations (UN) Sustainable Development Goals being good health and well-being, reducing inequality, responsible consumption and production, climate action, and life on land.

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 2021 financial year, Schaffer Corporation has declared fully franked dividends totalling $0.90 per share, which is $0.10 per share (13%) more than the prior year.

This year's Annual General Meeting will be held on Wednesday, 17 November 2021, at which time I will provide a further update on the outlook for the 2022 financial year.



JOHN SCHAFFER AM
Managing Director

For personal use only

For personal use only

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 add back of interest on lease liabilities that would have been 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 that would have been 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 add back of interest on lease liabilities that would have been classified as operating leases prior to the adoption of AASB 16) is calculated as follows:

EBIT Reconciliation

	Full-Year Ending	
	June 2021	June 2020
	$'000	$'000
Profit before income tax	**62,877**	38,530
Finance costs	**1,872**	2,640
Net impairment of assets	**-**	227
Other adjustments	**-**	(606)
EBIT	**64,749**	40,791
less interest on leases previously recognised as operating leases prior to the adoption of AASB 16	**(557)**	(609)
EBIT after interest on lease liabilities previously classified as operating leases prior to the adoption of AASB 16	**64,192**	40,182

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 that would have been classified as operating leases calculated as follows:

Reconcilliation of Net Debt excluding lease liabilities for leases that would have been classified as operating leases

	As at	
	June 2021	June 2020
	$'000	$'000
Interest-bearing loans and borrowings	**38,539**	53,333
Lease liabilities	**27,647**	33,624
less lease liabilities relating to leases previously classified as operating leases	**(19,801)**	(25,674)
Gross Debt excluding lease liabilities relating to leases previously classified as operating leases	**46,385**	61,283
less cash and cash equivalents	**(37,354)**	(35,016)
Net Debt excluding lease liabilities for leases previously classified as operating leases prior to the adoption of AASB 16	**9,031**	26,267

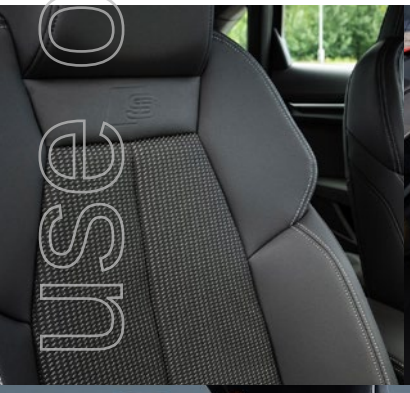
The directors believe that the presentation of non-IFRS financial information is useful for investors as the measures are utilised by the Group for rewarding performance and they reflect the underlying performance of the businesses.

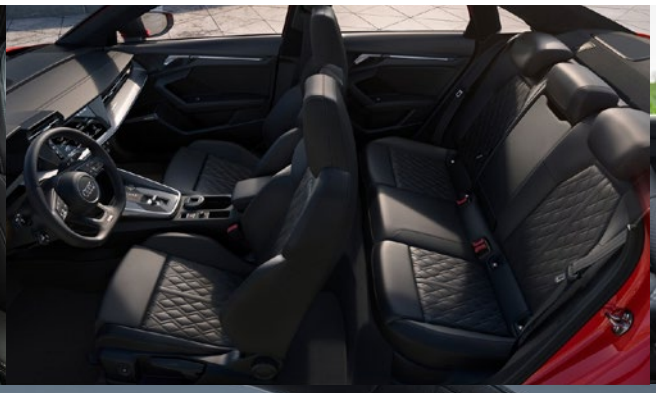
Net debt excluding lease liabilities for leases that would have been classified as operating leases prior to the adoption of AASB 16 on 1 July 2019 is used to assist the understanding of the composition of Net Debt.

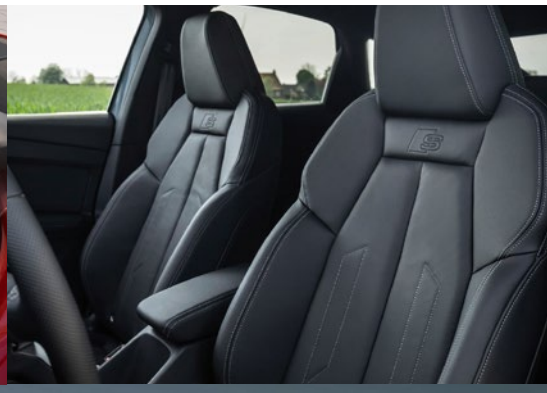
Non-IFRS financial information has been derived from the audited financial statements.

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 OEMs 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 Automotive Leather division to be close to its key customers and provides the opportunity to be competitive and responsive in a highly demanding global environment.

Revenue increased by 27% and included the commencement of two new programs and the strong recovery in sales volumes by our customers. Notwithstanding the strong global demand for new cars, the limited capacity in the semiconductor supply chain means that OEM's were forced to reduce production volumes. This impacted our sales volumes particularly during the latter part of the financial year.

During the financial year, the Automotive Leather division renewed key vehicles supplied and successfully won new programs for both Audi and Mercedes. These programs were renewed/won under competitive market conditions but should see European sales volumes grow in the future.

All 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

The Automotive Leather division is proud to have been nominated to supply leather for the third generation of the Range Rover Sports.

The first generation Range Rover Sports started production in 2005. The vehicle set a new benchmark with a unique combination of a dynamic luxury SUV with genuine off-road credentials. The L494 followed in 2013 and now will be replaced by the third generation L461 commencing production in 2022.

At the end of the L461 lifecycle expected around 2030, Howe will have supported this vehicle with a range of premium leathers for a quarter of a century.





DELTA
CORPORATION LIMITED

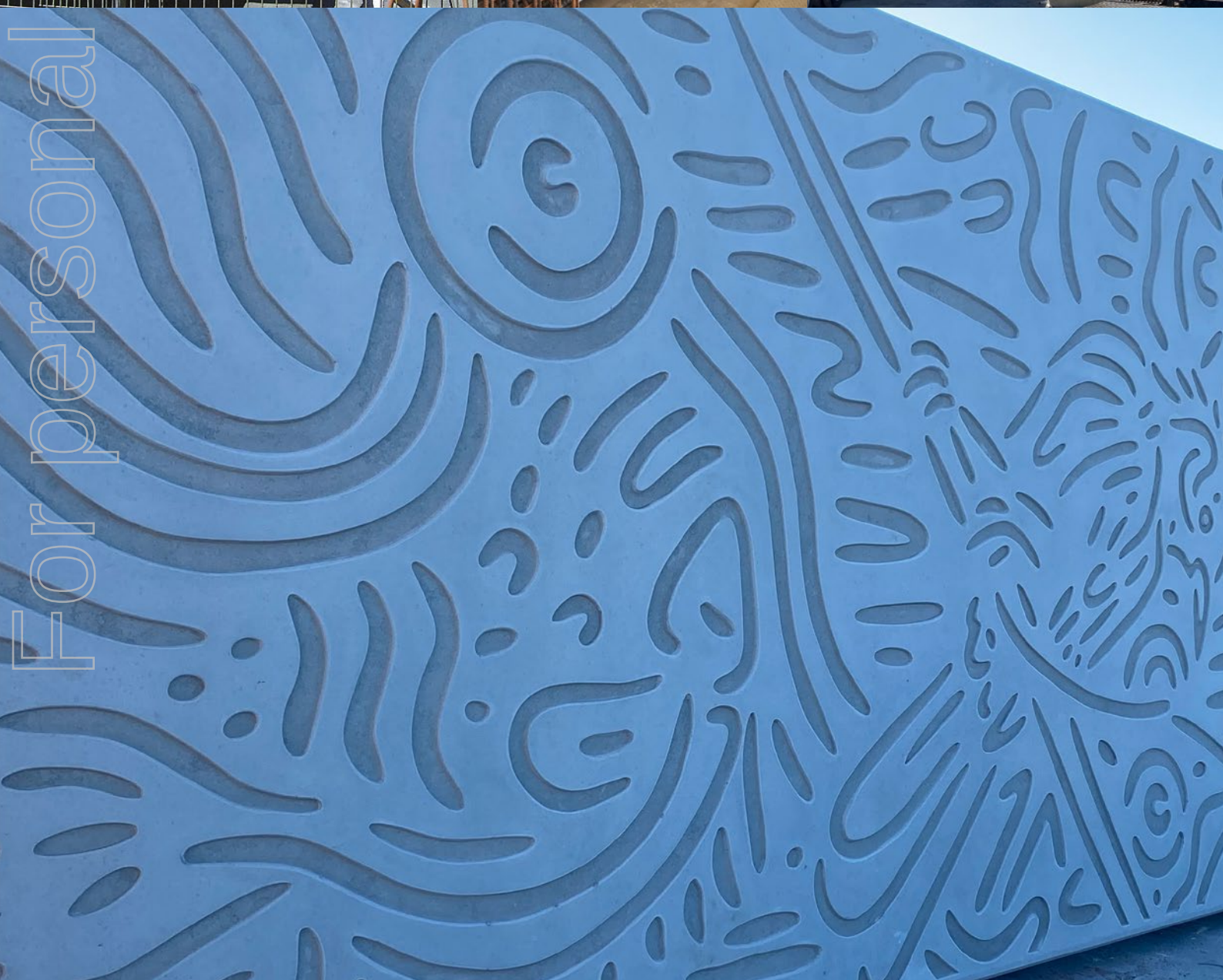
For personal use only

BUILDING MATERIALS









For personal use only

PROFITABLE NICHE FOCUS

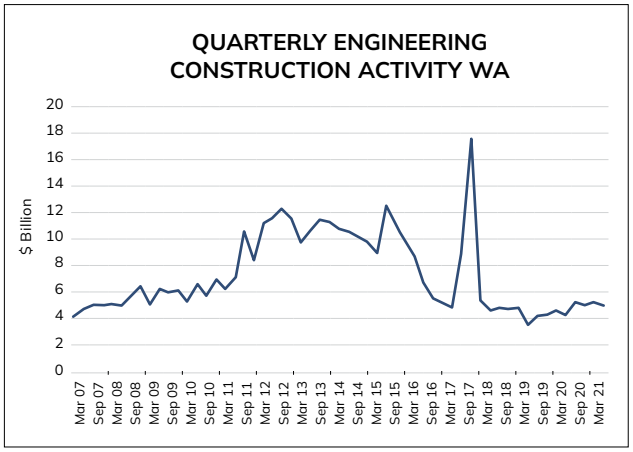
Delta delivers niche products and design solutions for the construction, resource and landscaping markets.

Delta Corporation

www.deltacorp.com.au

Delta's performance for the 2021 financial year is reflective of the challenging conditions that have prevailed across the entire construction industry since June 2015. As reported by the Australian Bureau of Statistics, quarterly Engineering Construction Activity in Western Australia has dropped from $12.48 billion in June 2015 to $4.82 billion in March of 2021. This in turn has had a significant impact on Delta's revenue and margins, negatively impacting overall financial performance.

Low levels of market activity have led to rising competition and increased margin pressure. Management have focused on ongoing cost management measures which have enabled Delta to return a modest profit for the period.



Delta has been involved in a number of projects over the past 12 months which include:

- Armadale Road to Northlake Road Bridge Project, Perth, WA
- St Louis Estate Dean Street, Perth, WA
- Al Noori School, Sydney, NSW
- Albany Ring Road, Albany, WA
- Yunderup Bridge, Yunderup, WA
- John Forrest High School, Perth, WA
- Kapunda High School, Adelaide, SA
- Islamic College, Perth, WA
- Adelphi Apartments, Adelaide, SA
- TRYP Hotel, Adelaide, SA
- Park Terrace, Bowden, SA
- One Hurtle Square, Adelaide, SA
- Evolve Bayswater Train Station, Perth, WA

Delta has continued to work with designers and major contractors on the development of new projects and products. It can take 2-3 years of preliminary budgets, conceptual design refinement and in-depth tendering support with a major contractor before a project becomes a reality. The Evolve Bayswater Station is one such project which has resulted in Delta being awarded the precast concrete package to produce the columns, headstocks and beams required for the project. The beam types that have been specifically developed for the project are a first for Western Australia.

Prospects for the industry appear to be improving, with Main Roads WA, the Public Transit Authority, and government expenditure on infrastructure projects forecast to rise from $1.3 billion p.a. to $3.5 billion p.a. for the next 5 years. The increase has been welcomed by the market but is expected to result in both labour and material shortages along with market capacity constraints.

In line with this increase in opportunity, Delta has embarked on increasing capacity and improving production efficiency.

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

Armadale Road to Northlake Road Bridge Project – Armadale Access Alliance



24 bridge beams installed over Kwinana Freeway, between Beeliar Drive and Berrigan Drive (Source: Main Roads Western Australia)

The Construction of the $237 million Armadale Road to North Lake Road Bridge project was led by the Armadale Access Alliance – a consortium comprising Laing O'Rourke and BG&E in partnership with Main Roads following a competitive tendering process in early 2019. For Delta, the project involved construction of a new bridge over Kwinana Freeway connecting Armadale Road and North Lake Road along with a new bridge over Tapper Road and two new elevated roundabouts to create and maintain connectivity. Upon completion, the project will enable road users to bypass the Cockburn Gateway shopping centre, addressing congestion at the Kwinana Freeway, Armadale Road and Beeliar Drive interchange, Perth's fifth busiest intersection.

The beams over the Kwinana Freeway were particularly challenging given the novel design approach adopted by the designers to effectively create a continuous bridge over the freeway thus eliminating the columns supporting the beams to be placed so that they did not interfere with the existing rail line due to the bridge's proximity to an existing Rail Station. Delta manufactured a total of 54 beams for the project over a period of 9 months to achieve the ambitious program set by the Armadale Access Alliance. The final installation of the beams over the Kwinana Freeway consisted of eight bridge beams, each measuring 43 metres and weighing 148 tonnes and was completed in February in accordance with the projects program.

For personal use only

GROUP INVESTMENTS

QUALITY INVESTMENTS AND LAND ASSETS WITH REDEVELOPMENT POTENTIAL

Group Investments

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

Jandakot Road (South Connect)

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

An approved local scheme allows warehouses, showrooms, masonry production and nurseries on the site. After subdivision to allow for road development, drainage and buffers, the developable area is approximately 34 hectares of which 6.2 hectares is a production facility currently leased to Austral Masonry Holdings. Clearing and earthworks on the developable area should be completed by November 2021 and the duplication of Jandakot Road and construction of a new roundabout entry to our new estate should be completed in the first half of calendar 2022.

The site is currently valued at $45.2 million on an "as is" basis.

Bennett Avenue, North Coogee (Beachside)

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

Stage 1 comprised 28 medium-density, 2-3 storey, single residential lots which have now been fully sold, with 20 settlements completed by 30 June. The Group realised $6.2 million cash and $1.5 million profit after tax and minority interests for the blocks that settled in the 2021 financial year.

Civil works for Stage 2 are now completed for an additional 24 single residential lots and titling of some of these blocks has commenced. The three apartment sites, which would accommodate approximately 110 dwellings, are on hold until demand for that type of product improves.

The realisable value of the remaining land inventory is currently valued at $11.2 million (SFC's share: $9.3 million).

