

# SCHAFFER CORPORATION LIMITED (“SFC”)

## AUDIT COMMITTEE CHARTER

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### ORGANISATION

This charter governs the operations of the SFC audit committee. The committee shall review and reassess the charter annually and obtain the approval of the board of directors for any change to the charter.

### Membership

The committee shall be members of, and appointed by, the board of directors and shall comprise at least three non-executive directors. A majority of the members shall be independent of management and the Company. All committee members shall be financially literate, or become financially literate within a reasonable period of time after appointment.

Members of the committee shall be considered independent so long as they do not have any material relationship with the company that may interfere with the exercise of independent judgment. This means they shall not accept any consulting, advisory or other compensatory fee from the company and are not considered in a material manner to be an affiliated person of the company or its related entities. They should also meet the definition of what constitutes an “independent director” pursuant to the ASX Corporate Governance Council – Principles of Broad Corporate Governance and Best Practice Recommendations (March 2003). The only compensation shall be directors’ fees for services provided to the audit committee.

### Meetings

The committee shall meet at least two times each year. The purpose of these meetings shall be to:

1. Review and/or update and approve external audit plan.
2. Review and approve the half-year financial report.
3. Review and approve the annual financial report.

Furthermore, the committee shall meet in private session at least annually to assess management’s effectiveness in relation to the audit.

### PURPOSE

The audit committee shall provide assistance to the board of directors 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 committee to maintain free and open communication between the committee, external auditors and management of the Company.

In discharging its oversight role, the 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.

## **DUTIES AND RESPONSIBILITIES**

### **Understanding the Business**

The committee shall ensure it understands the company's structure, controls, and types of transactions in order to adequately assess the significant risks faced by the company in the current environment.

### **Financial Reporting**

The primary responsibility of the audit committee is to oversee the company's financial reporting process on behalf of the board and report the results of its activities to the board.

Whilst the audit committee has the responsibilities and powers set forth in this Charter, it is not the duty of the audit committee to plan or conduct audits.

The board of directors is responsible for the company's financial reports including the appropriateness of the accounting policies and principles that are used by the Company. The external auditors are responsible for auditing the Company's financial reports and for reviewing the Company's unaudited interim financial reports.

The committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The committee will take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behaviour. The following shall be the principal duties and responsibilities of the audit committee. These are set forth as a guide with the understanding that the committee may supplement them as appropriate.

## **Assessment of Accounting, Financial and Internal Controls**

The committee shall discuss with management and the external auditors, the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk.

The committee shall meet separately periodically with management and the external auditors to discuss issues and concerns warranting committee attention. The committee shall provide sufficient opportunity for the external auditors to meet privately with the members of the committee. The committee shall review with the external auditor any audit problems or difficulties and management's response.

The committee shall receive regular reports from the external auditor on the critical policies and practices of the Company, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

The integrity of SFC's financial reporting is further backed up by a statement in writing by SFC's Chief Executive Officer and Chief Financial Officer to the Board that the company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and that operational results are in accordance with relevant accounting standards. This statement is in turn supported by written statements provided by the senior management of Australian Leather Holdings Limited, UrbanStone Pty Ltd and Delta Corporation Limited.

## **Appointment of External Auditors**

If the Board is considering tendering the provision of audit services to the Group, the tender process requires:

- tenders be sought from at least two suitably qualified firms of auditors
- the tender process be conducted by the Audit Committee with assistance from management;
- the appointment recommendation be reviewed by the Board; and
- the appointment be approved by the Board.

## **Assessment of the External Audit**

The committee, at least on an annual basis, shall obtain and review a report by the external auditors describing (or meet, discuss and document the following with them):

- The audit firm's internal quality control procedures.
- Any material issues raised by the most recent internal quality control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years,

respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

- All relationships between the external auditor and the Company (to assess the auditor's independence).

### **Independence of the External Auditors**

The committee shall review and assess the independence of the external auditor, including but not limited to any relationships with the Company or any other entity that may impair or appear to impair the external auditor's judgment or independence in respect of the Company.

### **Scope of the External Audit**

The committee shall discuss with the external auditors the overall scope of the external audit, including identified risk areas and any additional agreed-upon procedures. In addition, the committee shall also review the external auditor's compensation to ensure that an effective, comprehensive and complete audit can be conducted for the agreed compensation level.

### **Communications with Stakeholders**

The committee shall review the half-year and full-year financial reports prior to the filing of these with the ASX. Also, the committee shall discuss the results of the half-year review and any other matters required to be communicated to the committee by the external auditors under generally accepted auditing standards. The chair of the committee may represent the entire committee for the purposes of this review.

### **Committee Performance**

The committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively.