

08

ANNUAL REPORT



Schaffer Corporation Limited

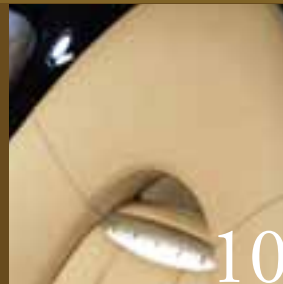
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Review of Operations:

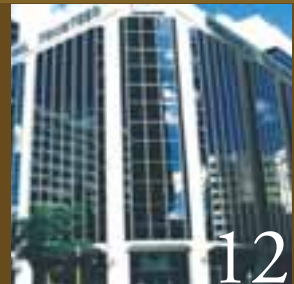
Building Products



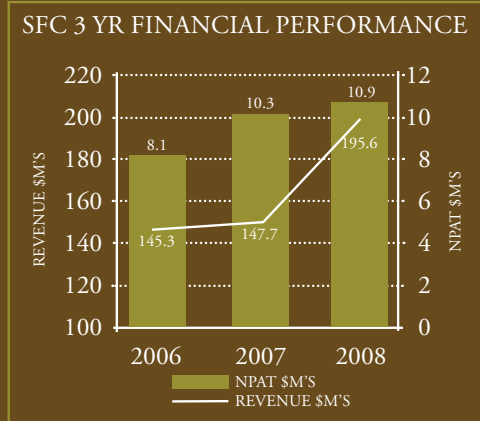
Leather



Property



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## ABOUT SCHAFFER CORPORATION

# A DIVERSIFIED AUSTRALIAN INDUSTRIAL COMPANY

Schaffer Corporation Limited is a diversified industrial company with core operating divisions in Building Materials, Automotive Leather and Property.

The Building Materials division is a niche Australian supplier of building, construction and landscaping products. The division manufactures a premium range of niche paving, walling and landscaping products along with precast and pre-stressed concrete floor, beam and wall products.

The Automotive Leather division is a world-class globally competitive automotive leather producer. The division operates processing, finishing and cutting operations in Victoria and component cutting plants in China, Mexico and Slovakia. The division exports over 90% of its production to North America, Asia and Europe.

The Property division has joint venture interests in commercial and retail properties in Western Australia and Victoria. The division's assets also include an interest in the successful Mindarie Keys Marina residential land subdivision located north of Perth and a future industrial subdivision located at Neerabup, Western Australia. The division also owns property held for future development in the WA suburbs of Jandakot and Coogee, as well as eight properties in WA which are primarily occupied by the Building Materials division manufacturing and retail operations.

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

## THE BOARD OF DIRECTORS



John Schaffer



Anton Mayer



Danielle Blain



David Schwartz



Michael Perrott



## MANAGING DIRECTOR'S REPORT

### EXECUTIVE MANAGEMENT TEAM



**John Schaffer**

BCom(Hons), FCPA

Age 58

*Mr Schaffer joined the Group in 1972. Since 1988, Mr Schaffer has been Managing Director and Chairman of Schaffer Corporation Limited.*



**Anton Mayer**

Age 66

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



**Mike Falconer**

TEng, CEI, OMIEAust

Age 54

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



**Matt Perrella**

NPCAA

Age 59

*Mr Perrella joined the Group in 1980. Since 1989, Mr Perrella has been General Manager of Delta Corporation Limited.*



**David Richardson**

FPNA, F Fin

Age 47

*Mr Richardson joined the Group in March 2008 as Chief Financial Officer and Company Secretary. Prior to joining Schaffer Corporation Mr Richardson had over 20 years of experience in senior finance roles with large publicly listed entities, working both in Australia and internationally.*



**Nick Filipovic**

BEc, CPA

Age 48

*Mr Filipovic joined the Group in 1994. Mr Filipovic is Managing Director of Howe Automotive Limited.*

Key Financial Indicators	2008	2007	2006
Revenue (\$million)	195.9	147.7	145.3
Net Profit (\$million) Headline	10.9	10.3	8.1
Earnings per share (\$)	\$0.77	\$0.73	\$0.58
Return On Average Capital Employed (ROACE)	17%	17%	14%
EBITDA (\$million)	28.5	23.9	21.1
Cash flow from Operating Activities (\$million)	23.5	13.9	16.1
Cash Reserves (\$million)	21.7	9.5	13.6
Ordinary Dividend per Share	\$0.50	\$0.50	\$0.50

## MAINTAINING FOCUS.

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

### Financial performance

For the 2008 financial year, Schaffer Corporation reported a headline net profit after tax of \$10.9 million, representing a 6% increase on the previous corresponding period (pcp) (\$10.3 million). Revenue increased by 33% to \$195.9 million (pcp \$147.7 million), with strong growth reported in all three operating divisions.

Revenue for the Automotive Leather division (Howe Automotive Ltd) increased by 42% to \$119.9 million (pcp: \$84.4 million), on increased orders from our Asian customers. EBIT Increased by 49% to \$8.9 million (pcp \$6.0 million) despite the appreciation of the AUD against both the USD and EUR during the financial year. The strategic realignment of the Leather division's production facilities, and in particular the establishment of cutting plants in China, Mexico and Slovakia has delivered a low cost globally competitive business.

The Building Materials division recorded a 19% increase in revenue to \$65.6 million (pcp \$55.1 million), thanks to record activity levels for Delta Corporation (our pre-cast and pre-stressed concrete business) and the impact of the acquisition of Archistone Pty Ltd which compliments our range of paving and walling products. EBIT decreased by 19% to \$8.7 million (pcp 10.8 million) as a result of (i) integration costs following recent acquisitions, (ii) costs associated with the roll-out and rebranding of our national network of Urbanstone Central concept stores, and (iii) lower sales of quarry cut and reconstituted limestone blocks due to the

decline in new home starts in Western Australia.

The Property division generated revenue growth of 29% to \$10.5 million (pcp \$8.1 million) and EBIT growth of 75% to \$6.6 million (pcp \$3.8 million) following the sale of our joint venture interest in a Melbourne commercial building in the first half of the year, and strong sales from the Mindarie Keys Marina residential development during the second half of the year. Net rental income from investment properties continued to increase during the year due to the tight commercial and retail market in Western Australia.

### Cash Flow

Net cash flow from operating activities increased by 69% to \$23.5 million (pcp \$13.9 million) primarily due to a decrease in working capital in the Automotive Leather division, nevertheless working capital requirements for this division do fluctuate due to our customer mix and inventory movements. Major investments during the year included the acquisition of Archistone Pty Ltd in July 07 (\$5.8 million), the purchase of three retail properties and one new retail development site for the Building Materials division (\$8.0 million), and \$7.2 million of capital expenditure across existing facilities within the Building Materials division to enhance production and storage facilities. Net debt increased by \$18.0 million with proceeds utilized to fund the acquisition of Archistone Pty Ltd, new retail properties and to partially fund the capital expenditure. Net cash balances increased by \$12.2 million during the year.



## Dividends

Schaffer Corporation's long-standing dividend policy is to pay the majority of earnings as dividends to shareholders. The proportion of earnings paid out as dividends is managed in light of capital expenditure requirements, acquisition activity, liquidity needs and the availability of franking credits

In the 2008 financial year, Schaffer Corporation recorded earnings per share of 77 cents (pcp: 73 cents) and declared and paid dividends of 50 cents per share (pcp: 50 cents per share), representing a payout ratio of 65%. As in previous years, all dividends were fully franked reinforcing our position as a strong dividend yielding company.

The Board presently expects to maintain dividends for the 2009 financial year at \$0.50 per share.

## Building Materials

Revenue increased to \$65.6 million (pcp \$55.1 million) and EBIT was \$8.7 million (pcp \$10.8 million). 2008 has largely been a year of consolidation and integration for the division following the substantial growth associated with the acquisitions of Limestone Resources Pty Ltd (Jul 06) and Archistone Pty Ltd (Jul 07), and the roll-out and re-branding of our Urbanstone Central concept stores across the country. Since 2005 revenue for this division has grown by over 127%. 2008 EBIT was negatively impacted by the costs associated with the integration and re-branding exercise, together with a weak building products market in NSW, and a decline in the sales of quarry cut and reconstituted limestone blocks during the second half of the year, primarily due to the decline in new housing starts in WA.

Following significant expansion of its facilities Delta Corporation is capitalizing on the buoyant WA economy and the strong demand for pre-stressed concrete beams, and the Deltacore suite of pre-cast concrete flooring and wall products. Revenue for Delta in 2008 reached a new record high, and the new financial year has commenced with a strong outstanding order book.

## Automotive Leather

As previously noted revenue increased by an impressive 42% to \$119.9 million (pcp \$84.4 million), mainly due to strong demand from customers in Asia. EBIT increased to \$8.9 million (pcp \$6.0 million) despite the

appreciation of the AUD against the USD and EUR during the year (over 90% of the automotive divisions revenue is generated from customers in Asia, Europe and North America). The strategy over recent year to revamp production facilities, and relocate labour intensive cutting plants to Mexico, Slovakia and China is now paying dividends, as the division has been repositioned as a reliable low cost producer of automotive leather on a global scale.

Global market conditions in the automotive industry remain challenging, with high oil prices and tight credit markets negatively impacting vehicle sales in many markets. Nevertheless we are seeing some early encouraging signs from our business development initiatives with potential new customers and expanded supply programs.

## Property

At 30 June 2008, Schaffer Corporation held joint venture interests in seven commercial and retail properties, as well as a minority interest in the Mindarie Keys marina residential development, and an industrial land development property in Western Australia. These investments are carried on the balance sheet at \$18.6 million representing original cost less accumulated depreciation, however all these properties were independently valued during the year, with Schaffer's total interest in these properties currently valued at \$57.5 million. Schaffer's share of debt associated with these joint venture properties at year end was \$26.0 million. In addition to the joint venture property investments Schaffer Corporation's balance sheet reflects a further \$23.7 million (based on original cost less accumulated depreciation) of property assets including manufacturing and retail sites occupied by the Building Materials division. The majority of these properties were also revalued during the year, with the latest independent valuation of these properties showing a value of \$60.0 million. There is \$10.7 million of debt associated with these properties.

As highlighted earlier, EBIT for the property division in 2008 was \$6.6 million (pcp \$3.8 million), with earnings boosted by the sale of a joint venture investment property in Melbourne, and strong sales at the Mindarie Keys marina development in the second half of the year. The EBIT contribution from Mindarie Keys in the current financial year (FY09) will be substantially lower, due to the limited remaining inventory of unsold lots.



### People

People are a critical ingredient to the growth and success of Schaffer Corporation. The Company now has a workforce of almost 1,000 dedicated people spread across the globe, and I would like to thank them all for their outstanding efforts in 2008.

During the year we had one change to our executive management team with David Richardson joining the organization as Chief Financial Officer and Company Secretary in March of this year.

### Outlook

Trading conditions remain challenging in many industries serviced by Schaffer Corporation and the impact of the ongoing global credit crisis on the group is difficult to assess. Potential exists for each of the Australian construction and property markets and the global automotive industries to be adversely affected.

In recent years, Schaffer Corporation has implemented substantial strategic changes to both reset its cost base and increase revenues, efficiency and profitability.

In the Building Materials division, we are well positioned to extract further manufacturing efficiencies. Delta Corporation has commenced the year with a strong order book.

In the Leather division, revenue in the first half of the year is likely to be lower than the second half of the 2008 financial year as a result of weakness in the North American market, slowing in China and the seasonal slowdown associated with the northern hemisphere summer holidays.

In the Property division, we expect net rental income from investment properties to increase further in the 2009 financial year following recent and forthcoming rent reviews. Lot sales at Mindarie Keys will be lower with a small number of lots remaining unsold. The Board will continue to take advantage of opportunities to realize value across the property portfolio if and when they arise.

I look forward to seeing shareholders at the Annual General Meeting on 19 November 2008.

John Schaffer  
Managing Director





## BUILDING MATERIALS



Revenue (\$million)	EBIT (\$million)
65.6	8.7

## PROFITABLE NICHE FOCUS.

Urbanstone, Limestone Resources, Archistone and Delta deliver niche products and design solutions for the construction and landscaping markets.

Schaffer Corporation's Building Materials division consists of Schaffer Building Products which manufactures, imports and retails a wide range of paving, walling and imported stone products, and Delta Corporation which is WA's pre-eminent manufacturer of pre-cast and pre-stressed concrete products.

### Schaffer Building Products

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

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

[www.limestone-resources.com.au](http://www.limestone-resources.com.au)

Integration and consolidation of the building products premium brand acquisitions has been the major focus over the past twelve months. In line with Schaffer Corporation's strategy to build value in the Building Products offer to the general public and trade alike, the UrbanStone Central concept stores have been rolled out across all States, with the existing UrbanStone display centres having been rebadged across the nation.

The integration of products on offer from the premium brands of UrbanStone, Archistone, Lumeah, Limestone and the beautiful natural limestone quarried from Limestone Resources' Moore River and Carabooda locations is now complete. The amalgamation of these magnificent products together with the extensive range of imported natural walling, cladding and outdoor accessories makes the UrbanStone Central Retail outlets second to none in Australia.

The alignment of these quality brands and the products on offer gives UrbanStone Central a "one stop" offer as a

competitive advantage that will extend to our customers in trade and retail.

Additionally, our existing national distribution and sales network will allow us to penetrate new market segments and offer the full range of paving, walling, cladding and natural imported stone products to Architects, Designers and Landscapers as never before through our Commercial Sales Divisions in all States.

State of the art technology has been deployed within the business units to allow our information technology, manufacturing and processing facilities to cater to our client's needs with exceptional customer service and a quality product matching the Brand's status.

Development within the quarries and manufacturing and processing facilities continues in line with our strategy guaranteeing a continuous supply of quality products manufactured to exceptional standards.

Whilst the importation of products into Australia creates an increasingly competitive market for us, our distribution network, together with our sales and marketing strategies will continue to create opportunities for us in the future.

We will continue to look for opportunities to expand the UrbanStone Central store concept across Australia, and we look to have a new centre open in Western Australia by the end of the current financial year, giving Western Australia six magnificent centres for the general public and trade to be serviced from.

During the past year we have again been the preferred choice of supplier of our building products to some of Australia's most prestigious projects across the nation.



Some of the projects are listed as follows:

#### **Tasmania**

- Hobart Airport

#### **Canberra**

- Canberra Airport Upgrade

#### **New South Wales**

- Bankstown City Council – Restwell Streetscape
- Ivy Hotel – Commercial Fit Out – Bankstown

#### **Queensland**

- Virgin Airlines Headquarters Development
- Royal Queensland Golf Club Refurbishment

#### **Victoria**

- Nicholson Street Mall – Stage 2 Footscray

- Observatory Wheel – Docklands

#### **Western Australia**

- William Street Railway Station
- Esplanade Railway Station
- Shire of Waroona – Streetscape
- Cockburn Central – Urban Landscape

#### **South Australia**

- City Bus Station – Adelaide City Council
- City of Mt. Gambier – James Street Upgrade
- District Council of Ceduna – Streetscape

In addition to these high profile projects completed across Australia, we are pleased to advise that we have developed exceptional business relationships and have supported some of Australia's foremost building and construction companies with the supply of our exceptional range of building materials.

While the economic conditions may not be the most favourable at the present time we believe our strategies will help to position our organisation in readiness for the coming year.

#### **Delta Corporation**

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

Delta has experienced another extremely busy and exciting year with high demand for its full range of precast and prestressed concrete products supplied to a buoyant construction industry in Western Australia.

The demand for our full suite of Deltacore flooring panels enabled us to maintain production to maximum capacity throughout the year, supplying to projects such as Bishop See and Century City Office Towers, St. Quentin's Development Claremont, Murdoch University Student Accommodation, Bulky Goods Stores Albany, Flinders University Adelaide and many others.

Likewise the rest of our operation was also stretched to capacity, producing a wide range of Precast and Prestressed Products including TeeRoff Beams, Columns, Beams and Wall Panels for a diverse range of Commercial and Infrastructure Projects throughout the state.

Delta undertook a major Capital Works programme to redevelop the Herne Hill facilities which are located on thirteen hectares of land. This involved major earthworks, drainage, hardstand and pavements to increase storage capacity and improve handling and traffic flow.

Although not yet fully complete this upgrade has already made major improvements to our storage capacity and product handling efficiency.

Delta is now capable of storing up to seventy, 100 tonne TeeRoff Beams at any one time together with other Precast/Prestressed elements and Deltacore.



Major projects completed during the year included:

- Bishop See Office Tower
- Peak Apartments
- Rise Apartments
- Dampier E11 Ore Loading Wharf
- Exmouth Marina Footbridge
- Murdoch Student Accommodation
- St. Quentins Development Claremont
- Wanneroo Cultural & Learning Centre
- Chapel River Bridge
- Port Geographe Pedestrian Bridge
- Bulky Goods Stores Albany
- Bulkwest Grain Storage Cells
- Flinders University Adelaide
- Findon Apartments Adelaide
- AK Reserve Athletic and Basketball Stadiums
- Performing Arts Centre Perth
- Bulkwest Grain Storage (96,000 t) Super Cell
- Woodside Pluto LNG Processing Buildings
- Rockingham Cinemas
- Aspen Offices Booragoon
- Joondalup Village Joondalup

In addition, indications are that a number of large Infrastructure and Resource Projects are about to be given the go ahead during the coming financial year which will provide Delta with sufficient work to enable it to maintain current levels of production well into the future.

With current contracts and anticipated orders we expect the results for the coming year to be as good if not better than the 2007/2008 financial year.

The outlook for the year ahead is just as exciting with current major contract continuing and new ones about to start. These cover all sectors of the industry including Commercial, Infrastructure and Resources.

Some of the major projects are as follows:

- Century City Office Tower
- New Perth Bunbury Highway Bridges
- Great Northern Hwy Kimberly Bridges
- St. Mary's Cathedral
- Armadale Shopping Centre

Howe  
Automotive  
Limited

- Factories
- Offices



## AUTOMOTIVE LEATHER



Revenue (\$million)	EBIT (\$million)
119.9	8.9



## A GLOBAL BUSINESS IN A GLOBAL INDUSTRY.

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

### Automotive Leather (Howe)

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

Schaffer Corporation owns 83% of Howe Automotive Limited (“Howe”), which supplies leather to automotive manufacturers in Australia, Asia, Europe and North America. From leather processing and finishing facilities in Victoria and offshore component cutting plants in China, Mexico and Slovakia, Howe produces quality automotive leather for a strong and regionally diverse customer base including major motor vehicle manufacturers such as General Motors, Ford, Volkswagon, Audi and Land Rover.

As has been the trend in recent years more than 90% of Howe’s product was exported in 2008 and therefore currency fluctuations are an important factor for Howe as a large proportion of revenue is generated in US Dollars and Euro’s. Despite the appreciation of the AUD during 2008, EBIT increased by an impressive 49% to \$8.9 million (pcp \$6.0 million), with record sales to Asian customers. The recent depreciation of the AUD particularly against the USD if sustained, will positively impact earnings in 2009.

After its successful repositioning, Howe operates from a low cost base and its global sites provide the benefits of lower labour costs compared with Australia, a local presence in key markets and the ability to respond more efficiently to customer needs. The structure of the automotive industry continues to move towards ever

greater manufacturing based in Eastern Europe and Asia, particularly China. In line with that structural change, Howe anticipates that the majority of opportunities to secure new supply programs will come from those areas.

The outlook for the global automotive industry is challenging, particularly due to the significant increase in oil prices, however Howe is now well positioned as a global low cost producer with a well established track record for reliability and quality.



Revenue (\$million)	EBIT (\$million)
10.5	6.6

## PROPERTY

# A PORTFOLIO OF QUALITY INVESTMENTS GENERATING SHAREHOLDER RETURNS.

### Investment property

As at 30 June 2008, Schaffer Corporation's Investment Property portfolio consisted of seven joint venture properties, primarily located in Western Australia.