Group Investments – Pre-Tax Net Equity Value[1]

Pre-Tax Net Equity Value[1]	FY17 ($m)	FY18 ($m)	FY19 ($m)	FY20 ($m)	FY21 ($m)	FY21 Per Share	FY21 % of Portfolio	FY21 vs FY20 ($m)
Property: Used by SFC Operations	19.6	11.4	11.4	9.7	**9.7**	**$0.71**	**5%**	**0.0**
Property: Rental Income	19.9	37.5	39.9	48.9	**57.9**	**$4.24**	**30%**	**9.0**
- Retail / Bulky Goods	13.1	16.2	14.4	16.4	**21.4**	**$1.56**	**11%**	**5.0**
- Industrial (includes Jandakot leased to Brickworks)	0.8	15.3	14.6	17.0	**18.1**	**$1.33**	**9%**	**1.1**
- Office	5.3	5.2	5.6	8.3	**10.5**	**$0.77**	**5%**	**2.1**
- Hotels	0.7	0.8	4.0	5.4	**3.8**	**$0.28**	**2%**	**(1.6)**
- Residential	0.0	0.0	1.4	1.8	**4.2**	**$0.31**	**2%**	**2.4**
Property: Development Sites	25.2	40.9	42.5	46.2	**47.1**	**$3.45**	**25%**	**0.9**
- Jandakot - Development	10.7	26.4	26.4	33.4	**33.4**	**$2.45**	**17%**	**0.0**
- Residential - Development	11.5	11.5	12.2	10.0	**11.0**	**$0.80**	**6%**	**1.0**
- Industrial - Development	3.0	3.0	3.8	2.8	**2.7**	**$0.20**	**1%**	**(0.0)**
Sub Total: Property	64.7	89.8	93.8	104.8	**114.7**	**$8.40**	**60%**	**9.9**
Equities: Externally Managed	0.0	5.1	6.2	4.3	**6.5**	**$0.47**	**3%**	**2.2**
Equities: Internally Managed	2.2	2.4	10.5	29.1	**49.9**	**$3.66**	**26%**	**20.8**
- Harvest Technology Group (ASX: HTG)[3]	0.0	0.0	0.0	16.0	**26.9**	**$1.97**	**14%**	**10.9**
- Global Portfolio	0.0	0.0	0.0	0.0	**4.5**	**$0.33**	**2%**	**4.5**
- Other	2.2	2.4	10.5	13.2	**18.5**	**$1.36**	**10%**	**5.4**
Sub Total: Equities	2.2	7.5	16.7	33.4	**56.4**	**$4.13**	**29%**	**23.0**
Cash, Term Deposits & Fixed Income	28.7	15.9	23.9	24.4	**20.6**	**$1.51**	**11%**	**(3.9)**
Total Pre-Tax Net Equity	95.5	113.2	134.4	162.6	**191.7**	**$14.04**	**100%**	**29.1**
Pre-Tax Net Equity Per Share	$6.82	$8.18	$9.73	$11.95	**$14.04**			

1. Market value less debt
2. All values represent SFC's share, i.e. 83.17% for Gosh Capital and other subsidiary held assets
3. SFC's investment in Harvest Technology Group (ASX:HTG) is valued at $26.9 million at 30 June 2021 (2020: $16.0 million). The share price used is $0.235 (2020: $0.135), which is below the $0.32 closing share price of HTG at 30 June 2021 (2020: $0.185). The discount to the closing price takes into consideration the significant volume of HTG shares held by the Group.

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%	5.6	8.0	-	(0.6)	7.4
1305 Hay Street, West Perth, WA	Head Office	SFC Direct	413	-	100%	0.6	1.7	-	(0.3)	1.5
						6.2	**9.7**	**-**	**(0.9)**	**8.8**
Rental Properties										
Hometown, 1480 Albany Hwy, Cannington, WA	Bulky Goods	Syndicate	59,319	20,637	25%	5.3	16.8	(9.7)	(3.5)	3.6
39 Dixon Rd, Rockingham, Western Australia	Bulky Goods	Gosh Direct	12,047	5,434	83%	8.8	10.6	(5.5)	(206)	2.5
Tamworth Homespace, Tamworth, NSW	Bulky Goods	Syndicate	31,160	13,050	25%	2.3	4.0	-	(0.5)	3.5
Auburn Megamall, 265 Parramatta Road, NSW	Bulky Goods	Gosh Syndicate	24,690	32,348	2%	1.3	1.3	-	(0.5)	3.5
Pacific Brisbane Hotel, Brisbane, QLD	Hotel	Syndicate	2,899	7,759	4%	0.9	0.9	-	0.1	1.0

For personal use only

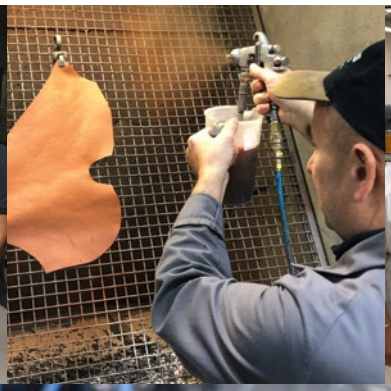
For personal use only

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)
Pacific Suites, Canberra, ACT	Hotel	Gosh Syndicate		16,045	2%	0.9	0.9	-	-	0.9
Marriott Hotel, Yonkers, New York, USA	Hotel	SFC US Syndicate		17,100	4%	0.7	0.7	-	0.1	0.9
Seasons Hotel, Newman, WA	Hotel	Syndicate	29,000	82 rooms	5%	0.4	0.4	-	-	0.4
Burlington Hotel, Vermont, USA	Hotel	SFC US Syndicate	64,600	309 rooms	6%	0.4	0.4	-	0.2	0.6
Coral Cat Resort, Mackay, QLD	Hotel	Syndicate	9,148	82 rooms	5%	0.2	0.2	-	-	0.3
Embassy Suites, Portland, Maine, USA	Hotel	SFC US Syndicate	11,250	11,250	7%	0.2	0.2	-	0.1	0.3
Lot 705 Jandakot Road, Jandakot, WA	Industrial	SFC Direct	62,097		100%	2.9	12.2	-	(2.9)	9.3
Willung Rd, Rosedale, Victoria	Industrial	Howe Direct	510,530	9,854	83%	1.8	2.4	-	(0.5)	1.9
Shaw Rd, Townsville, QLD	Industrial	Syndicate	14,650	4,728	10%	0.8	0.8	-	-	0.9
Magnesium Drive, Crestmead, QLD	Industrial	Syndicate	16,800	8,800	12%	0.8	0.8	-	0.1	0.9
Torrens Rd, St Clair, SA	Industrial	Syndicate	29,707	15,011	8%	0.7	0.7	-	-	0.7
Faulding St, Symonston, ACT	Industrial	Syndicate	7,360	3,479	6%	0.6	0.6	-	-	0.6
Cope Logistics – 7 properties nationwide	Industrial	Gosh Syndicate	78,042	23,575	3%	0.5	0.5	-	-	0.5
IBM Centre, 1060 Hay Street, West Perth, WA	Office	Syndicate	5,797	8,466	22%	1.3	12.9	(7.2)	(3.3)	2.5
6 Centro Avenue Subiaco	Office	Syndicate	1,607	1,065	50%	1.0	1.9	-	(0.3)	1.6
7 Turner Avenue Bentley	Office	Syndicate	3,488	1,098	35%	0.5	1.0	-	(0.1)	0.8
Fairfield Rd, Brisbane, QLD	Office	Syndicate	3,600	4,198	5%	0.8	0.8	-	-	0.9
Buller St, Port Macquarie, NSW	Office	Syndicate	5,042	6,214	5%	0.8	0.8	-	0.1	0.8
Albany Road Real Estate Partners Fund III	Office	SFC US Syndicate			1%	0.3	0.3	-	-	0.3
The Residences at Lakeview, Tennessee, USA	Residential	SFC US Syndicate	13,400	833 units	6%	1.8	1.7	-	-	1.7
The Residences at Bella Vista, St Louis, Missouri, USA	Residential	SFC US Syndicate	15,400	756 units	4%	1.3	1.3	-	-	1.3
Pier 5350 Apartments, Jacksonville, Florida, USA	Residential	SFC US Syndicate	89,000	43,200	7%	1.2	1.2	-	-	1.2
Parks Shopping Centre, Bunbury, WA	Retail	Syndicate	30,804	10,622	17%	2.0	7.8	(3.8)	(1.7)	2.0
						40.5	**84.1**	**(26.2)**	**(15.0)**	**42.9**
Development sites										
Lot 706 Jandakot Road, Jandakot, WA	Industrial	SFC Direct	449,639		100.0%	4.8	26.0	-	(7.0)	19.0
Lot 704 Jandakot Road, Jandakot, WA	Industrial	SFC Direct	32,442		100.0%	0.3	7.0	-	(2.0)	5.0
170 Flynn Drive, Neerabup, WA	Industrial	Syndicate	260,000		20.0%	1.5	2.8	(1.0)	(0.4)	1.4
Belmore Rd, Punchbowl, NSW	Industrial	Syndicate	11,552		11.1%	1.0	1.0	-	-	1.0
Lot 561 Paris Road, Australind, WA	Industrial	Gosh - Unit Trust	12,000		4.0%	0.4	0.4	-	-	0.4
Bennett Avenue, North Coogee, WA	Residential	Gosh Direct	21,035		83.0%	3.7	9.3	-	(1.7)	7.6
South Ocean Real Estate Fund III	Residential	SFC US Syndicate			0.9%	1.2	1.2	-	(0.1)	1.1
South Ocean Real Estate Fund V	Residential	SFC US Syndicate			0.8%	0.3	0.2	-	-	0.2
Part Lot 602 Yanchep Beach Road, WA	Residential	Gosh - Unit Trust	42,600		3.0%	0.2	0.2	-	0.1	0.3
						13.4	48.1	(1.0)	(11.1)	36.0
Total SFC Property Value						**60.1**	**141.9**	**(27.2)**	**(27.0)**	**87.7**

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

SUSTAINABILITY

Schaffer Corporation is committed to working sustainably.

Schaffer Corporation is committed to working sustainably by fair work practices, community support, good environmental practices, and economic values that contribute to the long-term future of our businesses.

The Group is developing a Corporate Social Responsibility (CSR) program aligned with the three pillars of sustainable development—social, economic, and environmental sustainability.

The Group is constantly striving to cultivate change to support society. As an organisation our greatest challenge is to create products and processes that minimise their negative impact on our planet and protect our people. We remain profitable through investing in our people, products, and planet.

For example, the Automotive Leather division provides its customers with unsurpassed experience of luxury, elegance, and comfort - but beyond its statement, we contribute to ethical business practices, supplier development, sustainable growth and value creation supported by our investment strategies.

The Group's sustainability strategy focuses on the following United Nations (UN) Sustainable Development Goals as described below:





Engaging an all-inclusive and safe workplace (UN Sustainable Development Goals 3 and 10)

Schaffer Corporation is committed to providing all our employees with a safe and healthy working environment. The Group continues to review and improve occupational health and safety management to improve outcomes. Measures and reporting to the Board includes Lost Time Injury Frequency Rate (LTIFR) and worker's compensation days. Management incentives include successful achievement of targets.

The Group supports diversity initiatives including multiculturalism. The Automotive Leather division has a multicultural workplace enhanced by the need to operate collaboratively over three very different countries – Australia, Slovakia, and China. Delta Corporation works with Nudge, a for-purpose charity that focuses on getting young, disadvantaged people into jobs and training opportunities in various industries in Western Australia. Delta has employed the services of the Nudge Trainee Programme to offer Aboriginal youth training and employment opportunities.

Gender diversity is important to the Group. At 30 June 2021, women represented 47% of the Group's workforce, 24% of senior executive positions, and 20% of the Board.

The Group is committed to the eradication of Modern Slavery practices, which includes forced and child labour. Sustainable Supplier Policies have been developed for issue to suppliers and the Group will continue to review and update risk analysis on areas where potential risk has been identified.

These sustainability goals are supported by Group policies such as the Code of Ethics, and staff education is used to reinforce the values associated with these goals into the various workplaces.



Responsible Consumption and Production (UN Sustainable Development Goal 12)

The Group seeks, evaluates, and implements initiatives that minimise water and energy use. For example, solar energy solutions have been implemented at our Australian manufacturing operations. We have also developed purpose-built energy reduction solutions to reduce our energy consumption requirements for our Automotive Leather operations in Europe during winter.

The Automotive Leather division manages waste by investing in new technologies and using machines and processes that help minimise raw material and chemical usage and waste. Delta Corporation recycles concrete product waste through crushing for use in other applications such as road base.

The Automotive Leather division is actively working with trusted suppliers on tanning processes and chemical manufacturing to develop products that are safer, biodegradable and have less impact on the environment when finishing leather.



Climate Action (UN Sustainable Development Goal 13)

The Automotive Leather division is currently in the process of implementing further strategies to align with OEM's ambition for suppliers to be CO_2-neutral by 2039. This initiative covers all stages of value creation, including the upstream supply chain that Automotive Leather relies on.

Our decarbonization journey started in 2019 as our baseline, setting in place the medium-term goal to achieve a 25% reduction in our total CO_2 emissions by 2025.



Life on Land (UN Sustainable Development Goal 15)

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 works with suppliers that adhere to various certifications and meet the requirements of various welfare regulations such as 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 of each batch of hides back to farming level.

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 leather throughout the entire production life cycle. This has allowed the identification of factors that can contribute to lowering our carbon footprint. This includes factors influenced by the tannery and chemical suppliers, and 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.

For personal use only

For personal use only

SCHAFFER CORPORATION LIMITED ABN 73 008 675 689

FINANCIAL REPORT 21

at 30 June 2021

Consolidated Statement of Comprehensive Income	18
Consolidated Statement of Financial Position	19
Consolidated Statement of Changes in Equity	20
Consolidated Statement of Cash Flows	21
Notes to the Consolidated Financial Statements	22
Directors' Declaration	55
Independent Auditor's Report	56
Directors' Report	61
Statement of Corporate Governance Practices	70
ASX Additional Information	75
Shareholder Information	77

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2021

	Note	CONSOLIDATED 2021 $'000	CONSOLIDATED 2020 $'000
Revenue			
Revenue from contracts with customers	3	**188,879**	148,703
Rental income	4(a)	**5,433**	5,422
Finance income	4(b)	**358**	513
Dividends and distributions		**1,664**	935
Total revenue		**196,334**	155,573
Cost of sales and services rendered		**(130,875)**	(112,059)
Gross profit		**65,459**	43,514
Impairment – property, plant and equipment	19	**–**	(1,448)
Impairment reversal – investment property	20	**–**	1,221
Share of (loss)/profit of equity accounted investments		**(56)**	61
Other income	4(c)	**19,927**	10,052
Marketing expenses		**(605)**	(623)
Administrative expenses		**(19,976)**	(11,607)
Profit before tax and finance costs		**64,749**	41,170
Finance costs	4(b)	**(1,872)**	(2,640)
Profit before income tax		**62,877**	38,530
Income tax expense	5	**(18,483)**	(11,377)
Net profit for the period		**44,394**	27,153
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation (loss)/gain attributable to parent		**(1,443)**	420
		(1,443)	420
Items that may not be reclassified subsequently to profit of loss			
Foreign currency translation (loss)/gain attributable to non-controlling interest		**(173)**	58
Other comprehensive income for the period, net of tax		**(1,616)**	478
Total comprehensive income for the period		**42,778**	27,631
Profit for the period is attributable to:			
Non-controlling interest	33	**5,560**	3,603
Owners of the parent	25	**38,834**	23,550
		44,394	27,153
Total comprehensive income for the period attributable to:			
Non-controlling interest		**5,387**	3,661
Owners of the parent		**37,391**	23,970
		42,778	27,631
Earnings per share (EPS)			
Basic EPS	7	**284.9¢**	171.9¢
Diluted EPS	7	**282.2¢**	170.6¢
Dividends paid per share		**90.0¢**	80.0¢

