

SCHAFFER CORPORATION LIMITED

ACN 008 675 689



FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED

31 DECEMBER 2004

SCHAFFER CORPORATION LIMITED HALF YEAR FINANCIAL STATEMENTS**DIRECTOR'S REPORT**

Your directors submit their report for the half year ended 31 December 2004 made in accordance with a resolution of the directors.

DIRECTORS

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

J M SCHAFFER,
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.

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.

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

Mr Anton Mayer is the Managing Director of Australian Leather Holdings Limited. Mr Mayer has over 35 years of international leather experience, broad business skills and a global business perspective.

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

ATTENDANCE AT BOARD MEETINGS

During the half year six directors meetings were held in respect of which all directors were eligible to attend. Mr J M Schaffer, Mr A K Mayer, Mr D J Schwartz and Mrs D E Blain attended all six of the directors' meetings held during the half-year.

AUDIT COMMITTEE

The consolidated entity has an Audit Committee, which operates to oversee the internal and external audit functions of the consolidated entity. During the half year one audit committee meeting was held which all members of the audit committee

were eligible to attend. The meeting was attended by Mr D J Schwartz, Mr. A K Mayer and Mrs D E Blain.

REVIEW OF OPERATIONS

The consolidated entity's revenue decreased by 27% from \$104,297,000 to \$76,555,000 this half year.

The net after tax consolidated entity profit, after minority interests decreased by 34% from \$10,138,000 to \$6,691,000.

ROUNDING

The amounts contained in this report and in the half year financial statements have been rounded under the option available to the company under ASIC class order 98/0100. The company is an entity to which this class order applies.

DIRECTORS' BENEFITS

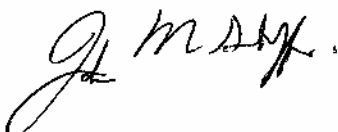
During or since the end of the previous half year no director of the company has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the annual financial statements, by reason of a contract entered into by the company or an entity that the company controlled or a body corporate that was related to the company when its contract was made or when the directors received, or become entitled to receive, the benefit with:

- A director;
- A firm of which a Director is a member;
- A company in which a director has a substantial financial interest.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, as presented on page 17 of this half-year financial report.

Signed in accordance with a resolution of the directors



John Schaffer
Managing Director

Perth, 23 February 2005

**SCHAFFER CORPORATION LIMITED
CONDENSED STATEMENT OF FINANCIAL PERFORMANCE
HALF YEAR ENDED 31 DECEMBER 2004**

| | CONSOLIDATED | |
|---|---------------|----------------|
| | Dec 2004 | Dec 2003 |
| | \$000 | \$000 |
| REVENUE FROM ORDINARY ACTIVITIES | 76,555 | 104,297 |
| Changes in inventories of finished goods, work in progress and land held for resale | 2,841 | (1,503) |
| Raw materials and consumables used | (37,603) | (50,869) |
| Cost of sales – joint venture interests | - | (2,699) |
| Cost of sales – property | (2,962) | (1,018) |
| Depreciation and amortisation expense | (2,419) | (2,379) |
| Borrowing costs expense | (1,979) | (2,139) |
| Salaries, wages and on costs | (17,917) | (21,374) |
| Other expenses from ordinary activities | (6,440) | (6,810) |
| PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE | 10,076 | 15,506 |
| Income tax expense relating to ordinary activities | 2,926 | 4,496 |
| PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE | 7,150 | 11,010 |
| Net profit attributable to outside equity interests | 459 | 872 |
| NET PROFIT ATTRIBUTABLE TO MEMBERS OF SCHAFFER CORPORATION LIMITED | 6,691 | 10,138 |
| Basic earnings per share | 47.7¢ | 73.2¢ |
| Diluted earnings per share | 46.9¢ | 71.6¢ |
| Franked dividends per share | 60.0¢ | 70.0¢ |