At balance date the average gearing across this portfolio was a modest 48%, with 92% of the debt associated with these investment properties on a non-recourse base to Schaffer Corporation. Independent valuations completed during the year reflect a 36% increase in value to \$49.5 million due to the strong demand for commercial office space in Perth, nevertheless Schaffer Corporation adopts a conservative accounting policy of carrying its property investments at original cost less accumulated depreciation. The unrealized capital gain on these properties is now approximately \$34 million (before tax). Net rental income from these properties in 2008 was \$2.2 million (pcp \$1.9 million).

### Property projects

Schaffer Corporation holds a 15% interest in the Mindarie Keys Marina residential land subdivision located north of Perth, Western Australia. In the 2008 financial year, that interest generated EBIT of \$3.0 million (pcp \$2.0 million). As at 30 June 2008 the development project was approximately 95% complete, therefore returns from this property project in the future will be substantially lower due to the limited remaining inventory of unsold lots.

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

### Other Properties

Schaffer Corporation owns several other properties in Perth which are primarily occupied by various functions of the Building Materials division. The written down book value of these properties at year end was \$23.7 million (original cost less accumulated depreciation) compared to the latest independent valuation of these properties of \$60 million.

# 2008

SCHAFFER CORPORATION LIMITED  
ABN 73 008 675 689

## FINANCIAL REPORT

*at 30 June 2008*

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**INCOME STATEMENT***for the year ended 30 June 2008*

	NOTES	CONSOLIDATED		PARENT	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>CONTINUING OPERATIONS</b>					
<b>Revenue</b>					
Sale of goods		163,251	119,351	-	-
Construction services		27,984	24,420	-	-
Rental income	3(a)	4,057	3,720	1,507	1,291
Finance income	3(b)	646	164	50	34
Dividends	3(c)	2	3	8,997	9,003
Total revenue		195,940	147,658	10,554	10,328
Cost of sales and services rendered		(153,060)	(110,619)	-	-
Gross profit		42,880	37,039	10,554	10,328
Other income	3(d)	4,280	2,035	1,349	272
Rental property expenses	3(a)	(2,318)	(2,050)	(506)	(631)
Marketing expenses		(8,937)	(7,068)	-	-
Impairment allowance on loan to controlled entity		-	-	(1,235)	-
Administrative expenses		(13,193)	(10,663)	(2,658)	(1,865)
<b>Profit from continuing operations before tax and finance costs</b>		22,712	19,293	7,504	8,104
Finance costs	3(b)	(6,008)	(4,514)	(1,891)	(788)
<b>Profit before income tax</b>		16,704	14,779	5,613	7,316
Income tax (expense)/benefit	5	(4,998)	(4,140)	594	502
<b>Net profit for the year</b>		11,706	10,639	6,207	7,818
Attributable to					
Minority interest		794	387	-	-
<b>Members of the parent</b>		10,912	10,252	6,207	7,818
		11,706	10,639	6,207	7,818
Earnings per share (cents per share)					
	31				
- basic for profit for the year attributable to ordinary equity holders of the parent		77.3	72.7		
- diluted for profit for the year attributable to ordinary equity holders of the parent		77.3	72.7		
Dividends per share (cents per share)	6	50.0	50.0		

The income statement should be read in conjunction with the accompanying notes.

**BALANCE SHEET**

as at 30 June 2008

	NOTES	CONSOLIDATED		PARENT	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	4	21,735	9,537	1,424	3,384
Trade and other receivables	7	26,294	28,158	22,053	8,835
Inventories	8	49,480	38,917	-	-
Available-for-sale financial assets	9	51	103	51	103
Prepayments and deposits	10	1,204	619	288	40
Derivative financial instruments	33	657	608	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>99,421</b>	<b>77,942</b>	<b>23,816</b>	<b>12,362</b>
<b>NON CURRENT ASSETS</b>					
Trade and other receivables	11	-	-	274	333
Other financial assets	12	-	-	25,455	19,664
Property, plant and equipment	13	63,446	48,382	8,367	8,341
Investment properties	14	17,837	17,353	8,047	7,568
Deferred income tax asset	5	338	585	174	121
Goodwill	15	4,995	1,299	-	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>86,616</b>	<b>67,619</b>	<b>42,317</b>	<b>36,027</b>
<b>TOTAL ASSETS</b>		<b>186,037</b>	<b>145,561</b>	<b>66,133</b>	<b>48,389</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	16	36,267	19,333	13,281	11,513
Interest bearing loans and borrowings	17	4,996	3,686	1,252	1,520
Income tax payable		74	1,477	-	1,477
Provisions	18	6,347	4,383	575	450
<b>TOTAL CURRENT LIABILITIES</b>		<b>47,684</b>	<b>28,879</b>	<b>15,108</b>	<b>14,960</b>
<b>NON CURRENT LIABILITIES</b>					
Interest bearing loans and borrowings	19	80,537	61,563	27,579	9,116
Deferred income tax liabilities	5	451	734	-	-
Provisions	20	415	1,265	119	100
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>81,403</b>	<b>63,562</b>	<b>27,698</b>	<b>9,216</b>
<b>TOTAL LIABILITIES</b>		<b>129,087</b>	<b>92,441</b>	<b>42,806</b>	<b>24,176</b>
<b>NET ASSETS</b>		<b>56,950</b>	<b>53,120</b>	<b>23,327</b>	<b>24,213</b>
<b>EQUITY</b>					
Equity attributable to equity holders of the parent					
Issued capital	21	17,034	17,034	16,298	16,298
Reserves	22	2,222	2,476	2,396	2,432
Retained earnings	22	33,438	29,583	4,633	5,483
Total parent entity interest in equity		<b>52,694</b>	<b>49,093</b>	<b>23,327</b>	<b>24,213</b>
Minority interests	30	4,256	4,027	-	-
<b>TOTAL EQUITY</b>		<b>56,950</b>	<b>53,120</b>	<b>23,327</b>	<b>24,213</b>

The balance sheet should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 June 2008

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
	ISSUED CAPITAL \$'000	RETAINED EARNINGS \$'000	OTHER RESERVES \$'000	TOTAL \$'000		
<b>At 1 July 2006</b>	17,034	26,388	2,976	46,398	3,708	50,106
Unrealised gain on available-for-sale investments net of tax	-	-	34	34	-	34
Transfer out of realised gain on available-for-sale investments net of tax	-	-	(127)	(127)	-	(127)
Foreign currency translation reserve	-	-	(367)	(367)	-	(367)
Total expense recognised directly in equity	-	-	(460)	(460)	-	(460)
Profit for the year	-	10,252	-	10,252	387	10,639
Total income for the year	-	10,252	(460)	9,792	387	10,179
Share-based payments	-	-	79	79	-	79
Settlement of employee participation units	-	-	(119)	(119)	(68)	(187)
Equity dividends	-	(7,057)	-	(7,057)	-	(7,057)
<b>At 30 June 2007</b>	17,034	29,583	2,476	49,093	4,027	53,120
1 July 2007						
Unrealised loss on available-for-sale investments net of tax	-	-	(36)	(36)	-	(36)
Foreign currency translation reserve	-	-	(302)	(302)	(60)	(362)
Total expense recognised directly in equity	-	-	(338)	(338)	(60)	(398)
Profit for the year	-	10,912	-	10,912	794	11,706
Total income for the year	-	10,912	-	10,912	794	11,706
Share-based payments	-	-	84	84	-	84
Equity dividends	-	(7,057)	-	(7,057)	(505)	(7,562)
<b>At 30 June 2008</b>	17,034	33,438	2,222	52,694	4,256	56,950

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
	ISSUED CAPITAL \$'000	RETAINED EARNINGS \$'000	OTHER RESERVES \$'000	TOTAL \$'000		
<b>PARENT</b>						
<b>At 1 July 2006</b>	16,086	4,722	2,525	23,333	-	23,333
Unrealised gain on available-for-sale investments net of tax	-	-	34	34	-	34
Transfer out of realised gain on available-for-sale investments net of tax	-	-	(127)	(127)	-	(127)
Total expense recognised directly in equity	-	-	(93)	(93)	-	(93)
Profit for the year	-	7,818	-	7,818	-	7,818
Total income for the year	-	7,818	(93)	7,725	-	7,725
Shares issued in settlement of Howe Automotive EPU's	212	-	-	212	-	212
Equity dividends	-	(7,057)	-	(7,057)	-	(7,057)
<b>At 30 June 2007</b>	16,298	5,483	2,432	24,213	-	24,213
1 July 2007						
Unrealised loss on available-for-sale investments net of tax	-	-	(36)	(36)	-	(36)
Total expense recognised directly in equity	-	-	(36)	(36)	-	(36)
Profit for the year	-	6,207	-	6,207	-	6,207
Total income for the year	-	6,207	-	6,207	-	6,207
Equity dividends	-	(7,057)	-	(7,057)	-	(7,057)
<b>At 30 June 2008</b>	16,298	4,633	2,396	23,327	-	23,327

The statement of changes in equity should be read in conjunction with the accompanying notes.

**CASH FLOW STATEMENT***for the year ended 30 June 2008*

	NOTES	CONSOLIDATED		PARENT	
		<b>2008</b> \$'000	<b>2007</b> \$'000	<b>2008</b> \$'000	<b>2007</b> \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		<b>206,840</b>	152,414	<b>1,628</b>	1,776
Payments to suppliers and employees		<b>(168,379)</b>	(127,768)	<b>(2,989)</b>	(2,576)
Other revenue		<b>115</b>	203	-	-
Interest paid		<b>(6,008)</b>	(4,514)	<b>(1,788)</b>	(746)
Income taxes paid		<b>(6,550)</b>	(4,166)	<b>(5,559)</b>	(4,142)
Goods and services tax (paid)/refunded		<b>(736)</b>	(1,113)	<b>(57)</b>	336
Research expenditure		<b>(1,800)</b>	(1,200)	-	-
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	4(b)	<b>23,482</b>	13,856	<b>(8,765)</b>	(5,352)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income		<b>646</b>	164	<b>50</b>	34
Acquisition of investment properties		<b>(1,939)</b>	(2,731)	<b>(1,656)</b>	(1,585)
Acquisition of property, plant and equipment		<b>(17,051)</b>	(8,031)	<b>(64)</b>	(4,050)
Acquisition of business		-	(7,420)	-	(7,420)
Acquisition of controlled entity	35	<b>(5,791)</b>	-	<b>(5,791)</b>	-
Proceeds on sale of plant and equipment		<b>68</b>	542	-	-
Proceeds on sale of investment property		<b>2,363</b>	-	<b>2,363</b>	-
Proceeds on disposal of equity securities		<b>15</b>	340	<b>15</b>	340
Dividends received		<b>2</b>	3	<b>8,997</b>	9,003
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>(21,687)</b>	(17,133)	<b>3,914</b>	(3,678)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Receipts from/(payments to) controlled entities		-	-	<b>(8,247)</b>	4,762
Finance lease principal payments		<b>(481)</b>	(209)	-	-
Dividends paid	6(a)	<b>(7,562)</b>	(7,057)	<b>(7,057)</b>	(7,057)
Proceeds from borrowings		<b>22,495</b>	9,584	<b>22,244</b>	7,617
Repayment of borrowings		<b>(4,050)</b>	(3,100)	<b>(4,050)</b>	(3,100)
Proceeds from share issue		-	-	-	212
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>10,402</b>	(782)	<b>2,890</b>	2,434
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>12,197</b>	(4,059)	<b>(1,961)</b>	824
Cash and cash equivalents at the beginning of the year		<b>9,537</b>	13,596	<b>3,384</b>	2,560
<b>CASH &amp; CASH EQUIVALENTS AT THE END OF THE YEAR</b>	4(a)	<b>21,734</b>	9,537	<b>1,423</b>	3,384

The cash flow statement should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 1 CORPORATE INFORMATION

The financial report of Schaffer Corporation Limited (the Group) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 26 September 2008.

Schaffer Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

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

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

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

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

#### (b) Statement of compliance

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

Since 1 July 2007, the consolidated entity has adopted the following standards and interpretations which are mandatory for annual periods beginning on or after 1 January 2007.

1. AASB 7 "Financial Instruments: Disclosure",
2. AASB 2005-10 "Amendments to Australian Accounting Standards (AASB 132,101, 114, 117, 133, 139, 1, 4, 1023 and 1038)"; and
3. AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments".

Adoption of these standards affected only disclosures and did not have any effect on the financial position or performance of the consolidated entity.

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standard Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board.

##### *New standards not yet 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 2008. Except for the following these are not expected to have a material impact on the Group's financial report in subsequent reporting periods other than additional disclosures.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalized	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalized. However the Group has not yet determined the extent of the impact	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The Standard contains amendments to some Standards resulting in accounting changes for presentation, recognition or measurement purposes and some amendments in relation to terminology and editorial changes that are expected to have no or minimal effect on accounting.	1 January 2009	The government loan will need to be restated to fair value at date of initial recognition and the resulting difference disclosed under non-current liabilities as a government grant.	1 July 2009

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

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

#### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Schaffer Corporation Limited and its subsidiaries as at 30 June each year (the Group).

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

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interests represent the portion of profit or loss and net assets in Howe Automotive Limited not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

Investments in controlled entities are carried at cost by the Company.

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

##### (i) Significant accounting judgements

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

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

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

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

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

##### Impairment of goodwill

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

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

Share based payment transactions

##### Share options

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the binominal formula, using the assumptions detailed in the Directors' Report under directors' and executives disclosures.

##### Employee participation units

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

Construction contracts

Refer note 2(u).

#### (e) Interest in jointly controlled assets

In respect of the Group's interest in jointly controlled assets, the following are recognised in the financial statements:

- (i) the Group's share of the jointly controlled assets, classified according to the nature of the assets;
- (ii) any liabilities that the Group has incurred;
- (iii) the Group's share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- (iv) any income from the sale or use of the Group's share of the output of the joint venture, together with the Group's share of any expenses incurred by the joint venture; and
- (v) any expenses that the Group has incurred in respect of its interest in the joint venture.

#### (f) 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 (A\$).

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 income statement.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Schaffer Corporation Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

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

#### (g) 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 profit or loss in the year of retirement or disposal.

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

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

#### (h) 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:

- 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

#### *Impairment*

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

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

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

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

#### (i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

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.

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

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 of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

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

Impairment losses for goodwill are not subsequently reversed.

#### (j) Impairment of non-financial assets

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 to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets.

When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 2  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)****(i) Available-for-sale financial assets**

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

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

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability. The fair value of the unlisted available-for-sale investments has been estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in the income statement are reasonable and the most appropriate at the balance sheet date.

For available-for-sale financial assets where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the financial asset.

Dividends on available-for-sale equity instruments are recognised in the income statements when the Group's right to receive payments as dividends is established.

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

**(ii) Loans and receivables**

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

**(l) Inventories**

Inventories are valued at the lower of cost and net realisable value except 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.

**NOTE 2  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)****Contract work in progress**

Contract work in progress on construction contracts is stated at cost plus profit recognised to date calculated in accordance with the percentage of completion method, less a provision for foreseeable losses and progress payments received to date.

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

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

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

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

**(m) Trade and other receivables**

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

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

**(n) Cash and cash equivalents**

For the purposes of the cash flow statement and balance sheet, cash and cash equivalents includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts. The carrying amount approximates fair value because of their short term to maturity.

**(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.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

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

#### (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 income statement 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. Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at 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 government bonds securities which have terms to maturity approximating the terms of the related liability are used. Employee entitlements, expenses and revenues arising in respect of the following categories:

- Wages and salaries, non monetary benefits, annual leave, long service leave and other leave entitlements;
- Other types of employee entitlements, are charged against profits on a net basis in their respective categories.

Contributions to defined contribution superannuation plans are expensed when incurred.

#### (r) Executive share option arrangement

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

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

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

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

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

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

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

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement 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 (see note 31).

#### (s) Employee participation units

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

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

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

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

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

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

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

#### (t) Leases

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

##### (i) Group as Lessee

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

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

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

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

##### (ii) Group as Lessor

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

#### (u) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of Goods*

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

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

#### *Interest income*

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

#### *Dividends*

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

#### *Rental income*

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

#### *Sale of land*

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

#### *Construction contracts*

For construction contracts, revenues and expenses are recognised on an individual contract basis using the percentage of completion method. Once the outcome of a construction contract can be estimated reliably based on a review of the terms and conditions applicable to each individual contract, contract revenues and expenses are recognised in the Income Statement in proportion to the stage of completion of the contract. The stage of completion is measured by reference to actual costs incurred to date as a percentage of estimated total costs for each contract. The Group has determined that the outcome of its construction contracts can be reliably estimated at the commencement of the contract.

Where the outcome of a contract cannot be reliably determined, contract costs are expenses as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise from a construction contract, the excess of total expected costs over revenue is recognised as an expense immediately.

#### (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 sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet 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 interests in joint ventures, 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.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

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

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 associated with investments in subsidiaries, or interests in joint ventures is, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 sheet 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 sheet 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 a method that is systematic, rational and consistent with the broad principles of AASB 112, 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 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

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

- 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 balance sheet.

Cash flows are included in the Cash Flow Statement 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 income statement.

##### *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) and preference share 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) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares outstanding during the period and dilutive potential ordinary shares, adjusted for any bonus element.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

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

#### (aa) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

#### (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 expenses as incurred.

#### (ad) Business Combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. 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 income statement, but only after a reassessment of the identification and measured of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used in the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

#### (ae) Amortisation of Limestone Quarries

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

#### (af) Comparative amounts

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

Specifically, the construction services revenue of \$24,420,000 calculated on a percentage of completion basis was included in sale of goods revenue in 2007. In 2008, this comparative amount has been separately presented in the income statement as construction services revenue for the purpose of consistent presentation of revenue.

This restatement has no effect on either total revenue or net profit in 2007 or 2008.

