

# **SCHAFFER CORPORATION LIMITED**

ACN 008 675 689



**CONDENSED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED**

**31 DECEMBER 2006**

# SCHAFFER CORPORATION LIMITED HALF YEAR FINANCIAL STATEMENTS

## DIRECTOR'S REPORT

Your directors submit their report for the half year ended 31 December 2006 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 06/09/72

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 05/06/87

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

**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.

**D J SCHWARTZ**  
Non-executive Director,  
Appointed 29/06/99

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 3 years Mr Schwartz has served as a director of the following listed companies:

Loftus Capital  
Partners Limited                      01/10/99 - current

Home Leisure limited                26/08/04 - current

**M D PERROTT**  
Non-executive Director,  
Appointed 23/02/05

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 3 years Mr Perrott has also served as a director of the following other listed companies:

Port Bouvard Ltd	12/05/98 – current
GME Resources Ltd	21/11/96 – current
Portman Ltd	30/06/97 – current
Gage Roads Brewing Co. Ltd.	20/10/06 – current
Bone Medical Ltd	31/05/01 – 01/08/05
Asset Backed Holdings Ltd	23/10/00 – 03/10/03

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

### **ATTENDANCE AT BOARD MEETINGS**

During the half year five 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, Mr M D Perrott and Mrs D E Blain attended all five 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. M D Perrott and Mrs D E Blain.

### **REVIEW OF OPERATIONS**

The consolidated entity's revenue increased by 0% from \$73,715,000 to \$73,941,000 this half year.

The net after tax consolidated profit, after minority interests increased by 44% from \$3,631,000 to \$5,226,000.

### **ROUNDING**

The amounts contained in this report and in the half year financial statements have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which this Class Order applies.

## **DIRECTORS' BENEFITS**

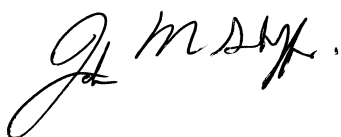
During or since the end of the previous half year no director of the company has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the annual financial statements, by reason of 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 20 of this half-year financial report.

Signed in accordance with a resolution of the directors



John Schaffer  
Managing Director

Perth, 21 February 2007

**SCHAFFER CORPORATION LIMITED**  
**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Note	CONSOLIDATED Dec 2006 \$'000	Dec 2005 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>			
Sale of goods		71,989	71,799
Rental income		1,838	1,652
Dividends received		1	1
Finance Income	4(a)	113	263
Total revenue		73,941	73,715
Cost of sales		(56,072)	(56,250)
Gross profit		17,869	17,465
Rental property expenses		(1,143)	(827)
Other income	4(b)	1,134	697
Marketing expenses		(2,655)	(3,284)
Administrative expenses		(5,297)	(6,787)
<b>Profit from continuing operations before tax and finance costs</b>		9,908	7,264
Finance costs	4(c)	(2,155)	(1,934)
<b>Profit before income tax</b>		7,753	5,330
Income tax expense		(2,193)	(1,611)
<b>Net profit for the period</b>		5,560	3,719
Attributable to:			
Minority interest		334	88
<b>Members of the parent</b>		5,226	3,631
<b>Earnings per share (EPS)</b>			
Basic EPS		37.0¢	25.8¢
Diluted EPS		37.0¢	25.8¢
Dividends paid per share		25¢	25¢

