

2007 FINANCIAL REPORT

at 30 June 2007

Income Statement	14
Balance Sheet	15
Statement of Changes in Equity	16
Cash Flow Statement	17
Notes to the Financial Statements	18
Directors' Declaration	49
Independent Audit Report	50
Directors' Report	51
Statement of Corporate Governance Practices	58
ASX Additional Information	64

INCOME STATEMENT

for the year ended 30 June 2007

	NOTES	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
CONTINUING OPERATIONS					
Revenue					
Sale of goods		143,771	141,397	–	–
Rental income	3(a)	3,720	3,424	1,291	1,148
Finance income	3(b)	164	511	34	108
Dividends	3(c)	3	3	9,003	9,666
Total revenue		147,658	145,335	10,328	10,922
Cost of sales		(112,130)	(111,124)	–	–
Gross profit		35,528	34,211	10,328	10,922
Other income	3(d)	2,035	978	272	47
Rental property expenses	3(a)	(2,050)	(1,744)	(631)	(393)
Marketing expenses		(5,025)	(4,737)	–	–
Administrative expenses		(11,195)	(12,347)	(1,865)	(1,917)
Profit from continuing operations before tax and finance costs		19,293	16,361	8,104	8,659
Finance costs	3(b)	(4,514)	(3,934)	(788)	(351)
Profit before income tax		14,779	12,427	7,316	8,308
Income tax expense	5	(4,140)	(3,997)	502	(109)
Net profit for the year		10,639	8,430	7,818	8,199
Attributable to					
Minority interest		387	286	–	–
Members of the parent		10,252	8,144	7,818	8,199
		10,639	8,430	7,818	8,199
Earnings per share (cents per share)	31				
– basic for profit for the year attributable to ordinary equity holders of the parent		72.7	57.8		
– diluted for profit for the year attributable to ordinary equity holders of the parent		72.7	57.8		
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 2007*

	Notes	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	4	9,537	13,596	3,384	2,560
Trade and other receivables	7	28,158	26,004	81	397
Inventories	8	38,917	38,243	–	–
Available-for-sale financial assets	9	103	304	103	304
Prepayments and deposits	10	619	1,076	40	379
Derivative financial instruments	33	608	–	–	–
TOTAL CURRENT ASSETS		77,942	79,223	3,608	3,640
NON CURRENT ASSETS					
Trade and other receivables	11	–	–	9,087	6,919
Other financial assets	12	–	–	19,664	19,664
Property, plant and equipment	13	48,382	37,124	8,341	4,224
Investment properties	14	17,353	15,035	7,568	6,146
Deferred income tax asset	5	585	428	121	91
Goodwill	15	1,299	1,299	–	–
TOTAL NON CURRENT ASSETS		67,619	53,886	44,781	37,044
TOTAL ASSETS		145,561	133,109	48,389	40,684
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	16	18,313	15,370	11,513	8,892
Interest bearing loans and borrowings	17	3,686	1,519	1,520	–
Income tax payable		1,477	1,825	1,477	1,825
Provisions	18	5,403	5,743	450	367
TOTAL CURRENT LIABILITIES		28,879	24,457	14,960	11,084
NON CURRENT LIABILITIES					
Interest bearing loans and borrowings	19	61,563	56,485	9,116	6,119
Deferred income tax liabilities	5	734	249	–	–
Provisions	20	1,265	1,812	100	148
TOTAL NON CURRENT LIABILITIES		63,562	58,546	9,216	6,267
TOTAL LIABILITIES		92,441	83,003	24,176	17,351
NET ASSETS		53,120	50,106	24,213	23,333
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	21	17,034	17,034	16,298	16,086
Reserves	22	2,476	2,976	2,432	2,525
Retained earnings	22	29,583	26,388	5,483	4,722
Total parent entity interest in equity		49,093	46,398	24,213	23,333
Minority interests	30	4,027	3,708	–	–
TOTAL EQUITY		53,120	50,106	24,213	23,333