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

For personal use only

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2021

	Note	CONSOLIDATED 2021 $'000	CONSOLIDATED 2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**37,354**	35,016
Trade and other receivables	9	**28,292**	17,496
Inventories	11	**37,986**	40,909
Contract assets	10	**1,720**	2,589
Prepayments and deposits	12	**1,884**	2,075
Derivative financial instruments	14	**163**	166
Other financial assets	14	**6,260**	–
		113,659	98,251
Non-current assets			
Property, plant and equipment	19	**13,781**	13,637
Inventories	11	**1,828**	–
Contract assets	10	**2,854**	–
Investment properties	20	**30,858**	31,794
Right-of-use assets	21	**32,702**	37,834
Equity accounted investments	13	**4,051**	3,590
Deferred income tax asset	5	**4,323**	5,075
Goodwill	22	**1,299**	1,299
Other financial assets	14	**73,612**	51,678
Total non-current assets		**165,308**	144,907
Total assets		**278,967**	243,158
LIABILITIES			
Current liabilities			
Trade and other payables	15	**28,481**	12,485
Contract liabilities	10	**1,696**	277
Interest-bearing loans and borrowings	16	**9,288**	13,499
Lease liabilities	21	**5,970**	5,438
Income tax payable		**1,326**	–
Provisions	18	**9,016**	6,804
Derivative financial instruments	14	**402**	1,762
Total current liabilities		**56,179**	40,265
Non-current liabilities			
Interest-bearing loans and borrowings	16	**29,251**	39,834
Lease liabilities	21	**21,677**	28,186
Deferred income tax liabilities	5	**6,286**	2,235
Provisions	18	**13,098**	8,839
Total non-current liabilities		**70,312**	79,094
Total liabilities		**126,491**	119,359
Net assets		**152,476**	123,799
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	24	**11,622**	11,227
Reserves	25	**2,163**	3,488
Retained earnings	25	**128,445**	100,522
Total parent entity interest in equity		**142,230**	115,237
Non-controlling interests	33	**10,246**	8,562
Total equity		**152,476**	123,799

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 2021

	Attributable to Equity Holders of the Parent							
	Issued Capital	Retained Earnings	Reserves			Total	Non-controlling Interest	Total equity
			Asset revaluation	Share-based payments	Foreign currency translation			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2020	**11,227**	**100,522**	**2,585**	**(792)**	**1,695**	**115,237**	**8,562**	**123,799**
Profit for the year	**–**	**38,834**	**–**	**–**	**–**	**38,834**	**5,560**	**44,394**
Other comprehensive income	**–**	**–**	**–**	**–**	**(1,443)**	**(1,443)**	**(173)**	**(1,616)**
Total comprehensive income for the year	**–**	**38,834**	**–**	**–**	**(1,443)**	**37,391**	**5,387**	**42,778**
Transactions with owners in their capacity as owners:								
Employee share options exercised	**395**	**–**	**–**	**–**	**–**	**395**	**–**	**395**
Share-based payments	**–**	**–**	**–**	**118**	**–**	**118**	**–**	**118**
Equity dividends	**–**	**(10,911)**	**–**	**–**	**–**	**(10,911)**	**(3,703)**	**(14,614)**
At 30 June 2021	**11,622**	**128,445**	**2,585**	**(674)**	**252**	**142,230**	**10,246**	**152,476**
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

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 2021

	Note	CONSOLIDATED 2021 $'000	CONSOLIDATED 2020 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**176,956**	164,701
Payments to suppliers – land development		**(4,765)**	–
Payments to suppliers and employees – other		**(116,656)**	(133,508)
Acquisition of current financial assets at fair value through profit or loss		**(6,812)**	–
Proceeds on disposal of current financial assets at fair value through profit or loss		**2,254**	–
Interest received		**276**	422
Dividends and distributions received		**1,537**	624
Rental income received		**5,433**	5,040
Government subsidies		**1,968**	1,336
Interest paid		**(1,872)**	(2,640)
Income taxes paid		**(10,623)**	(15,374)
Goods and services tax paid		**(191)**	(191)
Proceeds from exercise of employee share options		**395**	402
Net cash flows from operating activities	8	**47,900**	20,812
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in term deposits		**–**	(6,000)
Proceeds on maturity of term deposits		**–**	22,515
Acquisition of property, plant and equipment	19	**(5,542)**	(5,494)
Proceeds on sale of property, plant and equipment		**461**	413
Improvements to investment properties		**(1,959)**	(1,841)
Acquisition of non-current financial assets at fair value through profit or loss		**(8,757)**	(14,029)
Proceeds on disposal of non-current financial assets at fair value through profit or loss		**2,144**	4,400
Capital distributions from financial assets at fair value through profit or loss		**464**	469
Purchase of equity accounted investments		**(518)**	(3,529)
Net cash flows used in investing activities		**(13,707)**	(3,096)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**4,649**	31,273
Repayment of borrowings		**(19,443)**	(7,191)
Lease principal receipts		**2,905**	1,450
Lease principal repayments		**(5,738)**	(5,182)
Dividends paid	6(a)	**(14,614)**	(17,202)
Shares acquired under share buy-back scheme		**–**	(3,166)
Net cash flows used in financing activities		**(32,241)**	(18)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,952**	17,698
Net foreign exchange differences		**386**	(53)
Cash and cash equivalents at the beginning of the period		**35,016**	17,371
Cash and cash equivalents at the end of the period	8	**37,354**	35,016

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 2021

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 2021 was authorised for issue in accordance with a resolution of the Directors on 17 September 2021.

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 23.

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

Several amendments and interpretations apply for the first time at 1 July 2020, 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.

In June 2021, IFRIC published an agenda decision in relation to the accounting treatment when determining net realisable value (NRV) of inventories, in particular what costs are necessary to sell inventories under IAS 2 Inventories. The Group is currently assessing the impact the agenda decision will have on its current accounting policy and whether an adjustment to inventory may be necessary. Accordingly, a reliable estimate of the impact of the IFRIC agenda decision on the Group cannot be made at the date of this report, however based on preliminary analysis performed, the Group isn't expecting a material impact from the adoption of the IFRIC agenda decision. The Group expects to complete the implementation of the above IFRIC agenda decision as part of its 31 December 2021 reporting.

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 2021. 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
AASB 2020-1	*Amendments to AASs – Classification of Liabilities as Current or Non-current*	A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. Specifically: ➤ The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. ➤ Management intention or expectation does not affect classification of liabilities. ➤ In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. These amendments are applied retrospectively. Earlier application is permitted.	1 January 2023	1 July 2023
AASB 2021-2	*Amendments to AASB 108 – Definition of Accounting Estimates*	An accounting policy may require items in the financial statements to be measured using information that is either directly observable or estimated. Accounting estimates use inputs and measurement techniques that require judgments and assumptions based on the latest available, reliable information. The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively. The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error. ➤ For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy. ➤ In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy. The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate. The amendments are applied prospectively. Earlier application is permitted.	1 January 2023	1 July 2023

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

Pronouncement	Title	Summary	Application date of standard	Application date for Group
AASB 2021-5	*Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	AASB 112 Income Taxes requires entities to account for income tax consequences when economic transactions take place, and not at the time when income tax payments or recoveries are made. Accounting for such tax consequences, means entities need to consider the differences between the tax rules and the accounting standards. These differences could either be: ➤ Permanent – e.g., when tax rules do not allow a certain expense to ever be deducted; or ➤ Temporary – e.g., when tax rules treat an item of income as taxable in a period later than when included in the accounting profit. Deferred taxes representing amounts of income tax payable or recoverable in the future must be recognised on temporary differences unless prohibited by AASB 112 in certain circumstances. One of these circumstances, known as the initial recognition exception, applies when a transaction affects neither accounting profit nor taxable profit, and is not a business combination. Views differ about applying this exception to transactions that, on initial recognition, create both an asset and liability (and could give rise to equal amounts of taxable and deductible temporary differences) such as: ➤ Recognising a right-of-use asset and a lease liability when commencing a lease ➤ Recognising decommissioning, restoration and similar liabilities with corresponding amounts included in the cost of the related asset Some entities have previously recognised deferred tax consequences for these types of transactions, having concluded that they did not qualify for the initial recognition exception. The amendments to AASB 112 clarify that the exception would not normally apply. That is, the scope of this exception has been narrowed such that it no longer applies to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments to AASB 112: ➤ Apply to transactions that occur on or after the beginning of the earliest comparative period presented; and ➤ Require entities to also recognise deferred tax for all temporary differences related to leases, decommissioning, restoration and similar liabilities at the beginning of the earliest comparative period presented. The cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. AASB 1 *First-time* Adoption of Australian Accounting Standards was amended to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to Australian Accounting Standards, despite the exception set out in AASB 112. Earlier application of the amendments is permitted.	1 January 2023	1 July 2023
AASB 2021-2	*Amendments to AASB 7, AASB 101, AASB 134 Interim Financial Reporting and AASB Practice Statement 2 Making Materiality Judgments – Disclosure of Accounting Policies*	The amendments to AASB 101 require disclosure of material accounting policy information, instead of significant accounting policies. Unlike 'material', 'significant' was not defined in Australian Accounting Standards. Leveraging the existing definition of material with additional guidance is expected to help preparers make more effective accounting policy disclosures. The guidance illustrates circumstances where an entity is likely to consider accounting policy information to be material. Entity-specific accounting policy information is emphasised as being more useful than generic information or summaries of the requirements of Australian Accounting Standards. The amendments to AASB Practice Statement 2 supplement the amendments to AASB 101 by illustrating how the four-step materiality process can identify material accounting policy information. Earlier application of the amendments is permitted.	1 January 2023	1 July 2023

(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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

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. For foreign currency denominated intercompany receivables and payables which do not form part of a net investment in foreign operations, although intercompany balances are eliminated in the consolidated statement of financial position, the effect on profit or loss of their revaluation is not fully eliminated.

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.

(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 ongoing impacts of Covid-19 were considered when assessing the future earnings input used in these estimations. Future earnings estimates have been increased from prior year to reflect the recovery of economies and industries relevant to the Group due to government stimulus and vaccines rollouts. However, these estimates have also allowed for the risk of volatility due to the ongoing impacts of Covid-19 such as future lockdowns and supply chain disruption causing production shutdowns. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 22.

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 increased from prior year to reflect the recovery of economies and industries relevant to the Group due to government stimulus and vaccines rollouts. However, these estimates have also allowed for the risk of volatility due to the ongoing impacts of Covid-19 such as future lockdowns and supply chain disruption causing production shutdowns. The valuation has sensitivity to the estimate of future earnings. A 10% reduction in the estimate of future earnings would reduce the provision by $1,384,000 (2020: $959,000) and vice versa. Refer note 28(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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

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 has 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 17(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 32) are translated into the presentation currency of Schaffer Corporation Limited at the rate of exchange ruling at the balance date and the Consolidated Statement of Comprehensive Income is translated at the average exchange rates for the year.

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

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

(f) Investment properties

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

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

- 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).

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

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.

(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 comprise 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

(r) Executive share option arrangement

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

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

- 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).

(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 28(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 a 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).

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

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.

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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

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.

(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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 2: Summary of Significant Accounting Policies (continued)

(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.

Note 3: Revenue from Contracts with Customers

FOR THE YEAR ENDED 30 JUNE 2021

Segments	Automotive Leather	Group Investments	Building Materials	Total
Type of goods or service	$'000	$'000	$'000	$'000
Sale of automotive leather components	**165,214**	**–**	**–**	**165,214**
Sale of land	**–**	**6,151**	**–**	**6,151**
Construction services	**–**	**–**	**14,030**	**14,030**
Transport income	**–**	**–**	**2,458**	**2,458**
Sale of goods – hospitality business	**–**	**1,026**	**–**	**1,026**
Total revenue from contracts with customers	**165,214**	**7,177**	**16,488**	**188,879**
Geographical Markets				
Europe	**119,416**	**–**	**–**	**119,416**
Asia	**45,798**	**–**	**–**	**45,798**
Australia	**–**	**7,177**	**16,488**	**23,665**
Total revenue from contracts with customers	**165,214**	**7,177**	**16,488**	**188,879**
Timing of revenue recognition				
Goods transferred at a point in time	**165,214**	**7,177**	**–**	**172,391**
Services transferred over time	**–**	**–**	**16,488**	**16,488**
Total revenue from contracts with customers	**165,214**	**7,177**	**16,488**	**188,879**
Relating to prior period performance	**–**	**–**	**–**	**–**
Relating to current period performance	**165,214**	**7,177**	**16,488**	**188,879**
Total revenue from contracts with customers	**165,214**	**7,177**	**16,488**	**188,879**

FOR THE YEAR ENDED 30 JUNE 2020

Segments	Automotive Leather	Group Investments	Building Materials	Total
Type of goods or service	$'000	$'000	$'000	$'000
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	17,758	148,703

At 30 June 2021 and 30 June 2020, the Group had no portion of transaction price allocated to remaining unfulfilled performance obligations for contracts with a duration of over 12 months.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 4: Significant Other Income and Expenses

	CONSOLIDATED	
	2021	2020
	$'000	$'000
(a) Net rental income		
Rental property income	**5,433**	5,422
Rental property expenses	**(3,633)**	(3,260)
Net rental income	**1,800**	2,162
(b) Finance (costs)/income		
Interest on loans	**(1,196)**	(1,820)
Interest on leases	**(676)**	(820)
Total finance costs	**(1,872)**	(2,640)
Interest on cash and term deposits	**358**	513
Total finance income	**358**	513
(c) Other income/(losses)		
Net gain/(loss) on other financial assets at fair value through profit or loss – current	**1,027**	(50)
Net gain on other financial assets at fair value through profit or loss – non-current	**16,790**	10,465
Gain on disposal of property, plant and equipment	**183**	192
Government subsidies	**1,968**	1,336
Net loss on derivatives	**(89)**	(1,460)
Foreign currency losses	**(3,366)**	(2,900)
Foreign currency gains	**3,414**	2,469
	19,927	10,052
(d) Depreciation, amortisation and impairment included in the consolidated statement of comprehensive income		
Depreciation included in:		
Cost of sales	**6,829**	7,013
Rental property expenses	**695**	717
Marketing and administrative expenses	**45**	63
Total depreciation	**7,569**	7,793
Impairment included in:		
Impairment loss – property, plant and equipment	**–**	1,448
Impairment reversal – investment property	**–**	(1,221)
	–	227
(e) Employee benefit expense		
Wages, salaries and bonuses	**34,369**	34,895
Post-employment benefits provisions increase/(reversal)	**5,568**	(1,091)
Long service leave provision	**111**	160
Worker's compensation costs	**433**	287
Superannuation costs	**1,025**	1,021
Share-based payments expense	**118**	89
	41,624	35,361

Note 5: Income Tax

	CONSOLIDATED	
	2021	2020
	$'000	$'000
The major components of income tax expense are:		
Consolidated statement of comprehensive income		
Current income tax		
Current income tax charge	**13,908**	8,962
Adjustment in respect of current income tax of previous years	**(228)**	(190)
Deferred income tax		
Total deferred income tax recognised for the period	**4,803**	2,605
Income tax expense reported in the consolidated statement of comprehensive income	**18,483**	11,377
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	**62,876**	38,530
At the Group's statutory income tax rate of 30% (2020 – 30%)	**18,863**	11,560
– overseas currency translation adjustment	**(165)**	63
– expenses not allowable for income tax purposes	**114**	79
– other items	**(179)**	(157)
– effect of lower tax rates in the United States	**78**	22
– over-provision of current income tax of previous years	**(228)**	(190)
Income tax expense reported in the consolidated statement of comprehensive income at the effective tax rate of 30% (2020 – 30%)	**18,483**	11,377

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 5: Income Tax (continued)

	Note	Consolidated Statement of Financial Position 2021 $'000	Consolidated Statement of Financial Position 2020 $'000	Consolidated Statement of Comprehensive Income 2021 $'000	Consolidated Statement of Comprehensive Income 2020 $'000
Deferred income tax					
Deferred income tax at 30 June relates to the following:					
Consolidated					
Deferred tax liabilities					
Accelerated depreciation for tax purposes		**1,198**	1,051	**(213)**	(57)
Expenses deducted for income tax purposes but deferred for accounting purposes		**155**	185	**30**	(133)
Expenses deferred for accounting purposes not deductible for income tax purposes		**47**	–	**19**	–
Deferred gains and losses on foreign exchange contracts and translations		**–**	–	**–**	14
Income taken up for accounting purposes currently not assessable for income tax purposes		**187**	132	**(55)**	60
Unrealised gain on other financial assets to fair value		**9,402**	4,532	**(4,870)**	(3,300)
Share of net profit of investments accounted for using the equity method		**30**	3	**(27)**	(3)
Depreciation right-of-use assets not deductible for tax purposes	(i)	**5,693**	7,424	**1,731**	876
Prepaid lease expenses deducted for tax purposes		**332**	360	**28**	(36)
Deferred capital gain for income tax purposes on scrip for scrip rollover		**565**	–	**(565)**	–
Interest rate swap contracts deferred gain rollover of freehold property		**1,265**	1,265	**–**	–
Gross deferred income tax liabilities		**18,874**	14,952		
Offset		**(12,588)**	(12,717)		
		6,286	2,235		
Consolidated					
Deferred tax assets					
Employee entitlements		**5,179**	3,856	**1,323**	(295)
Accelerated depreciation for accounting purposes		**1,174**	1,699	**(525)**	16
Deferred gains and losses on foreign exchange contracts and translations		**292**	831	**(539)**	330
Expenses not immediately deductible for income tax purposes		**800**	518	**282**	(87)
Lease payments deductible for tax purposes	(ii)	**5,941**	7,702	**(1,761)**	(804)
Deferred losses on interest rate swap contracts		**86**	201	**(115)**	56
Foreign tax credits deductible in a future period		**–**	88	**(88)**	(62)
Income taken up for tax purposes but not for accounting purposes		**(5)**	35	**(40)**	–
Unrealised loss on other financial assets to fair value		**233**	78	**155**	65
Losses carried forward		**3,211**	2,784	**427**	755
Gross deferred income tax assets		**16,911**	17,792		
Offset		**(12,588)**	(12,717)		
		4,323	5,075		
Deferred tax expense				**(4,803)**	(2,605)

(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 AASB16.

