# APPENDIX 4D

**This Half-Year Report is provided to the Australian Stock Exchange (ASX) Under ASX Listing Rule 4.2A.3**

Name of entity

**SCHAFFER CORPORATION LIMITED**

| ACN | Financial year ended ('current period') |
|---|---|
| **008 675 689** | **31 DECEMBER 2016** |
| | Previous corresponding period |
| | **31 DECEMBER 2015** |

## For announcement to the market

| | | | | *$'000* |
|---|---|---|---|---|
| Revenues from ordinary activities | Down | 1% | to | 102,305 |
| Net profit for the period attributable to members (statutory profit) | Down | 65% | to | 2,372 |
| Underlying profit for the period attributable to members[1] | Up | 21% | to | 2,965 |

[1] Underlying profit is profit after tax before significant items attributable to members. Underlying profit is non-IFRS financial information. Refer to page 20 of the December 2016 Investor Presentation for a reconciliation of Statutory Profit to Underlying Profit.

| **DIVIDENDS** | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend | - | - |
| Interim period | 12¢ | 12¢ |
| Date the dividend is payable | 17 March 2017 | |
| Record date to determine entitlements to the dividend (i.e. on the basis of security holding balances established by 5:00pm or such later time permitted by SCH Business Rules – securities are CHESS approved) | 10 March 2017 | |

| **NET TANGIBLE ASSET BACKING** | | |
|---|---|---|
| **Consolidated Entity** | **2016** | **2015** |
| Net tangible assets $'000 | **70,139** | 72,076 |
| Fully paid ordinary shares on issue at balance date | **14,005,373** | 14,005,373 |
| Net tangible asset backing per issued ordinary share as at balance date | **$5.01** | $5.15 |

| **STATUS OF AUDIT** |
|---|
| The Half-Year Report is based on accounts that have been reviewed. |

Schaffer Corporation Limited

**ACN 008 675 689**

# FINANCIAL REPORT

## FOR THE HALF-YEAR ENDED

# 31 DECEMBER 2016

# FINANCIAL REPORT

## For the Half-Year Ended 31 December 2016

# SCHAFFER CORPORATION LIMITED HALF-YEAR FINANCIAL REPORT

# DIRECTORS' REPORT

Your Directors submit their report for the half-year ended 31 December 2016 made in accordance with a resolution of the Directors.

## DIRECTORS

Details of the Directors of the company during the financial half-year and at the date of this report are:

| | |
|---|---|
| **J M SCHAFFER**<br>**B. Com (Hons.) FCPA**<br>Managing Director<br>Executive Director since 06/09/1972 | Mr John Schaffer joined the company in 1972. Mr Schaffer has held the position of Managing Director since 1987 and Chairman since 1988. |
| **D E BLAIN, BA**<br>Non-executive Director<br>Appointed 05/06/1987 | Mrs Danielle Blain joined the company in 1987. Mrs Blain served as Managing Director of Gosh Leather Pty. Ltd. from 1993 to 2001. Mrs Blain has diverse experience serving on a number of government and not-for-profit boards and is also a past Pro Chancellor of Edith Cowan University. |
| **A K MAYER**<br>Executive Director<br>Appointed 21/11/2001 | Mr Anton Mayer is the Executive Director of Howe Automotive Leather Limited. Mr Mayer has over 50 years of international leather experience, broad business skills and a global business perspective. |
| **D J SCHWARTZ**<br>Non-executive Director<br>Appointed 29/06/1999 | Mr David Schwartz joined the Board as an independent Director in June 1999. He has over 30 years' experience in manufacturing and distribution businesses. During the past three years Mr Schwartz has served as a Director of the following listed companies:<br><br>Clime Investment Management Ltd 01/10/1999 – 28/02/2015<br>ADG Global Supply Ltd 01/05/2008 – 07/01/2015 |
| **M D PERROTT AM**<br>**BCom, FAIM, FAICD**<br>Non-executive Director<br>Appointed 23/02/2005 | Mr Michael Perrott AM joined the Board as an independent Director in February 2005. Mr Perrott AM has over 35 years' experience in the construction and contracting industry. During the past 3 years Mr Perrott AM has also served as a Director of the following other listed companies:<br><br>GME Resources Ltd 21/11/1996 - current<br>VDM Group Ltd 02/07/2009 – 07/08/2014 |