SCHAFFER CORPORATION LIMITED
CONDENSED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2004

| | Notes | CONSOLIDATED | |
|--|-------|-------------------|-------------------|
| | | Dec 2004 \$000 | Jun 2004 \$000 |
| CURRENT ASSETS | | | |
| Cash assets | | 19,977 | 28,489 |
| Receivables | | 23,478 | 26,953 |
| Inventories | | 38,113 | 31,654 |
| Other financial assets | | 508 | 643 |
| Other | | 1,071 | 631 |
| TOTAL CURRENT ASSETS | | <u>83,147</u> | <u>88,370</u> |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | | 54,149 | 56,646 |
| Deferred tax assets | | 2,864 | 3,275 |
| Intangible assets | | 1,233 | 1,299 |
| TOTAL NON CURRENT ASSETS | | <u>58,246</u> | <u>61,220</u> |
| TOTAL ASSETS | | <u>141,393</u> | <u>149,590</u> |
| CURRENT LIABILITIES | | | |
| Payables | | 17,051 | 17,669 |
| Interest bearing liabilities | | 91 | 845 |
| Current tax liabilities | | 1,179 | 2,635 |
| Other provisions | | 4,982 | 7,095 |
| TOTAL CURRENT LIABILITIES | | <u>23,303</u> | <u>28,244</u> |
| NON CURRENT LIABILITIES | | | |
| Interest bearing liabilities | | 53,586 | 53,901 |
| Deferred tax liabilities | | 2,670 | 2,549 |
| Provisions | | 2,689 | 2,628 |
| TOTAL NON CURRENT LIABILITIES | | <u>58,945</u> | <u>59,078</u> |
| TOTAL LIABILITIES | | <u>82,248</u> | <u>87,322</u> |
| NET ASSETS | | <u>59,145</u> | <u>62,268</u> |
| EQUITY | | | |
| Parent entity interest | | | |
| Contributed equity | | 16,640 | 15,916 |
| Reserves | | 2,585 | 2,585 |
| Retained Profits | 3 | 35,943 | 39,071 |
| Equity attributable to members of Schaffer Corporation Limited | | 55,168 | 57,572 |
| Outside equity interest in controlled entities | | 3,977 | 4,696 |
| TOTAL EQUITY | | <u>59,145</u> | <u>62,268</u> |

**SCHAFFER CORPORATION LIMITED
CONDENSED STATEMENT OF CASH FLOWS
HALF YEAR ENDED 31 DECEMBER 2004**

| | CONSOLIDATED | |
|--|-----------------|----------------|
| | Dec 2004 | Dec 2003 |
| | \$000 | \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | 77,555 | 94,856 |
| Payments to suppliers and employees | (70,508) | (78,350) |
| Proceeds on disposal of equity securities | 104 | 16 |
| Dividends received | 6 | 32 |
| Other revenue | 6 | 23 |
| Interest income | 606 | 507 |
| Borrowing costs paid | (1,979) | (2,139) |
| Income taxes paid | (3,888) | (6,223) |
| Goods and services tax refunded | (168) | 223 |
| Research & development expenditure | (554) | (1,023) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 1,180 | 7,922 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property, plant and equipment | (2,129) | (2,433) |
| Proceeds on sale of property, plant and equipment | 1,901 | 29 |
| Proceeds on disposal of joint venture interests | 1,188 | 6,428 |
| Other | - | 854 |
| Net cash impact on disposal of controlled entity | 690 | - |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | 1,650 | 4,878 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Finance lease principal payments | (804) | (192) |
| Dividends paid | (9,819) | (9,714) |
| Dividends paid to minority interest in controlled entity | (1,178) | (1,178) |
| Proceeds from share issue | 724 | 733 |
| (Repayment of)/proceeds from borrowings | (275) | 742 |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | (11,352) | (9,609) |
| NET (DECREASE)/INCREASE IN CASH HELD | (8,522) | 3,191 |
| Cash at the beginning of the half year | 28,489 | 21,071 |
| CASH AT THE END OF THE HALF YEAR | 19,967 | 24,262 |

**NOTES TO AND FORMING PART OF THE
HALF YEAR FINANCIAL STATEMENTS
31 DECEMBER 2004**

1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The half year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half year financial report does not include notes of the type normally included in an annual report.