(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 AASB16.

Note 6: Dividends Provided for or Paid

	Note	CONSOLIDATED 2021 $'000	CONSOLIDATED 2020 $'000
(a) Dividends paid			
Final 2020 – 35¢ per share paid in September 2020 (2019 – 40¢)		**4,765**	5,518
Interim 2021 – 45¢ per share paid in March 2021 (2020 – 45¢)		**6,146**	6,153
Fully franked dividends paid by the parent		**10,911**	11,671
Dividend paid by controlled entity to minority shareholder fully franked	33	**3,703**	5,531
Total fully franked dividends paid		**14,614**	17,202
(b) Not recognised as a liability as at 30 June 2021			
Dividends on ordinary shares			
Final franked dividend for 2021 – 45¢ (2020 – 35¢)	34	**6,146**	4,765
The dividends were declared subsequent to 30 June 2021 (refer note 34).			
(c) Franking account			
The tax rate at which dividends have or will be franked is interim 30% (2020 – 30%), final 30% (2020 – 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 2021.			
Franking account balance brought forward		**24,284**	17,539
Fully franked dividends paid during 2021 – 80c (2020 – 85c)		**(4,676)**	(5,002)
Tax (refunded)/paid		**–**	–
Franked dividends received from other corporations		**7,930**	11,747
Franking account balance at the end of the financial year		**27,538**	24,284
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		**27,538**	24,284
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		**64,255**	56,663

Lodged Annual Report

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2021

Note 7: Earnings Per Share

	CONSOLIDATED	
	2021	2020
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).	**284.9¢**	171.9¢
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).	**282.2¢**	170.6¢

	CONSOLIDATED	
	2021	2020
	$'000	$'000
The following reflects the income and share data used in the calculation of basic and diluted earnings per share:		
Net profit attributable to ordinary equity holders of the parent from continuing operations	**38,834**	23,550

	NUMBER OF SHARES	
	2021	2020
Weighted average number of ordinary shares for basic earnings per share	**13,631,935**	13,698,858
Weighted average number of ordinary shares adjusted for the effect of dilution	**13,760,325**	13,801,399

Note 8: Cash and Short-Term Deposits

	CONSOLIDATED	
	2021	2020
	$'000	$'000
(a) Reconciliation of cash		
Cash balance comprises:		
Cash at bank and on hand	**33,603**	31,501
Cash equivalent – held at broker	**3,751**	–
Short term deposits (term 90 days or less)	**–**	3,515
Closing cash balance per consolidated statement of cash flows	**37,354**	35,016
(b) Reconciliation of operating profit after income tax to the net cash flows from operations		
Net profit	**44,394**	27,153
Adjustment for:		
Depreciation and amortisation	**7,564**	7,793
Net impairment of assets	**–**	227
Net gains on valuing other financial assets to fair value through profit or loss – non-current	**(16,790)**	(10,465)
Share-based payments expense	**118**	90
Provision for expected credit losses	**58**	110
Profit of equity accounted investments	**(56)**	(11)
Profit on disposal of property, plant and equipment	**(183)**	(192)
Unrealised foreign currency translation (gain)/loss	**(549)**	210
Distributions reinvested	**(125)**	(310)
Proceeds from exercise of employee share options	**395**	402
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(11,666)**	11,555
Increase in interest-bearing loan receivable	**(82)**	(91)
Decrease/(increase) in inventories	**2,646**	(853)
Increase in current financial assets at fair value through profit and loss	**(5,586)**	–
(Increase)/decrease in contract assets	**(1,985)**	964
Decrease in prepayments	**1,002**	2,104
Decrease in deferred income tax asset	**787**	2,471
Increase/(decrease) in trade and other payables	**15,994**	(13,873)
Increase/(decrease) in contract liabilities	**1,419**	(138)
Increase/(decrease) in employee entitlement provisions	**6,550**	(2,651)
Increase/(decrease) in income tax payable	**1,301**	(4,827)
Increase in deferred tax liability	**4,051**	128
(Increase)/decrease in derivatives	**(1,357)**	1,016
Net cash flows from operating activities	**47,900**	20,812

(c) Bank facilities (refer note 16)

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 9: Trade and Other Receivables

		CONSOLIDATED	
		2021	2020
	Note	$'000	$'000
Trade debtors	(i)	**24,376**	13,978
Allowance for expected credit loss	(ii)	**(168)**	(110)
		24,208	13,868
Sundry debtors	(iii)	**4,084**	3,628
		28,292	17,496

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 17(e) for credit risk disclosures.

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Movement in allowance for expected credit loss		
At 1 July	**110**	–
Provided during the year	**58**	110
At 30 June	**168**	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

		CONSOLIDATED	
		2021	2020
	Note	$'000	$'000
(a) Contract assets			
Contract work in progress	(c)	**1,500**	2,589
Long-term agreement (LTA) payments amortised over life of program – current		**220**	–
Long-term agreement (LTA) payments amortised over life of program – non-current		**2,854**	–
Total contract assets		**4,574**	2,589
(b) Contract liabilities			
Contract work in progress	(c)	**1,150**	146
Provision for refunds – customer claims		**546**	131
Total contract liabilities		**1,696**	277
(c) Contract work in progress			
Revenue recognised to date		**11,843**	11,843
Less: Progress billings		**(11,493)**	(9,400)
Net construction work in progress		**350**	2,443
Represented by:			
Amounts due from customers (contract assets)		**1,500**	2,589
Amounts due to customers (contract liabilities)		**(1,150)**	(146)
		350	2,443

Note 10: Contract Assets and Liabilities (continued)

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. Contract assets are subject to credit risk which is managed by the Group's credit policy (refer note 17(e)).

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.

	CONSOLIDATED			
	Work in progress	Customer claims	LTA payments	Total
	$'000	$'000	$'000	$'000
Contract assets				
At 1 July 2020	**2,589**	**–**	**–**	**2,589**
Movement in contract work in progress	**(1,089)**	–		**(1,089)**
Movement in LTA payments	**–**	–	**3,074**	**3,074**
At 30 June 2021	**1,500**	**–**	**3,074**	**4,574**
At 1 July 2019	–	–	–	–
Reallocated from trade receivables	3,553	–	–	3,553
Movement in contract work in progress	(964)	**–**	**–**	(964)
At 30 June 2020	2,589	–	–	2,589
Contract liabilities				
At 1 July 2020	**146**	**131**	**–**	**277**
Movement in provision for refunds – customer claims	**–**	**415**	**–**	**415**
Movement in contract work in progress	**1,004**	**–**	**–**	**1,004**
At 30 June 2021	**1,150**	**546**	**–**	**1,696**
At 1 July 2019				
Reallocated from trade payables	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

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 11: Inventories

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Current		
Raw materials – at cost	**16,851**	22,356
Work in progress – at cost	**13,755**	11,489
Finished goods – at cost	**4,729**	7,064
Land held for sale – at cost	**2,651**	–
	37,986	40,909
Non-current		
Land held for sale – at cost	**1,828**	–
Total inventory	**39,814**	40,909
Inventory recognised as an expense comprises:		
Land	**3,493**	–
Automotive leather	**108,740**	89,707
	112,233	89,707
Inventory write downs recognised as an expense included in the above	**39**	438

Note 12: Prepayments and Deposits

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Prepayments	**1,884**	2,075
	1,884	2,075

Prepayments relate to upfront payment for leases, insurance, raw materials and interest.

Note 13: Equity Accounted Investments

The Group has the following interests in associates which are accounted for using the equity method in the consolidated financial statements.

	PERCENTAGE HELD	
	2021	2020
	%	%
TJS Advisory Pty Ltd – unlisted company	**30**	30
Primewest Tamworth Trust – unlisted unit trust	**25**	25
6 Centro Ave Unit Trust – unlisted unit trust	**50**	50
7 Turner Ave Unit Trust – unlisted unit trust	**35**	–

	ACTIVITY
TJS Advisory Pty Ltd	Property asset management and consultancy services
Primewest Tamworth Trust	Bulky goods property investment
6 Centro Ave Unit Trust	Office property investment
7 Turner Ave Unit Trust	Office property investment

The following table illustrates the aggregated and summarised financial information of the Group's investment in the above entities.

	2021	2020
	$'000	$'000
Current assets	**2,448**	3,242
Non-current assets	**23,662**	18,962
Current liabilities	**(179)**	(83)
Non-current liabilities	**(13,058)**	(10,661)
Equity	**12,873**	11,460
Group's share in equity	**3,841**	3,380
Goodwill	**210**	210
Group's carrying amount of the investments	**4,051**	3,590
Initial investment	**4,046**	3,529
Undistributed share of profit to date	**5**	61
Group's carrying amount of the investments	**4,051**	3,590
Revenue from contracts with customers	**567**	218
Rental income	**1,987**	–
Finance income	**3**	–
Total revenue	**2,557**	218
Cost of sales and services rendered	**(1,199)**	(340)
Administration expenses	**(483)**	(170)
Finance costs	**(111)**	(338)
Profit/(loss) before tax	**764**	(630)
Income tax expense	**(29)**	(13)
Profit for the year	**735**	(643)
Total comprehensive income for the year	**735**	(643)
Group's share of profit for the year	**145**	138
Made up of:		
Distributions included in distribution revenue	**201**	77
Undistributed share of (loss)/profit of investments	**(56)**	61

The unlisted unit trusts had capital commitments of $518,000 for property fit-outs as at 30 June 2021 (2020 – $nil).

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 14: Financial Assets and Liabilities

	Note	CONSOLIDATED 2021 $'000	2020 $'000
Financial assets by nature:			
Financial assets at amortised cost			
Trade and other receivables	9	**28,292**	17,496
Interest-bearing loans receivable		**2,711**	1,791
Financial assets at fair value through profit or loss			
Unlisted investments in property unit trusts and LLCs		**18,546**	15,490
Units in managed equity funds		**6,493**	4,418
Listed equity shares – current – held for trading		**5,586**	–
Listed equity shares – non-current		**12,975**	7,714
Unlisted equity shares		**11,808**	9,244
Convertible notes		**21,753**	13,021
Derivatives not recognised as hedging instruments			
Forward exchange contracts		**163**	166
Total		**108,327**	69,340
Financial assets by balance sheet classification:			
Current			
Trade and other receivables	9	**28,292**	17,496
Derivative financial instruments		**163**	166
Other financial assets		**6,260**	–
Total current assets		**34,715**	17,662
Non-current			
Other financial assets		**73,612**	51,678
Total non-current assets		**73,612**	51,678
Total assets		**108,327**	69,340
Financial liabilities by nature:			
Financial liabilities at amortised cost			
Trade and other payables	15	**28,481**	12,485
Interest-bearing loans and borrowings	16	**38,539**	53,333
Lease liabilities	21	**27,647**	33,624
Financial liabilities at fair value through profit or loss			
Derivatives not recognised as hedging instruments			
Forward exchange contracts		**114**	1,091
Interest rate swaps		**288**	671
Total liabilities		**95,069**	101,204
Financial liabilities by balance sheet classification:			
Current			
Trade and other payables		**28,481**	12,485
Interest-bearing loans and borrowings	16	**9,288**	13,499
Lease liabilities	21	**5,970**	5,438
Derivative financial instruments		**402**	1,762
Total current liabilities		**44,141**	33,184
Non-current			
Interest-bearing loans and borrowings	16	**29,251**	39,834
Lease liabilities	21	**21,677**	28,186
Total non-current liabilities		**50,928**	68,020
Total liabilities		**95,069**	101,204

Note 14: Financial Assets and Liabilities (continued)

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

(i) Forward currency contracts

The Group has the following contracts outstanding at balance date:

	2021 $'000	2020 $'000	2021 Average Exchange Rate	2020 Average Exchange Rate
Sell Euro € / Buy US $				
Maturity 0-12 months	**18,165**	1,337	**1.1989**	1.1358
Sell Euro € / Buy Australian $				
Maturity 0-12 months	**2,801**	14,042	**1.5674**	1.6515
Sell Australian $ / Buy Euro €				
Maturity 0-12 months	**–**	14,042	**–**	0.5679

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 $89,000 loss (2020: $1,460,000 loss).

(ii) Foreign Currency Option

The Group had a AUD:EUR foreign currency Call Option that provided Automotive Leather Division with the right, not obligation, to buy Euro (2021: nil) (2020: €7,600,000) and sell at an applicable AUD exchange rate. The contract was 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 1.92% (2020 – 2.10%). 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 53% (2020 – 50%) of the principal outstanding.

At 30 June 2021, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	CONSOLIDATED 2021 $'000	2020 $'000
0 – 1 years	**3,536**	–
1 – 2 years	**–**	3,536
2 – 3 years	**7,414**	–
3 – 4 years	**9,619**	7,416
	20,569	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 2021 is a liability of $288,000 (2020 – $671,000 liability) which is recorded on the Consolidated Statement of Financial Position.

Note 15: Trade and Other Payables

	CONSOLIDATED 2021 $'000	2020 $'000
Trade creditors	**28,020**	12,034
Goods and services tax (net)	**79**	132
Other creditors	**382**	319
	28,481	12,485

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

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

Lodged with the Australian Securities Exchange

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 16: Interest-Bearing Loans and Borrowings

	Note	CONSOLIDATED 2021 $'000	2020 $'000
Current			
Syndicate bank loans – secured	(i)	**8,241**	13,499
Broker loan to offset foreign currency exposure	(iv)	**1,047**	–
Total interest-bearing loans and borrowings (current)		**9,288**	13,499
Non-current			
Syndicate bank loans – secured	(i)	**13,496**	8,195
Other bank loan – secured	(ii)	**6,560**	6,560
Revolving loan facility	(iii)	**9,195**	25,079
Total interest-bearing loans and borrowings (non-current)		**29,251**	39,834
Total interest-bearing loans and borrowings		**38,539**	53,333

(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 direct share of syndicate borrowings.