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

## ATTENDANCE AT BOARD MEETINGS

During the half-year four Directors' meetings were held. The number of meetings attended by each Director is as follows:

| | Meetings eligible to attend | Meetings attended |
|---|---|---|
| J M Schaffer | 4 | 4 |
| D E Blain | 4 | 4 |
| D J Schwartz | 4 | 4 |
| A K Mayer | 4 | 4 |
| M D Perrott | 4 | 4 |

## AUDIT COMMITTEE

The consolidated entity has an Audit Committee, which operates to oversee the external audit functions of the consolidated entity. During the half-year one audit committee meeting was held which all members of the audit committee were eligible to attend. The meeting was attended by Mr D J Schwartz, Mr M D Perrott and Mrs D E Blain.

## REVIEW OF OPERATIONS

The consolidated entity's revenue decreased by 1% from $103,468,000 for the comparative period to $102,305,000 this half-year.

The net after tax consolidated profit attributable to members of the parent entity decreased by 65% from $6,692,000 for the comparative period to $2,372,000.

## ROUNDING

The amounts contained in this report and in the half-year financial statements have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191. The company is an entity to which this Legislative Instrument applies.

## AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, as presented on page 20 of this half-year financial report.

Signed in accordance with a resolution of the Directors.

John Schaffer
Managing Director

Perth, 22 February 2017

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

| | Note | Dec 2016 $'000 | Dec 2015 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods | | **89,812** | 87,194 |
| Construction services | | **9,833** | 13,072 |
| Rental income | 3(a) | **2,631** | 3,163 |
| Finance income | 3(b) | **29** | 39 |
| Total revenue | | **102,305** | 103,468 |
| Cost of sales and services rendered | | **(86,275)** | (87,475) |
| Gross profit | | **16,030** | 15,993 |
| | | | |
| Other (losses)/income | 3(c) | **(650)** | 4,190 |
| Marketing expenses | | **(2,926)** | (2,996) |
| Administrative expenses | | **(7,824)** | (5,707) |
| **Profit before tax and finance costs** | | **4,630** | 11,480 |
| Finance costs | 3(b) | **(1,480)** | (1,865) |
| **Profit before income tax** | | **3,150** | 9,615 |
| Income tax expense | 5 | **(424)** | (2,675) |
| **Profit after income tax** | | **2,726** | 6,940 |
| | | | |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Net fair value gains on available-for-sale financial assets | | **275** | 111 |
| Income tax on items of other comprehensive income | | **(93)** | (38) |
| | | **182** | 73 |
| Foreign currency translation gain attributable to parent | | **28** | 354 |
| | | **210** | 427 |
| **Items that may not be reclassified subsequently to profit or loss** | | | |
| Net fair value gains on available-for-sale financial assets attributable to non-controlling interest | | **37** | 15 |
| Foreign currency translation gain attributable to non-controlling interest | | **6** | 71 |
| **Other comprehensive income for the period net of tax** | | **253** | 513 |
| **Total comprehensive income for the period** | | **2,979** | 7,453 |
| | | | |
| **Profit for the period is attributable to:** | | | |
| Non-controlling interest | | **354** | 248 |
| Owners of the parent | | **2,372** | 6,692 |
| | | **2,726** | 6,940 |
| **Total comprehensive income for the period is attributable to:** | | | |
| Non-controlling interest | | **396** | 334 |
| Owners of the parent | | **2,583** | 7,119 |
| | | **2,979** | 7,453 |
| **Earnings per share (EPS)** | | | |
| Basic EPS | 12 | **16.9¢** | 47.8¢ |
| Diluted EPS | 12 | **16.9¢** | 47.8¢ |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