**SCHAFFER CORPORATION LIMITED**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2006**

	CONSOLIDATED	
	Dec 2006	Jun 2006
	\$'000	\$'000
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	4,700	13,596
Trade and other receivables	27,205	26,004
Inventories	41,156	38,243
Prepayments and deposits	1,218	1,076
Derivatives	414	-
Available-for-sale financial assets	73	304
<b>TOTAL CURRENT ASSETS</b>	<b>74,766</b>	<b>79,223</b>
<b>NON CURRENT ASSETS</b>		
Property, plant and equipment	47,720	37,124
Investment properties	17,402	15,035
Deferred income tax asset	2,381	2,321
Other	889	-
Goodwill	1,299	1,299
<b>TOTAL NON CURRENT ASSETS</b>	<b>69,691</b>	<b>55,779</b>
<b>TOTAL ASSETS</b>	<b>144,457</b>	<b>135,002</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	19,783	16,688
Derivatives	-	22
Interest bearing loans and borrowings	395	1,519
Income tax payable	1,369	1,825
Provisions	4,305	4,403
<b>TOTAL CURRENT LIABILITIES</b>	<b>25,852</b>	<b>24,457</b>
<b>NON CURRENT LIABILITIES</b>		
Interest bearing loans and borrowings	64,074	56,485
Deferred income tax liabilities	1,502	2,142
Provisions	1,439	1,812
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>67,015</b>	<b>60,439</b>
<b>TOTAL LIABILITIES</b>	<b>92,867</b>	<b>84,896</b>
<b>NET ASSETS</b>	<b>51,590</b>	<b>50,106</b>
<b>EQUITY</b>		
Parent entity interest		
Issued capital	17,034	17,034
Reserves	2,496	2,976
Retained earnings	28,086	26,388
Total parent entity interest in equity	<b>47,616</b>	<b>46,398</b>
Minority interests	3,974	3,708
<b>TOTAL EQUITY</b>	<b>51,590</b>	<b>50,106</b>

**SCHAFFER CORPORATION LIMITED**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Attributable to Equity Holders of the Parent			Minority Interest	Total Equity	
	Issued Capital \$'000	Retained Earnings \$'000	Other Reserves \$'000	Total \$'000	\$'000	
<b>CONSOLIDATED</b>						
<b>At 1 July 2005</b>	17,034	30,222	2,819	50,075	3,759	53,834
Profit for the half-year	-	3,631	-	3,631	88	3,719
Exercise of options	-	-	43	43	-	43
Share-based payments	-	-	98	98	-	98
Equity dividends	-	(8,455)	-	(8,455)	-	(8,455)
<b>At 31 December 2005</b>	17,034	25,398	2,960	45,392	3,847	49,239
<b>At 1 July 2006</b>	17,034	26,388	2,976	46,398	3,708	50,106
Profit for the half-year	-	5,226	-	5,226	334	5,560
Share-based payments	-	-	40	40	-	40
Unrealised gain on available for sale investments	-	-	80	80	-	80
Net realised gain on sale of available-for-sale investments	-	-	(194)	(194)	-	(194)
Settlement of Employee Participation Units	-	-	(119)	(119)	(68)	(187)
Foreign currency translation reserve	-	-	(287)	(287)	-	(287)
Equity dividends	-	(3,528)	-	(3,528)	-	(3,528)
<b>At 31 December 2006</b>	17,034	28,086	2,496	47,616	3,974	51,590

**SCHAFFER CORPORATION LIMITED**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Note	CONSOLIDATED	
		Dec 2006 \$'000	Dec 2005 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		74,628	77,254
Payments to suppliers and employees		(65,933)	(61,478)
Other revenue		128	51
Government scheme income		-	348
Borrowing costs paid		(2,155)	(1,934)
Income taxes paid		(2,744)	(2,423)
Goods and services tax paid		(207)	(406)
Research & development expenditure		(400)	(600)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<u>3,317</u>	<u>10,812</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income		113	263
Acquisition of property, plant and equipment		(5,887)	(2,132)
Acquisition of investment properties		(2,285)	-
Acquisition of business		(7,420)	-
Proceeds on sale of property, plant and equipment		41	10
Proceeds on disposal/(acquisition) of available-for-sale investments		337	(46)
Dividends received		1	1
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<u>(15,100)</u>	<u>(1,904)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(3,528)	(8,455)
Proceeds from borrowings		6,301	157
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<u>2,773</u>	<u>(8,298)</u>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>			
		(9,010)	610
Cash and cash equivalents at the beginning of period		<u>13,596</u>	<u>9,765</u>
<b>CASH &amp; CASH EQUIVALENTS AT THE END OF PERIOD</b>	10	<u>4,586</u>	<u>10,375</u>

## **NOTES TO THE HALF YEAR FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

### **1. CORPORATE INFORMATION**

The financial report of Schaffer Corporation Limited (the Company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 21 February 2007. Schaffer Corporation Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 14.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The half year financial report should be read in conjunction with the annual Financial Report of Schaffer Corporation Limited as at 30 June 2006.