GROUP'S SHARE OF LOANS AT 30 JUNE 2021

Maturity Date	Interest Rate		Current	Non-current	Carrying Value of Assets
			$'000	$'000	$'000
Aug 2021	**4.57%**	**Variable**	**1,036**	**–**	**1,623**
Apr 2022	**1.93%**	**Variable**	**133**	**–**	
Apr 2022	**3.27%**	**Fixed**	**7,072**	**–**	**1,615**
Dec 2023	**4.00%**	**Fixed**	**–**	**3,841**	**2,425**
May 2024	**2.64%**	**Fixed**	**–**	**9,655**	**5,881**
			8,241	**13,496**	**8,306**

GROUP'S SHARE OF LOANS AT 30 JUNE 2020

Maturity Date	Interest Rate		Current	Non-current	Carrying Value of Assets
			$'000	$'000	$'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

Fixed Interest Rate loans are variable interest rate loans economically 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 2022, to be available for working capital requirements. The facility limit at 30 June 2021 was €20,000,000 and the interest rate is EURIBOR plus a margin. The amount available to draw down is limited to the lesser of:

- €20,000,000 and
- the Principal Outstanding under the Revolving Loan Facility less the balance of cash deposits in accounts held with HSBC Bank Australia Limited supported by 90% of total net 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 2021, drawings from this facility amounted to €5,833,000 (2020 – €15,333,000).

(iv) Broker loan to offset foreign currency exposure

The Group has an account with a broker that allows debt to fund the purchase of listed financial assets. The Group uses this facility predominantly to purchase listed financial assets denominated in foreign currencies to mitigate the risks of foreign currency movements. The broker has the absolute discretion at any time to offset the loan with any of the financial assets held, either cash or shares, held in the Group's account with the broker. The interest rate is set by the broker and varies based on amount borrowed. The rate at 30 June 2021 based on the balance outstanding was 1.16%.

	Note	CONSOLIDATED 2021 $'000	2020 $'000
Financing facilities available			
Financing facilities used and available			
At reporting date, the following financing facilities had been negotiated and were available:			
Total facilities			
– Bankers undertakings	(a)	**5,378**	8,500
– Asset finance	(b)	**7,846**	7,950
– Bank loans		**28,297**	28,254
– Broker loan		**1,047**	–
– Revolving loan facility		**31,526**	32,712
		74,094	77,416
Facilities used at reporting date			
– Bankers undertakings		**3,525**	3,914
– Asset finance		**7,846**	7,950
– Bank loans		**28,297**	28,254
– Broker loan		**1,047**	–
– Revolving loan facility		**9,195**	25,079
		49,910	65,917
Facilities unused at reporting date			
– Bankers undertakings		**1,853**	4,586
– Asset finance		**–**	–
– Bank loans		**–**	–
– Broker loan		**–**	–
– Revolving loan facility		**22,331**	7,633
		24,184	12,219
Total facilities			
Facilities used at reporting date		**49,910**	65,197
Facilities unused at reporting date		**24,184**	12,219
		74,094	77,416

(a) The Group has three Bankers Undertaking facilities. A $3,850,000 (2020: $3,850,000) facility with an Australian bank is rolled annually. Guarantees issued under this facility have an all-in interest rate of 1.2% (2020: 1.2%). A $425,000 (2020: $425,000) facility with a global bank expires in September 2022. Guarantees issued under this facility have has an all-in interest rate of 1.75% (2020: 1.75%). A €700,000 (2020: €2,200,000 facility with a global bank expires in September 2020. Guarantees issued under this facility have an all-in interest rate of 1.75%.

(b) Asset finance sale and leaseback agreements have an average term of 5 years. The average discount implicit in the agreements is 1.27% per annum (2020: 1.82% 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 17: 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, trade payables, equities and financial assets held at fair value through profit or loss.

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 while 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, market risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed.

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

(a) Interest rate risk

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in market interest rates. The Group's exposure to the risk of 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 14(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	
	2021	2020
	$'000	$'000
Financial assets		
Cash and short-term deposits	**37,354**	35,016
	37,354	35,016
Financial liabilities		
Net bank loans subject to variable rates (refer note 16(i) and (ii))	**(7,730)**	(17,301)
Broker loan	**(1,047)**	–
Revolving loan	**(9,195)**	(25,079)
	(17,972)	(42,380)
Net exposure	**19,382**	(7,364)

The Group's manages its interest rate risk on borrowings by using a mix of fixed rate debt, variable rate debt and interest rate swaps. At 30 June 2021 approximately 61.3% of the Group's borrowings are at a fixed rate of interest after applying interest rate swaps. (2020 –30.8%).

The following sensitivity analysis is based on the interest rate risk exposures in existence at the at 30 June 2021. 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:

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Judgments of reasonably possible movements:		
+0.25 (25 basis points)	**34**	(13)
-0.25 (25 basis points)	**(34)**	13

There is immaterial exposure to any change in interest rates.

(b) Assets pledged as security

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

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Current		
Floating charges		
Cash and cash equivalents	**19,683**	15,880
Receivables	**24,085**	16,596
Inventories	**36,909**	39,682
Other financial assets	**1,047**	–
Total current assets pledged as security	**81,724**	72,158
Non-current		
Floating charges		
Plant and equipment	**6,012**	7,154
Other financial assets	**823**	375
First mortgages		
Investment properties	**22,771**	22,286
	29,606	29,815
Leases		
Plant and equipment	**13,725**	13,087
Total non-current assets pledged as security	**43,331**	42,902

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 16 for more details).

Investment properties are pledged as security for syndicate bank loans and other bank loans (refer note 16(i) and 16(ii)).

(c) 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 17: Financial Instruments (continued)

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

	Quoted market price (Level 1)	Valuation technique market observable inputs (Level 2)	Valuation technique non-market observable inputs (Level 3)	Total
	$'000	$'000	$'000	$'000
Year ended 30 June 2021				
Consolidated				
Financial assets				
Financial assets at fair value				
Listed investments	**18,561**	**–**	**–**	**18,561**
Unlisted investments	**–**	**28,246**	**30,354**	**58,600**
Foreign exchange contracts	**–**	**163**	**–**	**163**
	18,561	**28,409**	**30,354**	**77,324**
Financial liabilities				
Derivative instruments				
Foreign exchange contracts	**–**	**114**	**–**	**114**
Interest rate swaps	**–**	**288**	**–**	**288**
	–	**402**	**–**	**402**
Year ended 30 June 2020				
Consolidated				
Financial assets				
Financial assets at fair value				
Listed investments	7,714	–	–	7,714
Unlisted investments	–	17,439	24,734	42,173
Foreign exchange contracts	–	166	–	166
	7,714	17,605	24,734	50,053
Financial liabilities				
Derivative instruments				
Foreign exchange contracts	–	1,091	–	1,091
Interest rate swaps	–	671	–	671
	–	1,762	–	1,762

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 or tax. The fair value of the listed equity investments are based on quoted market prices at the reporting date.

Level 2 assets include the fair value as of 30 June 2021 of the Group's original $2,000,000 investment in convertible notes in Harvest Technology Group ("HTG") and the Group's investments in unlisted managed equity funds.

The notes are convertible at $0.022 cents with an expiry date of 28 November 2024. The financial instruments are 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 notes has been valued using Black Scholes.

The share price used in the valuation is $0.235 (2020: $0.135), which is below the $0.32 closing share price of HTG at 30 June 2021 (2020: $0.185). The discount to the closing price takes into consideration the significant volume of HTG shares held by the Group and the last observable input of comparable size being a mid-June 2020 $10,000,000 capital raise by HTG whereby they raised equity from shareholders at a share price with 25% discount to the 10-day VWAP.

At 30 June 2021 the convertible notes have been recognised at $21,753,000 (2020: $13,021,000) comprising the option valuation of $19,409,000 (2020: $10,753,000) and a debt component of $2,344,000 (2020: $2,267,000). The profit and loss for the year ending 30 June 2021 includes an unrealised gain on the convertible notes of $8,733,000 (2020: $11,021,000) and interest received of $174,000 (2020: 106,000).

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

(i) 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 $1,522,000 to unrealised gains/(losses) on financial assets at fair value before tax (2020: $1,979,000).

(ii) Unlisted equity investments include the Group's investment in a technology company. The fair valuation of the investment used a revenue multiple of 11.2 times (2020: 13.9 times) which is comparable to other technology and high-growth companies. The economic volatility from 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 $1,147,000 to unrealised gains/(losses) on financial assets at fair value before tax (2020: $821,000).

Reconciliation of the fair value measurement of Level 3 unlisted investments

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Balance as at 1 July	**24,734**	22,920
Purchase of units in unlisted unit trusts and LLC's	**5,829**	7,548
Proceeds from divestments	**(1,000)**	(3,169)
Capital distribution	**(464)**	(136)
Foreign currency translation adjustment	**(591)**	177
Remeasurement recognised in profit and loss	**1,846**	(2,606)
Balance at the end of the financial period.	**30,354**	24,734

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) Market risk

Market risk is the risk that changes in market prices will affect the fair value of a financial instrument.

The Group is an investor in listed companies, both directly and through trusts in which it is invested.

The fair value of these investments 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 61% (2020: 39%) of total financial assets at fair value.

At 30 June 2021, a 10% movement in the market value of these assets would have resulted in a movement of $4,637,000 to unrealised gains/(losses) on financial assets at fair value before tax (2020: $1,212,000).

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 market 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 17: Financial Instruments (continued)

(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, 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 – gross carrying amount			
	2021	2020	**2021**	2020
	%	%	$'000	$'000
Industry				
Automotive leather	**86**	96	**21,017**	13,480
Building materials	**14**	4	**3,359**	498
Total exposure	**100**	100	**24,376**	13,978

There are no trade debtors held in the parent entity.

The Group has a credit policy that is designed to implement consistent processes throughout the Group to measure and manage 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 under undue risk. In addition, the Leather division where possible, 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 insurances, collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. The only security provided is in the form of director's personal guarantees from debtors, which cannot be quantified due to the continual changing circumstances of the guarantee provider.

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

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Trade receivables at 30 June		
Not impaired or past due in the following periods		
Trade receivables not past due	**23,363**	13,384
Debtors past due in the following periods		
31 to 60 days	**417**	30
61 to 90 days	**329**	46
Over 90 days	**267**	518
Maximum credit risk exposure	**24,376**	13,978

An impairment analysis is performed at each reporting date. The trade receivables 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 $168,000 on trade receivables at 30 June 2021 (2020: $110,000). 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 2021 (2020: nil).

Financial assets

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

The convertible notes are secured over assets of the counterparty and all its subsidiaries. It is however expected that the convertible notes investment would not have significant value in the event that the counter party was liquidated or defaulted. The risk of this investment is partially mitigated by the initial amount invested, the interest rate payable and the option to convert the debt into equity.

One 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. The other two loans receivable are loans to property unit trusts in the same proportion as the Group's equity interest in those trusts. The loan agreements provide for the debt to be repaid to the Group on successful sourcing of third-party finance. The contractual cash flows of the interest-bearing loans receivablerepresent only payments of principal and interest so meet the SPPI test to be measured at amortised cost.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 17: Financial Instruments (continued)

(f) 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 $161,507,000 at 30 June 2021 (2020 – $149,203,000). Leases previously classified as finance leases prior to 1 July 2019 are included in total capital and are thought of 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 2021 amounted to $24,834,000 (2020 – $12,219,000). 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, Schaffer Corporation Limited paid dividends of $10,911,000 (2020 – $11,671,000) (refer to note 6).

The Board assesses its payout ratio policy of balancing returns to shareholders with the need to fund growth in both manufacturing and investment divisions, and to maintain financial strength and capacity during uncertain and volatile economic conditions. In line with that policy, subsequent to 30 June 2021, the Company declared a final dividend of $0.45 per share (fully franked) payable to shareholders on record at 10 September 2021. Dividends relating to the 2021 financial year totalled $0.90 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 2021 and 2020 were as follows:

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Total interest-bearing loans and borrowings	**38,539**	53,333
Total leases (excluding liabilities arising under AASB 16 *Leases* adopted on 1 July 2019)	**7,846**	7,950
Less cash and cash equivalents	**(37,354)**	(35,016)
Net debt	**9,031**	26,267
Total equity	**152,476**	123,799
Total capital	**161,507**	150,066
Gearing ratio	**6%**	18%

(g) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay financial liabilities as and when they fall due. The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet its financial commitments in a timely and cost-effective manner.

The Group's liquidity is continually reviewed, including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. At 30 June 2021, the Group has the following undrawn borrowing facilities available (refer note 16).

	2021		2020	
	$'000	Expiry	$'000	Expiry
Australian Banks				
Bankers' undertakings	**2,503**	**2021**	4,586	2021
Finance leases	**–**	**–**	–	–
Global Finance Company				
Revolving loan facility	**22,331**	**2022**	7,633	2021
	24,834		12,219	
In addition, there are the following banker's undertakings issued at 30 June 2021 (refer note 16).				
Performance guarantees to third parties (refer note 27(b))	**1,123**	**< 1 year**	2,344	< 1 year
	2,402	**> 1 year**	1,570	> 1 year
	3,525		3,914	

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 14(iii)) and forward currency contracts (refer note 14(i)).

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
	$'000	$'000	$'000	$'000	$'000	$'000
2021						
Trade and other payables	**28,481**	**–**	**–**	**–**	**–**	**–**
Leases	**6,013**	**5,073**	**4,848**	**4,571**	**2,497**	**4,739**
Bank loans	**9,035**	**7,035**	**13,808**	**–**	**–**	**–**
Revolving loan	**156**	**9,234**	**–**	**–**	**–**	**–**
Derivative financial instruments	**322**	**133**	**95**	**15**	**–**	**–**
	40,007	**21,475**	**18,751**	**4,586**	**2,497**	**4,739**
2020						
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	–	–
	33,109	39,952	11,800	4,846	4,377	10,285

The figures presented above are undiscounted amounts

Debt associated with the Automotive Leather and Group Investments segments represents 100% (2020 – 100%) of Group borrowings. At 30 June 2021, 95% (2020 – 97%) of Group debt was non-recourse to the Parent.

Debt associated with syndicate investment property totals $21,737,000 at 30 June 2021 (2020 – $21,694,000). SFC's minority property interests are managed externally 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 the Parent. At 30 June 2021, 92% (2020 – 92%) of the property borrowings were non-recourse to the Parent.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 17: Financial Instruments (continued)

(h) Changes in liabilities arising from financing activities

	1 July 2020	AASB 16 adoption	Cash Payments	Cash Receipts	Non-cash modifications and additions	Changes in fair value	Foreign exchange adjustments	30 June 2021
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Interest-bearing loans and borrowings	**53,333**	**–**	**(19,443)**	**4,649**	–	**–**	–	**38,539**
Lease liabilities	**33,624**	**–**	**(5,738)**	**2,905**	**(2,092)**	**–**	**(1,052)**	**27,647**
Derivatives	**1,762**	**–**	**–**	**–**	**–**	**(1,360)**	–	**402**
Total liabilities from financing activities	**88,719**	**–**	**(25,181)**	**7,554**	**(2,092)**	**(1,360)**	**(1,052)**	**66,588**

	1 July 2019	AASB 16 adoption	Cash Payments	Cash Receipts	Non-cash modifications and additions	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
Derivatives	711	–	–	–	–	1,051	–	1,762
Total liabilities from financing activities	38,953	28,354	(12,373)	32,723	(112)	1,051	123	88,719

(i) 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 raw materials including hides and chemicals, 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 foreign currency forward exchange contracts, for a maximum tenure of 24 months.