| | Note | Dec 2016 $'000 | Jun 2016 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 4 | **19,418** | 7,068 |
| Trade and other receivables | | **31,405** | 39,858 |
| Inventories | | **55,644** | 59,754 |
| Prepayments and deposits | | **3,109** | 1,713 |
| Derivative financial instruments | 9 | **296** | - |
| **Total Current Assets** | | **109,872** | 108,393 |
| | | | |
| **Non Current Assets** | | | |
| Property, plant and equipment | | **45,682** | 46,138 |
| Investment properties | 7 | **25,238** | 25,177 |
| Deferred income tax asset | | **1,179** | 1,983 |
| Goodwill | 8 | **1,299** | 1,299 |
| Other financial assets | 9 | **4,520** | 4,384 |
| **Total Non-Current Assets** | | **77,918** | 78,981 |
| **Total Assets** | | **187,790** | 187,374 |
| | | | |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | | **31,701** | 29,534 |
| Interest bearing loans and borrowings | | **8,449** | 16,661 |
| Income tax payable | | **131** | 2,762 |
| Provisions | | **6,383** | 7,284 |
| Derivative financial instruments | 9 | **209** | 530 |
| **Total Current Liabilities** | | **46,873** | 56,771 |
| | | | |
| **Non Current Liabilities** | | | |
| Interest bearing loans and borrowings | | **57,657** | 48,646 |
| Deferred income tax liabilities | | **1,559** | 1,445 |
| Provisions | | **1,325** | 1,325 |
| **Total Non Current Liabilities** | | **60,541** | 51,416 |
| **Total Liabilities** | | **107,414** | 108,187 |
| **Net Assets** | | **80,376** | 79,187 |
| | | | |
| **Equity** | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | 10 | **16,583** | 16,583 |
| Reserves | | **3,792** | 3,551 |
| Retained earnings | 11 | **51,063** | 50,512 |
| Total parent entity interest in equity | | **71,438** | 70,646 |
| Non-controlling interests | | **8,938** | 8,541 |
| **Total Equity** | | **80,376** | 79,187 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

| | Attributable to Equity Holders of the Parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued Capital | Retained Earnings | Reserves | | | | | Total | | |
| | $'000 | $'000 | Asset re-valuation $'000 | Share based payment EPU's $'000 | Share based payment SFC options $'000 | Net unrealised gains/ (losses) $'000 | Foreign currency translation $'000 | $'000 | Non-controlling interest $'000 | Total equity $'000 |
| **At 1 July 2015** | 16,583 | 48,330 | 2,585 | 648 | 115 | 18 | (233) | 68,046 | 8,330 | 76,376 |
| Profit for the half-year | - | 6,692 | - | - | - | - | - | 6,692 | 248 | 6,940 |
| Other comprehensive income | - | - | - | - | - | 73 | 354 | 427 | 86 | 513 |
| Total comprehensive income for the half-year | - | 6,692 | - | - | - | 73 | 354 | 7,119 | 334 | 7,453 |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | |
| Share-based payments | - | - | - | 31 | - | - | - | 31 | - | 31 |
| Equity dividends | - | (1,821) | - | - | - | - | - | (1,821) | - | (1,821) |
| **At 31 December 2015** | 16,583 | 53,201 | 2,585 | 679 | 115 | 91 | 121 | 73,375 | 8,664 | 82,039 |
| | | | | | | | | | | |
| **At 1 July 2016** | **16,583** | **50,512** | **2,585** | **709** | **115** | **111** | **31** | **70,646** | **8,541** | **79,187** |
| Profit for the half-year | **-** | **2,372** | **-** | **-** | **-** | **-** | **-** | **2,372** | **354** | **2,726** |
| Other comprehensive income | **-** | **-** | **-** | **-** | **-** | **182** | **28** | **210** | **43** | **253** |
| Total comprehensive income for the half-year | **-** | **2,372** | **-** | **-** | **-** | **182** | **28** | **2,582** | **397** | **2,979** |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | |
| Share-based payments | **-** | **-** | **-** | **31** | **-** | **-** | **-** | **31** | **-** | **31** |
| Equity dividends | **-** | **(1,821)** | **-** | **-** | **-** | **-** | **-** | **(1,821)** | **-** | **(1,821)** |
| **At 31 December 2016** | **16,583** | **51,063** | **2,585** | **740** | **115** | **293** | **59** | **71,438** | **8,938** | **80,376** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS
# FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