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

### NOTE 3 REVENUES AND EXPENSES

Revenue and expenses from continuing operations

#### (a) Net rental income

Rental property income from

- controlled entities	-	-	414	109
- other persons/corporations	4,057	3,720	1,093	1,182
	4,057	3,720	1,507	1,291
Rental property expenses	(2,318)	(2,050)	(506)	(631)
Net rental income	1,739	1,670	1,001	660

#### (b) Finance (costs)/income

Bank and other loans and overdrafts – interest

	(5,842)	(4,483)	(1,891)	(788)
Finance charges payable under finance leases	(166)	(31)	-	-
Total finance costs	(6,008)	(4,514)	(1,891)	(788)

Bank interest received

	646	164	50	34
Total finance income	646	164	50	34

#### (c) Dividends

Dividends received/receivable from

- controlled entities	-	-	8,995	9,000
- other corporation	2	3	2	3
	2	3	8,997	9,003

#### (d) Other income/(losses)

Loss on sale of property, plant & equipment

	(2)	(23)	-	-
Gain on sale of available-for-sale financial assets	15	90	15	90
Gain on sale of available-for-sale financial assets transferred from equity	-	182	-	182
Net gain on derivatives	1,353	1,444	-	-
Net foreign currency gain	1,465	139	-	-
Profit on disposal of investment property	1,334	-	1,334	-
Other	115	203	-	-
	4,280	2,035	1,349	272

#### (e) Depreciation and amortisation included in income statement

Included in cost of sales	4,586	3,972	-	-
Included in rental property expenses	421	415	149	163
Included in marketing and administrative expenses	812	373	37	33
	5,819	4,760	186	196

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

NOTE 3  
REVENUES AND EXPENSES (CONTINUED)(f) Lease payments included  
in income statement

Included in cost of sales:

Minimum lease payments – operating lease	1,159	1,226	-	-
Included in marketing and administrative expenses:				
Minimum lease payments – operating lease	797	702	-	8
	<b>1,956</b>	<b>1,928</b>	<b>-</b>	<b>8</b>

## (g) Employee benefit expense

Wages and salaries	37,323	32,265	1,327	1,053
Long service leave provisions	560	395	33	(32)
Worker's compensation costs	1,114	1,147	11	8
Superannuation costs	3,197	2,863	343	182
Expense of share-based payments	84	79	-	-
	<b>42,278</b>	<b>36,749</b>	<b>1,714</b>	<b>1,211</b>

## (h) Other expenses/(gains)

Research expenditure	1,800	1,200	-	-
Write back allowance for doubtful debts	(94)	(135)	-	-

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

NOTE 4  
CASH AND EQUIVALENTS

## (a) Reconciliation of cash

Cash balance comprises:

Cash at bank and in hand	21,735	9,537	1,424	3,384
Bank overdraft	(1)	-	(1)	-
Closing cash balance per cash flow statement	<b>21,734</b>	<b>9,537</b>	<b>1,423</b>	<b>3,384</b>

(b) Reconciliation of operating  
profit after income tax to the net  
cash flows from operations

Net profit	11,706	10,639	6,207	7,818
Adjustment for -				
Depreciation and amortisation	5,819	4,760	186	196
Interest received	(646)	(164)	(50)	(34)
Dividends received	(2)	(3)	(8,997)	(9,003)
Share-based payments expense	84	79	-	-
Settlement of employee participation units	-	(119)	-	-
Profit on sale of investment property	(1,334)	-	(1,334)	-
Loss on sale of property, plant & equipment	2	23	-	-
Impairment allowance on loan to controlled entity	-	-	1,235	-
Realised gains on available-for- sale financial assets	15	(272)	15	(272)
Unrealised gain on derivatives	(49)	(608)	-	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	2,683	(2,092)	(67)	266
(Decrease)/increase in of employee entitlement provision	885	(567)	144	35
(Increase)/decrease in inventories	(9,025)	(674)	-	-
(Decrease)/increase in trade and other payables	15,278	2,769	(3,107)	(3,967)
(Decrease)/increase in income tax payable	(1,403)	(348)	(1,477)	(348)
(Decrease)/increase in deferred income tax liabilities	(283)	485	-	-
(Increase)/decrease in deferred income tax asset	337	(157)	(37)	(30)
(Increase)/decrease in prepayments	(585)	105	(248)	(13)
Net cash flows from/(used in) operating activities	<b>23,482</b>	<b>13,856</b>	<b>(8,765)</b>	<b>(5,352)</b>

## (c) Bank facilities – refer note 19.

## (d) Non cash financing activities

## Group

During the current financial year plant costing \$214,000 (2007 – \$970,000) was acquired under a finance lease.

## Parent

Under the terms of the tax sharing agreement controlled entities were charged \$3,515,000 (2007 - \$4,257,000 being their contribution to the tax expense).

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

	BALANCE SHEET		INCOME STATEMENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

### NOTE 5 INCOME TAX

The major components of income tax expense are:

#### Income Statement

##### Current income tax

Current income tax charge	4,767	3,670	(552)	(559)
Adjustment in respect of current income tax of previous years	251	103	(6)	48

##### Deferred income tax

Relating to origination and reversal of temporary differences	(20)	367	(37)	9
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Income tax expense/(benefit) reported in the income statement

	4,998	4,140	(594)	(502)
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#### Statement of changes in equity

Deferred income tax related to items charged or credited directly to equity

Unrealised gain on available-for-sale investments	(16)	(39)	(16)	(39)
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Income tax expense reported in equity

	(16)	(39)	(16)	(39)
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A reconciliation between tax expenses and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	16,704	14,779	5,613	7,316
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At the Group's statutory income tax rate of 30% (2007 – 30%)

	5,011	4,434	1,684	2,195
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- tax on dividends received	74	-	74	-
- dividends received from controlled entities	-	-	(2,698)	(2,700)
- expenses not allowable for income tax purposes	34	91	9	9
- capital loss not previously recognised as a deferred tax asset utilised	-	(132)	-	-
- adjustment on settlement of Howe Automotive EPU's	-	(120)	-	-
- other items	(237)	(146)	(27)	(54)
- research expenditure	(135)	(90)	-	-
- impairment allowance on loan to controlled entity, deferred tax benefit not recognised	-	-	370	-
- under/(over) provision of current income tax of previous years	251	103	(6)	48
	4,998	4,140	(594)	(502)

Income tax expense reported in the consolidated income statement

	4,998	4,140	(594)	(502)
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### NOTE 5 INCOME TAX (CONTINUED)

#### Deferred income tax

Deferred income tax at 30 June relates to the following:

##### CONSOLIDATED

##### Deferred tax liabilities

Accelerated depreciation for tax purposes	2,089	2,095	6	(643)
Leased assets to be amortised for accounting purposes	362	329	(33)	(214)
Expenses deducted for income tax purposes but deferred for accounting purposes	33	70	37	15
Income taken up for accounting purposes currently not assessable for income tax purposes	473	209	(264)	149
Unrealised gain on available-for-sale listed investments	-	15	-	-
Gains and losses on foreign exchange contracts and translations	98	177	79	(106)
Deferred gain for income tax purposes on available-for-sale investments on script for script rollover	7	7	-	-

Gross deferred income tax liabilities

	3,062	2,902
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Offset

	(2,611)	(2,168)
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	451	734
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##### CONSOLIDATED

##### Deferred tax assets

Employee entitlements	1,677	1,377	300	89
Allowance for doubtful debts	40	145	(105)	13
Accelerated depreciation for accounting purposes	557	521	36	398
Deferred gains and losses on foreign exchange contracts and translations	-	-	-	(427)
Deferred loss on available-for-sale investments	59	59	-	(21)
Expenses not immediately deductible for income tax purposes	238	310	(72)	134
Lease liability deductible for income tax purposes	340	324	16	229
Unrealised loss on available-for-sale listed investments	1	-	-	-
Losses carried forward	37	17	20	17

Gross deferred income tax assets

	2,949	2,753
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Offset

	(2,611)	(2,168)
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	338	585
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Deferred tax expense

	20	(367)
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**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

	BALANCE SHEET		INCOME STATEMENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000

**NOTE 5  
INCOME TAX (CONTINUED)****PARENT***Deferred tax liabilities*

Accelerated depreciation for tax purposes	112	107	(5)	4
Unrealised gain on available for-sale listed investments	-	15	-	-
Deferred gain for income tax purposes on available-for-sale investments on script rollover	7	7	-	-
Gross deferred income tax liabilities	119	129		
Offset	(119)	(129)		
	-	-		

**PARENT***Deferred tax assets*

Employee entitlements	209	165	44	11
Deferred loss on available for-sale investments	59	59	-	(21)
Unrealised loss on available for-sale listed investments	1	-	-	-
Expenses not immediately deductible for income tax purposes	24	26	(2)	(3)
Gross deferred income tax assets	293	250		
Offset	(119)	(129)		
	174	121		

Deferred tax expense			37	(9)
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**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 bases 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:

	PARENT	
	2008 \$'000	2007 \$'000
<b>Major components of tax consolidation contributions by (or distributions to) equity participants</b>		
Net assumptions of tax liabilities of members of the tax-consolidated group	3,415	4,257
Tax funding contribution receivable from controlled entities	(3,415)	(4,257)
Excess of tax funding contributions over tax liabilities assumed	-	-

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000

### NOTE 6 DIVIDENDS PROVIDED FOR OR PAID

(a) Dividends paid				
Final 2007 – 25¢ per share paid in September 2007 (2007 – 25¢)	3,528	3,528	3,528	3,528
Interim 2008 – 25¢ per share paid in March 2008 (2007 – 25¢)	3,529	3,529	3,529	3,529
Fully franked dividends paid by parent	7,057	7,057	7,057	7,057
Dividend paid by controlled entity to minority shareholder 90% franked (refer Note 30)	505	-	-	-
Total	7,562	7,057	7,057	7,057
Represented by:				
Total unfranked dividends paid to minority shareholder	51	-	-	-
Total fully franked dividends paid	7,511	7,057	7,057	7,057
(b) Not recognised as a liability as at 30 June				
Dividends on ordinary shares				
Final franked dividend for 2008 – 25¢ (2007 – 25¢)	3,529	3,529	3,529	3,529
(c) The tax rate at which dividends have or will be franked is Interim 30% (2007 – 30%), Final 30% (2007 – 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 2008				
Franking account balance brought forward			2,333	1,214
Fully franked dividends paid			(3,024)	(3,024)
Tax paid			5,559	4,142
Franked dividends received from other corporations			963	1
Franking account balance at the end of the financial year			5,831	2,333
Franking credits that will arise from the payment of income tax payable/(refundable) as at the end of the financial year by the parent			(1,223)	1,477
Franking credits that will be available on payment of income tax payable as at the end of the financial year by the parent			4,608	3,810
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 to			10,752	8,890

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000

### NOTE 7 TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors (see notes (i) and (ii))	23,790	26,535	-	-
Allowance for doubtful debts	(460)	(554)	-	-
	23,330	25,981	-	-
Sundry debtors (see note (ii))	2,964	2,177	1,371	81
Amount owed by wholly owned controlled entities (see note 29)	-	-	21,917	8,754
Impairment allowance on amount owing by wholly owned controlled entities	-	-	(1,235)	-
	26,294	28,158	22,053	8,835

Trade and other receivables are stated at fair value.

Movement in impairment allowance on amount owing by wholly owned controlled entities

At 1 July	-	-	-	-
Charge for year	-	-	1,235	-
At 30 June	-	-	1,235	-

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.

- Trade debtors are non interest bearing and generally on 30 days terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. Financial difficulties of the debtor, default payments or debts more than 120 days overdue are considered objective evidence of impairment. An allowance of \$460,000 (2007 - \$554,000) has been recognised for the current year for specific debtors for which such evidence exists. The amount of the allowance has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.
- Sundry debtors and other receivables are non interest bearing and have repayment terms between 30 and 90 days.
- Included in trade debtors are non hedged foreign currency receivables amounting to:

	2008		2007	
	\$'000	Aust \$ Equivalent \$'000	\$'000	Aust \$ Equivalent \$'000
US \$	6,034	6,224	4,236	4,971
Euro	2,184	3,547	4,387	6,880
RMB	20,259	3,109	23,471	3,608

Payment terms vary from letter of credit arrangement to terms of 30 to 60 days.

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Movement in allowance for doubtful debts				
At 1 July	554	689	-	-
Write-back for the year	(94)	(135)	-	-
Amounts written off (included in selling expenses)	-	-	-	-
At 30 June	460	554	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>NOTE 8 INVENTORIES</b>				
Work in progress – at cost	12,696	3,692	-	-
Contract work in progress (a)	1,473	720	-	-
Finished goods – at cost	20,983	11,239	-	-
Raw materials – at cost	13,654	22,132	-	-
	<u>48,806</u>	<u>37,783</u>	-	-
Land held for resale				
Cost of acquisition	98	151	-	-
Development expenses capitalised	576	983	-	-
Carrying value of land	<u>674</u>	<u>1,134</u>	-	-
	<u>49,480</u>	<u>38,917</u>	-	-

Inventories recognised as an expense for the year ended 30 June 2008 totalled \$133,488,000 (2007 - \$93,365,000) for the Group and \$Nil (2007 - \$Nil) for the Parent company.

Inventory write downs recognised as an expense totalled \$Nil (2007 - \$Nil)

(a) Contract work in progress

Construction costs incurred to date:

Gross cost plus profit recognised to date	25,753	16,892	-	-
Less: Progress billings	(24,480)	(16,172)	-	-
Net construction work in progress	<u>1,473</u>	<u>720</u>	-	-

Represented by:

Amounts due to customers	-	-	-	-
Amounts due from customers	<u>1,473</u>	<u>720</u>	-	-
	<u>1,473</u>	<u>720</u>	-	-

There are no retentions in progress billings as these have been satisfied by the issue of performance guarantees by the bank (refer note 25(e)).

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000

**NOTE 9  
AVAILABLE-FOR-SALE FINANCIAL ASSETS**

At fair value

Shares – unlisted	14	14	14	14
Shares - listed	37	89	37	89
	<u>51</u>	<u>103</u>	<u>51</u>	<u>103</u>

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of the unlisted available-for-sale investments has been estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in the equity reserve are reasonable and the most appropriate at the balance sheet date.

**NOTE 10  
PREPAYMENTS AND DEPOSITS**

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Prepayments	1,204	619	288	40
	<u>1,204</u>	<u>619</u>	<u>288</u>	<u>40</u>

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

**NOTE 11  
TRADE AND OTHER RECEIVABLES (NON  
CURRENT) CONTINUED**

Amount owed by controlled entity	-	-	274	333
	<u>-</u>	<u>-</u>	<u>274</u>	<u>333</u>

Terms and conditions – refer related party Note 29.

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 12  
OTHER FINANCIAL ASSETS (NON CURRENT)**

Controlled entities at cost

Unlisted shares	-	-	<b>25,455</b>	19,664
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Controlled entity	BENEFICIAL PERCENTAGE HELD BY THE GROUP		PLACE OF INCORPORATION	AMOUNT OF PARENT'S INVESTMENT	
	2008	2007		2008	2007
	%	%		\$'000	\$'000
Schaffer Properties Pty Ltd *	100	100	Australia	-	-
Delta Corporation Limited *	100	100	Australia	5,066	5,066
Urbanstone Pty Ltd *	100	100	Australia	-	-
Urbanstone Central Pty Ltd*	100	-	Australia	-	-
Urbanstone Central Properties Pty Ltd *	100	-	Australia	-	-
Archistone Pty Ltd *	100	-	Australia	5,791	-
Gosh Holdings Pty Ltd	83.17	83.17	Australia	-	-
Gosh Leather Pty Ltd	83.17	83.17	Australia	-	-
Limestone Resources Australia Pty Ltd *	100	100	Australia	-	-
Limestone Pavcrete Pty Ltd *	100	100	Australia	-	-
Howe Automotive Limited **	83.17	83.17	Australia	14,598	14,598
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 de Mexico SA de CV	83.17	83.17	Mexico	-	-
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	-	-
				<b>25,455</b>	19,664

\* Pursuant to Class Order 98/1418 relief has been granted to various controlled entities from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order Schaffer Corporation Limited and the controlled entities subject to the Class Order (the Schaffer 'Closed Group') entered into Deeds of Cross Guarantee at various dates. The effect of the deeds is that Schaffer Corporation Limited has guaranteed to pay any deficiency in the event of winding up of the controlled entities. The controlled entities have also given a similar guarantee in the event that Schaffer Corporation Limited is wound up.

\*\* Pursuant to Class Order 98/1418 relief has been granted to various controlled entities from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order Howe Automotive Limited and the controlled entities subject to the Class Order (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.

**NOTE 12  
OTHER FINANCIAL ASSETS (NON CURRENT)**

The consolidated income statement and balance sheet of the entities which are members of the Schaffer 'Closed Group' are as follows:

	SCHAFFER CLOSED GROUP	
	2008 \$'000	2007 \$'000
<b>CONSOLIDATED INCOME STATEMENT AND RETAINED EARNINGS RECONCILIATION</b>		
Profit from continuing operations before income tax	12,544	11,939
Income tax expense	(3,058)	(3,597)
Net profit for the year	9,486	8,342
Retained earnings at the beginning of the year	25,018	23,733
Dividends provided for or paid	(7,057)	(7,057)
Retained earnings at the end of the year	27,447	25,018
<b>Consolidated Balance Sheet</b>		
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3,906	5,410
Trade and other receivables	12,407	8,012
Inventories	8,060	5,506
Available-for-sale financial assets	51	103
Prepayments and deposits	860	384
<b>TOTAL CURRENT ASSETS</b>	25,286	19,415
<b>NON CURRENT ASSETS</b>		
Receivables	275	333
Other financial assets	14,598	14,598
Property, plant and equipment	46,676	30,652
Investment properties	17,837	17,353
Goodwill	3,780	84
Deferred income tax assets	137	233
<b>TOTAL NON CURRENT ASSETS</b>	83,303	63,253
<b>TOTAL ASSETS</b>	108,589	82,668
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	9,000	6,729
Interest bearing loans and borrowings	2,996	1,686
Income tax payable	-	1,477
Provisions	3,062	2,575
<b>TOTAL CURRENT LIABILITIES</b>	15,058	12,467
<b>NON CURRENT LIABILITIES</b>		
Interest bearing loans and borrowings	45,883	24,909
Deferred income tax liabilities	-	-
Provisions	257	294
<b>TOTAL NON CURRENT LIABILITIES</b>	46,140	25,203
<b>TOTAL LIABILITIES</b>	61,198	37,670
<b>NET ASSETS</b>	47,391	44,998
<b>EQUITY</b>		
Issued capital	17,246	17,246
Reserves	2,698	2,734
Retained profits	27,447	25,018
<b>TOTAL EQUITY</b>	47,391	44,998

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>NOTE 13</b>				
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
Freehold land				
At cost	<b>18,088</b>	11,231	<b>7,799</b>	7,773
Buildings on freehold land				
At cost	<b>18,244</b>	13,782	<b>544</b>	525
Accumulated depreciation	<b>(5,202)</b>	(4,784)	<b>(78)</b>	(64)
	<b>13,042</b>	8,998	<b>466</b>	461
Leasehold quarries				
At cost	<b>5,250</b>	4,500	-	-
Accumulated depreciation	<b>(127)</b>	(61)	-	-
	<b>5,123</b>	4,439	-	-
Leasehold improvements				
At cost	<b>1,896</b>	1,184	-	-
Accumulated amortisation	<b>(732)</b>	(636)	-	-
	<b>1,164</b>	548	-	-
Net carrying amount of land and buildings	<b>37,417</b>	25,216	<b>8,265</b>	8,234
Plant and equipment				
At cost	<b>65,751</b>	59,665	<b>676</b>	657
Accumulated depreciation	<b>(41,800)</b>	(37,597)	<b>(574)</b>	(550)
Net carrying amount	<b>23,951</b>	22,068	<b>102</b>	107
Plant and equipment under lease and hire purchase				
At cost	<b>2,400</b>	1,137	-	-
Accumulated amortisation	<b>(322)</b>	(39)	-	-
	<b>2,078</b>	1,098	-	-
Net carrying amount of plant and equipment	<b>26,029</b>	23,166	<b>102</b>	107
Total property, plant and equipment				
At cost	<b>111,629</b>	91,499	<b>9,019</b>	8,955
Accumulated depreciation and amortisation	<b>(48,183)</b>	(43,117)	<b>(652)</b>	(614)
Total net carrying amount	<b>63,446</b>	48,382	<b>8,367</b>	8,341

The directors do not consider there is any impairment loss on property, plant or equipment at 30 June 2008.

**Assets pledged as security**

Included in the balances of property, plant and equipment are assets over which mortgages have been granted as security over government loans and bank facilities (see Notes 17 and 19). The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder. The mortgage also requires buildings that form part of the security to be fully insured at all times.

Assets under lease are pledged as security for the associated lease liabilities (refer Notes 17 and 19).