At 30 June 2021, the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED (AUD)	
	2021	2020
	$'000	$'000
Financial assets		
Cash and cash equivalents	**5,791**	3,082
Trade and other receivables	**1,733**	381
Other financial assets	**18,910**	14,884
Derivatives	**18,252**	1,337
	44,686	19,684
Financial liabilities		
Trade and other payables	**(13,641)**	(2,833)
Broker loan	**(1,047)**	–
	(14,688)	(2,833)
Net exposure	**29,998**	16,851

At 30 June 2021, the Group had the following exposure to EUR foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED (AUD)	
	2021	2020
	$'000	$'000
Financial assets		
Cash and cash equivalents	**10,741**	8,839
Trade and other receivables	**14,967**	8,433
Foreign exchange option	**–**	2,087
	25,708	19,359
Financial liabilities		
Trade and other payables	**(9,511)**	(4,709)
Leases	**(22,178)**	(27,017)
Revolving loan	**(9,195)**	(25,079)
Forward currency contracts	**(20,966)**	(1,325)
	(61,850)	(58,130)
Net exposure	**(36,142)**	(38,771)

At 30 June 2021, the Group had the following exposure to RMB foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED (AUD)	
	2021	2020
	$'000	$'000
Financial assets		
Cash and cash equivalents	**1,858**	1,165
Trade and other receivables	**9,392**	6,229
	11,250	7,394
Financial liabilities		
Trade and other payables	**(6,249)**	(2,504)
Leases	**(1,169)**	(1,462)
Forward rate agreements	**–**	–
	(7,418)	(3,966)
Net exposure	**3,832**	3,428

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 17: Financial Instruments (continued)

At 30 June 2021 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		Effect on profit after tax	
	2021	2020	**2021**	2020
			$'000	$'000
Consolidated				
AUD/USD	**10%**	10%	**(1,909)**	(1,072)
AUD/USD	**-10%**	-10%	**2,333**	1,311

Sensitivity has increased due to the increase in the value of Forward Exchange Contracts entered into, to partially offset the impact of future foreign exchange movements on the AUD value of our net USD imports.

AUD/EUR	**10%**	10%	**489**	789
AUD/EUR	**-10%**	-10%	**5,225**	4,858

Sensitivity has increased due to the increase in the value of Forward Exchange Contracts entered into, to partially offset the impact of future foreign exchange movements on the AUD value of our net EUR exports, offset by reduced EUR denominated interest-bearing loan.

AUD/RMB	**10%**	10%	**(244)**	(218)
AUD/RMB	**-10%**	-10%	**298**	267

Sensitivity has increased due to higher RMB denominated working capital.

Currency movements used above are representative of a likely movement in the next 12 months based on historical movements, economic forecasters' expectations and the increased currency volatility caused by Covid-19.

Net unhedged foreign currency assets and liabilities (all amounts presented in respective foreign currency):

	USD	EUR	RMB	HKD
2021	000's	000's	000's	000's
Cash and bank balances	**4,380**	**6,814**	**9,074**	**29**
Trade and other receivables	**1,311**	**9,495**	**45,870**	**–**
Other financial assets	**14,301**	**–**	**–**	**–**
Trade and other payables	**(10,317)**	**(6,034)**	**(30,522)**	**(30)**
Lease liabilities	**–**	**(14,070)**	**(5,710)**	**–**
Broker loan	**(792)**	**–**	**–**	**–**
Revolving loan	**–**	**(5,833)**	**–**	**–**
Forward rate agreements	**13,804**	**(13,301)**	**–**	**–**
Net FX exposure	**22,687**	**(22,929)**	**18,712**	**(1)**
Year end exchange rates	**0.7563**	**0.6344**	**4.8842**	**5.8706**
2020				
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)	–	–
Net FX exposure	11,592	(24,980)	16,690	2
Year end exchange rates	0.6879	0.6114	4.8676	5.3316

Note 18: Provisions

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Provision for employee entitlements		
Current	**9,016**	6,804
Non-current	**13,098**	8,839
Total	**22,114**	15,643

Note 19: Property, Plant and Equipment

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Freehold land		
At cost	**1,145**	1,145
Buildings on freehold land		
At cost	**8,032**	8,032
Accumulated depreciation	**(2,937)**	(2,791)
	5,095	5,241
Net carrying amount of land and buildings	**6,240**	6,386
Plant and equipment		
At cost	**41,329**	44,177
Accumulated depreciation and impairment	**(33,788)**	(36,926)
Net carrying amount of plant and equipment	**7,541**	7,251
Total property, plant and equipment		
At cost	**50,506**	53,354
Accumulated depreciation, amortisation and impairment	**(36,725)**	(39,717)
Total net carrying amount of property, plant and equipment	**13,781**	13,637

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 17b). 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 17b).

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2021

Note 19: Property, Plant and Equipment (continued)

	CONSOLIDATED	
	2021	2020
	$'000	$'000
The carrying value of assets pledged as security are:		
Property, plant and equipment	**6,039**	7,189
Reconciliations of the carrying amounts		
Freehold land		
Carrying amount at beginning	**1,145**	1,145
Buildings on freehold land		
Carrying amount at beginning	**5,241**	5,390
Depreciation expense	**(146)**	(149)
Net carrying amount of land and buildings	**6,240**	6,386
Plant and equipment		
Carrying amount at beginning	**7,251**	6,857
Additions	**5,542**	5,494
Transfers to right-of-use assets (sale and lease back)	**(3,170)**	(1,556)
Transfers from right-of-use assets	**85**	76
Depreciation expense	**(1,590)**	(1,969)
Impairment	**–**	(1,448)
Foreign currency translation adjustment	**(298)**	18
Disposals	**(279)**	(221)
	7,541	7,251
Plant and equipment under lease		
Carrying amount at beginning	**–**	13,374
Reclassified to right-of-use assets	**–**	(13,374)
	–	–
Total carrying amount of plant and equipment	**13,781**	13,637

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 2021, due mainly to project delays.

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 pre-impairment carrying value of the Delta precast cash generating unit assets of $12,095,000 (2020: $14,117,000) is lower than their recoverable value of $12,524,000 (2020: $13,002,000). There was no impairment of the Delta cash generating unit property, plant and equipment at 30 June 2021 (2020: $1,448,000 impairment). 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.

Note 20: Investment Property

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Land and buildings		
At cost	**39,370**	39,680
Accumulated depreciation and impairment	**(10,983)**	(10,369)
	28,387	29,311
Improvements		
At cost	**5,377**	5,195
Accumulated depreciation	**(2,906)**	(2,712)
	2,471	2,483
Total		
At cost	**44,747**	44,875
Accumulated depreciation and impairment	**(13,889)**	(13,081)
Net carrying amount of investment properties	**30,858**	31,794

Investment properties are recognised at cost less accumulated depreciation. The fair value of the investment property at 30 June 2021 as estimated by Directors is $105,094,000 (2020: $108,447,000) 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. A contributing factor in the movement of investment properties is a reduction of $10,500,000 (2020:$nil) due to the reclassification of land at North Coogee, Western Australia, to inventory, representing the land which has been sold and the remainder which is intended to be sold.

		CONSOLIDATED	
		2021	2020
	Note	$'000	$'000
Rental income derived from investment properties		**5,433**	5,422
Direct operating expenses (including repairs and maintenance) generating rental income (included in cost of sales)		**(3,550)**	(3,139)
Direct operating expenses (including repairs and maintenance) that did not generate rental income (included in cost of sales)		**(83)**	(121)
Profit arising from investment properties carried at cost	4(a)	**1,800**	2,162

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 6.5% 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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 20: Investment Property (continued)

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 technique non-market observable inputs (Level 3)
	$'000
Valuation approach	
Capitalisation and discounted cash flow	**73,180**
Market comparison	**31,914**
	105,094

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). The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder. The mortgage also requires investment properties that form part of the security to be fully insured at all times.

The carrying value of assets pledged as security are:

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Investment properties	**22,771**	22,286
Reconciliation of the carrying amount		
Land and buildings		
Carrying amount at beginning	**29,311**	27,566
Reclassification of wholly owned property to inventory	**(2,070)**	–
Additions	**1,776**	1,266
Impairment reversal	**–**	1,146
Depreciation expense	**(630)**	(667)
Total carrying amount	**28,387**	29,311
Net investment property classified as held for sale	**–**	–
	28,387	29,311
Improvements		
Carrying amount at beginning	**2,483**	2,010
Additions	**183**	575
Impairment reversal	**–**	76
Depreciation expense	**(195)**	(178)
Total carrying amount	**2,471**	2,483
Net carrying amount of investment properties	**30,858**	31,794

Note 21: 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 that 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.

Note 21: Leases (continued)

	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 2020	**24,511**	**13,323**	**37,834**
Transfers to property, plant and equipment	**–**	**(85)**	**(85)**
Additions	**–**	**3,198**	**3,198**
Modifications	**(2,130)**	**48**	**(2,082)**
Depreciation expense	**(2,843)**	**(2,153)**	**(4,996)**
Foreign currency translation adjustment	**(765)**	**(402)**	**(1,167)**
As at 30 June 2021	**18,773**	**13,929**	**32,702**
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 2020	**25,404**	**8,220**	**33,624**
Additions	**–**	**2,905**	**2,905**
Modifications	**(2,142)**	**50**	**(2,092)**
Interest expense	**553**	**123**	**676**
Payments	**(3,401)**	**(3,013)**	**(6,414)**
Foreign currency translation adjustment	**(754)**	**(298)**	**(1,052)**
As at 30 June 2021	**19,660**	**7,987**	**27,647**
Current	**3,051**	**2,919**	**5,970**
Non-current	**16,609**	**5,068**	**21,677**
	19,660	**7,987**	**27,647**
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

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 21: Leases (continued)

	Factory Premises	Plant and Machinery	Total
	$'000	$'000	$'000
The following are the amounts recognised in profit or loss:			
For the year ended 30 June 2021			
Depreciation expense of right-of-use assets	**2,843**	**2,153**	**4,996**
Interest expense on lease liabilities	**553**	**123**	**676**
Expenses relating to short-term leases (included in cost of sales)	**–**	**85**	**85**
Expenses relating to low-value assets (included in cost of sales)	**–**	**6**	**6**
Total amount recognised in profit or loss	**3,396**	**2,367**	**5,763**
For the year ended 30 June 2020			
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 low-value assets (included in cost of sales)	–	5	5
Total amount recognised in profit or loss	3,478	2,367	5,845

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options 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	3,535	20,324	23,859

Note 22: Goodwill

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

	Automotive Leather	Investment Properties	Total
	$'000	$'000	$'000
Consolidated			
2021	**1,215**	**84**	**1,299**
2020	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% (2020: 14%), expected revenue and margins. Future earnings estimates have been increased from prior year to reflect the recovery of economies and industries relevant to the cash generating unit due to government stimulus and vaccines rollouts.

Note 22: Goodwill (continued)

However, these estimates have also allowed for the risk of volatility due to the ongoing impacts of Covid-19 such as future lockdowns and supply chain disruption causing production shutdowns. 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 20). Management did not identify an impairment of goodwill for this cash generating unit. Reasonable possible movements in assumptions would not change this outcome.

Note 23: 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 global manufacturer and supplier of leather to the automotive industry.

The Building Materials segment comprises Delta Corporation Limited and sells concrete paving, 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 global equity instruments. The activities of the segment include the leasing of office, industrial, residential and retail properties, and the development and sale of property assets, and general investing.

Major customers

The Group has a number of major clients to which it provided both products and services. There were two customers within the Automotive Leather segment which individually accounted for more than 10% of Group revenue (2020 – two customers).

	2021		2020	
	$'000	% of total revenue	$'000	% of total revenue
Customer 1	**37,450**	**19%**	38,241	25%
Customer 2	**20,630**	**11%**	24,268	16%
Sales to major customers	**58,080**	**30%**	62,509	41%
Revenue from continuing operations	**196,334**		155,573	

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.

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 23: Segment Information (continued)

Operating segments

The following table presents revenue and profit information and certain asset and liability information regarding operating segments for the years ended 30 June 2021 and 30 June 2020.

	Automotive Leather		Group Investments		Building Materials		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Business segment information	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue								
Revenue from contracts with customers	**165,214**	130,141	**7,177**	804	**16,488**	17,758	**188,879**	148,703
Other revenue	**20**	11	**7,434**	6,854	**1**	5	**7,455**	6,870
Total revenue							**196,334**	155,573
Results								
Net profit/(loss) after tax	**29,279**	21,152	**16,710**	10,117	**967**	(1,579)	**46,956**	29,690
Less profit attributable to non-controlling interests	**(4,928)**	(3,560)	**(631)**	(43)	**–**	–	**(5,559)**	(3,603)
Profit/(loss) attributable to owners of the parent	**24,351**	17,592	**16,079**	10,074	**967**	(1,579)	**41,397**	26,087
Unallocated items								
Profit of equity accounted investments							**19**	11
Finance costs							**–**	(47)
Corporate overheads							**(3,767)**	(3,698)
Income tax benefit							**1,185**	1,197
Profit after tax							**38,834**	23,550
Assets								
Total segment non-current assets	**44,046**	49,665	**110,337**	87,076	**6,995**	5,723	**161,378**	142,464
Unallocated							**1,076**	2,443
Total non-current assets							**162,454**	144,907
Total segment assets	**125,016**	118,292	**137,691**	109,828	**15,114**	12,541	**277,821**	240,661
Unallocated							**1,146**	2,497
Total assets							**278,967**	243,158
Liabilities								
Segment liabilities	**83,299**	82,856	**32,542**	31,413	**3,260**	2,364	**119,101**	116,633
Unallocated							**7,390**	2,726
Total liabilities							**126,491**	119,359
Other segment information								
Segment capital expenditure	**3,925**	5,305	**1,962**	1,842	**1,578**	145	**7,465**	7,292
Unallocated							**35**	43
Total capital expenditure							**7,500**	7,335
Segment depreciation and amortisation	**6,526**	6,468	**708**	730	**300**	565	**7,534**	7,763
Unallocated							**35**	30
Total depreciation and amortisation							**7,569**	7,793
Other non-cash expenses/(revenues)	**5,453**	(2,501)	**(16,005)**	(11,434)	**294**	1,085	**(10,258)**	(12,850)

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended 30 June 2021

Note 23: Segment Information (continued)

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Unallocated assets and liabilities including the following material items:		
Non-current assets		
Property plant and equipment	**748**	738
Other financial assets	**330**	311
Deferred income tax asset	**–**	1,394
Current assets		
Prepayments	**49**	29
Receivables	**19**	25
	1,146	2,497
Liabilities		
Trade creditors	**630**	763
Deferred tax liability	**4,655**	–
Provision for employee entitlements	**2,105**	1,963
	7,390	2,726

Revenue from external customers by geographical locations is detailed below.

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

	2021	2020
	$'000	$'000
Australia	**31,120**	25,432
Asia	**45,798**	31,696
Europe	**119,416**	98,445
Total revenue	**196,334**	155,573

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

	Australia	Asia	Europe	Total
	$'000	$'000	$'000	$'000
2021				
Property, plant and equipment	**10,055**	**1,483**	**2,243**	**13,781**
Right of use assets	**4,025**	**1,021**	**27,656**	**32,702**
Inventory	**1,828**	**–**	**–**	**1,828**
Investment properties	**30,858**	**–**	**–**	**30,858**
Goodwill	**1,299**	**–**	**–**	**1,299**
	48,065	**2,504**	**29,899**	**80,468**
2020				
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

Note 24: Contributed Equity

a) Issued and paid up capital

	2021	2020
	$'000	$'000
As at 30 June 2021		
13,657,825 ordinary fully paid shares (2020 – 13,615,325)	**11,622**	11,227

b) Movement in ordinary shares on issue

	2021		2020	
	Number of shares	$'000	Number of shares	$'000
At the beginning of the financial year	**13,615,325**	**11,227**	13,809,152	13,991
Options exercised under an employee share scheme	**42,500**	**395**	42,500	402
Shares acquired under a share buy-back scheme	**–**	**–**	(236,327)	(3,166)
At the end of the financial year	**13,657,825**	**11,622**	13,615,325	11,227

For details of movement in options and details of employee share options plan refer to notes 28 and 29.