| | Note | **Dec 2016 $'000** | Dec 2015 $'000 |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Receipts from customers | | **112,429** | 103,767 |
| Payments to suppliers and employees | | **(93,080)** | (97,152) |
| Other revenue received | | **22** | 48 |
| Interest paid | | **(1,480)** | (1,865) |
| Income taxes (paid)/refunded | | **(1,514)** | 308 |
| Goods and services tax paid | | **(787)** | (1,183) |
| **Net Cash Flows From Operating Activities** | | **15,590** | 3,923 |
| | | | |
| **Cash Flows From Investing Activities** | | | |
| Interest income | | **28** | 39 |
| Acquisition of property, plant and equipment | | **(2,307)** | (5,593) |
| Proceeds from sale of investment property | | **-** | 9,624 |
| Proceeds on sale of property, plant and equipment | | **74** | - |
| Acquisition/improvements to investment properties | | **(353)** | (367) |
| Purchase of available-for-sale investments | | **-** | (500) |
| Distributions received from disposal of trust assets | | **270** | 1,050 |
| **Net Cash Flows (Used In)/From Investing Activities** | | **(2,288)** | 4,253 |
| | | | |
| **Cash Flows From Financing Activities** | | | |
| Finance lease principal payments | | **(1,049)** | (224) |
| Dividends paid | 6(a) | **(1,821)** | (1,821) |
| Proceeds from borrowings | | **6,397** | 10,860 |
| Repayment of borrowings | | **(4,549)** | (11,490) |
| **Net Cash Flows Used In Financing Activities** | | **(1,022)** | (2,675) |
| | | | |
| **Net Increase In Cash and Cash Equivalents** | | **12,280** | 5,501 |
| Net foreign exchange differences | | **70** | 440 |
| Cash and cash equivalents at the beginning of the period | | **7,068** | 4,192 |
| **Cash and Cash Equivalents at the End of the Period** | 4(a) | **19,418** | 10,133 |

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

# NOTES TO THE HALF-YEAR FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

## 1. CORPORATE INFORMATION

The financial report of Schaffer Corporation Limited and its controlled entities ("the Group or Consolidated Entity") for the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors on 21 February 2017. Schaffer Corporation Limited ("the Company") is a for profit company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report for the half-year ended 31 December 2016 is a condensed general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2016 and considered together with any public announcements made by Schaffer Corporation Limited during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations of the ASX listing rules.

Except as disclosed below, the accounting policies and method of computation are the same as those adopted in the most recent annual financial report.

### (b) Adoption of new and revised accounting standards and interpretations

The accounting policies adopted in the preparation of the half year report are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2016. In addition the Group adopted all new and revised accounting standards and interpretations that were effective 1 July 2016.

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

## 3. SIGNIFICANT REVENUE, OTHER INCOME AND EXPENSES

Profit before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:

| | Note | CONSOLIDATED Dec 2016 $'000 | Dec 2015 $'000 |
|---|---|---|---|
| **(a) Net rental income** | | | |
| Rental property income | | **2,631** | 3,163 |
| Rental property expenses | | **(1,333)** | (1,632) |
| Net rental income | | **1,298** | 1,531 |
| | | | |
| **(b) Finance (costs)/income** | | | |
| Bank and other loans and overdrafts - interest | | **(1,407)** | (1,823) |
| Finance charges payable under finance leases and hire purchase | | **(73)** | (42) |
| Total finance costs | | **(1,480)** | (1,865) |
| | | | |
| Bank interest received | | **29** | 39 |
| Total finance income | | **29** | 39 |
| | | | |
| **(c) Other (losses)/income** | Note | | |
| Profit on disposal of investment property | | **-** | 5,733 |
| Loss on sale of property, plant and equipment | | **46** | - |
| Net gain/(loss) on derivatives | | **317** | (445) |
| Net foreign currency loss | | **(1,130)** | (1,474) |
| Realised gains on available-for-sale investments | (i) | **95** | 328 |
| Other | | **22** | 48 |
| | | **(650)** | 4,190 |

(i) The $95,000 realised gain on the sale of available for sale investment is calculated as the $270,000 proceeds received for the sale, offset by the $175,000 reduction in carrying value of the assets. This balance accurately reflects the remaining value of the property trust's assets.