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
The carrying value of assets pledged as security are:				
Property, plant and equipment	<b>57,159</b>	43,395	<b>8,367</b>	8,341

**NOTE 13****PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	NOTES	CONSOLIDATED		PARENT	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Reconciliations</b>					
Freehold land					
Carrying amount at beginning		<b>11,231</b>	6,535	<b>7,773</b>	3,954
Additions		<b>6,857</b>	3,821	<b>26</b>	3,819
Acquisition of new business		-	875	-	-
		<b>18,088</b>	11,231	<b>7,799</b>	7,773
Buildings on freehold land					
Carrying amount at beginning		<b>8,998</b>	8,526	<b>461</b>	209
Additions		<b>4,433</b>	549	<b>19</b>	262
Acquisition of new business		-	275	-	-
Depreciation expense		<b>(389)</b>	(352)	<b>(14)</b>	(10)
		<b>13,042</b>	8,998	<b>466</b>	461
Leasehold quarries					
Carrying amount at beginning		<b>4,439</b>	-	-	-
Acquisition of new business	35	<b>750</b>	4,500	-	-
Amortisation expense		<b>(66)</b>	(61)	-	-
		<b>5,123</b>	4,439	-	-
Leasehold improvements					
Carrying amount at beginning		<b>548</b>	144	-	-
Additions		<b>292</b>	155	-	-
Acquisition of new business	35	<b>451</b>	317	-	-
Amortisation expense		<b>(127)</b>	(68)	-	-
		<b>1,164</b>	548	-	-
Net carrying amount of land and buildings		<b>37,417</b>	25,216	<b>8,265</b>	8,234
Plant and equipment					
Carrying amount at beginning		<b>22,068</b>	21,535	<b>107</b>	61
Additions		<b>5,492</b>	2,938	<b>18</b>	69
Acquisition of new business	35	<b>993</b>	1,771	-	-
Transfers from leased plant		-	170	-	-
Depreciation expense		<b>(4,533)</b>	(3,828)	<b>(23)</b>	(23)
Disposals		<b>(69)</b>	(518)	-	-
		<b>23,951</b>	22,068	<b>102</b>	107
Plant and equipment under lease					
Carrying amount at beginning		<b>1,098</b>	384	-	-
Additions		<b>214</b>	969	-	-
Acquisition of new business	35	<b>1,049</b>	-	-	-
Transfers to plant and equipment		-	(170)	-	-
Depreciation expense		<b>(283)</b>	(38)	-	-
Disposals		-	(47)	-	-
		<b>2,078</b>	1,098	-	-
Total carrying amount of plant and equipment		<b>26,029</b>	23,166	<b>102</b>	107

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 14 INVESTMENT PROPERTIES

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Land and buildings				
At cost	17,352	16,262	7,830	7,064
Accumulated depreciation	(1,913)	(1,773)	(553)	(562)
	<u>15,439</u>	<u>14,489</u>	<u>7,277</u>	<u>6,502</u>
Improvements				
At cost	4,083	4,431	1,180	1,521
Accumulated depreciation	(1,685)	(1,567)	(410)	(455)
	<u>2,398</u>	<u>2,864</u>	<u>770</u>	<u>1,066</u>
Total				
At cost	21,435	20,693	9,010	8,585
Accumulated depreciation	(3,598)	(3,340)	(963)	(1,017)
Net carrying amount of investment properties	<u>17,837</u>	<u>17,353</u>	<u>8,047</u>	<u>7,568</u>

The fair value of investment property at balance date is \$49,540,000 (2007 - \$38,230,000) and is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

#### 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 (see Note 19). 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 value of assets pledged as security are:

Investment properties	<u>17,837</u>	<u>17,353</u>	<u>8,047</u>	<u>7,568</u>
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#### Reconciliations

Land and buildings				
Carrying amount at beginning	14,489	12,325	6,502	5,036
Additions	1,811	2,380	1,487	1,554
Disposal of joint venture interest	(624)	-	(624)	-
Depreciation expense	(237)	(216)	(88)	(88)
Total carrying amount	<u>15,439</u>	<u>14,489</u>	<u>7,277</u>	<u>6,502</u>
Plant and equipment				
Carrying amount at beginning	2,864	2,710	1,066	1,110
Additions	128	352	2	31
Disposal of joint venture interest	(410)	-	(237)	-
Depreciation expense	(184)	(198)	(61)	(75)
Total carrying amount	<u>2,398</u>	<u>2,864</u>	<u>770</u>	<u>1,066</u>

### NOTE 15 GOODWILL

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Goodwill at cost	<u>4,995</u>	<u>1,299</u>	-	-

Goodwill is not amortised but subject to impairment testing (see note 15(a))

No impairment loss was recognised in the 2008 financial year.

Year ended 30 June 2008	2008 \$'000	2007 \$'000
At 1 July 2007	1,299	1,299
Acquisition of controlled entity (refer note 35)	<u>3,696</u>	-
At 30 June 2008	<u>4,995</u>	<u>1,299</u>

#### (a) Impairment testing of goodwill

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

- Leather
- Investment Properties
- Building Materials

#### Leather

The recoverable amount of the Leather unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management over a five-year period.

The primary assumption underlying the budget is an increase in profitability and cash flows relating to the new cutting facilities. In the opinion of management, the goodwill is supported by less than one year's trading from HA hence discounting is not necessary.

#### Investment properties

The recoverable amount of the Investment property unit has been determined based on a fair value less cost of sale.

#### Building materials

The recoverable amount of the Building Materials unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and long term future estimates approved by senior management, over a ten year period. A period greater than five years for these cash flows is justified on the basis that the estimated useful life of material assets within the Building Material CGU, notably limestone quarries, is considerably longer than five years.

The primary assumptions underlying the cash flow projections include modest revenue growth for a five year period followed by a five year period of constant revenues using a discount rate of 11.4%.

Reasonably possible changes in the above primary assumptions are unlikely to cause the carrying amount of the goodwill allocated to the Building Material unit to exceed its recoverable amount.

#### Carrying amount of goodwill, allocated to each of the cash generating units

	Leather \$'000	Investment Properties \$'000	Building Materials \$'000	Total \$'000
CONSOLIDATED				
2008	1,215	84	3,696	4,995
2007	1,215	84	-	1,299
PARENT				
2008	-	-	-	-
2007	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

**NOTE 16****TRADES AND OTHER PAYABLES (CURRENT)**

Trade creditors	<b>35,130</b>	18,143	<b>483</b>	98
Goods and services tax net	<b>641</b>	764	-	12
Other creditors	<b>496</b>	426	<b>345</b>	293
Amount owing to wholly owned controlled entities	(c)	-	-	12,453
	<b>36,267</b>	19,333	<b>13,281</b>	11,513

All trade and other payables are stated at fair value.

Terms and conditions relating to the above financial instruments

- (a) All current payables are non interest bearing and are normally settled on 30 day terms.
- (b) Included in trade creditors are non hedged foreign denominated payables amounting to:

	2008		2007	
	\$'000	Aust \$ Equivalent \$'000	\$'000	Aust \$ Equivalent \$'000
US \$	16,856	17,744	5,591	6,561
EURO	863	1,416	1,347	2,112

- (c) Amounts owing to wholly owned controlled entities.

These loans are interest free and repayable on demand.

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

**NOTE 17****INTEREST BEARING LOANS AND BORROWINGS (CURRENT)**

Lease liability (refer note 25(c)) – secured	(b)	<b>608</b>	166	-	-
Working capital revolver facility	(a)	-	-	-	-
Commercial bills	(e)	<b>1,251</b>	-	<b>1,251</b>	-
Bank overdraft		<b>1</b>	-	<b>1</b>	-
Bank loan – secured	(c)	<b>1,136</b>	1,520	-	1,520
Government loan secured	(d)	<b>2,000</b>	2,000	-	-
		<b>4,996</b>	3,686	<b>1,252</b>	1,520

The fair value of the above is the same as the carrying value apart from Government loans (refer note 32(c)).

- (a) Working capital revolver facility

The facility refinances existing working capital to facilitate the acquisition of raw materials and to support foreign exchange hedging arrangements. Trade receivables and inventory are the relevant working capital terms.

The facility has two revolving credit sub-facilities (AUD and USD) which increases and decreases on a daily basis based on collections of receipts of trade receivable accounts and advances placed for the payment of daily expenditure items.

Each facility has a maximum borrowing limit in terms of availability and this is updated on a daily basis, depending on the daily working capital levels.

Under the facility agreement Howe Automotive Limited has granted security over all of its assets and undertakings. Weighted average interest rate for the year was 9.58% per annum (2007 – 8.98%).

- (b) Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8.5% per annum (2007 – 7.8% per annum).
- (c) Bank loan – refer note 19(a)
- (d) Government loan – bears an interest rate of 2% per annum over the long term bond rate.
- (e) Commercial bills – refer note 19(d)

For details of financing facilities available refer note 19

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

**NOTE 18****PROVISIONS(CURRENT)**

Employee entitlements (refer note 26(a))	<b>6,347</b>	4,383	<b>575</b>	450
	<b>6,347</b>	4,383	<b>575</b>	450

Movement in provision for employee entitlements redundancies and claims

	Employee Entitlements \$'000	Total \$'000
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## CONSOLIDATED

At 1 July 2007	4,383	4,383
Acquisition of new business	229	229
Arising during the year	1,906	1,906
Utilised	(171)	(171)
At 30 June 2008	<b>6,347</b>	<b>6,347</b>

## PARENT

At 1 July 2007	450	450
Arising during the year	125	125
At 30 June 2008	<b>575</b>	<b>575</b>

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

**NOTE 19****INTEREST BEARING LOANS AND BORROWINGS (NON CURRENT)**

Lease liability (refer note 25(c)) – secured	(b)	<b>1,560</b>	912	-	-
Government loan – secured	(c)	<b>34,654</b>	36,654	-	-
Bank loan – secured	(a)	<b>24,924</b>	20,447	<b>8,180</b>	5,566
Commercial bills	(d)	<b>19,399</b>	3,550	<b>19,399</b>	3,550
		<b>80,537</b>	61,563	<b>27,579</b>	9,116

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 19 INTEREST BEARING LOANS AND BORROWINGS (NON CURRENT) (CONTINUED)

#### (a) Bank loan

The bank loans are secured by first registered mortgage over all the assets and undertakings of joint ventures. Included in bank loans is the consolidated entity's share of joint venture borrowings.

MATURITY DATE	INTEREST RATE		GROUP'S SHARE OF LOAN AT 30 JUNE 2008		CARRYING VALUE OF ASSETS \$'000
			CURRENT \$'000	NON-CURRENT \$'000	
Sept 2011	8.47%	Variable	-	3,841	2,698
Dec 2012	8.56%	Variable	-	6,326*	4,451
Oct 2010	8.46%	Variable	-	4,482	
Oct 2010	9.11%	Variable	-	2,590	1,563
Jan 2009	9.16%	Variable	1,136	-	3,917
May 2010	8.76%	Variable	-	2,401	
Oct 2010	6.95%	Fixed	-	1,200	3,374
April 2010	8.66%	Variable	-	1,670	2,026
Feb 2013	8.61%	Variable	-	882*	1,451
Aug 2010	8.76%	Variable	-	560	774
Nov 2009	9.36%	Variable	-	972*	1,594
			1,136	24,924	21,848
*Parent					

MATURITY DATE	INTEREST RATE		GROUP'S SHARE OF LOAN AT 30 JUNE 2007		CARRYING VALUE OF ASSETS \$'000
			CURRENT \$'000	NON-CURRENT \$'000	
May 2008	7.49%	Variable	638	-*	905
Jun 2008	7.64%	Variable	882	-*	1,449
Sept 2011	7.15%	Variable	-	3,841	2,808
Aug 2008	7.49%	Variable	-	2,638*	
Aug 2008	6.80%	Fixed	-	2,038*	3,827
Oct 2010	7.19%	Variable	-	4,080	1,494
Dec 2008	7.89%	Variable	-	1,154	2,158
Oct 2010	7.49%	Variable	-	1,246	
Oct 2010	6.80%	Fixed	-	1,200	
Oct 2010	6.95%	Fixed	-	1,200	3,336
Apr 2010	6.61%	Fixed	-	800	
Apr 2010	7.39%	Variable	-	870	2,019
Jun 2011	7.49%	Variable	-	490	778
Nov 2009	8.09%	Variable	-	890*	1,582
			1,520	20,447	20,356
*Parent					

#### (b) Finance leases

Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8.5% per annum (2007 – 7.8% per annum). The lease liability is secured by a charge over the leased assets.

### NOTE 19 INTEREST BEARING LOANS AND BORROWINGS (NON CURRENT) (CONTINUED)

#### (c) Government loans

An amount of \$21,000,000 has interest payable at 2% per annum over the long term bond rate. In addition to this \$2,000,000 is recorded as current (refer note 17). The facility expires in February 2012. An amount of \$13,654,000 bears a fixed interest rate of 4.4% per annum until February 2012. The government loans are secured by a second mortgage over the assets and undertakings of a controlled entity.

#### (d) Commercial bills

Bills of exchange have maturities of 30-90 days, however, the facility has an expiry date of 1 July 2012. The effective interest rate is 8.63% (2007: 7.48%)

#### Financing facilities available

##### Bank overdrafts

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

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Subject to the continuance of satisfactory credit ratings, the bank overdraft facilities may be drawn at any time and have an average maturity of 1 year (2007: 1 year). Interest is at the rate of 10.35% per annum (2007 – 9.43%).

##### Bank loans

The Group has bank loans in joint ventures. The loans are repayable within one to four years and are secured by the assets of the joint venture.

Interest rates vary from 6.95% per annum to 9.36% per annum (2007 – 6.61% per annum to 8.09% per annum).

#### Financing facilities used and available

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities				
- bank overdraft	1,100	1,100	1,000	1,000
- bankers undertaking	5,749	3,694	150	154
- commercial bills	21,920	12,020	21,920	9,020
- finance leases	3,213	1,078	-	-
- bank loans	26,060	21,967	8,180	7,086
- working capital revolver facility	15,000	15,000	-	-
- Government loan	36,654	38,654	-	-
	<b>109,696</b>	<b>93,513</b>	<b>31,250</b>	<b>17,260</b>
Facilities used at reporting date				
- bank overdraft	1	-	-	-
- bankers undertaking (refer note 25(e))	2,765	1,456	10	10
- commercial bills	20,650	3,550	20,650	3,550
- finance leases	2,168	1,078	-	-
- bank loans	26,060	21,967	8,180	7,086
- working capital revolver facility	-	-	-	-
- Government loan	36,654	38,654	-	-
	<b>88,298</b>	<b>66,705</b>	<b>28,840</b>	<b>10,646</b>

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

**NOTE 19  
INTEREST BEARING LOANS AND BORROWINGS  
(NON CURRENT) (CONTINUED)**

Facilities unused at reporting date	2008	2007	2008	2007
- bank overdraft	1,099	1,100	1,000	1,000
- bankers undertaking	2,984	2,238	140	144
- commercial bills	1,270	8,470	1,270	5,470
- finance leases	1,045	-	-	-
- bank loans	-	-	-	-
- working capital revolver facility	15,000	15,000	-	-
- Government loan	-	-	-	-
	<b>21,398</b>	<b>26,808</b>	<b>2,410</b>	<b>6,614</b>
Total facilities				
Facilities used at reporting date	88,298	66,705	28,840	10,646
Facilities unused at reporting date	21,398	28,505	2,410	6,614
	<b>109,696</b>	<b>95,210</b>	<b>31,250</b>	<b>17,260</b>

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

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

**NOTE 20  
PROVISIONS (NON CURRENT)**

Employee entitlements (refer note 26(a))	415	1,265	119	100
		Employee Entitlements \$'000		
CONSOLIDATED				
At 1 July 2007		1,265		
Utilised		(850)		
At 30 June 2008		415		
PARENT				
At 1 July 2007		100		
Arising during the year		19		
At 30 June 2008		119		

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

**NOTE 21  
CONTRIBUTED EQUITY**

a) Issued and paid up capital				
As at 30 June 2008				
14,113,251 ordinary fully paid shares (2007 – 14,113,251)	17,034	17,034	16,298	16,298
	<b>2008</b>		<b>2007</b>	
	No of shares	\$'000	No of shares	\$'000
b) Movement in ordinary shares on issue				
At the beginning of the financial year	14,113,251	17,034	14,091,935	17,034
On 1 September 2006 21,316 shares were issued in accordance with the Howe Automotive Limited Employee Participation Units Plan	-	-	21,316	-
Total capital issued during the year	-	-	21,316	-
At the end of the financial year	14,113,251	17,034	14,113,251	17,034
PARENT				
At the beginning of the financial year	14,113,251	16,298	14,091,935	16,086
On 1 September 2006 21,316 shares were issued in accordance with the Howe Automotive Limited Employee Participation Units Plan	-	-	21,316	212
Total capital issued during the year	-	-	21,316	212
At the end of the financial year	14,113,251	16,298	14,113,251	16,298

For details of movement in options and details of employee share options plan refer to Note 24 and 26

**(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.

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its issued shares.

**Share options**

The Company has a share based payment option scheme under which options to subscribe for the company's shares have been granted to certain executives and other employees (refer note 26).

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

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>NOTE 22</b>				
<b>RESERVES AND RETAINED PROFITS</b>				
<b>Reserves</b>				
Asset revaluation	2,585	2,585	2,283	2,283
Share based payment – EPU's	244	160	-	-
Share based payment – SFC options	115	115	115	115
Net unrealised gains reserve	(2)	34	(2)	34
Foreign currency translation reserve	(720)	(418)	-	-
	<b>2,222</b>	<b>2,476</b>	<b>2,396</b>	<b>2,432</b>

**Nature and purpose of reserve****Asset revaluation**

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

**Share based payment – EPU's**

This reserve is used to record the value of EPU's provided to employees and directors as part of their remuneration. Refer to note 26(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 26(b) for further details of this plan.

**Foreign currency translation reserve**

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

**Net unrealised gains reserve**

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

MOVEMENT IN RESERVES	CONSOLIDATED						PARENT			
	ASSET REVALUATION	SHARE BASED PAYMENT	OPTION PREMIUM	UN- REALISED GAINS	FOREIGN CURRENCY TRANSLATION	TOTAL	ASSET REVALUATION	OPTION PREMIUM	UN- REALISED GAINS	TOTAL
At 1 July 2006	2,585	200	115	127	(51)	2,976	2,283	115	127	2,525
Unrealised gain on available-for-sale investments	-	-	-	34	-	34	-	-	34	34
Transfer out of realised gain on available-for-sale investments	-	-	-	(127)	-	(127)	-	-	(127)	(127)
Expensed for year	-	79	-	-	(367)	(288)	-	-	-	-
Settlement of employee participation units	-	(119)	-	-	-	(119)	-	-	-	-
At 30 June 2007	2,585	160	115	34	(418)	2,476	2,283	115	34	2,432
At 1 July 2007										
Unrealised loss on available-for-sale investments	-	-	-	(36)	-	(36)	-	-	(36)	(36)
Expensed for year	-	84	-	-	(302)	(218)	-	-	-	-
At 30 June 2008	2,585	244	115	(2)	(720)	2,222	2,283	115	(2)	2,396

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 22  
RESERVES AND RETAINED PROFITS CONTINUED****Retained profits**

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Balance 1 July	29,583	26,388	5,483	4,722
Net profit attributable to members of the parent entity	10,912	10,252	6,207	7,818
Dividends provided for or paid	(7,057)	(7,057)	(7,057)	(7,057)
Balance 30 June	33,438	29,583	4,633	5,483

**NOTE 23  
AUDITORS REMUNERATION**

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

	CONSOLIDATED		PARENT	
	2008 \$	2007 \$	2008 \$	2007 \$
Amounts received or due and receivable by Ernst & Young (Australia) for an audit or review of the financial report of the parent and any other entity in the consolidated group	280,579	246,025	75,627	70,525
Other services – tax compliance	103,664	32,841	8,689	15,603
	384,243	278,866	84,316	86,128

Amounts received or due and receivable by non-Ernst & Young audit firms for audit services

	89,000	55,502	-	-
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**NOTE 24  
DIRECTORS AND EXECUTIVES DISCLOSURES****(a) Details of Key Management Personnel**

Refer to Remuneration Report in the Directors' Report.

(i) *Remuneration of Key Management Personnel (KMP)*

Refer to Remuneration Report in the Director's Report.

(ii) *Remuneration by category: Key Management Personnel*

	CONSOLIDATED		PARENT	
	2008 \$	2007 \$	2008 \$	2007 \$
Short term	2,860,247	2,295,270	1,227,257	881,628
Post employment	363,637	464,817	217,511	173,509
Share based payment	58,717	30,344	-	93
	3,283,601	2,790,431	1,444,768	1,055,230

**(b) Option holdings of Key Management Personnel**

30 JUNE 2008						VESTED AS AT 30 JUNE 2008		
DIRECTORS / EXECUTIVES	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	OPTIONS EXERCISED	FORFEITED	BALANCE AT END OF PERIOD	TOTAL	NOT EXERCISABLE	EXERCISABLE
M Falconer	10,000	-	-	-	10,000	10,000	-	10,000
G V Davieson	7,500	-	-	(7,500)	-	-	-	-
M Perrella	5,000	-	-	-	5,000	5,000	-	5,000
Total	22,500	-	-	(7,500)	15,000	15,000	-	15,000

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 24  
DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)**

30 JUNE 2007						VESTED AS AT 30 JUNE 2007		
DIRECTORS / EXECUTIVES	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	OPTIONS EXERCISED	EXPIRED	BALANCE AT END OF PERIOD	TOTAL	NOT EXERCISABLE	EXERCISABLE
M Falconer	12,500	-	-	(2,500)	10,000	10,000	-	10,000
G V Davieson	10,000	-	-	(2,500)	7,500	7,500	-	7,500
M Perrella	7,500	-	-	(2,500)	5,000	5,000	-	5,000
<b>Total</b>	<b>30,000</b>	<b>-</b>	<b>-</b>	<b>(7,500)</b>	<b>22,500</b>	<b>22,500</b>	<b>-</b>	<b>22,500</b>

For details of terms and conditions for each grant refer to the Directors' Report under Remuneration Report.

**(c) Shareholdings of Key Management Personnel**

Economic interests in the shares of Schaffer Corporation Limited held by directors of the reporting entity and their director related entities.

AS AT 30 JUNE 2008	BALANCE AT BEGINNING OF YEAR	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR
<b>Specified directors</b>				
D E Blain	1,562,360	-	-	1,562,360
A K Mayer	347,185	-	-	347,185
M D Perrott	1,000	-	-	1,000
J M Schaffer	2,619,927	-	-	2,619,927
D J Schwartz	586,210	-	-	586,210
<b>Specified executives</b>				
M Falconer	20,000	-	-	20,000
M Perrella	59,534	-	-	59,534
D Richardson	-	-	2,500	2,500
<b>Total</b>	<b>5,196,216</b>	<b>-</b>	<b>2,500</b>	<b>5,198,716</b>

AS AT 30 JUNE 2007	BALANCE AT BEGINNING OF YEAR	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR
<b>Specified directors</b>				
D E Blain	1,562,360	-	-	1,562,360
A K Mayer	347,185	-	-	347,185
M D Perrott	1,000	-	-	1,000
J M Schaffer	2,619,927	-	-	2,619,927
D J Schwartz	586,210	-	-	586,210
<b>Specified executives</b>				
M Falconer	20,000	-	-	20,000
G V Davieson	11,000	-	-	11,000
M Perrella	59,534	-	-	59,534
<b>Total</b>	<b>5,207,216</b>	<b>-</b>	<b>-</b>	<b>5,207,216</b>

Change in directors' shareholdings is the result of on or off market transactions.

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

Mr A K Mayer has a 16.83% interest in controlled entities Howe Automotive Limited and Gosh Holdings Pty. Ltd.

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 24 DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

#### (d) EPU holdings of Key Management Personnel

30 JUNE 2008						VESTED AS AT 30 JUNE 2008	
DIRECTORS / EXECUTIVES	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	REDEEMED DURING THE PERIOD	CANCELLED DURING THE PERIOD	BALANCE AT END OF PERIOD	VESTED	NOT VESTED
N Filipovic	770,627	400,000	-	-	1,170,627	770,627	400,000
W Horton	515,765	-	-	(515,765)	-	-	-
<b>Total</b>	<b>1,286,392</b>	<b>400,000</b>	<b>-</b>	<b>(515,765)</b>	<b>1,170,627</b>	<b>770,627</b>	<b>400,000</b>

30 JUNE 2007						VESTED AS AT 30 JUNE 2007	
DIRECTORS / EXECUTIVES	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	REDEEMED DURING THE PERIOD	CANCELLED DURING THE PERIOD	BALANCE AT END OF PERIOD	VESTED	NOT VESTED
N Filipovic	770,627	-	-	-	770,627	770,627	-
W Horton	515,765	-	-	-	515,765	107,432	408,333
<b>Total</b>	<b>1,286,392</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,286,392</b>	<b>878,059</b>	<b>408,333</b>

For details of terms and conditions for each grant refer to the Directors' Report under Remuneration Report.

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

### NOTE 25 CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS

#### (a) Termination benefits under Service agreements

No of service agreements – 1

Maximum liability at 30 June, 2008	<b>674</b>	642	<b>674</b>	642
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Refer remuneration report for details

#### (b) Commitments under lease agreements

The Group has entered into commercial leases on certain motor vehicles and office and retail premises. These leases have an average life of between 1 and 6 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. In the case of motor vehicles a fully maintained vehicle is provided.

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

Operating leases – office, factory and retail premises

- payable not later than 1 year	<b>1,728</b>	1,809	-	-
- later than 1 year and not later than 5 years	<b>7,023</b>	6,687	-	-
- later than 5 years	<b>885</b>	1,281	-	-
- aggregate lease expenditure contracted for at balance date	<b>9,636</b>	9,777	-	-
Operating leases – motor vehicles				
- payable not later than 1 year	<b>231</b>	217	-	-
- later than 1 year and not later than 5 years	<b>361</b>	221	-	-
- aggregate lease expenditure contracted for at balance date	<b>592</b>	438	-	-

### NOTE 25 CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS

Other terms and conditions

#### (c) Finance leases and hire purchase commitments

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

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

	2008		2007	
	MINIMUM LEASE PAYMENTS \$'000	PRESENT VALUE OF LEASE PAYMENTS \$'000	MINIMUM LEASE PAYMENTS \$'000	PRESENT VALUE OF LEASE PAYMENTS \$'000
<i>CONSOLIDATED</i>				
Within one year	763	763	222	222
After one year but not more than five years	1,782	1,782	1,124	1,124
Total minimum lease payments	2,545	2,545	1,346	1,346
Less amounts representing unearned finance income	(377)	(377)	(268)	(268)
Present value of minimum lease payments	<b>2,168</b>	<b>2,168</b>	<b>1,078</b>	<b>1,078</b>

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

**NOTE 25  
CONTINGENT LIABILITIES AND EXPENDITURE  
COMMITMENTS (CONTINUED)**

Finance leases have an average lease term of 4 years and an average implicit interest rate of 7.5% per annum. Assets that are the subject of finance leases include motor vehicles and large items of plant and machinery (refer notes 17 and 19).

**(d) Expenditure  
commitments**

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

- payable not later than 1 year

	-	-	-	-
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(e) A first mortgage has been registered over the assets and undertakings of a controlled entity by a bank which has issued performance guarantees to third parties on behalf of the consolidated entity. The aggregate of the performance guarantees issued by the bank amounted to:

	<b>2,765</b>	1,456	<b>10</b>	10
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**NOTE 26  
EMPLOYEE BENEFITS AND SUPERANNUATION  
COMMITMENTS****(a) Employee entitlements and superannuation commitments**

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

The consolidated entity also contributes to the plan, generally at the rate of 9% of gross salaries and wages.

These contributions are not legally enforceable other than those payable in terms of a ratified award obligation or to comply with the Superannuation Guarantee Charge.

At balance date the assets of the plans are sufficient to satisfy all accumulated benefits that have vested under the plan in the event of termination of the plan and voluntary or compulsory termination of each employee.

CONSOLIDATED		PARENT	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

The aggregate employee entitlement liability is comprised of:

Accrued wages, salaries and on costs	514	405	-	-
Provisions (current) – refer note 18	6,347	4,383	575	450
Provisions (non current) – refer note 20	415	1,265	119	100
	<b>7,276</b>	6,053	<b>694</b>	550

**(b) Employee share option plan**

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

Options may be exercised as follows:

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

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 26 EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

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

DATE ISSUED	NO. ON ISSUE 30 JUNE 2007	ISSUED DURING THE YEAR	FORFEITED DURING THE YEAR	LAPSED DURING THE YEAR	EXERCISED DURING THE YEAR	NO. ON ISSUE 30 JUNE 2008	EXERCISE PRICE	EXERCISABLE ON OR BEFORE	NO. VESTED BUT NOT EXERCISED 30 JUNE 2008
15 Jul 2003	27,500	-	(7,500)	-	-	20,000	\$12.31	15 Jul 2008	20,000
	27,500	-	(7,500)	-	-	20,000			20,000

DATE ISSUED	NO. ON ISSUE 30 JUNE 2006	ISSUED DURING THE YEAR	FORFEITED DURING THE YEAR	LAPSED DURING THE YEAR	EXERCISED DURING THE YEAR	NO. ON ISSUE 30 JUNE 2007	EXERCISE PRICE	EXERCISABLE ON OR BEFORE	NO. VESTED BUT NOT EXERCISED 30 JUNE 2007
20 Jun 2002	40,350	-	-	(40,350)	-	-	\$9.49	20 Jun 2007	-
15 Jul 2003	27,500	-	-	-	-	27,500	\$12.31	15 Jul 2008	27,500
	67,850	-	-	(40,350)	-	27,500			27,500

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

- (1) the Company's closing share price on the grant date
- (2) the exercise price of the options as established under the Employee Share Option Plan
- (3) the volatility of the Company's share over the 12 months ended immediately prior to the grant date
- (4) the option's expiry date (typically five years after the grant date)
- (5) the risk-free rate over the life of the option, estimated by the yield on 5 year Commonwealth Government Bonds on the grant date; and
- (6) an estimate of the Company's dividend yield, based on historical dividends per share and the Company's share price on the grant date.

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

The table below summarises, for each issue made since the plans were instituted, the inputs into the model used to assess the options' values. The table also gives the valuation placed on each option when they were first granted.

GRANT DATE	EXPIRY DATE	CURRENT PRICE	EXERCISE PRICE	VOLATILITY	5 YEAR BONDS	DIVIDEND YIELD	VALUATION PER ED108
15 Jul 03	15 Jul 08	\$12.29	\$12.31	31%	5.01%	8.14%	\$1.82

The company has adopted the fair value measurement provisions of AASB 2 *Share Based Payments* prospectively for all options granted to directors and relevant executives, which have not vested as at 1 January 2005. The fair value of such grants is being amortised and disclosed as part of director and executive emoluments on a straight-line basis over the vesting period.

#### (c) Employee participation units

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 26****EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)**

EPU TRANCHE	SERIES	GRANT DATE	NUMBER ISSUED	NUMBER VESTED	NUMBER REDEEMED	NUMBER CANCELLED	BALANCE OF EPU'S OUTSTANDING	BALANCE AS A % OF HA'S CAPITAL
Tranche 1		04-Oct-00	3,383,634	642,891	(1,579,029)	(2,740,743)	642,891	1.0%
Tranche 2	Series 1	21-Dec-01	2,884,434	698,799	(243,061)	(2,246,401)	638,035	1.0%
	Series 2	01-Jul-02	120,000	60,000	-	(60,000)	60,000	0.1%
	Series 3	01-Jul-03	245,000	53,333	-	(110,000)	135,000	0.2%
	Series 4	01-Jul-04	57,672	-	-	(32,672)	25,000	0.0%
	Series 5	16-May-05	150,000	-	-	(150,000)	0	0.0%
	Series 6	01-Jul-05	1,350,000	-	-	(500,000)	850,000	1.4%
	Series 7	21-Aug-06	500,000	-	-	-	500,000	0.8%
	Series 8	01-Jul-07	200,000	-	-	-	200,000	0.3%
	Series 9	01-Jan-08	1,150,000	-	-	-	1,150,000	1.8%

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

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

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

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

GRANT DATE	EXPIRY DATE (ESTIMATED)	CURRENT PRICE	EXERCISE PRICE	VOLATILITY	RISK FREE RATE (ESTIMATED)	VALUATION
4 Oct 2000	4 Oct 2007	\$0.26	\$0.26	36%	6.16%	\$0.13
20 Dec 2001	20 Dec 2008	\$0.33	\$0.26	33%	5.51%	\$0.18
1 Jul 2002	1 Jul 2009	\$1.19	\$0.26	33%	5.88%	\$1.02
1 Jul 2003	1 Jul 2010	\$1.33	\$0.26	31%	4.83%	\$1.14
15 Jan 2004	15 Jan 2011	\$0.90	\$0.26	25%	5.45%	\$0.72
16 May 2005	16 May 2012	\$0.19	\$0.26	40%	5.24%	\$0.08
1 Jul 2005	1 Jul 2012	\$0.13	\$0.26	39%	5.06%	\$0.04
21 Aug 2006	21 Aug 2013	\$0.00	\$0.26	39%	5.89%	\$0.00
1 Jul 2007	1 Jul 2014	\$0.00	\$0.26	24%	6.02%	\$0.00
1 Jan 2008	1 Jan 2015	\$0.36	\$0.19	20%	6.50%	\$0.24

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 27  
INTERESTS IN JOINTLY CONTROLLED ASSETS**

## Investment properties

Schaffer Properties Pty Ltd and Schaffer Corporation Limited have interests in a number of property joint ventures in Western Australia and Victoria.

	% INTEREST	
	2008	2007
IBM Centre Joint Venture	22.10	22.10
616 St Kilda Road Joint Venture	20.00	20.00
Hometown Joint Venture	25.00	25.00
Queens Road Joint Venture	-	9.00
Crosslands Shopping Centre Joint Venture	16.70	16.70
89 St. George's Terrace Joint Venture	20.00	20.00
Sentiens Joint Venture	11.00	11.00
Vulcan Road Joint Venture	20.00	20.00
1500 Albany Highway Joint Venture	25.00	-

## Property Developments

The following joint ventures were established for the purposes of redeveloping, constructing and resale of residential and commercial properties.

	% INTEREST	
	2008	2007
Mindarie Keys Joint Venture	15.00	15.00
Neerabup Joint Venture	20.00	20.00

	CONSOLIDATED	PARENT	
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The interest in the jointly controlled assets is included in the financial statements as follows:

	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

**CURRENT ASSETS**

Cash and cash equivalents	1,104	625	151	139
Trade and other receivables	2,857	1,008	143	36
Prepayments	113	92	39	20
Inventories	729	1,186	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>4,803</b>	<b>2,911</b>	<b>333</b>	<b>195</b>

**NON CURRENT ASSETS**

Plant and equipment	6	8	-	-
Investment properties	17,837	17,353	8,047	7,568
Goodwill	84	84	-	-
<b>TOTAL NON CURRENT ASSETS</b>	<b>17,927</b>	<b>17,445</b>	<b>8,047</b>	<b>7,568</b>
<b>TOTAL ASSETS</b>	<b>22,730</b>	<b>20,356</b>	<b>8,380</b>	<b>7,763</b>

**CURRENT LIABILITIES**

Trade and other payables	594	385	18	25
Interest bearing loans and borrowings	1,137	1,520	-	1,520
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,731</b>	<b>1,905</b>	<b>18</b>	<b>1,545</b>

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

**NOTE 27  
INTERESTS IN JOINTLY CONTROLLED ASSETS  
(CONTINUED)****NON CURRENT LIABILITIES**

Interest bearing loans and borrowings	24,924	20,447	8,180	5,566
Deferred income tax liabilities	877	621	89	84
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>25,801</b>	<b>21,068</b>	<b>8,269</b>	<b>5,650</b>
<b>TOTAL LIABILITIES</b>	<b>27,532</b>	<b>22,973</b>	<b>8,287</b>	<b>7,195</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>(4,802)</b>	<b>(2,617)</b>	<b>93</b>	<b>568</b>

The jointly controlled assets have contributed to the after tax result of the consolidated entity as follows:

Profit after tax	\$3,352,000	(2007 - \$1,975,000)
Revenue	\$9,636,000	(2007 - \$7,865,000)

There are no contingent liabilities in respect of the jointly controlled assets. Capital expenditure commitments of \$Nil (2007 - \$Nil) payable within one year were contracted for at balance date.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 28 SEGMENT INFORMATION

The Group's primary segment reporting format is business segments as the Group's risk and rates of return are affected predominantly by differences in the products and services produced. The Group operates predominantly in Australia. The leather business has three overseas cutting plants which are integral to the Australian operations.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

In prior years the company has disclosed four separate reporting segments, Leather, Building Products, Investment Properties and Other Investments. The Other Investments segment included property developments held for resale and equity investments in listed and non-listed entities. As the company no longer has any material equity investments the former Property Investments and Other Investments segments have been combined into a single Property segment, to more accurately disclose the company's total property portfolio in a single segment. The former Building Products segment has been named the Building Materials segment.

The leather segment is a manufacturer and supplier of leather in the automotive industry.

The building materials segment comprises Delta Corporation Limited, Urbanstone Pty. Ltd., Limestone Resources Australia Pty. Ltd., Archistone Pty. Ltd. and Urbanstone Central Pty. Ltd. which produces and sells concrete paving, pre-cast and pre-stressed concrete elements and natural and reconstituted limestone products.

The property investments segment leases offices and retail premises and represents the Group's share of jointly controlled operations. This segment also includes the Mindarie Keys and Neerabup joint venture land subdivisions.

Transfer prices between business segments are set at an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

#### Business segments

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 30 June 2007.

BUSINESS SEGMENT INFORMATION	LEATHER		BUILDING MATERIALS		PROPERTY		UNALLOCATED		CONSOLIDATED	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>										
Total revenue from ordinary activities external customers	119,432	84,435	65,549	54,996	10,313	8,063	646	164	195,940	147,658
<b>Results</b>										
Segment results	8,909	5,986	8,710	10,800	6,571	3,754	-	272	24,190	20,812
Interest and corporate overhead									(7,486)	(6,033)
Operating profit before income tax									16,704	14,779
Income tax expense									(4,998)	(4,140)
Profit after tax from continuing operations									11,706	10,639
<b>Assets</b>										
Segment assets	89,894	75,744	64,779	40,415	27,868	25,071	3,496	4,331	186,037	145,561
<b>Liabilities</b>										
Segment liabilities	67,369	54,681	33,039	12,912	27,534	22,612	1,145	2,236	129,087	92,441
<b>Other Segment Information</b>										
Acquisition of property, plant and equipment, intangible assets and other non current assets	1,896	992	22,418	7,682	1,792	2,731	37	76	26,143	11,481
Depreciation and amortisation	2,872	2,470	2,464	1,799	446	458	37	33	5,819	4,760
Non cash expenses other than depreciation and amortisation	351	(607)	474	268	-	-	144	-	969	(339)

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 29 RELATED PARTY DISCLOSURES

- (a) The directors of Schaffer Corporation Limited during the year were Messrs J M Schaffer, D J Schwartz, A K Mayer, M D Perrott and Mrs D E Blain.
- (b) The following related party transactions occurred during the financial year within the consolidated entity.

#### Disclosures relating to wholly owned group

Schaffer Corporation Limited has provided 100% controlled entities with working capital loans which are interest free and repayable on demand. The aggregate amounts owing from those controlled entities at year end is \$21,917,078 (2007 - \$8,754,335) of which \$1,234,742 (2007 - \$Nil) has been provided for as non-recoverable.

Wholly owned controlled entities have provided the Parent entity with loans which are interest free and repayable on demand. The aggregate amounts owing to those controlled entities at year end is \$12,452,766 (2007 - \$11,110,239).

Dividends received from controlled entities during the year amounted to \$6,500,000 (2007 - \$9,000,000).

#### Transactions with other related parties

Schaffer Corporation Limited holds 83.17% (2007 - 83.17%) of the share capital of Howe Automotive Limited of which Mr J M Schaffer and Mr A K Mayer are directors. Dividends were received during the year amounting to \$2,495,110 (2007 - \$Nil)

Schaffer Corporation Limited holds 83.17% (2007 - 83.17%) of the share capital of Gosh Holdings Pty. Ltd. of which Mr J M Schaffer is the director. Schaffer Corporation Limited has provided Gosh Holdings Pty. Ltd. with a loan which is interest free and repayable on demand. The amount owing at year end is \$274,421 (2007 - \$332,774).