It is also recommended that the half year financial report be considered together with any public announcements made by Schaffer Corporation Limited and its controlled entities during the half year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

#### **(a) Basis of preparation**

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 and AASB 134 "Interim Financial Reporting". The half year financial report has been prepared on an historical cost basis, except for derivative financial instruments and available-for-sale investments that have been measure 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 98/0100. The company is an entity to which the class order applies.

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

**(b) Significant accounting policies**

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006 except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006, as described in note 2(d).

Following the acquisition of the limestone business the group adopted the following accounting policy:

**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.

**(c) Summary of significant accounting policies**

**(i) Basis of consolidation**

The half year consolidated financial statements comprise the financial statements of Schaffer Corporation Limited and its subsidiaries as at 31 December 2006.

The acquisition of the limestone business on 5 July 2006 has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair values of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the half year consolidated financial statements include the results of the limestone business for the period from its acquisition on 5 July 2006.

**(d) Changes in accounting policies**

Australian Accounting Standard and Urgent Issues Group Interpretations that have recently been amended and are effective from 1 July 2006 are outlined in the table below.

<b>AASB</b>	<b>Application date for the Group</b>
2004-3	1 July 2006
2005-1	1 July 2006
2005-4	1 July 2006
2005-6	1 July 2006
2005-9	1 July 2006
2006-1	1 July 2006
I-19	1 July 2006

<b>AASB</b>	<b>Application date for the Group</b>
4	1 July 2006
5	1 July 2006
7	1 July 2006
8	1 July 2006
9	1 July 2006

None of these standards or interpretations resulted in a material change in accounting policy and therefore there was no material impact on the Group's financial performance or position for the half year.

### 3. DIVIDENDS PAID OR PROPOSED

	<b>CONSOLIDATED</b>	
	<b>Dec 2006</b>	<b>Dec 2005</b>
	<b>\$'000</b>	<b>\$'000</b>
(a) Dividends declared and paid during the half year on ordinary shares. Final franked dividend for the financial year 30 June 2006: 25¢ (2005 – 25¢)	3,528	3,523
(b) Dividends proposed and not yet recognised as a liability Interim franked dividend for the half year 31 December 2006 – 25¢ (2005 – 25¢)	3,528	3,523
	<u>7,056</u>	<u>7,046</u>

### 4. SIGNIFICANT REVENUE AND EXPENSES

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

<b>(a) Finance income</b>		
Bank interest received	113	263
<b>(b) Other income/(losses)</b>		
Gain/(loss) on sale of property, plant & equipment	(6)	4
Gain on sale of available-for-sale investments	269	-
Net foreign currency gain	265	1,114
Gain/(loss) market to market of derivatives	478	(820)
Government scheme income	-	348
Other	128	51
	<u>1,134</u>	<u>697</u>
<b>(c) Finance Costs</b>		
Bank loans and overdraft interest	1,986	1,749
Finance charges payable under finance leases	12	9
Other	157	176
	<u>2,155</u>	<u>1,934</u>

**(d) Expenses**

Depreciation and amortisation of property, plant and equipment	2,454	2,312
Employee benefits	20,987	24,724
Expense of share based payments	71	203

**5. NON CASH FINANCING AND INVESTING ACTIVITIES**

During the financial period the consolidated entity acquired plant and equipment with a fair value of \$50,000 (2005 - \$Nil) by means of finance lease

**6. SUBSEQUENT EVENTS**

Subsequent to the end of the half year the company declared a dividend of 25¢ per share totalling \$3,528,000 payable on 20 March 2007.

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.

**7. CONTINGENT LIABILITIES**

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

**8. CONTRIBUTED EQUITY**

	CONSOLIDATED	
	Dec 2006	Dec 2005
	\$'000	\$'000
Ordinary Shares	<u>17,034</u>	<u>17,034</u>
All ordinary shares are fully paid and carry one vote per share and carry the right to dividends.		
	Number of	
Movements in ordinary shares on issue	Shares	\$'000
1 July 2006	14,091,935	17,034
On 1 September 2006 21,316 shares were issued in accordance with the Australian Leather Holdings Limited Employee Participation Units Plan	21,316	-
Total capital issued during the period	<u>21,316</u>	<u>-</u>
At 31 December 2006	<u>14,113,251</u>	<u>17,034</u>

