

SCHAFFER CORPORATION LIMITED

ACN 008 675 689



CONDENSED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED

31 DECEMBER 2010

FINANCIAL REPORT

For the half-year ended 31 December 2010

Directors' Report	4
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Financial Position	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Half-Year Financial Report	12
Directors' Declaration	22
Auditor's Independence Declaration	23
Independent Review Report	24

SCHAFFER CORPORATION LIMITED HALF YEAR FINANCIAL STATEMENTS

DIRECTOR'S REPORT

Your directors submit their report for the half year ended 31 December 2010 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 Clime Investment Management 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:

Clime Investment Management Limited	01/10/99 - current
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Home Leisure Limited	26/08/04 – 07/05/08
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ADG Global Supply	01/05/08 - current
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M D PERROTT AM

Non-executive Director,
Appointed 23/02/05

Mr Michael Perrott AM joined the Board as a non-executive director in February 2005. Mr Perrott AM has over 35 years experience in the construction and contracting industry. During the past 3 years Mr Perrott AM has also served as a director of the following other listed companies:

Port Bouvard Ltd	12/05/98 – 23/04/09
GME Resources Ltd	21/11/96 – current
Portman Ltd	30/06/97 – 31/12/08
Gage Roads Brewing Co. Ltd.	20/10/06 – 24/10/07
VDM Group Ltd	02/07/09 – current

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

ATTENDANCE AT BOARD MEETINGS

During the half year four directors meetings were held. The number of meetings attended by each director is as follows:

	Meetings Eligible To Attend	Meetings Attended
J M Schaffer	4	4
D E Blain	4	3
D J Schwartz	4	4
A K Mayer	4	3
M D Perrott	4	4

AUDIT COMMITTEE

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

REVIEW OF OPERATIONS

The consolidated entity's revenue decreased by 4% from \$68,445,000 for the comparative period to \$65,619,000 this half year.

The net after tax consolidated profit attributable to members of the parent entity decreased by 44% from \$3,619,000 for the comparative period to \$2,033,000.

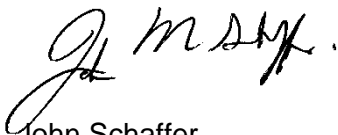
ROUNDING

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.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, as presented on page 23 of this half-year financial report.

Signed in accordance with a resolution of the directors



John Schaffer
Managing Director

Perth, 23 February 2011

**SCHAFFER CORPORATION LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	Note	Dec 2010 \$'000	Dec 2009 \$'000
Revenue			
Sale of goods		51,856	55,879
Construction services		10,723	9,391
Rental income		2,895	2,971
Finance income	4(a)	144	204
Dividends		1	-
Total revenue		65,619	68,445
Cost of sales and services rendered		(49,021)	(50,322)
Gross profit		16,598	18,123
Other income	4(b)	2,355	515
Rental property expenses		(1,554)	(1,196)
Marketing expenses		(4,726)	(3,898)
Administrative expenses		(4,947)	(4,917)
Profit from continuing operations before tax and finance costs		7,726	8,627
Finance costs	4(c)	(2,539)	(2,207)
Profit before income tax		5,187	6,420
Income tax expense	10	(1,545)	(1,834)
Net profit for the period from continuing operations after income tax		3,642	4,586
Discontinued operations			
Loss from discontinued operation after income tax	14	(1,451)	(990)
Net profit for the period		2,191	3,596
Other comprehensive income:			
Net fair value gains on available-for-sale financial assets		1	10
Foreign currency translation loss		(1,461)	(873)
Income tax on items of comprehensive income		-	(3)
Other comprehensive income for the period net of tax:		(1,460)	(866)
Total comprehensive income for the period		731	2,730

**SCHAFFER CORPORATION LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	Note	Dec 2010 \$'000	Dec 2009 \$'000
Profit for the period is attributable to:			
Non-controlling interest		158	(23)
Owners of the parent		2,033	3,619
		2,191	3,596
Total comprehensive income for the period is attributable to:			
Non-controlling interest		(118)	(170)
Owners of the parent		849	2,900
		731	2,730
Earnings per share (EPS)			
Basic EPS		14.4¢	25.6¢
Diluted EPS		14.4¢	25.6¢
Dividends paid per share		10¢	20¢
Basic EPS from continuing operation		24.7¢	32.6¢
Diluted EPS from continuing operation		24.7¢	32.6¢