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

### NOTE 30 MINORITY INTEREST

	2008 \$'000	2007 \$'000
Reconciliation of outside equity interest in controlled entities:		
At 1 July 2007	4,027	3,708
- Add share of operating profit	794	387
- Adjustment on settlement of employee participation units	-	(68)
- Share of foreign currency translation reserve movement	(60)	-
- Dividends paid	(505)	-
At 30 June 2008	<u>4,256</u>	<u>4,027</u>

### NOTE 31 EARNINGS PER SHARE

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

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

CONSOLIDATED	
2008 \$'000	2007 \$'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	10,912	10,252
Profit attributable to ordinary equity holders of the parent from discontinued operations	-	-
	<u>10,912</u>	<u>10,252</u>
	Number of Shares	Number of Shares
Weighted average number of ordinary shares for basic earnings per share	<u>14,113,251</u>	<u>14,109,572</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>14,113,251</u>	<u>14,109,572</u>

There have been no other transactions involving ordinary shares. The potential ordinary shares at the reporting date are 20,000 (2007 - 27,500). These amounts have not been included in the calculation of diluted earnings per share as they are not considered to be dilutive.

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 32 FINANCIAL INSTRUMENTS

#### Financial risk management, objectives and policies

The Group's financial instruments, comprise bank loans, commonwealth government loans and overdrafts, finance leases and hire purchase contracts, foreign exchange contracts, interest rate swaps and cash and short-term deposits.

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

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

The Group enters into derivative transactions, principally interest rate swaps, and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. Trading in derivatives has also been undertaken, specifically in forward currency contracts. These derivatives do not qualify for hedge accounting and are based on limits set by the Board. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring by the Board of levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

#### (a) Cash flow interest rate risk

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

In respect of the \$36,654,000 loan from the Commonwealth Government to Howe Automotive Limited, \$23,000,000 attracts interest at 2% above the long-term bond rate. \$13,654,000 attracts interest at 4.4% fixed. This is set until maturity in February 2012. Borrowing from HA's senior debt provider (GE Capital) are for working capital purposes and as such vary from time to time. Due to the short term nature of the GE Capital borrowings, it is not appropriate to enter into long term fixed interest rate contracts in respect of these liabilities.

In respect of the Group's property borrowings, the funding and interest rate decision are managed externally by unanimous consent amongst the joint venture partners. Refer Note 33(ii).

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

	CONSOLIDATED		PARENT	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Financial Assets</b>				
Cash and cash equivalents	21,735	9,537	1,424	3,384
	<b>21,735</b>	<b>9,537</b>	<b>1,424</b>	<b>3,384</b>
<b>Financial Liabilities</b>				
Bank loans	(26,060)	(16,729)	(8,180)	(5,048)
Commercial bills	(20,650)	(3,550)	(20,650)	(3,550)
Government loan	(23,000)	(25,000)	-	-
	<b>(69,710)</b>	<b>(45,279)</b>	<b>(28,830)</b>	<b>(8,598)</b>
Net exposure	<b>(47,975)</b>	<b>(35,742)</b>	<b>(27,406)</b>	<b>(5,214)</b>

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

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. The Group's policy is to maintain between 20% and 40% of its borrowings at fixed rates. At 30 June 2008 approximately 20% of the Group's borrowings are at a fixed rate of interest (2007: 31%).

### NOTE 32 FINANCIAL INSTRUMENTS (CONTINUED)

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

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	POST TAX PROFIT HIGHER/(LOWER)	
	2008 \$'000	2007 \$'000
<b>Consolidated</b>		
+0.25 (25 basis points)	82	62
-0.25 (25 basis points)	(82)	(62)
<b>Parent</b>		
+0.25 (25 basis points)	48	9
-0.25 (25 basis points)	(48)	(9)

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

The sensitivity is higher in 2008 than 2007 because of an increase in outstanding borrowings that has occurred due to the acquisition of the Archistone business and associated retail centres and capital expenditure within the building products division.

The sensitivity for 2007 has been based on an increase/decrease of 25 basis points as the Reserve Bank of Australia cash rate target moved up 50 basis points in the 2007 financial year but only 25 basis points in each of the two preceding financial years. The increase in interest rates that has occurred in the current financial year could not have been foreseen. For 2008 the sensitivity has again been based on an increase/decrease of 25 basis points as management considers there will not be any large movement in interest rates in the forthcoming year.

#### (b) Assets pledged as security

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

Note	CONSOLIDATED		PARENT		
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	
<b>Current</b>					
<i>Floating charge</i>					
Cash and cash equivalent	4	21,735	9,537	1,424	3,384
Receivables	7	26,294	28,158	149	81
Inventories	8	49,480	38,917	-	-
Available-for-sale financial assets	9	51	103	51	103
Total current assets pledged as security		<b>97,560</b>	<b>76,715</b>	<b>1,624</b>	<b>3,568</b>

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 32 FINANCIAL INSTRUMENTS (CONTINUED)

NOTES	CONSOLIDATED		PARENT		
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	
<b>Non-current</b>					
<i>First mortgage</i>					
Freehold land and buildings	13	31,130	20,229	8,265	8,234
Investment properties	14	17,837	17,353	8,047	7,568
<i>Finance lease and hire purchase</i>					
Plant and equipment	13	2,078	1,098	-	-
<i>Floating charge</i>					
Plant and equipment	13	23,951	22,068	102	107
Total non-current assets pledged as security		74,996	60,748	16,414	15,909

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

Cash and cash equivalents, inventories, receivables, freehold land and buildings, available-for-sale financial assets and plant and equipment are pledged against the bank overdraft facility, commercial bill facility and working capital revolver facility on an ongoing floating basis. Refer notes 17 and 19 for more details.

Investment properties are pledged as security for bank loans. Refer note 19(a).

(c) Net fair values

Foreign exchange contracts and interest rate swaps are carried on the balance sheet date at fair value.

The carrying value of all other financial assets and liabilities have been recognised at the balance date at amounts which approximate fair value except for the following:

	TOTAL CARRYING AMOUNT AS PER BALANCE SHEET		AGGREGATE NET FAIR VALUE	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Government loans 4.4% per annum	13,654	13,654	10,537	11,451

The fair values of the government loans were determined using a discounted cash flow model using a market rate of interest at the balance sheet date.

(d) Credit risk exposures

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

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

Concentrations of credit risk

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

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

Refer also to Note 28 – Segment Information

### NOTE 32 FINANCIAL INSTRUMENTS (CONTINUED)

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

	MAXIMUM CREDIT RISK EXPOSURE			
	CONSOLIDATED			
	TRADE DEBTORS		TRADE DEBTORS	
Industry	2008 %	2007 %	2008 \$'000	2007 \$'000
Leather	55	70	12,893	18,241
Building materials	34	27	7,962	6,922
Other investments – Property subdivision	11	3	2,475	818
Total	100	100	23,330	25,981

There are no trade debtors held in the parent entity.

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

Leather and building materials

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

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

A balance is maintained of providing sufficient credit so as not to jeopardise potential sales but at the same time not put the company to undue risk.

Property subdivision

Amounts outstanding represent unconditional sales but are subject to completion of the project or the issue of Certificate of Title. Title does not pass to the purchaser until payment is received in full.

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

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

	2008 \$'000	2007 \$'000
Trade and other receivables at 30 June		
Neither impaired nor past due – 30 days or less	13,444	11,978
Not impaired and past due in the following periods		
31 to 60 days	8,481	8,868
61 to 90 days	1,335	3,299
Over 90 days	70	1,836
	23,330	25,981

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)**

There are no trade debtors held in the parent entity.

**(e) Liquidity risk**

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

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

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

At 30 June 2008 the Group has the following undrawn borrowing facilities available (refer note 19):

	2008		2007	
	\$'000	Expiry	\$'000	Expiry
<i>Australian Bank</i>				
Bank overdraft	1,099	2009	1,100	2008
Bankers' undertaking	2,944	2009	2,238	2008
Commercial bills	70	2011	970	2011
Commercial bills	1,000	2016	7,500	2016
Commercial bills	200	2017	-	-
Finance lease	1,045	2009	-	-
<i>Global Finance Company</i>				
Working capital revolver facility	15,000	2009	15,000	2008
	21,358		26,808	
Performance guarantees to third parties (refer note 25(e))	2,501	< 1 year Not specified	1,428	< 1 year Not specified
	264		28	
	<u>2,765</u>		<u>1,456</u>	

The table below shows the timing of cash outflows relating to trade and other payables. The amounts shown for bank loans in the table below include interest payments resulting from recognised financial liabilities over the term of the loan and the future minimum lease payments with respect to finance leases.

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.

**NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)****CONSOLIDATED**

2008 \$000's	Trade and other payables	Finance lease	Commercial Bills	Bank Loans	Government loan
Within 1 year	36,267	763	3,052	3,325	4,219
1 to 2 years	-	705	1,692	7,078	4,075
2 to 3 years	-	816	1,692	10,010	3,930
3 to 4 years	-	132	1,692	4,540	31,875
4 to 5 years	-	129	9,091	7,533	-
Over 5 years	-	-	12,000	-	-
	<u>36,267</u>	<u>2,545</u>	<u>29,219</u>	<u>32,486</u>	<u>44,099</u>

2007 \$000's	Trade and other payables	Finance lease	Commercial Bills	Bank Loans	Government loan
Within 1 year	19,333	221	266	3,166	4,576
1 to 2 years	-	221	-	6,951	4,415
2 to 3 years	-	472	-	3,536	4,252
3 to 4 years	-	159	-	8,667	4,090
4 to 5 years	-	138	-	3,889	31,978
Over 5 years	-	135	3,550	-	-
	<u>19,333</u>	<u>1,346</u>	<u>3,816</u>	<u>26,209</u>	<u>49,311</u>

**PARENT**

2008 \$000's	Trade and other payables	Commercial Bills	Bank Loans	Inter- Company payables
Within 1 year	828	1,251	-	12,453
1 to 2 years	-	-	972	-
4 to 5 years	-	7,399	7,208	-
Over 5 years	-	12,000	-	-
	<u>828</u>	<u>20,650</u>	<u>8,180</u>	<u>12,453</u>

2007 \$000's	Trade and other payables	Commercial Bills	Bank Loans	Inter- Company payables
Within 1 year	403	-	1,520	11,110
1 to 2 years	-	-	4,676	-
2 to 3 years	-	-	890	-
Over 5 years	-	3,550	-	-
	<u>403</u>	<u>3,550</u>	<u>7,086</u>	<u>11,110</u>

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 32 FINANCIAL INSTRUMENTS (CONTINUED)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

CONSOLIDATED 2008	LESS THAN 1 YEAR	1 – 2 YEARS	2 – 3 YEARS	3 – 4 YEARS
Interest rate swap	-	-	1,200	-
Foreign exchange contract	15,977	-	-	-
	15,977	-	1,200	-

2007	LESS THAN 1 YEAR	1 – 2 YEARS	2 – 3 YEARS	3 – 4 YEARS
Interest rate swap	-	2,038	800	2,400
Foreign exchange contract	10,535	-	-	-
	10,535	2,038	800	2,400

PARENT	LESS THAN 1 YEAR	1 – 2 YEARS	2 – 3 YEARS	3 – 4 YEARS
2008				
Interest rate swap	-	-	-	-
2007				
Interest rate swap	-	2,038	-	-

Debt associated with Howe Automotive Limited and the Property division represents 67% (2007 – 93%) of Group borrowings. At 30 June, 65% (2007 – 90%) of Group debt was non-recourse to the Parent.

\$36,654,000 of Group debt is by way of a subordinated Commonwealth Government Loan to Howe Automotive Limited. The loan terms require principal repayments of \$2,000,000 per annum commencing February 2008 with repayment in full in February 2012.

Debt associated with the Property division totals \$26,060,000 at 30 June 2008 (2007 - \$21,967,000). SFC's minority property interests are managed external to the Group. Accordingly SFC does not control the funding structure. SFC's objective is for property borrowing to predominantly be non-recourse to the Chief Entity. At 30 June, 92% (2007 – 90%) of the property borrowings were non-recourse to the Parent.

#### (f) Foreign Exchange Risk

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

Approximately 90% of the leather division's sales are denominated in foreign currencies, consistent with the operating unit making the sale, whilst almost 50% of costs are denominated in foreign currencies.

To manage the foreign exchange risk arising from future commercial transactions the entity uses forward foreign exchange contracts. The foreign exchange risk management policy requires approximately 30% of net future foreign exchange exposure to the USD and EUR to be managed using forward foreign exchange contracts, on a rolling twelve month basis.

### NOTE 32 FINANCIAL INSTRUMENTS (CONTINUED)

At 30 June 2008 the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	3,946	716	-	-
Trade and other receivables	6,224	4,971	-	-
Derivative financial instruments	457	262	-	-
	<b>10,627</b>	<b>5,949</b>	-	-
<b>Financial liabilities</b>				
Trade and other payables	(17,744)	(6,561)	-	-
	<b>(17,744)</b>	<b>(6,561)</b>	-	-
Net exposure	<b>(7,117)</b>	<b>(612)</b>	-	-

At 30 June 2008 the Group had the following exposure to EURO foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	1,360	1,031	-	-
Trade and other receivables	3,547	6,880	-	-
Derivative financial instruments	200	346	-	-
	<b>5,107</b>	<b>8,257</b>	-	-
<b>Financial liabilities</b>				
Trade and other payables	(1,416)	(2,112)	-	-
	<b>(1,416)</b>	<b>(2,122)</b>	-	-
Net exposure	<b>3,691</b>	<b>6,145</b>	-	-

At 30 June 2008 the Group had the following exposure to CNY foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	3,669	820	-	-
Trade and other receivables	3,109	3,608	-	-
	<b>6,708</b>	<b>4,428</b>	-	-
<b>Financial liabilities</b>				
Trade and other payables	-	-	-	-
	-	-	-	-
Net exposure	<b>6,708</b>	<b>4,428</b>	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)**

At 30 June 2008 the Group had the following exposure to SKK foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	74	111	-	-
Net exposure	74	111	-	-

At 30 June 2008 the Group had the following exposure to PES foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	22	-	-	-
Net exposure	22	-	-	-

At 30 June 2008 had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

## CONSOLIDATED

		Post tax profit/equity Higher/(Lower)	
		2008 \$'000	2007 \$'000
AUD/USD	\$0.10	911	366
AUD/USD	-\$0.10	(1,121)	(464)

Net USD liabilities increased due to higher USD purchases of inventory, and a reduction in USD receivables due to improved credit terms from some USD customers.

AUD/EUR	\$0.02	120	10
AUD/EUR	-\$0.02	(128)	(11)

Net EUR liabilities increased primarily because of lower EUR trade receivables.

Currency movements used above are representative of actual currency movement over the previous 12 months being USD 86.5 to 96.9 and EUR 63.4 to 61.6. Management considers this is representative of any likely movement in the next 12 months.

**NOTE 32  
FINANCIAL INSTRUMENTS (CONTINUED)**

Net unhedged foreign currency assets and liabilities:

2008	USD	EUR	RMB	SKK
	\$'000	\$'000	\$'000	\$'000
Cash and bank balances	3,825	837	23,910	1,548
Trade and other receivables	6,034	2,184	20,259	-
Trade and other payables	(16,856)	(863)	-	-
Forward rate agreements	(6,500)	(5,500)	-	-
Net FX exposure	(13,497)	(3,342)	44,169	1,548
Year end exchange rates	0.9694	0.6157	6.5161	21.0000

2007	USD	EUR	RMB	SKK
	Cash and bank balances	610	658	5,300
Trade and other receivables	4,236	4,387	23,471	-
Trade and other payables	(3,590)	(1,347)	-	-
Forward rate agreements	(3,500)	(4,000)	-	-
Net FX exposure	(4,244)	(302)	28,771	2,337
Year end exchange rates	0.8521	0.6376	6.4607	23.0000

## PARENT

No exposure to foreign currency fluctuations

## (g) Capital Management

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

The Group's total capital is defined as Schaffer Corporation Limited's shareholders' funds plus amounts attributable to outside equity shareholders plus net debt and amounted to \$120,748,000 at 30 June 2008 (2007: \$108,832,000).

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

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

The group maintains back up liquidity by way of bank overdrafts, commercial bill facilities and a working capital revolver facility. Facilities undrawn at 30 June 2008 amounted to \$21,358,000 (2007: \$28,505,000). The Group's committed and standby credit facilities contain financial undertakings relating to interest cover and equity level is described in note 32(a). A compliance certificate must be produced quarterly attesting to compliance with the previously described covenants.

During 2008 the company paid dividends of \$7,057,000 (2007: \$7,057,000). The Board maintains its payout ratio policy of balancing returns to shareholders with the need to fund growth in the Building Materials Division. In line with that policy, it is the Board's present intention to pay a final dividend of \$0.25 per share (fully franked), which would bring dividends for the 2008 financial year to \$0.50 per share (fully franked).

## NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2008

### NOTE 32 FINANCIAL INSTRUMENTS (CONTINUED)

Management monitor capital through the gearing ratio (net debt/total capital). The target for the Group's gearing ratio is discussed in note (i) below. The gearing ratios based on continuing operations at 30 June 2007 and 2008 were as follows:

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Total borrowings *	85,533	65,349	28,831	10,636
Less cash and cash equivalents	(21,735)	(9,537)	(1,424)	(3,384)
Net debt	63,798	55,712	27,407	7,252
Total equity	56,950	53,120	23,327	24,213
Total Capital	120,748	108,832	50,734	31,465
Gearing ratio	53%	51%	54%	23%

\*Includes interest bearing loans and borrowings

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

- Shareholders' funds to be not less than \$45,000,000 at the end of each quarter.
- Group debt service cover of no less than 1.2 times reported on a quarterly basis, based on results for the 12 months to the end of each quarter.

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

### NOTE 33 DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current assets</b>				
Forward currency contracts - held for trading	657	608	-	-

#### Instruments used by the Group

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

(i) *Forward currency contracts – held for trading*

The Group has the following contracts outstanding at balance date:

	2008 \$'000	2007 \$'000	2008 Average Exchange Rate	2007 Average Exchange Rate
<b>Sell US\$ / Buy Australian \$</b>				
Sell US\$ Maturity 0-12 months – Consolidated	7,326	4,395	0.8873	0.7963
<b>Sell Euro \$ / Buy Australian \$</b>				
Sell Euro \$ Maturity 0-12 months – Consolidated	9,308	6,748	0.5909	0.5928

#### Sell US\$ / Buy Australian \$

Sell US\$ Maturity 0-12 months – Consolidated	7,326	4,395	0.8873	0.7963
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#### Sell Euro \$ / Buy Australian \$

Sell Euro \$ Maturity 0-12 months – Consolidated	9,308	6,748	0.5909	0.5928
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These 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 profit or loss in the period they occur. The net fair value gains on foreign currency derivatives during the year were \$1,353,000 for the Group (2007 – Gain \$1,444,000)

(ii) *Interest Rate Swaps*

Interest bearing loans of the Group currently bear an average variable interest rate of 8.68% (2007: 7.4%). In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 5% (2007 – 24%) of the principal outstanding and are timed to expire at the renewal dates of each loan. The fixed interest rates are 6.95% (2007 – 6.61% to 6.95%) and the variable rates between 0.66% and 1.56% (2007 – 0.71% and 1.65%) above the 90 day bank bill rate, which at balance date was 7.80% (2007 – 6.44%)

At 30 June 2008, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	CONSOLIDATED		PARENT	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
1 – 2 years	-	2,038	-	2,038
2 – 3 years	1,200	800	-	-
3 – 4 years	-	2,400	-	-
	1,200	5,238	-	2,038

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

The fair value of interest rate swaps at 30 June 2008 is a benefit of \$24,109 (2007 - \$27,568) which is not recorded on the balance sheet as it is not considered material.

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 30 June 2008

**NOTE 34  
SIGNIFICANT EVENTS AFTER BALANCE DATE**

Following the end of the reporting period a final fully franked dividend of 25¢ per share has been declared payable on 22 September 2008.