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2007

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
	ISSUED CAPITAL \$'000	RETAINED EARNINGS \$'000	OTHER RESERVES \$'000	TOTAL \$'000		
	At 1 July 2005	17,034	30,222	2,820		
Transitional adjustment for AASB 132 and 139	–	–	6	6	–	6
Unrealised gain on available-for-sale investments net of tax	–	–	121	121	–	121
Foreign currency translation reserve	–	–	(51)	(51)	–	(51)
Total income recognised directly in equity	–	–	76	76	–	76
Profit for the year	–	8,144	–	8,144	286	8,430
Total income for the year	–	8,144	76	8,220	286	8,506
Cost of share-based payments	–	–	80	80	–	80
Equity dividends	–	(11,978)	–	(11,978)	(337)	(12,315)
At 30 June 2006	17,034	26,388	2,976	46,398	3,708	50,106
1 July 2006						
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
Cost of share-based payments	–	–	79	79	–	79
Settlement of employee participation units	–	–	(119)	(119)	(68)	(187)
Equity dividends	–	(7,057)	–	(7,057)	–	(7,057)
At 30 June 2007	17,034	29,583	2,476	49,093	4,027	53,120

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
	ISSUED CAPITAL \$'000	RETAINED EARNINGS \$'000	OTHER RESERVES (NOTE 22) \$'000	TOTAL \$'000		
	PARENT					
At 1 July 2005	16,086	8,501	2,394	26,981	–	26,981
Unrealised gain on available-for-sale investments net of tax	–	–	121	121	–	121
Transitional adjustment relating to the application of AASB 132 and 139	–	–	6	6	–	6
Total income recognised directly in equity	–	–	127	127	–	127
Profit for the year	–	8,199	–	8,199	–	8,199
Total income for the year	–	8,199	127	8,326	–	8,326
Cost of share-based payments	–	–	4	4	–	4
Equity dividends	–	(11,978)	–	(11,978)	–	(11,978)
At 30 June 2006	16,086	4,722	2,525	23,333	–	23,333
1 July 2006						
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)
At 30 June 2007	16,298	5,483	2,432	24,213	–	24,213

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

CASH FLOW STATEMENT*for the year ended 30 June 2007*

	NOTES	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		152,414	153,060	1,776	1,723
Payments to suppliers and employees		(127,768)	(129,203)	(2,576)	(2,227)
Other revenue		203	90	-	-
Government scheme income		-	348	-	-
Interest paid		(4,514)	(3,934)	(746)	(343)
Income taxes paid		(4,166)	(2,946)	(4,142)	(2,660)
Goods and services tax paid/(refunded)		(1,113)	(496)	336	(76)
Research and development expenditure		(1,200)	(800)	-	-
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	4(b)	13,856	16,119	(5,352)	(3,583)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income		164	511	34	108
Acquisition of investment properties		(2,731)	(1,683)	(1,585)	(1,483)
Acquisition of property, plant and equipment		(8,031)	(2,798)	(4,050)	(4)
Acquisition of business	35	(7,420)	(250)	(7,420)	(250)
Proceeds on sale of property, plant and equipment		542	13	-	-
Net cash impact on disposal of controlled entity		-	37	-	37
Proceeds on disposal/(purchase) of equity securities		340	(30)	340	(30)
Dividends received		3	3	9,003	9,666
Deposits paid		-	(102)	-	(102)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(17,133)	(4,299)	(3,678)	7,942
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipts from controlled entities		-	-	4,762	1,879
Finance lease principal payments		(209)	(176)	-	-
Dividends paid	6(a)	(7,057)	(12,315)	(7,057)	(11,978)
Proceeds from borrowings		9,584	4,502	7,617	1,902
Repayment of borrowings		(3,100)	-	(3,100)	-
Proceeds from share issue		-	-	212	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(782)	(7,989)	2,434	(8,197)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		(4,059)	3,831	824	(3,838)
Cash and cash equivalents at the beginning of the year		13,596	9,765	2,560	6,398
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	4(a)	9,537	13,596	3,384	2,560

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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 1 CORPORATE INFORMATION

The financial report of Schaffer Corporation Limited (the Group) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 28 September 2007.

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) and the Urgent Issues Group that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2006. The adoption of these new and revised Standards and Interpretations did not have any effect on the financial position or performance of the Group.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report, complies with International Financial Reporting Standards (IFRS).

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 ending 30 June 2007. These are outlined in the table below.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 <i>Financial Instruments: Disclosures</i> .	1 January 2007	No change to accounting policy required. Therefore no impact.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 <i>Group and Treasury Share Transactions</i> .	1 March 2007	Group is currently assessing the impact on the Group's current accounting policy.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB Interpretation 12 <i>Service Concession Arrangements</i> .	1 January 2008	No change to accounting policy required. Therefore no impact.	1 July 2008
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 <i>Operating Segments</i> .	1 January 2009	No change to accounting policy required. Therefore no impact.	1 July 2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments	The standard is a result of the AASB decision that, in principle, all accounting policy options currently existing in IFRS should be included in the Australian equivalents to IFRS and the additional Australian disclosures should be eliminated, other than those considered particularly relevant in the Australian reporting environment.	1 July 2007	No change to accounting policy required. Therefore no impact.	1 July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	Amending standard issued as a consequence of AASB 123 (revised) <i>Borrowing Costs</i> .	1 January 2009	The Group policy will change, however, there is not expected to be a financial impact.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standard issued as a consequence of AASB 2007-4.	1 July 2007	No change to accounting policy required. Therefore no impact.	1 July 2007
AASB 7	<i>Financial Instruments: Disclosures.</i>	New standard replacing disclosure requirements of AASB 132.	1 January 2007	No change to accounting policy required. Therefore no impact.	1 July 2007
AASB 8	<i>Operating Segments</i>	This new standard will replace AASB 114 <i>Segment Reporting</i> and adopts a management approach to segment reporting.	1 January 2009	No change to accounting policy required. Therefore no impact.	1 July 2009
AASB 101 (revised October 2006)	Presentation of Financial Statements	Many of the disclosures from previous GAAP and all of the guidance from previous GAAP are not carried forward in the October 2006 version of AASB 101. The revised standard includes some text from IAS 1 that is not in the existing AASB 101 and has fewer additional Australian disclosure requirements than the existing AASB 101.	1 January 2007	No change to accounting policy required. Therefore no impact.	1 July 2007
AASB 123 (revised June 2007)	Borrowing Costs	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to the acquisition, construction or production of a qualifying asset. The revised version of AASB 23 requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.	1 January 2009	The Group's policy will change however there is not expected to be a financial impact.	1 July 2009
AASB Interpretation 10	<i>Interim Financial Reporting and Impairment</i>	Addresses an inconsistency between AASB 134 <i>Interim Financial Reporting</i> and the impairment requirements relating to goodwill in AASB 136 <i>Impairment of Assets</i> and equity instruments classified as available for sale in AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	1 November 2006	No change to accounting policy required. Therefore no impact.	1 July 2007
AASB Interpretation 11	<i>Group and Treasury Share Transactions</i>	Specifies that a share-based payment transaction in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled.	1 March 2007	Group is currently assessing the impact on the Group's current accounting policy.	1 July 2007
AASB Interpretation 12	<i>Service Concession Arrangements</i>	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	No change to accounting policy required. Therefore no impact.	1 July 2008
AASB Interpretation 129 (revised June 2007)	Service Concession Arrangements: Disclosures	The revised interpretation was issued as a result of the issue of Interpretation 12 and requires specific disclosures about service concession arrangements entered into by an entity, whether as a concession provider or a concession operator.	1 January 2008	No change to accounting policy required. Therefore no impact.	1 July 2008
IFRIC Interpretation 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	No change to accounting policy required. Therefore no impact.	1 July 2008
IFRIC Interpretation 14	IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	No change to accounting policy required. Therefore no impact.	1 July 2008

*designates the beginning of the applicable annual reporting period

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

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).

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

The functional currency of overseas subsidiaries is shown below:

Howe de Mexico SA de CV	PESO
Howe Slovenko S.R.O.	EURO
Howe Leather (Shanghai) Co. Ltd.	USD

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.

(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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(i) Available-for-sale investments

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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.

(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.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(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.

(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.

(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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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").

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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").

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Government Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Claims are made under the Strategic Investment Program and are for either capital grants or for research and product development. Claims must meet the strict criteria set down by Ausindustry.

(w) 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(x) 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
- 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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) 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.

(z) 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.

(aa) 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.

(ab) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(ac) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ad) Research costs

Research costs are expenses as incurred.

(ae) 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.

(af) 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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

NOTE 3
REVENUES AND EXPENSES

Revenue and expenses from continuing operations

(a) Net rental income

Rent received/receivable from

– controlled entities	–	–	109	87
– other persons/corporations	3,720	3,424	1,182	1,061
	<u>3,720</u>	<u>3,424</u>	<u>1,291</u>	<u>1,148</u>
Rental property expenses	(2,050)	(1,744)	(631)	(393)
Net rental income	<u>1,670</u>	<u>1,680</u>	<u>660</u>	<u>755</u>

(b) Finance (costs)/income

Bank and other loans and overdrafts – interest	(4,483)	(3,916)	(788)	(351)
Finance charges payable under finance leases	(31)	(18)	–	–
Total finance costs	<u>(4,514)</u>	<u>(3,934)</u>	<u>(788)</u>	<u>(351)</u>
Bank interest received	164	511	34	108
Total finance income	<u>164</u>	<u>511</u>	<u>34</u>	<u>108</u>

(c) Dividends

Dividends received/receivable from

– controlled entities	–	–	9,000	9,663
– other corporation	3	3	3	3
	<u>3</u>	<u>3</u>	<u>9,003</u>	<u>9,666</u>

(d) Other income/(losses)

Loss on sale of property, plant & equipment	(23)	(26)	–	–
Gain on sale of available-for-sale financial assets	272	10	272	10
Net gain/(loss) on derivatives	1,444	(306)	–	–
Net other foreign currency gain	139	795	–	–
Government grants	–	348	–	–
Profit on disposal of controlled entity	–	37	–	37
Other	203	120	–	–
	<u>2,035</u>	<u>978</u>	<u>272</u>	<u>47</u>

(e) Depreciation and amortisation included in income statement

Included in cost of sales:

Depreciation	3,972	4,493	–	–
Included in rental property expenses:				
Depreciation	415	405	163	151
Included in marketing and administrative expenses:				
Depreciation	373	336	33	36
	<u>4,760</u>	<u>5,234</u>	<u>196</u>	<u>187</u>

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'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	1,226	1,228	–	–
Included in marketing and administrative expenses:				
Minimum lease payments – operating lease	702	723	8	9
	<u>1,928</u>	<u>1,951</u>	<u>8</u>	<u>9</u>

(g) Employee benefit expense

Wages and salaries	32,265	30,023	1,053	863
Long service leave provisions	395	110	(32)	(17)
Worker's compensation costs	1,147	798	8	7
Superannuation costs	2,863	2,786	182	153
Expense of share-based payments	79	80	–	4
	<u>36,749</u>	<u>33,797</u>	<u>1,211</u>	<u>1,010</u>

(h) Other expenses/(gains)

Research expenditure	1,200	800	–	–
Inventory write down to net realisable value	–	336	–	–
Redundancy expenses	–	1,299	–	–
Write back allowance for doubtful debts	(135)	(270)	–	–