It is recommended that the half year report is read in conjunction with the Annual Financial Statements of Schaffer Corporation Limited as at 30 June 2004 together with any public announcements made by Schaffer Corporation Limited and its controlled entities during the half year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The half year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

2. DIVIDENDS PAID OR PROPOSED

| | Dec 2004 \$000 | June 2004 \$000 |
|--|-------------------|--------------------|
| Dividends paid during the period | | |
| Franked Dividends | <u> </u> | <u> </u> |
| Dividends proposed after period end and not recognised as a liability | | |
| Franked Dividends | <u>8,460</u> | <u>9,819</u> |
| Interim | - | 9,754 |
| Final | <u>9,819</u> | <u>9,714</u> |
| | <u>9,819</u> | <u>19,468</u> |

3. RETAINED PROFITS

| | Dec 2004 | Jun 2004 |
|--|----------------|-----------------|
| Balance at the beginning of the year | 39,071 | 41,905 |
| Net profit attributable to the members of Schaffer Corporation Limited | 6,691 | 16,634 |
| Dividends provided for or paid | <u>(9,819)</u> | <u>(19,468)</u> |
| Balance at end of period | <u>35,943</u> | <u>39,071</u> |

4. EARNINGS PER SHARE

| | Dec 2004 | Dec 2003 |
|---|--------------|-------------|
| (a) | | |
| (b) Basic earnings per share (cents per share) | <u>47.7¢</u> | <u>73.2</u> |
| (c) Diluted earnings per share (cents per share) | <u>46.9¢</u> | <u>71.6</u> |

5. SIGNIFICANT ITEMS

Profit from ordinary activities before income tax includes the following:

| | | |
|---|------------|----------|
| Gain/(loss) on disposal of non-current assets | 1,408 | (10) |
| Gain on sale of shares in controlled entity | 351 | - |
| Write-back of retained losses of former controlled entity | <u>314</u> | <u>-</u> |

6. NON CASH FINANCING AND INVESTING ACTIVITIES

There were no non-cash financing or investing activities during the current period or the previous corresponding period other than in respect of the change in composition of entity outlined in Note 9 in respect of which \$255,000 of the stated proceeds on disposal were in the form of shares.

7. SUBSEQUENT EVENTS

Subsequent to the end of the half year the company declared a dividend of 60¢ per share totalling \$8,460,000 payable on 21 March 2005.

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

8. CONTINGENT LIABILITIES

There have been no material changes in contingent liabilities from that disclosed in the last annual report.

9. SEGMENT INFORMATION

| | LEATHER | | BUILDING PRODUCTS | | INVESTMENT PROPERTY | | OTHER INVESTMENTS | | CONSOLIDATED | |
|---|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Dec 2004 \$000 | Dec 2003 \$000 | Dec 2004 \$000 | Dec 2003 \$000 | Dec 2004 \$000 | Dec 2003 \$000 | Dec 2004 \$000 | Dec 2003 \$000 | Dec 2004 \$000 | Dec 2003 \$000 |
| Total Revenue from Ordinary Activities | 53,096 | 74,278 | 15,571 | 19,532 | 3,785 | 8,272 | 2,972 | 2,144 | 75,424 | 104,226 |
| Unallocated Revenue | | | | | | | | | 1,131 | 71 |
| Total Revenue | | | | | | | | | 76,555 | 104,297 |
| Segment Earnings | 5,216 | 8,645 | 2,414 | 3,575 | 2,034 | 4,368 | 1,265 | 455 | 10,929 | 17,043 |
| Interest and Corporate Overheads | | | | | | | | | (853) | (1,537) |
| Operating Profit Before Income Tax | | | | | | | | | 10,076 | 15,506 |
| Income Tax Expense | | | | | | | | | 2,926 | 4,496 |
| Net Profit After Tax | | | | | | | | | 7,150 | 11,010 |
| Segment Assets | 76,812 | 83,104 | 20,967 | 21,873 | 15,582 | 17,305 | 26,408 | 31,054 | 139,769 | 153,336 |
| Unallocated Assets | | | | | | | | | 1,624 | 2,697 |
| Total Assets | | | | | | | | | 141,393 | 156,033 |
| Segment Liabilities | 59,228 | 64,671 | 4,370 | 6,213 | 15,195 | 16,041 | 1,398 | 2,288 | 80,191 | 89,213 |
| Unallocated Liabilities | | | | | | | | | 2,057 | 2,510 |
| Total Liabilities | | | | | | | | | 82,248 | 91,723 |