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 28).

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

Note 25: Reserves and Retained Profits

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Reserves		
Asset revaluation	**2,585**	2,585
Share-based payment – EPU's	**(1,082)**	(1,082)
Share-based payment – SFC options	**408**	290
Foreign currency translation reserve	**252**	1,695
	2,163	3,488

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

For personal use only

Note 25: Reserves and Retained Profits (continued)

Nature and purpose of reserve

Asset revaluation

The asset revaluation reserve was used to record increases and decreases 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 28(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 28(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.

	CONSOLIDATED	
	2021	2020
	$'000	$'000
Retained profits		
Balance 1 July	**100,522**	88,643
Net profit attributable to members of the parent entity	**38,834**	23,550
Dividends provided for or paid	**(10,911)**	(11,671)
Balance 30 June	**128,445**	100,522

Note 26: 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	
	2021	2020
	$	$
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities.	**205,200**	162,401
Fees for other services		
– Tax compliance	**62,000**	71,000
– Research and development claims	**15,106**	14,394
Total fees to Ernst & Young (Australia) (A)	**282,306**	247,795
Fees to other overseas member firms of Ernst & Young (Australia)		
Fees for auditing the financial report of any controlled entities	**40,000**	40,000
Total fees to overseas member firms of Ernst & Young (Australia) (B)	**40,000**	40,000
Total auditor's remuneration (A + B)	**322,306**	287,795
Amounts received or due and receivable by non-Ernst & Young audit firms for audit services	**16,942**	25,892

Note 27: Contingent Liabilities and Expenditure Commitments

	CONSOLIDATED	
	2021	2020
	$'000	$'000
(a) Expenditure commitments		
Estimated expenditure contracted for at balance date but not provided for:	**529**	581

At 30 June 2021, the Group had commitments of $529,000 relating to the acquisition of plant and equipment for the Automotive Leather division.

The Group has also committed $7,555,000 to investments that could be drawn down by external investment managers over approximately the next two years but that had not been requested at balance date.

(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:	**3,525**	3,914

Note 28: Employee Benefits and Superannuation Commitments

(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 2021 is $1,025,000 (2020 – $1,021,000).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 28: Employee Benefits and Superannuation Commitments

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

Date issued	No. on issue 30 June 2020	Issued during the year	Forfeited during the year	Exercised during the year	No. on issue 30 June 2021	Exercise price	First exercise date	Last exercise date
6 Sep 2017	17,500	–	–	(17,500)	–	$7.54	06-Sep-17	06-Sep-22
2 Aug 2018	57,500	–	–	–	57,500	$14.10	02-Aug-18	02-Aug-23
15 May 2020	70,000	–	–	(25,000)	45,000	$10.50	15-May-20	15-May-25
Total	**145,000**	–	**–**	**(42,500)**	**102,500**			

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	Number vested
Series 1		04-October-2000	3,383,634	2,289,591	1,026,370	67,673	0.1%	67,673
Series 2	Issue 1	21-December-2001	2,884,434	931,733	1,861,553	91,148	0.1%	91,148
	Issue 2	01-July-2002	120,000	20,000	70,000	30,000	0.0%	30,000
	Issue 3	01-July-2003	245,000	31,667	188,333	25,000	0.0%	25,000
	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	750,000	250,000	0.4%	250,000
	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%	450,000
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	–	–	0.0%	–
	Issue 3	01-January-2011	250,000	–	–	250,000	0.4%	250,000
	Issue 4	01-July-2013	1,075,000	150,000	375,000	550,000	0.9%	550,000
	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%	200,000
Series 4	Issue 1	01-July-2018	1,275,000	–	100,000	1,175,000	1.8%	–
	Issue 2	01-July-2019	275,000	–	–	275,000	0.4%	–
	Issue 3	01-July-2020	425,000	–	–	425,000	0.7%	–
			15,420,740	4,572,991	5,233,928	5,613,821	8.8%	2,738,821

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 29: 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	
	2021	2020
	$'000	$'000
Short term	**5,247**	4,959
Long term incentives	**24**	21
Share-based payments	**119**	89
Post-employment	**1,909**	(380)
	7,299	4,689

(b) Option holdings of Key Management Personnel

30 June 2021

Executives	Balance at 30 June 2020	Granted as remuneration during the period	Options exercised during the period	Balance at end of period	Vested as at 30 June 2021 Vested	Vested as at 30 June 2021 Not vested
R Leib	100,000	–	(37,500)	62,500	31,250	31,250
J Cantwell	45,000	–	(5,000)	40,000	26,250	13,750
Total	**145,000**	**–**	**(42,500)**	**102,500**	**57,500**	**45,000**

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 as at 30 June 2020 Vested	Vested as at 30 June 2020 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

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 2021

Executives	Balance at 30 June 2020	Granted as remuneration during the period	Redeemed during the period	Cancelled during the period	Balance at 30 June 2021	Vesting status as at 30 June 2021 Vested	Vesting status as at 30 June 2021 Not vested
D Birks	1,200,000	–	–	–	1,200,000	1,066,667	133,333
R Leib	500,000	50,000	–	–	550,000	100,000	450,000
	1,700,000	**50,000**	**–**	**–**	**1,750,000**	**1,166,667**	**583,333**

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	Vesting status as at 30 June 2020 Vested	Vesting status as at 30 June 2020 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

For details of terms and conditions for each grant refer to note 28.

Note 30: Related Party Disclosures

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

Schaffer Corporation Limited holds 83.17% (2020: 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 from Howe Automotive Limited were received by Schaffer Corporation Limited during the year amounting to $18,297,471 (2020: $27,332,263).

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 $206,000 (2020: $147,000).

The Group has a 30% interest in a property asset management company controlled by Mr T J Schaffer, son of Mr J M Schaffer AM. The Group paid for property asset management services from the same company amounting to $467,000 (2020: $180,000).

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

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 31: Parent Entity Information

Information relating to Schaffer Corporation Limited:

	2021	2020
	$'000	$'000
Current assets	**22,265**	21,184
Total assets	**129,154**	104,850
Current liabilities	**4,874**	12,401
Total liabilities	**32,469**	26,658
Issued capital	**10,886**	10,491
Retained earnings	**83,111**	65,127
Share-based payments reserve – SFC options	**408**	290
Asset revaluation reserve	**2,283**	2,283
Total shareholders' equity	**96,688**	78,191
Profit of the parent entity	**28,895**	35,274
Total other comprehensive income of the parent entity	**–**	–

The parent entity has entered into Deeds of Cross Guarantee with controlled entities as disclosed in note 32.

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:

Major components of tax consolidation contributions by (or distributions to) equity participants

	2021	2020
	$'000	$'000
Net assumptions of tax liabilities of members of the tax-consolidated group	**(44)**	(131)
Tax funding contribution receivable from controlled entities	**44**	131
Excess of tax funding contributions over tax liabilities assumed	**–**	–

Note 32: Controlled Entities

Controlled entity	Beneficial percentage held by the Group 2021 %	Beneficial percentage held by the Group 2020 %	Place of incorporation
Schaffer Properties Pty Ltd*	**100**	100	Australia
Delta Corporation Limited*	**100**	100	Australia
Garden Holdings Pty Ltd*	**100**	100	Australia
SFC No.7 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.

Lodged 19 August 2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 32: 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	
	2021	2020
	$'000	$'000
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AND RETAINED EARNINGS RECONCILIATION		
Profit from continuing operations before income tax	**35,343**	35,574
Income tax expense	**(4,990)**	(2,376)
Net profit for the year	**30,353**	33,198
Other comprehensive income	**–**	–
Total comprehensive income	**30,353**	33,198
Retained earnings at the beginning of the year	**74,141**	52,614
Total profit for the year	**30,353**	33,198
Dividends provided for or paid	**(10,911)**	(11,671)
Retained earnings at the end of the year	**93,583**	74,141
CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets		
Cash and short-term deposits	**18,321**	23,598
Trade and other receivables	**3,503**	901
Inventories	**1,138**	1,264
Contract assets	**1,500**	2,589
Other financial assets	**6,260**	–
Prepayments and deposits	**478**	554
Total current assets	**31,200**	28,906
Non-current assets		
Other financial assets	**74,205**	56,568
Equity accounted investments	**4,051**	3,590
Receivables	**6,104**	1,305
Property, plant and equipment	**7,742**	6,448
Investment properties	**18,018**	17,599
Right of use assets	**–**	7
Goodwill	**84**	84
Deferred income tax assets	**–**	1,601
Total non-current assets	**110,204**	87,202
Total assets	**141,404**	116,108
LIABILITIES		
Current liabilities		
Trade and other payables	**3,121**	2,060
Interest bearing loans and borrowings	**9,288**	13,505
Derivative financial instruments	**288**	671
Provisions	**3,369**	3,179
Total current liabilities	**16,066**	19,415
Non-current liabilities		
Interest bearing loans and borrowings	**13,496**	8,195
Deferred income tax liability	**3,380**	–
Provisions	**52**	43
Total non-current liabilities	**16,928**	8,238
Total liabilities	**32,994**	27,653
Net assets	**108,410**	88,455
EQUITY		
Issued capital	**11,834**	11,439
Reserves	**2,993**	2,875
Retained profits	**93,583**	74,141
Total equity	**108,410**	88,455

Note 32: Controlled Entities (continued)

	HOWE AUTOMOTIVE LIMITED	GOSH HOLDINGS PTY LTD
	$'000	$'000
Accumulated balances of material non-controlling interest		
2021	**7,714**	**2,532**
2020	6,600	1,914
Profit allocated to material non-controlling interest		
2021	**4,989**	**570**
2020	3,547	8
Summarised statement of profit or loss for 2021		
Revenue	**165,234**	**3,957**
Profit before tax and finance costs	**43,256**	**5,108**
Finance costs	**(1,382)**	**(271)**
Profit before tax	**41,874**	**4,837**
Income tax	**(12,232)**	**(1,446)**
Profit for the year	**29,642**	**3,391**
Other comprehensive income	**(1,615)**	**–**
Total comprehensive income	**28,027**	**3,391**
Total comprehensive income attributable to non-controlling interests	**4,817**	**570**
Dividends paid to non-controlling interests	**3,703**	–
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	–
Summarised statement of financial position at 2021		
Current assets	**80,970**	**4,257**
Non-current assets	**48,161**	**21,172**
Current liabilities	**(39,381)**	**(739)**
Non-current liabilities	**(43,918)**	**(9,642)**
Total equity	**45,832**	**15,048**
Attributable to:		
Equity holders of parent	**38,118**	**12,516**
Non-controlling interest	**7,714**	**2,532**
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 cash flow information for year ended 30 June 2021		
Operating	**51,148**	**(272)**
Investing	**(3,659)**	**(1,051)**
Financing	**(40,711)**	**1,654**
Net foreign exchange difference	**429**	–
Net increase in cash and cash equivalents	**7,207**	**331**
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)

For personal use only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 30 June 2021

Note 33: Non-Controlling Interest

	2021	2020
	$'000	$'000
Reconciliation of non-controlling interest in controlled entities:		
At 1 July	**8,562**	10,432
– Add share of operating profit	**5,560**	3,603
– Share of foreign currency translation reserve movement	**(173)**	58
– Dividends paid	**(3,703)**	(5,531)
At 30 June	**10,246**	8,562

Note 34: Significant Events After Balance Date

Following the end of the reporting period, a final fully franked dividend of 45¢ per share to shareholders on record at 3 September 2021 has been declared and is payable on 17 September 2021.

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

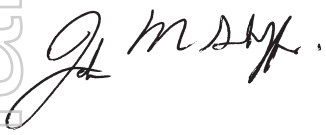
DIRECTORS' DECLARATION

year ended 30 June 2021

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 2021 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 2021.
3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 32 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, 17 September 2021

For personal use only

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCHAFFER CORPORATION LIMITED
year ended 30 June 2021

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

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 2021, 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 2021 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.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial 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.

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

year ended 30 June 2021

For personal use only

EY

Building a better working world

Construction services revenue

Why significant	How our audit addressed the key audit matter

As disclosed in note 3, for the year ended 30 June 2021, the Building Materials segment of the Group recognised $16.5 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 construction and transportation revenues
	▸ We assessed the operating effectiveness of management's controls over the revenue process including management's 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 calculation of revenue to be recognised.
	▸ 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 2021
	  ▸ 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 2021.
	
	We assessed the adequacy of the disclosures in relation to construction and transportation services revenue in Note 3 to the financial report.

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

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

year ended 30 June 2021

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 14, at 30 June 2021, the Group had $77.3 million in financial assets recognised at fair value through the profit or loss. These financial assets include unlisted investments in property unit trusts, 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 assumptions.	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 2021 ▸ 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 re-performed the calculations of unit price and total holding including agreeing material assets and liabilities to source documentation, such as external valuation reports prepared by accredited, independent real estate valuation specialists and loan statements ▸ 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 14 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 2021 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.

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.

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

year ended 30 June 2021

For personal use only



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.
- 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.

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

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

year ended 30 June 2021

For personal use only

Building a better working world

- 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 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 2021.

In our opinion, the Remuneration Report of Schaffer Corporation Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Ernst & Young

Philip Teale
Partner
Perth
17 September 2021

DIRECTORS' REPORT
year ended 30 June 2021

Your directors submit their report for the year ended 30 June 2021 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. 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 – 30 June 2021

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 25 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, nine directors' meetings were held. The number of meetings attended by each director is as follows:

	Meetings eligible to attend	Meetings attended
J M Schaffer AM	9	9
D E Blain AM	9	9
A K Mayer	9	7
M D Perrott AM	9	9
D J Schwartz	9	9

In accordance with the Articles of Association:

At the SFC Annual General Meeting scheduled for 17 November 2021, Mrs D E Blain AM and Mr A K Mayer will retire by rotation and being eligible, will offer themselves for re-election.

Attendance at Audit Committee Meetings

During the year, two audit committee meetings were held. Mr D J Schwartz, Mr M D Perrott AM and Mrs D E Blain 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 one meeting during the year with all committee members attending.

Interests in the Shares of the Company and Related Bodies Corporate

On 17 September 2021 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	620,984	–
A K Mayer	344,263	–
M D Perrott AM	8,500	–

Principal Activities

The principal activities of the entities within the consolidated entity, over 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 $44,394,000 (2020 – $27,153,000).

Operating and Financial Review

Please refer to Managing Director's report for details.

Significant Changes in the State of Affairs

The financial performance of the Group was strong during the 2021 financial year taking into consideration the initial impacts of the Covid-19 pandemic on the global economy and the Group during the second half of the 2020 financial year. The recovery can be attributed to government economic stimulus and support programmes, vaccine rollouts, pent-up demand and industry getting accustomed to the current environment. However, the Covid-19 pandemic continues to make the business operating environment volatile. In particular, the global semi-conductor chip shortage that stemmed from Covid-19 related demand, is causing production issues for the global automotive industry and the Automotive Leather division going into the 2022 financial year.

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.

For personal use only

DIRECTORS' REPORT
year ended 30 June 2021

Dividends

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

	$'000
Dividends paid in the year ended 30 June 2021	
On ordinary shares	
– 35¢ per share final, paid on 20 September 2020	**4,765**
– 45¢ per share interim, paid on 13 March 2021	**6,146**
	10,911
Dividends paid in the year ended 30 June 2020	
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
Not recognised as a liability as at 30 June 2021	
Final franked dividend for 2021 – 45¢ (2020 – 35¢)	6,146

Review of Operations

The consolidated entity's revenue from continuing operations increased by 26% to $196,334,000 from $155,573,000 this year. The pre-tax operating profit of $62,877,000 was an increase compared to $38,530,000 for last year. The consolidated entity's net profit after tax, excluding non-controlling interests, increased by 65% to $38,834,000 from $23,550,000.