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
NOTE 4 CASH AND CASH EQUIVALENTS				
(a) Reconciliation of cash				
Cash balance comprises:				
Cash at bank and in hand	9,537	13,596	3,384	2,560
Closing cash balance per cash flow statement	9,537	13,596	3,384	2,560
(b) Reconciliation of operating profit after income tax to the net cash flows from operations				
Net profit	10,639	8,430	7,818	8,199
Adjustment for –				
Depreciation and amortisation	4,760	5,234	196	187
Interest received	(164)	(511)	(34)	(108)
Dividends received	(3)	(3)	(9,003)	(9,666)
Share-based payments expense	79	80	–	4
Settlement of employee participation units	(119)	–	–	–
(Provision for)/write back of employee entitlements	(567)	(265)	35	(61)
Loss/(profit) on sale of property, plant & equipment	23	26	–	–
Realised gains on available-for-sale financial assets	(272)	(10)	(272)	(10)
Profit on sale of shares in partly owned controlled entities	–	(37)	–	(37)
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	(2,092)	2,119	266	(1,810)
(Increase)/decrease in inventories	(674)	(3,136)	–	–
(Decrease)/increase in trade and other payables	2,161	3,256	(3,967)	(1,054)
(Decrease)/increase in income tax payable	(348)	612	(348)	612
(Decrease)/increase in deferred income tax liabilities	485	(63)	–	(9)
(Increase)/decrease in deferred income tax asset	(157)	243	(30)	184
(Increase)/decrease in prepayments	105	144	(13)	(14)
Net cash flows from/(used in) operating activities	13,856	16,119	(5,352)	(3,583)

(c) Bank facilities – refer note 19.

(d) Non cash financing activities

During the current financial year plant costing \$970,000 (2006 – \$218,000) was acquired under a finance lease.

**NOTE 5
INCOME TAX**

The major components of income tax expense are:

Income Statement*Current income tax*

	CONSOLIDATED 2007 \$'000	CONSOLIDATED 2006 \$'000	PARENT 2007 \$'000	PARENT 2006 \$'000
Current income tax charge	3,670	3,887	(559)	(66)
Adjustment in respect of current income tax of previous years	103	(70)	48	–

Deferred income tax

	CONSOLIDATED 2007 \$'000	CONSOLIDATED 2006 \$'000	PARENT 2007 \$'000	PARENT 2006 \$'000
Relating to origination and reversal of temporary differences	367	180	9	175
Income tax expense reported in the income statement	4,140	3,997	(502)	109

Statement of changes in equity*Deferred income tax related to items charged or credited directly to equity*

	CONSOLIDATED 2007 \$'000	CONSOLIDATED 2006 \$'000	PARENT 2007 \$'000	PARENT 2006 \$'000
Unrealised gain on available-for-sale investments	(39)	54	(39)	54
Income tax expense reported in equity	(39)	54	(39)	54

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:

	CONSOLIDATED 2007 \$'000	CONSOLIDATED 2006 \$'000	PARENT 2007 \$'000	PARENT 2006 \$'000
Accounting profit before income tax	14,779	12,427	7,316	8,308
At the Group's statutory income tax rate of 30% (2006 – 30%)	4,434	3,728	2,195	2,492
– tax on dividends received	–	499	–	–
– dividends received from controlled entities	–	–	(2,700)	(2,400)
– expenses not allowable for income tax purposes	91	67	9	34
– capital loss not previously recognised as a deferred tax asset utilised	(132)	–	–	–
– adjustment on settlement of Howe Automotive EPU's	(120)	–	–	–
– other items	(146)	(167)	(54)	(17)
– research and development	(90)	(60)	–	–
– under/(over) provision of current income tax of previous years	103	(70)	48	–
Income tax expense reported in the consolidated income statement	4,140	3,997	(502)	109

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

	BALANCE SHEET		INCOME STATEMENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

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	2,095	1,452	(643)	453
Leased assets to be amortised for accounting purposes	329	115	(214)	9
Expenses deducted for income tax purposes but deferred for accounting purposes	70	85	15	(26)
Income taken up for accounting purposes currently not assessable for income tax purposes	209	358	149	(302)
Unrealised gain on available-for-sale listed investments	15	54	-	-
Gains and losses on foreign exchange contracts and translations	177	71	(106)	(71)
Deferred gain for income tax purposes on available-for-sale investments on script for script rollover	7	7	-	-
Gross deferred income tax liabilities	2,902	2,142		
Offset	(2,168)	(1,893)		
	734	249		