**NOTE 35  
BUSINESS COMBINATION****Acquisition of controlled entity**

On 31 July 2007 Schaffer Corporation limited acquired 100% of the share capital of Archistone Pty. Ltd. a producer of natural and reconstituted limestone building materials.

The total cost of the combination was \$5,791,000.

The fair value of identifiable assets and liabilities at the date of acquisition are:

	CARRYING VALUE \$'000	CONSOLIDATED RECOGNISED ON ACQUISITION \$'000
Quarry resource	103	750
Trade receivables	819	819
Plant and motor vehicles	2,744	2,493
Prepayments	382	382
Deferred tax asset	-	90
Inventories	1,538	1,538
Income tax refundable	77	77
	<u>5,663</u>	<u>6,149</u>
Employee entitlements	(229)	(229)
Trade payables	(1,720)	(1,720)
Borrowings	(748)	(748)
Lease Liability	(1,357)	(1,357)
	<u>(4,054)</u>	<u>(4,054)</u>
Fair value of identifiable net assets	<u>1,609</u>	2,095
Good will arising on acquisition		<u>3,696</u>
Total cost of the combination		<u>5,791</u>

The cash outflow on acquisition is as follows:

Cash paid in current period	<u>(5,791)</u>
Net cash outflow	<u>(5,791)</u>

The key factors contributing to the \$3,696,000 of goodwill are:

- Archistone has an established revenue with strong retail sales component
- Archistone is a market leader in reconstituted small limestone block walling market
- Archistone creates opportunities for operational improvement in tandem with Limestone Resources
- The Archistone product range is complimentary to those of Urbanstone and Limestone Resources
- The building materials segment will realise synergies as products will be sold through Urbanstone's national distribution network.

The contribution of the acquired business to the group's performance has not been separately disclosed as it has been merged into the Building material business and the results cannot be separately determined.

The revenue and pre tax contribution of the combined entity had the business combination taken place at the beginning of the year cannot be determined for the same reason as above.

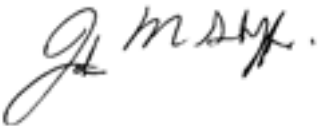
**DIRECTORS' DECLARATION**

*year ended 30 June 2008*

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 additional disclosures on the directors' report designated as audited of the company and of the consolidated entity are in accordance with the Corporation's Act 2001, including:
    - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (2) 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 2008.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 12 will be able to meet any obligation or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



J M Schaffer  
Chairman and Managing Director  
Perth, 26 September 2008

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

year ended 30 June 2008

We have audited the accompanying financial report of Schaffer Corporation Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### *Auditor's Opinion*

In our opinion:

1. the financial report of Schaffer Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of Schaffer Corporation Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Report on the Remuneration Report*

We have audited the Remuneration Report included in pages 56 to 61 of the directors' report for the year ended 30 June 2008. 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.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Schaffer Corporation limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

*Ernst & Young*

Ernst & Young

*G A Buckingham*

G A Buckingham

Partner

Perth

26 September 2008

## DIRECTORS' REPORT

year ended 30 June 2008

Your directors submit their report for the year ended 30 June 2008 made in accordance with a resolution of the directors.

### DIRECTORS

Details of the directors of the company during the financial year and up to the date of this report are:

**J M SCHAFFER**  
B Com (Hons)  
FCPA  
Managing Director  
Executive Director  
since 6/9/72

Mr John Schaffer joined the company in 1972. Mr Schaffer has held the position of Managing Director since 1988.

**D E BLAIN, BA**  
Non executive  
Director  
Appointed 5/6/87

Mrs Danielle Blain joined the company in 1987. Mrs Blain served as Managing Director of Gosh Leather Pty Ltd from 1993 to 2001.

**D J SCHWARTZ**  
Non executive  
Director  
Appointed 29/6/99

Mr David Schwartz is the chairman of Loftus Capital Partners Limited. He has over 20 years experience in manufacturing and distribution businesses. During the past three years Mr Schwartz has served as a director of the following listed companies:

Clime Investment Management Limited	1 Oct 99 – current
HomeLeisure Limited	26 Aug 04 – 7 May 08
ADG Global Supply	1 May 08 – current

**A K MAYER**  
Executive Director  
Appointed 21/11/01

Mr Anton Mayer is the Executive Chairman of Howe Automotive Limited. Mr Mayer has over 35 years of international leather experience, broad business skills and a global business perspective.

**M D PERROTT**  
Non Executive  
Director  
Appointed 23/2/05

Mr Michael Perrott joined the Board as a non-executive director in February 2005. Mr Perrott has over 35 years experience in the construction and contracting industry. During the past three years Mr Perrott has also served as a director of the following other listed companies:

Port Bouvard Ltd	12 Mar 98 – current
GME Resources Ltd	21 Nov 96 – current
Portman Ltd	30 Jun 97 – current
Bone Medical Ltd	31 May 01 – 1 Aug 05
Gage Roads Brewing Co Ltd	20 Oct 06 – 24 Oct 07

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

### COMPANY SECRETARY

**DAVID A RICHARDSON (FPNA, F Fin)**

Mr David Richardson joined the company in March 2008. Prior to joining Schaffer Corporation Mr. Richardson had over 20 years of experience in senior finance roles with large listed entities, working both in Australia and internationally. Mr Richardson is a Fellow of the National Institute of Accountants, and a Fellow of the Financial Services 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	9	9
D E Blain	9	8
D J Schwartz	9	8
A K Mayer	9	9
M D Perrott	9	7

In accordance with the Articles of Association:

Mr M D Perrott retires by rotation and being eligible, offers himself for re-election.

### ATTENDANCE AT AUDIT COMMITTEE MEETINGS

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

### ATTENDANCE AT NOMINATION AND REMUNERATION COMMITTEE MEETINGS

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

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

At the date of this report the economic interest of the Directors in the shares of the Company were:

	SCHAFFER CORPORATION LIMITED	
	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
J M Schaffer	2,619,927	-
D E Blain	1,562,360	-
A K Mayer	347,185	-
M D Perrott	1,000	-
D J Schwartz	586,210	-

### PRINCIPAL ACTIVITIES

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

### RESULTS

The consolidated entity's operating profit after tax for the financial year was a profit of \$11,706,000 (2007 - \$10,639,000).

### OPERATING AND FINANCIAL REVIEW

Please refer to Managing Director's report for details.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## DIRECTORS' REPORT

year ended 30 June 2008

### DIVIDENDS

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

Out of profits, as recommended in the financial statements, for the year ended 30 June 2008:	\$'000
On ordinary shares	
- 25¢ per share final, paid on 18 September 2007	3,528
- 25¢ per share interim, paid on 18 March 2008	3,529
	<u>7,057</u>
Out of profits for the year ended 30 June 2007	
On ordinary shares	
- 25¢ per share final, paid on 19 September 2006	3,528
- 25¢ per share interim, paid on 20 March 2007	3,529
	<u>7,057</u>
Not recognised as a liability as at 30 June	
Final franked dividend for 2008 – 25¢ (2007 – 25¢)	<u>3,528</u>

### REVIEW OF OPERATIONS

The consolidated entity's revenue increased by 33% from \$147,658,000 to \$195,940,000 this year. This resulted in a pre tax operating profit of \$16,704,000 compared to \$14,779,000 for last year. The net after tax consolidated entity profit, after minority interests increased by 6% from \$10,252,000 to \$10,912,000.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than the discussion of the Company's operations and outlook already set out from pages 1-12 of this Annual Report, the Directors have no 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 25¢ per share has been declared payable on 22 September 2008.

### 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.

### 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, and includes the five executives in the Parent and the Group receiving the highest remuneration.

#### Details of Key Management Personnel (including the five highest executives for the Company and the Group)

##### Directors

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

##### Executives

G Davieson	Chief Financial Officer and Company Secretary, Schaffer Corporation Limited (resigned 31 March 2008)
M Falconer	Group General Manager, Schaffer Building Products Division
N Filipovic	Managing Director, Howe & Company Pty. Ltd.
D Richardson	Chief Financial Officer and Company Secretary, Schaffer Corporation Limited (commenced 10 March 2008)
M Perrella	General Manager, Delta Corporation Limited
W Horton	Chief Financial Officer, Howe Automotive Limited (resigned 22 February 2008)

This report outlines the remuneration arrangements in place for directors and executives of the Schaffer Corporation Limited group of companies ("SFC").

#### 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 capital employed. EBIT and ROCE have been chosen by the Group as measures of executive performance because they align the interests of management with those of all SFC shareholders.

#### Remuneration Committee

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

#### Senior Manager and Executive Director Remuneration

##### Objective

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

##### Structure

The remuneration of SFC's senior executive consists of fixed remuneration and variable remuneration (annual and long term incentives). The company aims to reward executives for Company, business unit and individual performance, align

## DIRECTORS' REPORT

year ended 30 June 2008

executive remuneration with the interests of shareholders, link rewards with the strategic goals such as profitability or return on capital employed and ensure that total remuneration is effective in retaining and motivating senior executives and executive directors.

### Fixed Remuneration

This includes base salary and the statutory Superannuation Guarantee Contribution ("SGC") which comprises the cash component and other non-cash benefits such as a motor vehicle. Where non-cash benefits are elected, it is intended that the cost to the company is not greater than the cost that would otherwise have been incurred had that portion of the salary been provided as cash. The Schaffer Corporation Limited Superannuation Fund is available to executives for superannuation contributions and life insurance. Premiums for life insurance are deducted from member accounts. Executives can elect to have the company contribute superannuation beyond the statutory SGC level by way of a salary sacrifice in lieu of cash salary. Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee in respect of each executive director. The fixed remuneration of executives is reviewed annually by the SFC Managing Director in the case of the Building materials and Corporate divisions and by the Howe Automotive Limited (HA) Managing Director in the case of the Leather division. The review process considers companywide, business unit and individual performance in the context of any annual change during the preceding twelve month period to the wages cost index as published by the Australian Bureau of Statistics. For the year beginning 1 July 2007, an increase of 5% was applied for Group personnel.

### 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 Building materials and Leather divisions is provided below:

#### *Building materials Division - Management Bonus Incentive Scheme*

The Company operates a Management Bonus Incentive Scheme (MBIS) for the management group of the Building Materials division. Prior to the commencement of each financial year the Building Materials division management submits an annual budget for consideration by SFC's Managing Director and the SFC Board. Upon approval of the budget by the Board, a cash bonus (as a percentage of each participants fixed remuneration) is payable on a tiered basis provided actual EBIT profitability thresholds are met/exceeded as at 31 December and 30 June balance dates. The MBIS payment for EBIT performance is subject to reviewed/ audited financial statements of each business unit and is payable at the discretion of the Managing Director in the following period. 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 Managing Director without prior notice.

#### *Leather Division - Profit Participation Scheme*

HA operates a profit participation scheme for the staff and management of the Leather division. Prior to the commencement of each financial year the Leather division management submits an annual budget for consideration and approval by HA's Managing Director and the SFC Board. A cash bonus of 10% of actual EBIT (adjusted for a notional charge on capital employed within the business) becomes payable provided actual EBIT exceeds budgeted EBIT and a satisfactory return on capital employed ("ROCE") has been achieved as at 31 December and 30 June balance dates. The profit participation bonus is subject to audited financials of each business unit and approval by SFC's Managing Director and CFO. Actual EBIT performance versus Budgeted EBIT performance and a threshold ROCE have been chosen as the relevant performance conditions as these performance measures are readily monitored and available and EBIT and ROCE performance aligns the interest of management with those of shareholders. The scheme has been designed to incentivise a wide range of leather division workforce from top executive management to factory floor personnel.

### Variable Remuneration - Long Term Incentive

SFC's senior executives (other than Mr Schaffer and Mr Mayer) participate in SFC's Employee Share Option Plan ("ESOP"). HA operates the Employee Performance Unit ("EPU") Plan for its executives. The SFC ESOP and HA EPU plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders. As such long term incentive grants are

typically made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance. A summary of the long-term incentive schemes for the Corporate, Building Materials and Leather divisions is provided below:

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

An employee share option plan has been established. The plan was approved by shareholders at the AGM in November 1999. The plan permits the granting of options (at the absolute discretion of the Board) to group employees to acquire ordinary shares in Schaffer Corporation Limited. The options issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of Schaffer Corporation Limited. The options cannot be transferred and will not be quoted on the ASX. The number of options which can be issued is limited to 5% of the number of shares on issue. At the date of this report there were 27,500 ESOP options on issue representing 0.2% of the SFC's issued capital. The options on issue have an exercise price of \$12.31/option.

Options may be exercised as follows:

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

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

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

#### *HA Employee Participation Units Plan*

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

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

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

The amount of the cash payment is dependant 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%

## DIRECTORS' REPORT

year ended 30 June 2008

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

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

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

The following information is provided in accordance with s300A(1)(e) of the Corporations Act and details the proportion of fixed remuneration and variable remuneration paid for the year ended 30 June 2008 as detailed in this report:

Specified Directors	2007/2008 Remuneration Structure	
	% Fixed	% Variable
J M Schaffer	78%	22%
AK MAyer	79%	21%
D E Blain	100%	0%
D J Schwartz	100%	0%
M D Perrott	100%	0%
Specified Executives		
M Falconer	65%	35%
N Filipovic	81%	19%
G V Davieson	100%	0%
W Horton	95%	5%
M Perrella	70%	30%
D A Richardson	82%	18%

There is no value to options lapsed during the year.

No options were granted or exercised during the year.

### Non-Executive Director Remuneration

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

It is not a requirement of the Constitution of the Company that directors hold shares in the Company. 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 year's to one year's annual director's fees in July 2003 (a three year retirement benefit was in place at the time each director 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.

## RELATIONSHIP OF COMPANY PERFORMANCE ON SHAREHOLDER WEALTH

### Total Shareholder Return

Total shareholder return ("TSR") is a well 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

In accordance with s300A(1AA) and (1AB) of the Companies Act, the chart below itemises the constituents to SFC's TSR by year for each of the past five years. SFC TSR for the past year was 58%

### SFC - Analysis Of Shareholder Returns

	SEP-04 30%	SEP-05 30%	SEP-06 30%	SEP-07 30%	SEP-08 30%
Tax rate	30%	30%	30%	30%	30%
Share Price (\$)	14.00	5.25	6.15	9.00	7.04
Bonus Issue (\$)	-	-	-	-	-
Ord Divs (\$)	1.00	0.75	0.50	0.50	0.50
Special Divs (\$)	.40	.045	-	-	-
Imputation Credit (\$)	.60	0.51	0.21	0.21	0.21
<b>TSR</b>	<b>1.75</b>	<b>-7.04</b>	<b>1.61</b>	<b>3.56</b>	<b>-1.25</b>
<b>TSR%</b>	<b>12%</b>	<b>-50%</b>	<b>31%</b>	<b>58%</b>	<b>-14%</b>

On an aggregate dollars paid basis, SFC paid to shareholders \$7.1 million fully franked dividends in respect of 2006/07 and a total of \$67.2 million has been paid in fully franked ordinary and special dividends over the past 5 years.

### Earnings Per Share ("EPS")

SFC's average EPS over the past five years has been 79.6¢.

	YEAR ENDED				
	JUN-04	JUN-05	JUN-06	JUN-07	JUN-08
EPS (¢)	119.8	70.3	57.8	72.7	77.3

**DIRECTORS' REPORT**

year ended 30 June 2008

Remuneration of Key Management Personnel for the year ended 30 June 2008

30 JUNE 2008	SHORT TERM			POST EMPLOYMENT		OTHER	EQUITY	OTHER	TOTAL	PERFORM- ANCE RELATED
	SALARY & FEES \$	CASH BONUS \$	NON MONETARY BENEFITS \$	SUPER- ANNUATION \$	RETIREMENT BENEFITS \$	TERMIN- ATION BENEFITS \$	\$	SHARE OPTIONS AND EPU'S # \$	\$	
<b>Directors</b>										
J M Schaffer	567,116	*202,168	52,785	99,642	14,456	-	-	-	936,257	21.6%
D E Blain	57,798	-	-	5,202	7,457	-	-	-	70,457	-
A K Mayer	295,351	*78,721	-	-	-	-	-	-	374,072	21.0%
D J Schwartz	57,798	-	-	5,202	3,546	-	-	-	66,546	-
M D Perrott	63,000	-	-	-	-	-	-	-	63,000	-
<b>Executives</b>										
M Falconer	183,705	*157,635	52,099	46,509	4,486	-	-	-	444,434	35.5%
M Perrella	188,834	*124,087	47,946	40,465	11,548	-	-	-	412,880	30.1%
N Filipovic	269,284	*90,509	31,840	32,381	-	-	-	45,569	469,583	19.3%
W Horton ****	106,471	*6,508	-	10,168	-	569	-	13,148	136,864	4.8%
DA Richardson**	63,245	*20,625	6,061	23,132	-	-	-	-	113,063	18.2%
GV Davieson***	136,661	-	-	48,650	-	10,134	-	-	195,445	-
	1,989,263	680,253	190,731	311,351	41,583	10,703		58,717	3,282,601	

# Includes the value of share options and employee participation units ("EPUs") using the Black-Scholes model.

*	Cash bonus –	percentage paid during the year	percentage payable subsequent to year end
	Mr J M Schaffer	0%	100%
	Mr A K Mayer	0%	100%
	Mr M Falconer	21%	89%
	Mr M Perrella	35%	65%
	Mr N Filipovic	7%	93%
	Mr W Horton	100%	0%
	Mr D Richardson	0%	100%

\*\* Mr D Richardson commenced employment on 10 March 2008.

\*\*\* Mr G Davieson ceased employment on 31 March 2008.

\*\*\*\* Mr W Horton ceased employment on 22 February 2008.

The amounts included in the table represent the entire bonus earned. The portion of bonus accrued at 30 June 2008 was \$590,385. No bonus was forfeited during the year.

The terms "director" and "officer" have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity. Executives are those directly accountable for the operational management and strategic direction of the company and the consolidated entity.

**DIRECTORS' REPORT**

year ended 30 June 2008

Remuneration of Key Management Personnel for the year ended 30 June 2007

30 JUNE 2007	SHORT TERM			POST EMPLOYMENT		OTHER	EQUITY	OTHER	TOTAL	PERFORM- ANCE RELATED
	SALARY & FEES \$	CASH BONUS \$	NON MONETARY BENEFITS \$	SUPER- ANNUATION \$	RETIREMENT BENEFITS \$	\$	\$	SHARE OPTIONS AND EPU'S # \$	\$	

**Directors**

J M Schaffer	* 498,901	-	46,751	96,000	17,013	-	-	-	658,665	-
D E Blain	55,046	-	-	4,954	7,456	-	-	-	67,456	-
A K Mayer	311,470	** 69,286	-	-	-	-	-	-	380,756	18.2%
D J Schwartz	55,046	-	-	4,954	3,547	-	-	-	63,547	-
M D Perrott	60,000	-	-	-	-	-	-	-	60,000	-

**Executives**

M Falconer	174,005	** 48,874	59,619	104,376	3,235	-	-	125	390,234	36.0%
N Filipovic	266,299	** 97,694	25,012	32,758	-	-	-	16,916	438,679	22.3%
M Perrella	99,310	** 42,762	-	125,901	7,738	-	-	62	302,855	44.5%
G V Davieson	153,924	-	11,960	33,853	5,732	-	-	93	205,562	-
W Horton	140,426	** 51,803	-	17,300	-	-	-	13,148	222,677	25.4%
	1,814,427	310,419	170,424	420,096	44,721	-	-	30,344	2,790,431	-

# Includes the value of share options and employee participation units ("EPUs") using the Black-Scholes model.

\* Mr J M Schaffer has taken long service leave during the year amounting to \$46,901.