Likely Developments and Expected Results

Other than the discussion of the Company's operations and outlook already set out from pages 1-16 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 45¢ per share has been declared payable on 17 September 2021.

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 meetings 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.

Legal Disclaimer

DIRECTORS' REPORT
year ended 30 June 2021

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 2020, no increase was applied for Senior Executives due to the economic impacts of Covid-19.

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 2021 bonus was approved (2020 – approved). 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.

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 nor full-year MBIS bonus was approved for the year ended 30 June 2021 (2020 – 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 2021. 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 2021 year on 17 August 2021. The Managing Director received an STI award of 97.5% (2020: 97.5%) of the maximum possible award. The Group Financial Controller received an STI award of 95% (2020: 92.5%) of the maximum possible award. The Chief Financial Officer received an STI award of 97.5% (2020: 97.5%) 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 2021 year on 17 August 2021. The Managing Director received a discretionary STI of $266,000 (2020: $266,000). The Chief Financial Officer received a discretionary STI award of $91,800 (2020: $91,800). The Group Financial Controller received a Discretionary STI award of $65,500 (2020: $30,000). The Group recognised a record profit for the year to 30 June 2021. The ongoing 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 can influence the generation of shareholder wealth and thus have a direct impact on the Company's performance. Howe Automotive Limited operates the Employee Participation Unit (EPU) Plan for its executives. SFC's senior executives (other than Mr Schaffer and Mr Mayer) can participate in SFC's Employee Share Option Plan (ESOP). The Howe Automotive Limited EPU and SFC ESOP plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders. A summary of the long-term incentive schemes is provided below:

Howe Automotive Limited Employee Participation Units Plan

Howe Automotive Limited operates an employee 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.

For personal use only

DIRECTORS' REPORT
year ended 30 June 2021

(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 31,250 options on issue (2020: 145,000).

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 2021 as detailed in this report:

2021 Remuneration Structure	% Fixed	% Variable
Specified Directors		
J M Schaffer AM	64	36
D E Blain AM	100	–
A K Mayer	65	35
M D Perrott AM	100	–
D J Schwartz	100	–
Specified Executives		
D Birks	17	83
R Leib	28	72
J Walsh	96	4
M Perrella	97	3
J Cantwell	74	26

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

Lodged with the ASX

DIRECTORS' REPORT
year ended 30 June 2021

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 47%.

	1 Sept 2017	1 Sept 2018	1 Sept 2019	1 Sept 2020	1 Sept 2021
Tax Rate	30%	30%	30%	30%	**30%**
Share Price	$7.55	$17.05	$14.81	$16.25	**$22.63**
Ord Dividends	$0.26	$0.45	$0.70	$0.80	**$0.90**
Imputation Credit	$0.11	$0.19	$0.30	$0.34	**$0.39**
TSR	$2.46	$10.14	($1.24)	$2.58	**$7.67**
TSR	45%	134%	(7%)	17%	**47%**

At the date of this report, on an aggregate dollar paid basis, SFC paid to shareholders $12.3 million fully franked dividends in respect of 2021 and a total of $42.7 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 166.2¢.

	June 2017	June 2018	June 2019	June 2020	June 2021
EPS	41.8¢	166.7¢	165.6¢	171.9¢	**284.9¢**

Remuneration of Key Management Personnel for the year ended 30 June 2021

	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
30/06/2021	$	$	$	$	$	$	$	
Directors								
J M Schaffer AM	**889,619**	**525,707**[3]	**14,437**	**–**	**25,000**	**18,834**	**1,473,597**	**35.68%**
D E Blain AM	**77,316**	**–**	**–**	**–**	**7,345**	**3,353**	**88,014**	**0.00%**
A K Mayer	**638,033**	**344,237**	**–**	**–**	**–**	**–**	**982,270**	**35.05%**
M D Perrott AM	**84,661**	**–**	**–**	**–**	**–**	**–**	**84,661**	**0.00%**
D J Schwartz	**84,661**	**–**	**–**	**–**	**–**	**3,353**	**88,014**	**0.00%**
Executives								
D Birks	**354,723**	**652,826**	**(8,696)**	**–**	**25,000**	**1,192,948** [1]	**2,216,801**	**81.07%**
R Leib	**298,551**	**481,151**	**4,713**	**84,692**	**21,694**	**553,693** [1]	**1,444,494**	**70.16%**
J Walsh	**332,350**	**15,000**	**5,349**	**–**	**24,999**	**–**	**377,698**	**3.97%**
M Perrella	**164,588**	**5,000**	**5,376**	**–**	**13,399**	**–**	**188,363**	**2.65%**
J Cantwell	**206,413**	**91,595**	**3,300**	**33,877**	**19,642**	**–**	**354,827**	**25.81%**
	3,130,915	**2,115,516**	**24,479**	**118,569**	**137,079**	**1,772,181**	**7,298,739**	

(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) $266,000 of Mr Schaffer's cash bonus relates to performance for the year ending 30 June 2020.
(4) Includes the value of options issued under the SFC Employee Share Options Plan (ESOP) using the Black-Scholes model.

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.

For personal use only

DIRECTORS' REPORT
year ended 30 June 2021

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 2021	Balance at beginning of year	Exercise of employee share options	Net change other	Balance at end of year
Specified directors				
J M Schaffer AM	2,769,430	–	–	2,769,430
D E Blain AM	1,562,360	–	–	1,562,360
D J Schwartz	594,542	–	16,942	611,484
A K Mayer	347,185	–	(2,922)	344,263
M D Perrott AM	8,500	–	–	8,500
Specified executives				
M Perrella	59,834	–	–	59,834
R Leib	32,500	37,500	(21,000)	49,000
J Cantwell	15,450	5,000	–	20,450
J Walsh	2,903	–	–	2,903
Total	**5,392,704**	**42,500**	**(6,980)**	**5,428,224**

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 2020	Issued during the year	Forfeited during the year	Exercised during the year	No. on issue 30 June 2021	Exercise price	First exercise date	Last exercise date
6 Sep 2017	17,500	–	–	(17,500)	–	$7.54	06-Sep-17	06-Sep-22
12 Aug 2018	57,500	–	–	–	57,500	$14.10	02-Aug-18	02-Aug-23
15 May 2020	70,000	–	–	(25,000)	45,000	$10.50	15-May-20	15-May-25
Total	**145,000**	**–**	**–**	**(42,500)**	**102,500**			

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 2021									Vested as at 30 June 2021	
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 the year	Value of options exercised during the year $	Vested	Not vested
R Leib	–	15 May 2020	$2.01	–	$10.50	6,250	25,000	50,250	6,250	18,750
R Leib	–	2 Aug 2018	$2.53	–	$14.10	12,500	–	–	25,000	12,500
R Leib	–	6 Sept 2017	$0.86	–	$7.54	12,500	12,500	10,750	–	–
J M Cantwell	–	15 May 2020	$2.01	–	$10.50	1,250	–	–	11,250	8,750
J M Cantwell	–	2 Aug 2018	$2.53	–	$14.10	5,000	–	–	15,000	5,000
J M Cantwell	–	6 Sept 2017	$0.86	–	$7.54	5,000	5,000	4,300	–	–
Total	**–**			**–**		**42,500**	**42,500**	**65,300**	**57,500**	**45,000**

30 June 2020									Vested as at 30 June 2020	
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 the 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**

For personal use only

DIRECTORS' REPORT
year ended 30 June 2021

(c) EPUs held by Key Management Personnel

30 June 2021

Executives	Balance at beginning of period	Granted as remuneration	Redeemed during the period	Cancelled during the period	Balance at end of period	Vested as at 30 June 2021 Vested	Vested as at 30 June 2021 Not vested
D Birks	1,200,000	–	–	–	1,200,000	1,066,667	133,333
R Leib	500,000	50,000	–	–	550,000	100,000	450,000
Total	**1,700,000**	**50,000**	**–**	**–**	**1,750,000**	**1,166,667**	**583,333**

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 as at 30 June 2020 Vested	Vested as at 30 June 2020 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**

(d) Shares issued on exercise of compensation options

42,500 shares were issued during the current year on exercise of compensation options (2020: 42,500)

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 2021 to 30 June 2024. 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

DIRECTORS' REPORT
year ended 30 June 2021

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 2021, 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

Philip Teale
Partner
17 September 2021

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

PT:DA:SCHAFFER:015

DIRECTORS' REPORT
year ended 30 June 2021

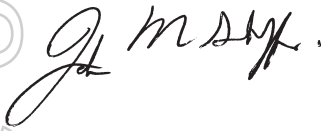
Non-Audit Services

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	$77,106

Signed in accordance with a resolution of the directors.



J M Schaffer AM
Chairman and Managing Director
Perth, 17 September 2021

For personal use only

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2021

ASX Corporate Governance Council issued its fourth edition of the Corporate Governance Principles and Recommendations on 27 February 2019 with effect from 1 January 2020.

> *"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, February 2019).*

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

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

Lay Solid Foundations for Management and Oversight

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

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

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

The Board is primarily responsible for identifying potential new Directors. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new Director with specific skills, candidates with the appropriate experience, expertise and diversity are considered.

The Board undertakes appropriate checks including character, experience, education, criminal record and bankruptcy history, before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director. The Board ensures that shareholders are provided with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a Director.

Directors and senior executives have written agreements setting out the terms of their appointment.

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

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. These processes can also identify areas for additional professional development relevant to the role of Director.

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

Diversity policy

Schaffer Corporation 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.

Schaffer Corporation 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 – Schaffer Corporation 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 – Schaffer Corporation 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 – Schaffer Corporation does not tolerate discrimination, harassment, bullying, victimisation and/or vilification in the workplace. Action will be taken against these types of behaviour that do not value diversity.

Flexible work practices – where appropriate, flexible work practices will be accepted to meet the differing needs of a diverse workforce.

The table below outlines the gender diversity objectives established by the Board.

Objectives	Status
Comply with the Workplace Gender Equality Agency Act as determined by the Workplace Gender Equality Agency (WGEA)	The annual compliance reporting was submitted on 11 June 2021 to the 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 2021, women represented 47% (2020: 52%) of the Group's workforce, 24% (2020: 23%) of senior executive positions, and 20% (2020: 20%) of the Board.

Lodged with the ASX on 30 August 2021

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2021

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 70)

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 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 75)

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 79)

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 67)

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.

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	–	–	20.2%	No	N/A
D E Blain AM	1987	Non-executive	Member	Member	11.4%	Yes	Yes
A K Mayer	2001	Executive	–	–	2.5%	Yes	Yes
M D Perrott AM	2005	Independent	Member	Member	0.1%	No	No
D J Schwartz	1999	Independent	Chairman	Chairman	4.5%	No	No

Board Committees

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

The Board operates an Audit Committee and a Nomination and Remuneration Committee. Both committees comply with Council guidelines. The Charter of each committee is summarised later in this section. Full details of SFC Audit Committee and Nomination and Remuneration Committee can be found on the Company's website. The Board does not believe the Board it is of sufficient size to warrant the establishment of additional dedicated Board Committees. The Audit Committee held two meetings during the year and the Nomination and Remuneration Committee held one meeting. All members were in attendance at all committee meetings.

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.

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. 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 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 20.2%) and has served on the Board in since 1972;
- Mrs Blain is a substantial shareholder of SFC (with an economic interest of 11.4%), 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. When the shareholders gain, so does the Board; when shareholders lose, the Board loses significantly.

For personal use only

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2021

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.

Instil a Culture of Acting Lawfully, Ethically and Responsibly

Values

Schaffer Corporation Limited'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.
- **Environments –** 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, always demonstrating their commitment to this Code of Conduct 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 of 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.

Lodged with the ASX, Sydney and Melbourne

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2021

SFC has established an 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.

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.

For personal use only

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
year ended 30 June 2021

Recognise and Manage Risk

Risk management

The Board has formal written policies on risk oversight and management. SFC's risk management policy provides the framework to manage the risks associated with SFC's business activities.

The purpose of the policy is to identify, assess, monitor and manage risk with the objective of minimising losses and maximising shareholder value.

SFC prepares risk profiles including a description of material risks, both financial and non-financial. SFC reviews and updates its risk profile as required.

SFC implements a systematic process to assist in the identification, assessment, treatment and monitoring of risks.

SFC provides the necessary tools and resources to management and staff to support the effective management of risks.

SFC ensures that the Board is adequately informed of significant risk management issues and the actions undertaken to manage risks in a timely manner.

The Board has considered the need for an internal audit function and concluded that the size and nature of the Group's operations do not warrant such a function 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 can 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 2021 financial year of $84,661 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 applies to new directors appointed after July 2003.

Schaffer Corporation Limited

ASX ADDITIONAL INFORMATION

year ended 30 June 2021

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

Total Share Capital

Issued as at 1 September 2021 – 13,729,075 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 2021

Shareholdings	Shareholders
1 – 1,000	837
1,001 – 5,000	452
5,001 – 10,000	97
10,001 – 100,000	107
100,001 – and over	20

Number of shareholders holding less than a marketable parcel i.e. less than 23 shares: 59.

Substantial Shareholders

As at 1 September 2021 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	15.42%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.75%
	2,769,430	20.17%
Mrs D E Blain AM & Associates	909,673	6.63%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.75%
	1,562,360	11.38%
* Combined interest of Mr Schaffer & Mrs Blain	4,331,790	31.55%
Sterling Equity Pty Limited and associates	1,171,679	8.53%

*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 31.55%, not their individual economic interests of 20.17% and 11.38%

Twenty Largest Shareholders

As at 1 September 2021	Number of shares	Percentage of issued ordinary shares
SWAN HOLDINGS PTY LTD	1,305,374	9.51
MUTUAL TRUST PTY LTD	1,056,969	7.70
CIMBROOK NOMINEES PTY LTD	980,482	7.14
MRS DANIELLE EVA BLAIN	907,570	6.61
MR JOHN MICHAEL SCHAFFER	799,554	5.82
JOBLING INVESTMENTS PTY LTD	507,812	3.70
CIRCLESTAR PTY LTD <DAVID SCHWARTZ FAMILY A/C>	377,970	2.75
MR CHRISTOPHER STEPHAN MAYER	344,263	2.51
MAITRI PTY LTD <COCI SUPER FUND A/C>	304,495	2.22
MR KENNETH JOHN BEER + MR ALEXANDER CHARLES BEER <BEER SUPER FUND A/C>	291,859	2.12
THE SPORTS CAFE (AUSTRALIA)	226,072	1.64
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	209,618	1.53
CITICORP NOMINEES PTY LIMITED	172,319	1.26
FREDERICK BRUCE WAREHAM	160,006	1.17
MR PETER CANAWAY <SUPERANNUATION FUND A/C>	160,000	1.17
SCE SUPERANNUATION PTY LTD <SCE SUPERANNUATION A/C>	152,500	1.11
GLENNLIN PTY LTD <MARILYN MAY BOOKHAM DISC A/C>	143,252	1.04
SHANN INVESTMENTS PTY LTD <LYNDA MAREE JOBLING DISC A/C>	143,252	1.04
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	116,631	0.85
MR MILTON YANNIS	108,472	0.79
	8,468,470	61.68

Annual General Meeting

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 17 November 2021 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

For personal use only

This page has been left blank intentionally

Corporate Timetable

Final 2021 dividend record date	3 September 2021
Final 2021 dividend payment date	17 September 2021
Despatch of 2021 Annual Report and notice of AGM	7 October 2021
Annual General Meeting	17 November 2021
2022 half-year earnings release and dividend announcement	February 2022
Interim 2022 dividend payment date	March 2022

For personal use only

SHAREHOLDER INFORMATION

Annual General Meeting

Schaffer Corporation will hold its Annual General Meeting on Wednesday 17 November 2021 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