CONSOLIDATED

Deferred tax assets

Employee entitlements	1,377	1,288	89	(125)
Allowance for doubtful debts	145	132	13	72
Accelerated depreciation for accounting purposes	521	123	398	40
Deferred gains and losses on foreign exchange contracts and translations	-	427	(427)	124
Deferred loss on available-for-sale investments	59	80	(21)	(156)
Expenses not immediately deductible for income tax purposes	310	176	134	(211)
Lease liability deductible for income tax purposes	324	95	229	13
Losses carried forward	17	-	17	-
Gross deferred income tax assets	2,753	2,321		
Offset	(2,168)	(1,893)		
	585	428		
Deferred tax expense			(367)	(180)

	BALANCE SHEET		INCOME STATEMENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

NOTE 5

INCOME TAX (CONTINUED)

PARENT

Deferred tax liabilities

Accelerated depreciation for tax purposes	107	111	4	9
Unrealised gain on available-for-sale listed investments	15	54	-	-
Deferred gain for income tax purposes on available-for-sale investments on script for script rollover	7	7	-	-
Gross deferred income tax liabilities	129	172		
Offset	(129)	(172)		
	-	-		

PARENT

Deferred tax assets

Employee entitlements	165	154	11	(19)
Deferred loss on available-for-sale investments	59	80	(21)	(156)
Expenses not immediately deductible for income tax purposes	26	29	(3)	(9)
Gross deferred income tax assets	250	263		
Offset	(129)	(172)		
	121	91		

Deferred tax expense

(9) (175)

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 5
INCOME TAX (CONTINUED)

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	
	2007 \$'000	2006 \$'000
Major components of tax consolidation contributions by (or distributions to) equity participants		
Net assumptions of tax liabilities of members of the tax-consolidated group	4,257	3,338
Tax funding contribution receivable from controlled entities	<u>(4,257)</u>	<u>(3,338)</u>
Excess of tax funding contributions over tax liabilities assumed	<u>—</u>	<u>—</u>

CONSOLIDATED		PARENT	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

NOTE 6
DIVIDENDS PROVIDED FOR OR PAID

(a) Dividends paid

Final 2006 – 25¢ per share paid in September 2006 (2006 – 25¢)	3,528	3,523	3,528	3,523
Special final 2005 – 35¢ per share paid September 2005	—	4,932	—	4,932
Interim 2007 – 25¢ per share paid in March 2007 (2006 – 25¢)	<u>3,529</u>	<u>3,523</u>	<u>3,529</u>	<u>3,523</u>
Fully franked dividends paid by parent	7,057	11,978	7,057	11,978
Dividend paid by controlled entity to minority shareholder (refer Note 30)	—	337	—	—
Total fully franked dividends paid	<u>7,057</u>	<u>12,315</u>	<u>7,057</u>	<u>11,978</u>

(b) Proposal for approval at AGM (not recognised as a liability as at 30 June)

Dividends on ordinary shares

Final franked dividend for 2007 – 25¢ (2006 – 25¢)	<u>3,529</u>	<u>3,528</u>	<u>3,529</u>	<u>3,528</u>
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(c) The tax rate at which dividends have or will be franked is Interim 30% (2006 – 30%), Final 30% (2006 – 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 2007

Franking account balance brought forward	1,214	3,684
Fully franked dividends paid	(3,024)	(5,133)
Tax paid	4,142	2,662
Franked dividends received from other corporations	<u>1</u>	<u>1</u>
Franking account balance at the end of the financial year	2,333	1,214
Franking credits that will arise from the payment of income tax payable as at the end of the financial year by the parent	<u>1,477</u>	<u>1,825</u>
Franking credits that will be available on payment of income tax payable as at the end of the financial year by the parent	<u>3,810</u>	<u>3,039</u>