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

**SCHAFFER CORPORATION LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

	Note	Dec 2010 \$'000	Jun 2010 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		12,881	15,510
Trade and other receivables		30,624	20,710
Inventories		39,377	43,908
Prepayments and deposits		1,944	913
Derivative financial instruments		875	206
Available-for-sale financial assets		33	31
		<u>85,734</u>	<u>81,278</u>
Assets of disposal group classified as held for closure and sale	14	3,866	-
TOTAL CURRENT ASSETS		<u>89,600</u>	<u>81,278</u>
NON CURRENT ASSETS			
Property, plant and equipment		49,959	59,653
Investment properties		17,150	16,731
Deferred income tax asset		1,417	1,534
Goodwill		4,995	4,995
TOTAL NON CURRENT ASSETS		<u>73,521</u>	<u>82,913</u>
TOTAL ASSETS		<u>163,121</u>	<u>164,191</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		16,222	22,176
Interest bearing loans and borrowings		27,938	15,328
Income tax payable		666	811
Provisions		6,050	4,300
Derivative financial instruments		-	107
		<u>50,876</u>	<u>42,722</u>
Liabilities associated with assets classified as held for closure and sale	14	1,176	-
TOTAL CURRENT LIABILITIES		<u>52,052</u>	<u>42,722</u>
NON CURRENT LIABILITIES			
Interest bearing loans and borrowings		52,871	61,303
Provisions		1,512	1,421
TOTAL NON CURRENT LIABILITIES		<u>54,383</u>	<u>62,724</u>
TOTAL LIABILITIES		<u>106,435</u>	<u>105,446</u>
NET ASSETS		<u>56,686</u>	<u>58,745</u>
EQUITY			
Parent entity interest			
Issued capital	7	17,034	17,034
Reserves		541	1,692
Retained earnings	8	34,911	35,701
Total parent entity interest in equity		<u>52,486</u>	<u>54,427</u>
Non-controlling interests		4,200	4,318
TOTAL EQUITY		<u>56,686</u>	<u>58,745</u>

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

SCHAFFER CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Attributable to Equity Holders of the Parent							Non-controlling Interest	Total Equity	
	Issued Capital	Retained Earnings	Reserves				Total			
			Asset Re-valuation	Share Based Payment EPU's	Share Based Payment SFC Options	Net unrealised gains/(losses)				Foreign Currency translation
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
At 1 July 2009	17,034	36,845	2,585	333	115	(10)	(877)	56,025	5,087	61,112
Profit for the half-year	-	3,619	-	-	-	-	-	3,619	(23)	3,596
Other comprehensive income	-	-	-	-	-	7	(726)	(719)	(147)	(866)
Total comprehensive income for the half-year	-	3,619	-	-	-	7	(726)	2,900	(170)	2,730
Transactions with owners in their capacity as owners:										
Share-based payments	-	-	-	34	-	-	-	34	-	34
Equity dividends	-	(2,823)	-	-	-	-	-	(2,823)	(505)	(3,328)
At 31 December 2009	17,034	37,641	2,585	367	115	(3)	(1,603)	56,136	4,412	60,548
At 1 July 2010	17,034	35,701	2,585	406	115	1	(1,415)	54,427	4,318	58,745
Profit for the half-year	-	2,033	-	-	-	-	-	2,033	158	2,191
Other comprehensive income	-	-	-	-	-	1	(1,185)	(1,184)	(276)	(1,460)
Total comprehensive income for the half-year	-	2,033	-	-	-	1	(1,185)	849	(118)	731
Transactions with owners in their capacity as owners:										
Share-based payments	-	-	-	33	-	-	-	33	-	33
Equity dividends	-	(2,823)	-	-	-	-	-	(2,823)	-	(2,823)
At 31 December 2010	17,034	34,911	2,585	439	115	2	(2,600)	52,486	4,200	56,686

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

SCHAFFER CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	Dec 2010 \$'000	Dec 2009 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		69,206	82,117
Payments to suppliers and employees		(66,607)	(57,749)
Other revenue		39	206
Borrowing costs paid		(2,539)	(2,207)
Income taxes paid		(1,169)	(3,875)
Goods and services tax paid		<u>(441)</u>	<u>(897)</u>
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		<u>(1,511)</u>	<u>17,595</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		1	-
Interest income		144	204
Acquisition of property, plant and equipment		(2,612)	(1,712)
Additions to investment properties		(649)	(346)
Proceeds on sale of property, plant and equipment		123	2,711
Proceeds on disposal of joint venture interests		<u>520</u>	<u>-</u>
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		<u>(2,473)</u>	<u>857</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	3(a)	(2,823)	(3,328)
Proceeds from borrowings		5,969	-
Repayment of borrowings		<u>(1,791)</u>	<u>(8,431)</u>
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		<u>1,355</u>	<u>(11,759)</u>
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		(2,629)	6,693
Cash and cash equivalents at the beginning of the period		<u>15,510</u>	<u>14,404</u>
CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD	11(a)	<u>12,881</u>	<u>21,097</u>

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

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

1. CORPORATE INFORMATION

The financial report of Schaffer Corporation Limited (the Company) for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 23 February 2011. Schaffer Corporation Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2010 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2010 and considered together with any public announcements made by Schaffer Corporation Limited during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX listing rules.

The accounting policies and method of computation are the same as those adopted in the most recent annual financial report.

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

In the current period, the Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for reporting period beginning on 1 July 2010. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies.

3. DIVIDENDS PAID OR PROPOSED

	CONSOLIDATED	
	Dec 2010 \$'000	Dec 2009 \$'000
(a) Dividends declared and paid during the half year on ordinary shares. Final franked dividend for the financial year 30 June 2010: 20¢ (2009 – 20¢) Dividend paid by controlled entity to minority shareholder	2,823 <hr style="width: 100%; border: 0.5px solid black;"/> -	2,823 <hr style="width: 100%; border: 0.5px solid black;"/> 505
	<hr style="width: 100%; border: 0.5px solid black;"/> 2,823	<hr style="width: 100%; border: 0.5px solid black;"/> 3,328
(b) Dividends proposed and not yet recognised as a liability Interim franked dividend for the half year 31 December 2010 – 10¢ (2009 – 20¢)	<hr style="width: 100%; border: 0.5px solid black;"/> 1,411	<hr style="width: 100%; border: 0.5px solid black;"/> 2,823

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:

	CONSOLIDATED	
	Dec 2010 \$'000	Dec 2009 \$'000
(a) Finance income		
Bank interest received	<hr style="width: 100%; border: 0.5px solid black;"/> 144	<hr style="width: 100%; border: 0.5px solid black;"/> 204
(b) Other income/(losses)		
Gain/(loss) on sale of property, plant & equipment	978	(49)
Net foreign currency gain/(loss)	565	(31)
Net gain on derivatives	776	389
Other	36	206
	<hr style="width: 100%; border: 0.5px solid black;"/> 2,355	<hr style="width: 100%; border: 0.5px solid black;"/> 515
(c) Finance Costs		
Bank loans and overdraft interest	2,407	2,018
Finance charges payable under finance leases	60	63
Other	72	126
	<hr style="width: 100%; border: 0.5px solid black;"/> 2,539	<hr style="width: 100%; border: 0.5px solid black;"/> 2,207
(d) Expenses		
Depreciation and amortisation of property, plant and equipment	2,270	2,299
Employee benefits	17,497	17,781
Expense of share based payments	33	34

5. SUBSEQUENT EVENTS

Subsequent to the end of the half year the company declared a dividend of 10¢ per share totalling \$1,411,000 payable on 25 March 2011.

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

6. COMMITMENT AND CONTINGENT LIABILITIES

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

7. CONTRIBUTED EQUITY

	CONSOLIDATED	
	Dec 2010 \$'000	Dec 2009 \$'000
Ordinary Shares	17,034	17,034
All ordinary shares are fully paid and carry one vote per share and carry the right to dividends.		
	Number of Shares	\$'000
Movements in ordinary shares on issue		
1 July 2010	14,113,251	17,034
Total capital issued during the period	-	-
At 31 December 2010	14,113,251	17,034

8. CONSOLIDATED RETAINED PROFITS

Retained profits at the beginning of the financial period	35,701	36,845
Net profit attributable to members	2,033	3,619
Dividends and other equity distributions paid or payable	(2,823)	(2,823)
Retained profits at end of financial period	34,911	37,641

9. DETAILS OF AGGREGATE SHARE OF PROFITS (LOSSES) OF JOINTLY CONTROLLED ASSETS

	Current period	Previous corresponding period
9.1 Name of jointly controlled assets	Percentage Interest	Percentage Interest
<u>Joint Ventures</u>		
IBM Centre Joint Venture	22.10	22.10
St. Kilda Road Joint Venture	20.00	20.00
Hometown Joint Venture	25.00	25.00
Crosslands Shopping Centre Joint Venture	16.70	16.70
89 St. George's Terrace Joint Venture	20.00	20.00
Mindarie Keys Joint Venture	15.00	15.00
Vulcan Road Joint Venture	20.00	20.00
Neerabup Joint Venture	20.00	20.00
Sentiens Joint Venture	-	11.00
1500 Albany Highway Joint Venture	25.00	25.00
9.2 Group's share of income and expenses relating to its interests in jointly controlled assets	\$'000	\$'000
Profit from ordinary activities before tax	331	1,035
Income tax on ordinary activities	99	311
Profit from ordinary activities after tax	232	724
Share of net profit of jointly controlled assets	232	724

10. INCOME TAX

The major components of income tax expense for the half year ended 31 December 2010 and 31 December 2009 are:

	CONSOLIDATED	
	Dec 2010 \$'000	Dec 2009 \$'000
Consolidated Income Statement		
<i>Current income tax</i>		
Current income tax charge	874	1,136
Adjustments in respect of current income tax of previous years	(69)	(267)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	117	540
Total income tax expense	922	1,409
Income tax expense reported in the Consolidated Income Statement		
	1,545	1,834
Income tax attributable to discontinued operations	(623)	(425)
Total income tax expense	922	1,409

11. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash

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

Cash at bank and in hand	12,881	21,097
Bank overdrafts	-	-
	12,881	21,097

(b) Non-cash financing and investing activities

Financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are \$Nil (2009 - \$Nil)

(c) Financing facilities available

The consolidated entity has bank facilities available to the extent of \$92,987,000 (June 2010 - \$92,606,000). The unutilised facility for the consolidated entity at balance date was \$10,544,000 (June 2010 - \$14,320,000)

12. EARNINGS PER SECURITY (EPS)

Details of basic and diluted EPS reported separately are as follows:	Dec 2010 \$'000	Dec 2009 \$'000
The following reflects the income and share data used in the calculation of basic and diluted EPS:		
Basic Earnings	2,033	3,619
Diluted Earnings	2,033	3,619
	<u>Number</u>	<u>Number</u>
Weighted average number of ordinary shares used in the calculation of basic EPS	14,113,251	14,113,251
Diluted effect of employee options on issue	-	-
Weighted average number of ordinary shares used in the calculation of diluted EPS	14,113,251	14,113,251

13. SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

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

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

The Group comprises the following reportable segments:

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

The building materials segment comprises Delta Corporation Limited, Urbanstone Pty. Ltd., Archistone Pty. Ltd., Urbanstone Central 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 property segment leases offices and retail premises and includes the Group's share of jointly controlled operations. The segment also includes the Mindarie Keys and Neerabup joint venture land subdivisions.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally is the same as those contained in note 1 to the accounts and in the prior period. There are no inter-segment transactions.

Allocation of Assets

It is the Group's policy that if items of revenue and expense are not allocated to operating segments, then any associated assets are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

13. SEGMENT INFORMATION continued

The following table presents revenue and profit information regarding business segments for the half year periods ended 31 December 2010 and 31 December 2009

	LEATHER		BUILDING MATERIALS		PROPERTY		CONSOLIDATED	
	Dec 2010 \$'000	Dec 2009 \$'000	Dec 2010 \$'000	Dec 2009 \$'000	Dec 2010 \$'000	Dec 2009 \$'000	Dec 2010 \$'000	Dec 2009 \$'000
Revenue from External Customers	34,305	37,070	27,742	27,714	3,427	3,457	65,474	68,241
Unallocated interest and dividend revenue							145	204
Total Revenue							65,619	68,445
Segment Earnings	4,127	1,849	2,899	5,609	1,457	1,867	8,483	9,325
Unallocated items:								
Finance income							144	204
Finance costs							(2,539)	(2,207)
Corporate overheads							(901)	(902)
Operating Profit Before Income Tax from continuing operations							5,187	6,420
Income Tax Expense							(1,545)	(1,834)
Net Profit After Tax from continuing operations							3,642	4,586
	Dec 2010 \$'000	Jun 2010 \$'000	Dec 2010 \$'000	Jun 2010 \$'000	Dec 2010 \$'000	Jun 2010 \$'000	Dec 2010 \$'000	Jun 2010 \$'000
Segment Assets	71,659	75,441	64,150	60,417	25,017	25,329	160,826	161,187
Unallocated items:								
Available-for-sale financial assets							33	31
Cash							682	1,477
Property, plant and equipment							785	796
Prepayment							257	175
Receivables							30	-
Deferred income tax assets							508	525
Total segment assets							163,121	164,191