## 9. INCOME TAX

The major components of income tax expense for the half year ended 31 December 2006 and 31 December 2005 are:

	CONSOLIDATED	
	Dec 2006 \$'000	Dec 2005 \$'000
<b>Consolidated Income Statement</b>		
<i>Current income tax</i>		
Current income tax charge	2,435	1,410
Adjustments in respect of current income tax of previous years	245	(5)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(487)	206
Income tax expense reported in the consolidated income statement	<u>2,193</u>	<u>1,611</u>

## 10. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	Dec 2006 \$'000	Dec 2005 \$'000
For the purpose of the half year condensed cash flow statement, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	4,700	10,427
Bank overdrafts	(114)	(52)
	<u>4,586</u>	<u>10,375</u>

## 11. PROPERTY, PLANT AND EQUIPMENT

### Acquisitions and disposals

During the half year ended 31 December 2006, the Group acquired assets with a cost of \$15,349,000 (2005 - \$2,132,000).

Assets with a net book value of \$47,000 were disposed of by the Group during the half year ended 31 December 2006 (2005 - \$6,000), resulting in a loss on disposal of \$6,000 (2005 – gain \$4,000).

## 12. BUSINESS COMBINATION

On 5 July 2006 Schaffer Corporation Limited acquired the business of Limestone Resources Australia Pty. Ltd. a producer of natural and reconstituted limestone building products.

The total cost of the combination was \$7,670,000.

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

	CONSOLIDATED Recognised on acquisition \$'000
Quarry resource	4,500
Freehold land and buildings	1,150
Plant and leasehold improvements	1,232
Motor vehicles	856
Deferred tax asset	93
Inventories	150
	<hr/> 7,981
Employee entitlements reimbursement	(311)
Fair value of identifiable net assets	<hr/> 7,670 <hr/>
Cost of combination:	
Cash paid	<hr/> <hr/> 7,670 <hr/>
The cash outflow on acquisition is as follows:	
Deposit paid year ended 30 June 2006	250
Cash paid in current period	7,420
Net cash outflow	<hr/> <hr/> 7,670 <hr/>

It is impractical to disclose carrying value prior to acquisition as information was not available.

## 13. INTEREST BEARING LOANS AND DRAWINGS

The group increased its borrowings during the period by \$6,301,000.

#### **14. SEGMENT INFORMATION**

The Group comprise the following segments:

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

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

The investment property segment leases offices and retail premises and represents the Group's share of jointly controlled operations.

Other comprises cash and cash equivalents, available-for-sale financial assets, surplus land and the Group's share of the Mindarie Keys joint venture land subdivision.

**14. SEGMENT INFORMATION continued**

The following table presents revenue and profit information regarding business segments for the half year periods ended 31 December 2006 and 31 December 2005

	<b>LEATHER</b>		<b>BUILDING MATERIALS</b>		<b>INVESTMENT PROPERTY</b>		<b>OTHER</b>		<b>CONSOLIDATED</b>	
	Dec 2006 \$'000	Dec 2005 \$'000	Dec 2006 \$'000	Dec 2005 \$'000	Dec 2006 \$'000	Dec 2005 \$'000	Dec 2006 \$'000	Dec 2005 \$'000	Dec 2006 \$'000	Dec 2005 \$'000
<b>Total Revenue from Ordinary Activities</b>	43,818	50,318	26,977	20,799	2,272	2,056	874	541	73,941	73,714
Unallocated Revenue									-	-
<b>Total Revenue</b>									73,941	73,714
Segment Earnings	4,023	2,076	3,913	3,580	1,010	992	737	118	9,683	6,766
Interest and Corporate Overheads									(1,930)	(1,436)
Operating Profit Before Income Tax									7,753	5,330
Income Tax Expense									(2,193)	(1,611)
Net Profit After Tax									5,560	3,719

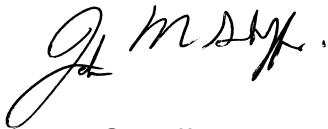
## DIRECTORS' DECLARATION

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 2006 and the performance for the half year ended on that date of the consolidated entity; and
  - (ii) Comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



John Schaffer  
Managing Director

Perth, 21 February 2007