10. CHANGE IN COMPOSITION OF ENTITY

On 30 July 2004, the Group sold its interest in Solco Industries Pty. Ltd.

| | \$000 |
|---|--------------|
| Proceeds on divestment of subsidiary: | |
| Cash | 310 |
| Shares in Solar Energy Systems Ltd | 255 |
| Repayment of loan from Schaffer Corporation Limited | 502 |
| Total proceeds on divestment of subsidiary | <u>1,067</u> |
| Net assets of Solco Industries Pty. Ltd. disposed of | <u>(402)</u> |
| Profit | <u>665</u> |
| | |
| Profit made up as follows: | |
| Gain on disposal of shares by chief entity | 351 |
| Write back of retained losses of Solco Industries Pty. Ltd. | 314 |
| | <u>665</u> |
| | |
| Net cash impact on disposal: | |
| Cash proceeds from sale of shares in Solco Industries Pty. Ltd. | 310 |
| Repayment of Loan | 502 |
| Cash held by subsidiary | <u>(122)</u> |
| | <u>690</u> |

11. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

For the financial year commencing 1 July 2005, the consolidated entity must comply with Australian equivalents of International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board ("AASB"). The Group will be required to present its financial statements in accordance with AASB standards equivalent to IFRS standards for the financial year commencing 1 July 2005, including the interim financial report for the half-year ending 31 December 2005. Entities complying with IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Group is on schedule to transition its accounting policies and financial reporting from current Australian Standards to Australian equivalents of IFRS within the requisite time frame. Schaffer Corporation Limited ("SFC") has allocated internal resources and consulted experts in performing an internal review to assess the impact of the anticipated conversion to IFRS from the consolidated entity's existing accounting and reporting practices. The review focused on the standards reasonably believed to be relevant to the Group. The review has quantified the effects of the differences as set out below.

The figures disclosed below, are the best estimates as at the date of these half-year financial statements. They could change, however, due to further work

being undertaken by the IFRS project team and any potential amendments to IFRSs and interpretations thereof being issued by the standard setters.

The review process has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available including elective exemptions under Accounting Standards AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004). These choices were analysed to determine the accounting policy most appropriate for the Group. The changes identified to date that will be required to the Company's existing accounting policies include the following.

Share-Based Payments

SFC operates a shareholder approved Employee Share Option Plan ("ESOP"). Pursuant to the ESOP the Company issues options to senior executives as part of its remuneration strategy designed to align the interests of the participants with those of all SFC shareholders. The company already determines the fair value of options issued to employees pursuant to SFC's ESOP. Under AASB 2 Share-Based Payments, the Company will be required to recognise an expense over the vesting period for option issues in its Statement of Financial Performance. The standard applies to all share based payments issued after 7 November 2002 which have not vested as at 1 January 2005. This treatment will result in an increase in expenses in the Statement of Financial Performance. No tax deduction is allowed for the amount expensed.

The 1 July 2004 transitional adjustment is a reduction in retained earnings and credit to the option premium reserve of \$30,333. The impact on the current half-year is to decrease the profit by an amount of \$28,917.

Goodwill

Under the Australian equivalent to IFRS 3 Business Combinations, goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change to the Group's current accounting policy which amortises goodwill over its useful life (usually 20 years). Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. No transition adjustment is required as the Company believes there has been no impairment at 1 July 2004. The impact on the current half-year is to increase after-tax profit by \$66,000 and profit after minorities by \$55,000 reflecting the discontinuation of amortisation expense.

Taxation

Under AASB 112 Income Taxes, tax assets and liabilities are recognised using the balance sheet approach, which will result in a change in the entity's current accounting policy that uses the income statement approach. AASB 112 has a wider scope than the Company's current accounting policy hence it is likely upon transition that the amount of deferred taxes recognised in the balance sheet will increase. Deferred tax liabilities will increase in relation to assets that are carried in the Statement of Financial Position at amounts greater than their

tax cost base due to revaluations of assets. The impact of this difference is to increase deferred tax liabilities and decrease opening retained earnings. The transition adjustment is \$1,106,000. The impact on the current half-year is to decrease deferred tax and increase profit by \$72,000.

Tax effects of adopting IFRS in relation to listed shares and investment property are dealt with separately below.