| | Dec 2016 $'000 | Dec 2015 $'000 |
|---|---|---|
| **(d) Depreciation, amortisation and impairment included in Statement of Comprehensive Income** | | |
| Depreciation and amortisation included in: | | |
| Cost of sales | **2,220** | 2,201 |
| Rental property expenses | **295** | 317 |
| Marketing and administrative expenses | **111** | 182 |
| | **2,626** | 2,700 |
| | | |
| **(e) Lease payments included in Statement of Comprehensive Income** | | |
| Included in cost of sales: | | |
| Minimum lease payments – operating lease | **1,569** | 467 |
| Included in marketing and administrative expenses: | | |
| Minimum lease payments – operating lease | **713** | 721 |
| | **2,282** | 1,188 |

## 3. SIGNIFICANT REVENUE, OTHER INCOME AND EXPENSES (continued)

| | CONSOLIDATED | |
|---|---|---|
| | **Dec 2016** | Dec 2015 |
| | **$'000** | $'000 |
| **(f) Employee benefit expense** | | |
| Wages and salaries | **21,715** | 23,926 |
| Post employment benefit provision | **9** | - |
| Long service leave provisions | **(114)** | 14 |
| Worker's compensation costs | **280** | 603 |
| Superannuation costs | **928** | 1,071 |
| Expense of share-based payments | **31** | 31 |
| | **22,849** | 25,645 |
| **(g) Other expenses/gain** | | |
| Allowance for/(write back of) doubtful debts | **110** | (104) |

## 4. CASH AND CASH EQUIVALENTS

### (a) Reconciliation of cash

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

| | CONSOLIDATED | |
|---|---|---|
| | **Dec 2016** | Dec 2015 |
| | **$'000** | $'000 |
| Cash at bank and in hand | **19,418** | 10,133 |
| | **19,418** | 10,133 |

### (b) Non-cash financing and investing activities

In the half year ending 31 December 2015, $70,000 chattel mortgages and finance leases of plant and equipment had a material effect on consolidated assets and liabilities but did not involve cash flows. This did not occur in the half year ending 31 December 2016

### (c) Financing facilities available

At balance date the Group has bank facilities available to the extent of $80,892,000, (June 2016: $82,886,000). The value of unutilised facilities for the Group at balance date was $7,329,000 (June 2016: $11,205,000).

## 5. INCOME TAX

The major components of income tax expense for the half-year ended 31 December 2016 and 31 December 2015 are:

| | CONSOLIDATED | |
|---|---|---|
| **Consolidated Income Statement** | **Dec 2016 $'000** | Dec 2015 $'000 |
| *Current income tax* | | |
| Current income tax charge | **144** | 3,820 |
| Adjustments in respect of current income tax of previous years | **(545)** | (502) |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | **825** | (643) |
| Total income tax expense | **424** | 2,675 |
| Income tax expense reported in the Consolidated Income Statement | **424** | 2,675 |
| Total income tax expense | **424** | 2,675 |

## 6. DIVIDENDS PAID OR PROPOSED

| | | CONSOLIDATED | |
|---|---|---|---|
| | | **Dec 2016 $'000** | Dec 2015 $'000 |
| (a) | Dividends declared and paid during the half-year on ordinary shares: | | |
| | Final franked dividend for the financial year 30 June 2016: 13¢ (2015: 13¢) | **1,821** | 1,821 |
| | | **1,821** | 1,821 |
| (b) | Dividends proposed and not yet recognised as a liability: | | |
| | Interim franked dividend for the half-year 31 December 2016: 12¢ (2015: 12¢) | **1,681** | 1,681 |

## 7. INVESTMENT PROPERTIES

| | CONSOLIDATED | |
|---|---|---|
| | **Dec 2016 $'000** | Jun 2016 $'000 |
| Investment Properties at cost | **25,238** | 25,177 |
| **(a) Movement of Investment Properties** | | |
| Balance at the beginning of the financial period | **25,177** | 28,903 |
| Improvements to wholly owned property | **-** | 162 |
| Disposal of interest in joint operations | **-** | (3,852) |
| Improvements to property in which the Group is a tenant in common | **356** | 566 |
| Depreciation | **(295)** | (602) |
| **Balance at end of the financial period** | **25,238** | 25,177 |

## 8. GOODWILL

| | Dec 2016 $'000 | Jun 2016 $'000 |
|---|---|---|
| Goodwill at cost | **1,299** | 1,299 |

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The majority of the goodwill relates to the Automotive Leather division.