Cash bonus –	percentage paid during the year	percentage payable subsequent to year end
Mr A K Mayer	54%	46%
Mr M Falconer	55%	45%
Mr M Perrella	54%	46%
Mr N Filipovic	60%	40%
Mr W Horton	66%	34%

The portion of bonus accrued at 30 June 2007 was \$176,471.

No bonus was forfeited during the year.

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

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

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

**OPTIONS****30 JUNE 2008**

No options were issued, vested or exercised during the course of the financial year under review. For details of options currently issued refer notes 24 and 26.

**30 JUNE 2007**

30 JUNE 2007	TERMS AND CONDITIONS FOR EACH GRANT						
	VESTED NO.	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE (\$)	EXERCISE PRICE PER OPTION (\$)	EXPIRY DATE	FIRST EXERCISE DATE	LAST VESTING DATE

**Executives**

G V Davieson	15,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Falconer	20,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Perrella	10,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06

<b>Total</b>	45,000
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## DIRECTORS' REPORT

year ended 30 June 2008

EPU's	Grant Date	No. Granted	Fair Value Per EPU
<b>30 June 2008</b>			
<b>Executive</b>			
N Filipovic	1 Jul 07	200,000	\$0.00
N Filipovic	1 Jan 08	200,000	\$0.24
<b>Total</b>		<b>400,000</b>	

### 30 June 2007

No EPU's were granted to key management personnel

### Shares issued on exercise of compensation options:

No shares were issued during the current or previous year.

### Employment Contracts

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

Mr Mayer, provides management services to the leather division pursuant to a Consultancy Agreement renewed for the period 1 July 2006 which terminates on 30 June 2009. 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.

## SHARE OPTIONS

### Unissued shares

As at the date of this report, there were nil unissued ordinary shares under options (20,000 at 30 June 2008). Refer to note 26 of the financial statements for further details of the options outstanding.

### Shares issued as a result of the exercise of options

No options have been exercised during the year.

## 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 subsidiaries 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 class order 98/0100.

## CORPORATE GOVERNANCE

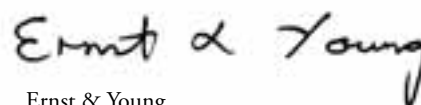
In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Schaffer Corporation Limited support the principles contained in the company's corporate governance statement in the corporate governance section of this annual report.

## AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

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

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

In relation to our audit of the financial report of Schaffer Corporation Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



G A Buckingham  
Partner

Perth 26 September 2008

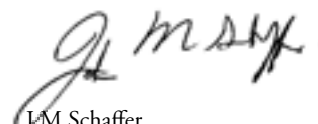
## NON-AUDIT SERVICES

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 services      \$103,664

Signed in accordance with a resolution of the directors.



J M Schaffer  
Chairman and Managing Director

Perth, 26 September 2008

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2008

ASX Corporate Governance Council issued its Principles of Good Corporate Governance and Best Practice Recommendations in 2003.

*Corporate Governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed and how performance is optimised..... What constitutes good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet those circumstances.... If a company considers that a recommendation is inappropriate to its particular circumstances, it has the flexibility not to adopt it (ASX Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations, March 2003).*

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

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

### LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

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 & Chairman. The Board considers that between them, the directors bring the range of skills, knowledge and experience (both local and international)

necessary to successfully direct the Group's operations.

The Board of Directors consists of:

#### John Schaffer Chairman and Managing Director

(Age 58)

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

#### Anton Mayer Executive Director

(Age 66)

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

#### Danielle Blain Non-Executive Director

(Age 64)

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

#### Michael Perrott Independent Director

(Age 62)

Michael joined the Board as an independent director in Feb-05 and is a member of the Board's Audit Committee and the Nomination and Remuneration Committee. Mr Perrott has been involved in industries associated with construction, contracting, mining and land development since 1969, he is currently Chairman of Port Bouvard Limited, GME Resources Limited and is a Director of Portman Limited, Schaffer Corporation Limited and Burrup Fertilisers Ltd. Mr Perrott is also a member of the Board of Notre Dame University and SANE Australia and a council member for the State Ministerial Council for Suicide Prevention.

#### David Schwartz Independent Director

(Age 54)

David joined the Board in 1999 and is independent Chairman of the Board's Audit Committee and the Nomination & Remuneration Committee. David is Chairman of Clime Investment Management Limited and Homeleisure Limited. David has many years experience in successfully managing manufacturing and distribution businesses in Australia and South Africa. Mr Schwartz is Chairman of Pascoes Pty Limited, ToLife Technologies Pty Limited and Stefani Pure Water Australasia Pty Limited and a director of Betts Group Pty Ltd.

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

DIRECTOR	YEAR APPOINTED	CLASSIFICATION	AUDIT COMMITTEE	NOMIN. & REMUN. COMMITTEE	ECONOMIC INTEREST IN SFC	RETIRING AT NEXT AGM	SEEKING RE-ELECTION
John Schaffer	1972	Chairman/Executive	-	-	18.3%	No	N/A
Danielle Blain	1987	Non-executive	Member	Member	11.1%	No	N/A
Anton Mayer	2001	Executive	-	-	2.5%	No	N/A
Michael Perrott	2005	Independent	Member	Member	0.0%	No	N/A
David Schwartz	1999	Independent	Chairman	Chairman	4.2%	Yes	Yes

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2008

### BOARD COMMITTEES

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

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

### BOARD MEETINGS

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

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 18.6%) and has served on the Board in since 1972;
- Mrs Blain is a substantial shareholder of SFC (with an economic interest of 11.1%), served as an executive director of HA 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 HA and is a substantial HA shareholder with a 16.8% economic interest in the SFC subsidiary.

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 an 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 direct financial interest in approximately 37% of SFC's issued capital representing a large proportion of each directors personal asset base. When the shareholders gain, so does the Board; when shareholders lose, the Board loses significantly.

Similarly, based on the strong alignment of shareholders with the Chairman, it is not considered that having an Independent Chairman and separating the roles of Chairman and MD and 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 can not hold office for more than three years without retiring within that time frame and standing for re-election. Any director who is appointed to the Board to fill a casual vacancy during a year may only hold office until the next Annual General meeting but may stand for re-election at that meeting.

### PROMOTE RESPONSIBLE AND ETHICAL DECISION MAKING

#### CONDUCT AND ETHICS

The Company operates under a Code of Conduct a copy of which is posted to the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

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

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

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

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

### 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 AGM;
- 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 LR 3.1 announcement made within 4 weeks prior to a Scheduled Announcement does not enable SFC Directors and senior executives to trade SFC securities. The senior executives group to which these restrictive trading periods apply includes all General Manager personnel at Howe & Company Pty Ltd, UrbanStone Pty Ltd, Limestone Resources Australia Pty Ltd, Delta Corporation Limited, Archistone Pty Ltd, UrbanStone Central Pty Ltd and SFC's Chief Financial Officer/Company Secretary and Group Chief Accountant.

The policy also requires that Directors and senior executives do not buy or sell the Company's securities on a short-term basis.

These rules also apply to trading by a related party of any SFC Director or senior executive. This Policy does not restrict participation by SFC senior executives in SFC's Employee Share Options Plan (ESOP), but applies in respect of the trading of SFC's securities to which plan participants become entitled under the ESOP.

A copy of the Company's Securities Trading Policy can be accessed from the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2008

### 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 each half and full financial year present a true and fair view in all material respects, of the Group's financial condition and operational results are in accordance with accounting standards. This statement is in turn supported by written statements provided by the senior management of all subsidiary companies within the group.

#### AUDIT COMMITTEE

The SFC Audit Committee was established by the Board in 1996. The Audit Committee has adopted a formal Charter, a copy of which can be accessed from the corporate governance section of the Company's website - [www.schaffer.com.au](http://www.schaffer.com.au)

The Audit Committee's purpose is to provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the company's financial reporting, risk management systems and the external audit functions. In doing so, it is the responsibility of the Audit Committee to maintain free and open communication between the Committee, external auditors and management of the Company.

In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

Council guidelines require the Audit Committee to consist of at least three directors and have an independent Chairperson who is not Chairperson of the Board.

The members of the SFC's Audit Committee are Mr Schwartz (Independent Chairman), Mrs Blain (Non-executive Director) and Mr Perrott (Independent Director). Accordingly SFC's Audit Committee complies with the Council's Audit Committee structure guidelines.

### 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 and Chief Financial Officer/Company Secretary constitute the executive team charged with management of all elements of the Company's activities. This team is responsible for assessing the materiality of information and drafting all disclosures. For administrative convenience, SFC's Company Secretary is the nominated officer of the Company responsible for communications with the ASX;
- Information is released firstly via electronic means via the ASX. Further dissemination to analysts and investors does not occur until after ASX confirms the information has been released to the market;
- The information is posted to SFC's website at [www.schaffer.com.au](http://www.schaffer.com.au) in order to make the information accessible to the widest audience. Investor information is posted to an area on SFC's website separate from any promotional material about the Company or its products;
- SFC's Managing Director and Chief Financial Officer, and HA's Managing Director are the officers authorised to speak on SFC's behalf at investor briefings and to the media. These officers understand that when speaking on behalf of the Company it is in respect of explanation and clarification of information previously released via the ASX. As these officers have knowledge of all information previously released to the ASX (they form part of the executive team responsible for the information disclosures), the risk of inadvertent disclosure of price sensitive information when speaking to investor briefings and the media is minimised. Presentations used in briefings which may have content which would trigger a continuous disclosure obligation are lodged with ASX prior to the briefing. All presentations are posted to SFC's website;
- Comments on analysts financial projections are confined to errors in factual information and underlying assumptions. The Company will not provide price sensitive information or earnings forecast guidelines to analysts unless it has already done so to the market via the ASX;
- Unless the executive team responsible for information disclosures believes it has an obligation to make a statement on a particular matter, SFC's policy is not to respond to market rumours or speculation.

### RESPECT THE RIGHTS OF SHAREHOLDERS

#### SHAREHOLDER COMMUNICATIONS STRATEGY

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

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

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

- SFC's principal communication with investors is by provision of the Annual Report and financial statements, the Interim Report and the Annual General Meeting
- Periodic and continuous disclosure announcements are released directly to the market via the ASX using ASX's electronic lodgement service. These announcements are immediately placed on the Company's website, at [www.schaffer.com.au](http://www.schaffer.com.au) and typically mailed to shareholders.
- The release of Interim and Final results are 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 roadshow 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 AGM and is available to answer any question shareholders may have that are relevant to the conduct of the audit.
- SFC's senior management meets regularly to consider its continuous disclosure obligations and assess the appropriateness of its policy in the context of any legislative amendments to the disclosure regime. Unless SFC has an obligation to make a statement on a particular matter, the Company's policy is not to respond to market rumours and media speculation.

### RECOGNISE AND MANAGE RISK

#### RISK MANAGEMENT

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

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

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

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

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

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

The SFC Board is responsible for SFC reviewing and analysing the implementation and effectiveness of SFC's risk management systems. The SFC Board reviews these control systems annually.

The Board has considered the need for an internal audit function and concluded that the size and nature of the Group's operations do not warrant such a function as present. Responsibility for implementation and effective conduct of SFC's risk management system rests with the Board, Chief Executive Officer, Chief Financial Officer, 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 the financial periods ending 31 December and 30 June 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.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2008

### REMUNERATE FAIRLY AND RESPONSIBLY

#### EXECUTIVE REMUNERATION

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

SFC's remuneration policy is directed at attracting, motivating and retaining quality people.

The remuneration of SFC's senior executive consists of fixed remuneration and annual and long term incentives.

Fixed Remuneration - This includes base salary and the statutory Superannuation Guarantee Contribution ("SGC") which comprises the cash component; and other non-cash benefits such as a motor vehicle.

The Schaffer Corporation Limited Superannuation Fund is available to executives for superannuation contributions and life insurance. Premiums for life insurance are deducted from member accounts. Executives can elect to have the company contribute superannuation beyond the statutory SGC level by way of a salary sacrifice in lieu of cash salary.

Annual Incentive - The Company has performance-based incentive plans in place at each of its operations in which management and the labour force participate. The level of remuneration payable to participating executives is linked to the financial performance of their business. Executives are provided with cash incentives provided profitability thresholds are met.

Long Term Incentive - SFC's senior executives (other than Mr Schaffer and Mr Mayer) participate in SFC's Employee Share Option Plan ("ESOP"). HA operates the Employee Performance Unit ("EPU") Plan for its executives. The SFC ESOP and HA EPU plans have long-term vesting provisions and are designed to align the interests of the participating executives with those of all SFC shareholders.

#### NON-EXECUTIVE DIRECTOR REMUNERATION

SFC's non-executive directors receive fees for their services (including statutory superannuation) and the reimbursement of reasonable expenses. The amount payable to non-executive directors is set by the Board after having taken regard to the size of the Company and Board, the responsibilities, demands and accountabilities faced by those directors in discharging their duties and after seeking independent advice to ensure the fees are in line with market standards. It is current SFC policy that non-executive directors do not receive shares, options or other securities and are not eligible to participate in SFC's Employee Share Option Plan.

A directors' pool limit of \$250,000 per annum was approved by shareholders at SFC's 2003 Annual General Meeting. This limit is not currently fully utilised. The fee pool is payable only to non-executive directors. Non-executive directors were paid annual fees for the 2007/08 financial year of \$63,000 each from the fee pool (inclusive of superannuation). Non-executive directors appointed prior to Jul-03 are entitled to a retirement benefit equivalent to one year's annual director's fees. The retirement benefit was reduced from three year's to one year's annual director's fees in Jul-03 (a three year retirement benefit was in place at the time each director accepted their appointment to the Board). SFC considers the reduced benefit modest and appropriate given the benefit which historically existed. It is SFC's policy that no retirement benefit apply to new directors appointed after July 2003.

**ASX ADDITIONAL INFORMATION**

year ended 30 June 2008

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

**TOTAL SHARE CAPITAL**

Issued as at 15 September 2008 – 14,113,251 ordinary fully paid shares

**SHARE REGISTRY ADDRESS**

C/- Computershare Investor Services Pty Ltd  
Level 2 Reserve Bank Building  
45 St George's Tce  
PERTH WA 6000

Postal Address:  
GPO Box D182  
PERTH WA 6840

**STOCK EXCHANGE LISTING**

The shares of the Company are listed on the Australian Stock Exchange Limited. The home exchange is Perth.

**VOTING RIGHTS**

Subject to any restrictions from time to time being attached to any class or classes of shares at general meetings of Members or classes of Members.

- (1) each Member entitled to vote may vote in person or by proxy, attorney or representative;
- (2) on a show of hands, every person present who is a Member or a proxy, attorney or representative of a Member has one vote;
- (3) on a poll, every person present who is a Member or a proxy, attorney or representative of a Member shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, shall have a fraction of a vote for each partly paid share. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call are ignored when calculating the proportion.

**DISTRIBUTION OF HOLDINGS**

As at 15 September 2008	Shareholdings	Shareholders
	1 – 1,000	907
	1,001 – 5,000	820
	5,001 – 10,000	162
	10,001 – 100,000	116
	100,001 – and over	13
		2,018

Number of shareholders holding less than a marketable parcel ie less than 75 shares: 54

**SUBSTANTIAL SHAREHOLDERS**

As at 15 September 2008, the substantial shareholders of the company summarised below, were:

	No of Shares	Economic Interest as a Percentage of issued ordinary shares
Mr J M Schaffer & Associates 50% of interest held by Swan Holdings Pty. Ltd.	1,967,240 652,687	13.94% 4.62%
	2,619,927	18.56%
Mrs D E Blain & Associates 50% of interest held by Swan Holdings Pty. Ltd.	909,673 652,687	6.45% 4.62%
	1,562,360	11.07%
* Combined interest of Mr J M Schaffer & Mrs D E Blain	4,182,287	29.63%
Jobling Investments Pty Ltd Estate of Mr A E Jobling Deceased	507,812 286,504	
	794,316	5.63%
Perpetual Limited and Subsidiaries	1,674,090	11.86%

\* Pursuant to the Corporation Act (2001), by virtue of the Swan Holdings Pty Ltd Voting Deed conferring on J M Schaffer the power to vote all Swan Holdings Pty Ltd's interest in Schaffer Corporation Limited's shares, J M Schaffer is also deemed to have an interest in all the Schaffer Corporation Limited shares held by D E Blain and her associates, and vice versa. The consequence of this is that each of the Substantial Shareholder notices lodged with the Regulatory Authorities by J M Schaffer and D E Blain show J M Schaffer's and D E Blain's combined interest at 30%, not their individual economic interests of 19% and 11% respectively.

**TWENTY LARGEST SHAREHOLDERS**

As at 15 September 2008	No of Shares	Percentage of issued ordinary shares
Swan Holdings Pty. Ltd.	1,305,374	9.25
RBC Dexia Investor Services Australian Nominees Pty. Limited PIIC Account	1,019,446	7.22
Schaffer Nominees Pty. Ltd.	980,482	6.95
Mrs Danielle Eva Blain	907,570	6.43
Mr John Michael Schaffer	799,554	5.67
RBC Dexia Investor Services Australian Nominees Pty. Limited PIPOOLED Account	702,731	4.98
Jobling Investments Pty. Ltd.	507,812	3.60
Mr David Schwartz	359,654	2.55
Keyton Enterprises Limited	344,263	2.44
Estate of Mr. Albert Edward Jobling Deceased	286,504	2.03
The Sports Café (Australia) Pty. Ltd.	226,072	1.60
ANZ Nominees Limited Cash Income A/c	143,247	1.01
Mrs Debra Ruth Schaffer	108,207	0.77
Fredrick Bruce Wareham	82,010	0.58
UBS Nominees Pty. Ltd.	74,968	0.53
JP Morgan Nominees Australia Limited	70,714	0.50
Edward James Lewis	69,105	0.49
Milton Corporation Limited	68,999	0.49
Winifred Francis Schulze	66,918	0.47
Mr Peter Canaway Superannuation Fund Account	50,000	0.35
	8,173,630	57.91

## CORPORATE TIMETABLE

Preliminary Final Statement and Dividend Announcement	20 Aug 08
Final Dividend Record Date	16 Sep 08
Final Dividend Payment Date	22 Sep 08
Despatch of Annual Report and Notice of Meeting	17 Oct 08
Annual General Meeting and Chairman's Address	19 Nov 08
Preliminary Half-year Statement and Dividend Announcement	Feb 09
Interim Dividend Payment Date	Mar 09

## SHAREHOLDER INFORMATION

### Annual General Meeting

Schaffer Corporation will hold its Annual General Meeting on Wednesday 19 November 2008 at 11.30am at Pagoda Broadwater Hotel, 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 Address/provide or update banking details

Shareholders who have changed their address or banking particulars should advise our share registry of their new details by writing to:

Computershare Investor Services Pty. Limited  
GPO Box D182  
Perth WA 6840

### Corporate Directory

Schaffer Corporation Limited  
ABN 73 675 689

### The Board of Directors

#### Executive Directors

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

#### Non-Executive Directors

DE Blain BA  
MD Perrott BCom, FAIM  
DJ Schwartz

#### Chief Financial Officer and Company Secretary

DA Richardson FPNA, FFin

### Head Office and Registered Office

1305 Hay Street  
West Perth WA 6005  
Telephone: 61 8 9483 1222  
Facsimile: 61 8 9481 0439  
Email: [reception@schaffer.com.au](mailto:reception@schaffer.com.au)  
Website: [www.schaffer.com.au](http://www.schaffer.com.au)

### Share Registry

Computershare Investor Services Pty. Limited  
GPO Box D182  
Perth WA 6840  
Telephone: 61 8 9323 2000  
Facsimile: 61 8 9323 2033

### Auditors

Ernst and Young  
11 Mounts Bay Road  
Perth WA 6000  
Telephone: 61 8 9429 2222  
Facsimile: 61 8 9429 2436

### Solicitors

Blake Dawson Waldron  
Level 32 Exchange Plaza  
2 The Esplanade  
Perth WA 6000  
Telephone: 61 8 9366 8000  
Facsimile: 61 8 9366 8111