14. DISCONTINUED OPERATION

- (a) In November 2010 the company announced that the automotive leather cutting plant located in Juarez, Mexico (part of the leather reporting segment) would be sold in early 2011, following the completion of existing supply contracts. The financial performance of the Mexican operations has been negatively affected over the past few years by a combination of reduced sales volumes and pricing pressures. In addition crime levels in and around Juarez have escalated alarmingly following a government sponsored crack down on drug cartels operating in the area. The sale of this loss making operation is aimed at improving the overall financial performance of the Automotive Leather division. Negotiations have commenced regarding a sale of the group's Mexican subsidiary Howe de Mexico SA, however the net proceeds on the sale are not expected to materially impact the financial results of Schaffer Corporation Limited. Finalisation of the sale of the Mexican operations is expected to be completed prior to the end of the current financial year.

As noted below the net profit for the period includes a provision of \$659,000 after tax (\$942,000 before tax) for costs and redundancy payments associated with the closure of the Mexican cutting plant. In accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations*, the financial results of the Mexican operations have been classified as “discontinued operations”.

- (b) Financial performance of operations held for sale

	Consolidated 2010 \$'000	2009 \$'000
Revenue	4,548	6,510
Expenses	(5,680)	(7,925)
Gross profit/(loss)	(1,132)	(1,415)
Loss recognised on closure	(942)	-
Loss before tax from discontinued operations	(2,074)	(1,415)
Tax income:		
- related to pre-tax loss	340	425
- related to loss on closure	283	-
Loss for the year from discontinued operations	(1,451)	(990)

(c) Nat cash flows of discontinued operations

	Consolidated 2010 \$'000	2009 \$'000
Cash flow from/(used in)		
Operating activities	(768)	(1,232)
Investing activities	-	(1)
Net cash flow from/(used in) discontinued operations	(768)	(1,233)

(d) Assets and liabilities of disposed group classified as held for sale

The major classes of assets and liabilities of the Mexico Automotive leather cutting business at 31 December 2010 that were classified on the balance sheet as held for sale, are summarised below:

	Consolidated 2010 \$'000
Assets	
Trade and other receivables	116
Inventories	3,654
Prepayments	9
Plant and equipments	87
	3,866
Liabilities	
Trade and other payables	1,079
Income tax payable	1
Provision	96
	1,176
Net assets attributable to disposal group	2,690

(e) Discontinued operation earnings per share information (cents per share)

	2010 ¢	2009 ¢
Basic earnings per share – discontinued operation	(10.3)	(7.0)
Diluted earnings per share – discontinued operation	(10.3)	(7.0)

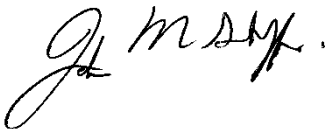
DIRECTORS' DECLARATION

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 are in accordance with the *Corporations Act 2001*, including:
 - (i) Give a true and fair view of the financial position as at 31 December 2010 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, 23 February 2011

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 2010, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Gavin Buckingham'.

Gavin A Buckingham
Partner
Perth
23 February 2011

Independent review report to the members of Schaffer Corporation Limited

Report on the 31 December 2010 Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Schaffer Corporation Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the group and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the 31 December 2010 Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Schaffer Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the annual financial report.

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

Independence

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

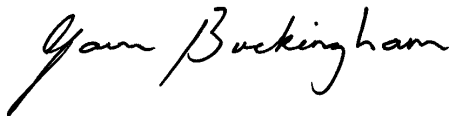
Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
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Ernst & Young

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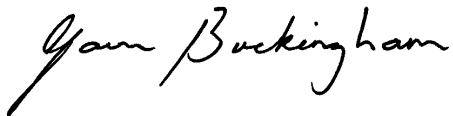
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Ernst & Young

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Gavin A Buckingham
Partner
Perth
23 February 2011