Financial Assets and Liabilities

AASB 139 Financial Instruments: Recognition and Measurement will require financial instruments to be classified into one of the following categories which in turn determine the accounting treatment for the item. The classifications are:

- Financial assets held for trading – which are to be measured at fair value and fair value changes applied through the Statement of Financial Performance;
- Financial assets held to maturity – which are to be measured at amortised cost;
- Loans and receivables – which are to be measured at amortised cost;
- Available for sale financial assets – which are to be measured at fair value with fair value changes taken to equity;
- Non-trading financial liabilities – which are to be measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments particularly in relation to listed shares.

Listed Shares

Currently listed shares are valued at the lower of cost or net realisable value. The new AASB 139 Financial Instruments: Recognition and Measurement, requires listed shares to be valued at their market value at balance date and any increment or decrement from the previous balance date to be recognised in the Company's Statement of Financial Performance at each balance date. This will result in a transition adjustment of \$117,000 to increase the value of listed shares and a deferred tax adjusted increase in retained earnings of \$82,000. The effect on the current half-year is an increase in the carrying value of listed shares by \$91,000 and an increase in net profit after tax of \$64,000.

Hedge Accounting

The Group uses forward contracts to manage foreign exchange exposure. AASB 139 Financial Instruments: Recognition and Measurement will require all derivatives to be measured at fair value and recognised in the Statement of Financial Performance unless they qualify for specific hedge accounting. In order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identified the type of hedge – fair value of cash flow;
- Identify the hedge item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Due to the complexity of accounting for specific hedges pursuant to the IFRS regime, future hedge contracts will be treated as general hedges with all movements in fair value recognised in the Statement of Financial Performance.

On adoption of IFRS, the forward exchange contracts will be marked to market whereas for the purposes of these 31 December 2004 half-year financial statements, they have been marked to spot.

There is no 1 July 2004 transitional adjustment, nor any 31 December 2004 half-year impact as the transition dated for AASB 139 is 1 July 2005.

Investment Property

Under current Australian Standards, investment properties are not depreciated and the Group has disclosed the value of its investment property joint venture interests at the lower of cost and net realisable value. The new standard, AASB 140 Investment Property, required the value of investment properties to be recorded by the Group at either fair value or depreciated cost. The fair value option utilises a mark to market approach whereby revaluation increments or decrements are required to be recognised in the Group's Statement of Financial Performance at each balance date. The Group intends to adopt the depreciated value approach. This will result in a transitional adjustment to reduce the carrying value of joint venture properties by \$1,079,000 and take up in opening retained earnings a deferred tax adjusted loss of \$755,000. The effect on the current half year is a reduction of pre-tax profit by \$85,000 due to the ongoing requirements to depreciate joint venture properties. The effect on current half-year after-tax profits is a reduction of \$59,000.

Embedded Derivatives

AASB 139 "Financial Instruments: Recognition and Measurement" introduces the concept of embedded derivatives and requires the identification, recognition and measurement of derivatives embedded within contracts entered into by a Group. Embedded derivatives not related to the host contract are required to be recognised at fair value with movements reported in the Statement of Financial Performance. The Group is currently reviewing contracts to determine the extent of any embedded derivatives.

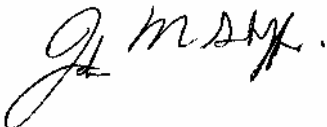
DIRECTORS' DECLARATION

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

In the opinion of the directors:

- (a) The financial statements and notes of the consolidated entity:
 - (i) Give a true and fair view of the financial position as at 31 December 2004 and the performance for the half year ended on that date of the consolidated entity; and
 - (ii) Comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



John Schaffer
Managing Director

Perth, 23 February 2005

Independent review report to members of Schaffer Corporation Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Schaffer Corporation Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the period ended 31 December 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the director's of the company a written Auditor's Independence Declaration a copy of which is attached to the Director's Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Schaffer Corporation Limited and the entities it controlled during the half-year is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



G H Meyerowitz
Partner
Perth
23 February 2005

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

In relation to our review of the financial report of Schaffer Corporation Limited for the half-year ended 31 December 2004, 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 H Meyerowitz
Partner

23 February 2005