The recoverable amount of the Automotive Leather division has been determined based on a value in use calculation using historical performance and cash flow projections based on financial budgets approved by senior management.

## 9. FINANCIAL INSTRUMENTS

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

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

- Level 1 – the fair value is calculated using quoted prices in active markets.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

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

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | |
| **Consolidated** | | | | |
| **Financial Assets** | | | | |
| Available-for-sale Investments: | | | | |
| Listed investments | 1,125 | - | - | 1,125 |
| Unlisted investments | - | - | 3,395 | 3,395 |
| Foreign exchange contracts | - | 296 | - | 296 |
| | **1,125** | **296** | **3,395** | **4,816** |
| **Financial Liabilities** | | | | |
| Derivative instruments | | | | |
| Interest rate swaps | - | 209 | - | 209 |
| | **-** | **209** | **-** | **209** |
| **Year ended 30 June 2016** | | | | |
| **Consolidated** | | | | |
| Financial Assets | | | | |
| Derivative financial instruments | | | | |
| Available-for-sale Investments | | | | |
| Listed investments | 650 | - | - | 650 |
| Unlisted investments | - | - | 3,734 | 3,734 |
| | **650** | **-** | **3,734** | **4,384** |
| **Financial liabilities** | | | | |
| Derivative instruments | | | | |
| Foreign exchange contracts | - | 241 | - | 241 |
| Interest rate swaps | - | 289 | - | 289 |
| | - | 530 | - | 530 |

## 9. FINANCIAL INSTRUMENTS (continued)

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

For unlisted investments, the fair value is determined by the calculation of the Group's percentage ownership in unlisted unit trusts multiplied by the total net assets of the unit trusts at fair value. The effect of these reassessments of fair value on other comprehensive income for the period is a decrease of $164,000 (December 2015 – increase of $127,000).

## 10. CONTRIBUTED EQUITY

| | CONSOLIDATED | |
|---|---|---|
| | **Dec 2016 $'000** | Jun 2016 $'000 |
| Ordinary Shares | **16,583** | 16,583 |

All ordinary shares are fully paid and carry one vote per share and carry the right to dividends.

| | | |
|---|---|---|
| Movements in ordinary shares on issue | **Number of Shares** | Number of Shares |
| Ordinary shares on issue at the beginning of the financial period | **14,005,373** | 14,005,373 |
| Shares acquired under share buy-back scheme | **-** | - |
| **Ordinary shares on issue at the end of the financial period** | **14,005,373** | 14,005,373 |

## 11. CONSOLIDATED RETAINED PROFITS

| | CONSOLIDATED | |
|---|---|---|
| | **Dec 2016 $'000** | Jun 2016 $'000 |
| Retained profits at the beginning of the financial period | **50,512** | 48,330 |
| Net profit attributable to members | **2,372** | 5,683 |
| Dividends and other equity distributions paid or payable | **(1,821)** | (3,501) |
| **Retained profits at end of financial period** | **51,063** | 50,512 |

## 12. EARNINGS PER SHARE (EPS)

Details of basic and diluted EPS reported separately are as follows:

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

| | **Dec 2016 $'000** | Dec 2015 $'000 |
|---|---|---|
| Basic Earnings | 2,372 | 6,692 |
| Diluted Earnings | 2,372 | 6,692 |
| | **Number** | Number |
| Weighted average number of ordinary shares used in the calculation of basic EPS | **14,005,373** | 14,005,373 |
| Weighted average number of ordinary shares used in the calculation of diluted EPS | **14,005,373** | 14,005,373 |

## 13. COMMITMENT AND CONTINGENT LIABILITIES

There have been no material changes to commitments or contingent liabilities from those disclosed in the last annual report.

## 14. SUBSEQUENT EVENTS

Subsequent to the end of the half-year the Group declared a dividend of 12¢ per share totalling $1,681,000 payable on 17 March 2017.

In February 2017, Automotive Leather revised its revolving loan facility from an amortised facility limit of €9,502,500 to €11,000,000. The maturity date of the facility has been extended to 30 September 2018.

There has not been any other matter or circumstance in the interval between the end of the half-year and the date of this report that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

## 15. SEGMENT INFORMATION

### (a) 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 and in determining the allocation of resources.

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

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

The Group comprises the following reportable segments:

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

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

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

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

### (b) Accounting policies and inter-segment transactions

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

### (c) 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.

### (d) Basis of segmentation and measurement of segment profit

There has been no change in the basis of segmentation or in the basis of measurement of segment profit from those used in the last annual financial statements.

## 15. SEGMENT INFORMATION (continued)

The following table presents assets, revenue and profit information regarding segments for the half-year periods ended 31 December 2016 and 31 December 2015.

| | Automotive Leather | | Building Materials | | Investment Property | | Gosh Capital | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Dec 2016 $'000** | Dec 2015 $'000 | **Dec 2016 $'000** | Dec 2015 $'000 | **Dec 2016 $'000** | Dec 2015 $'000 | **Dec 2016 $'000** | Dec 2015 $'000 | **Dec 2016 $'000** | Dec 2015 $'000 |
| **Revenue from external customers** | **77,531** | 71,393 | **21,723** | 28,412 | **2,326** | 3,002 | **719** | 657 | **102,299** | 103,464 |
| Unallocated interest and dividend revenue | | | | | | | | | **6** | 4 |
| **Total revenue** | | | | | | | | | **102,305** | 103,468 |
| Earnings before Restructuring cost | **4,044** | 2,304 | **1,194** | 2,398 | **1,014** | 7,017 | **500** | 722 | **6,752** | 12,441 |
| Restructuring costs | **(783)** | - | **(276)** | - | **-** | - | **-** | - | **(1,059)** | - |
| **Segment Profit** | **3,261** | 2,304 | **918** | 2,398 | **1,014** | 7,017 | **500** | 722 | **5,693** | 12,441 |
| Unallocated items(i): | | | | | | | | | | |
| Finance income and dividends | | | | | | | | | **4** | 4 |
| Finance costs | | | | | | | | | **(1,480)** | (1,865) |
| Corporate overheads | | | | | | | | | **(1,067)** | (965) |
| **Operating Profit Before Income Tax** | | | | | | | | | **3,150** | 9,615 |
| **Income Tax Expense** | | | | | | | | | **(424)** | (2,675) |
| **Net Profit After Tax** | | | | | | | | | **2,726** | 6,940 |
| | **Dec 2016 $'000** | Jun 2016 $'000 | **Dec 2016 $'000** | Jun 2016 $'000 | **Dec 2016 $'000** | Jun 2016 $'000 | **Dec 2016 $'000** | Jun 2016 $'000 | **Dec 2016 $'000** | Jun 2016 $'000 |
| **Segment Assets** | **109,164** | 108,571 | **44,815** | 45,729 | **15,635** | 15,421 | **16,475** | 16,162 | **186,089** | 185,883 |
| Unallocated items(i): | | | | | | | | | | |
| Cash | | | | | | | | | **199** | 104 |
| Property, plant and equipment | | | | | | | | | **739** | 751 |
| Prepayments | | | | | | | | | **125** | 6 |
| Receivables | | | | | | | | | **(2)** | - |
| Deferred income tax assets | | | | | | | | | **640** | 630 |
| **Total segment assets** | | | | | | | | | **187,790** | 187,374 |

(i) Unallocated items comprises mainly corporate assets and head office expenses.

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Schaffer Corporation Limited, I state that:

In the opinion of the Directors:

(a) The financial statements and notes of the Group are in accordance with the *Corporations Act 2001,* including:

  (i) Giving a true and fair view of the financial position as at 31 December 2016 and the performance for the half-year ended on that date of the Group; and

  (ii) Complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

John Schaffer
Managing Director

Perth, 22 February 2017

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

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

# Auditor's Independence Declaration to the Directors of Schaffer Corporation Limited

As lead auditor for the review of Schaffer Corporation Limited for the half-year ended 31 December 2016, 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 review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

Teale

Philip Teale
Partner
22 February 2017

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PT:RH:SCHAFFER:007

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

# To the members of Schaffer Corporation Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Schaffer Corporation Limited which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

## Directors' Responsibility for the Half-Year Financial Report

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

## Auditor's Responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of Schaffer Corporation Limited and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Schaffer Corporation Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Philip Teale
Partner
Perth
22 February 2017

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