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	<u>8,890</u>	<u>7,091</u>
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NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

NOTE 7
TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors (see notes (i) and (ii))	26,535	23,923	–	–
Allowance for doubtful debts	(554)	(689)	–	–
	25,981	23,234	–	–
Sundry debtors (see note (ii))	2,177	2,770	81	397
	28,158	26,004	81	397

Terms and conditions relating to the above financial instruments

- (i) 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. An allowance of \$554,000 (2006 – \$689,000) 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.
- (ii) Sundry debtors and other receivables are non interest bearing and have repayment terms between 30 and 90 days.
- (iii) Included in trade debtors are non hedged foreign currency receivables amounting to:

	2007		2006	
	\$'000	AUST \$ EQUIVALENT \$'000	\$'000	AUST \$ EQUIVALENT \$'000
US \$	4,236	4,971	2,826	3,799
Euro	4,387	6,880	3,391	5,723
RMB	23,471	3,608	17,368	2,940

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

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000

NOTE 8
INVENTORIES

Work in progress – at cost	4,412	2,975	–	–
Finished goods – at cost	11,239	12,946	–	–
Raw materials – at cost	22,132	21,110	–	–
	37,783	37,031	–	–
Land held for resale				
Cost of acquisition	151	244	–	–
Development expenses capitalised	983	968	–	–
Carrying value of land	1,134	1,212	–	–
	38,917	38,243	–	–

Inventory write downs recognised as an expense totalled \$Nil (2006 – \$336,000).

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

NOTE 9
AVAILABLE-FOR-SALE FINANCIAL ASSETS

At fair value				
Shares – unlisted	14	15	14	15
Shares – listed	89	289	89	289
	103	304	103	304

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 income statement are reasonable and the most appropriate at the balance sheet date.

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

NOTE 10
PREPAYMENTS AND DEPOSITS

Deposits	–	352	–	352
Prepayments	619	724	40	27
	619	1,076	40	379

Deposits relate to property, plant and equipment acquisition commitments.

Prepayments comprise insurance, advertising and raw materials.

NOTE 11
TRADE AND OTHER RECEIVABLES (NON CURRENT)

Amount owed by wholly owned controlled entities	–	–	9,087	6,919
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Terms and conditions – refer related party Note 29.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

NOTE 12
OTHER FINANCIAL ASSETS (NON CURRENT)

Controlled entities at cost

Unlisted shares

CONTROLLED ENTITY	BENEFICIAL PERCENTAGE HELD BY THE GROUP		PLACE OF INCORPORATION	AMOUNT OF PARENT'S INVESTMENT	
	2007	2006		2007	2006
	%	%		\$'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	-	-
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 Pavement Pty Ltd *	100	100	Australia	-	-
Howe Automotive Limited ** (formerly Australian Leather holdings 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	-	-
				<u>19,664</u>	<u>19,664</u>

* 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:

CONSOLIDATED INCOME STATEMENT AND RETAINED EARNINGS RECONCILIATION	SCHAFFER CLOSED GROUP	
	2007	2006
	\$'000	\$'000
Profit from continuing operations before income tax	11,939	12,010
Income tax expense	(3,597)	(3,612)
Net profit for the year	8,342	8,398
Retained earnings at the beginning of the year	23,733	27,313
Dividends provided for or paid	(7,057)	(11,978)
Retained earnings at the end of the year	<u>25,018</u>	<u>23,733</u>
Consolidated Balance Sheet		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	5,410	10,411
Trade and other receivables	8,012	7,460
Inventories	5,506	4,524
Available-for-sale financial assets	103	304
Prepayments and deposits	384	689
TOTAL CURRENT ASSETS	<u>19,415</u>	<u>23,388</u>
NON CURRENT ASSETS		
Receivables	333	31
Other financial assets	14,598	14,598
Property, plant and equipment	30,652	17,415
Investment properties	17,353	15,035
Goodwill	84	84
Deferred income tax assets	233	-
TOTAL NON CURRENT ASSETS	<u>63,253</u>	<u>47,163</u>
TOTAL ASSETS	<u>82,668</u>	<u>70,551</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	6,729	4,816
Interest bearing loans and borrowings	1,686	131
Income tax payable	1,477	1,825
Provisions	2,575	1,479
TOTAL CURRENT LIABILITIES	<u>12,467</u>	<u>8,251</u>
NON CURRENT LIABILITIES		
Interest bearing loans and borrowings	24,909	17,831
Deferred income tax liabilities	-	99
Provisions	294	776
TOTAL NON CURRENT LIABILITIES	<u>25,203</u>	<u>18,706</u>
TOTAL LIABILITIES	<u>37,670</u>	<u>26,957</u>
NET ASSETS	<u>44,998</u>	<u>43,594</u>
EQUITY		
Issued capital	17,246	17,034
Reserves	2,734	2,827
Retained profits	25,018	23,733
TOTAL EQUITY	<u>44,998</u>	<u>43,594</u>

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
NOTE 13				
PROPERTY, PLANT AND EQUIPMENT				
Freehold land				
At cost	11,231	6,535	7,773	3,954
Buildings on freehold land				
At cost	13,782	13,004	525	263
Accumulated depreciation	(4,784)	(4,478)	(64)	(54)
	8,998	8,526	461	209
Leasehold quarries				
At cost	4,500	–	–	–
Accumulated depreciation	(61)	–	–	–
	4,439	–	–	–
Leasehold improvements				
At cost	1,184	711	–	–
Accumulated amortisation	(636)	(567)	–	–
	548	144	–	–
Net carrying amount of land and buildings	25,216	15,205	8,234	4,163
Plant and equipment				
At cost	59,665	58,227	657	589
Accumulated depreciation	(37,597)	(36,692)	(550)	(528)
Net carrying amount	22,068	21,535	107	61
Plant and equipment under lease				
At cost	1,137	593	–	–
Accumulated amortisation	(39)	(209)	–	–
	1,098	384	–	–
Net carrying amount of plant and equipment	23,166	21,919	107	61
Total property, plant and equipment				
At cost	91,499	79,070	8,955	4,806
Accumulated depreciation and amortisation	(43,117)	(41,946)	(614)	(582)
Total net carrying amount	48,382	37,124	8,341	4,224

The directors do not consider there is any impairment loss on property, plant or equipment at 30 June 2007.

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).

The carrying value of assets pledged as security are:

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment	48,382	37,124	8,341	4,224

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

	NOTE	CONSOLIDATED		PARENT	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
Freehold land					
Carrying amount at beginning		6,535	6,518	3,954	3,954
Additions		3,821	17	3,819	–
Acquisition of new business	35	875	–	–	–
		11,231	6,535	7,773	3,954
Buildings on freehold land					
Carrying amount at beginning		8,526	8,674	209	216
Additions		549	237	262	–
Acquisition of new business	35	275	–	–	–
Depreciation expense		(352)	(385)	(10)	(7)
		8,998	8,526	461	209
Leasehold quarries					
Carrying amount at beginning		–	–	–	–
Acquisition of new business	35	4,500	–	–	–
Amortisation expense		(61)	–	–	–
		4,439	–	–	–
Leasehold improvements					
Carrying amount at beginning		144	151	–	–
Additions		155	49	–	–
Acquisition of new business	35	317	–	–	–
Amortisation expense		(68)	(56)	–	–
		548	144	–	–
Net carrying amount of land and buildings		25,216	15,205	8,234	4,163
Plant and equipment					
Carrying amount at beginning		21,535	23,227	61	4
Additions		2,938	2,540	69	86
Acquisition of new business	35	1,771	–	–	–
Transfers from leased plant		170	149	–	–
Depreciation expense		(3,828)	(4,342)	(23)	(29)
Disposals		(518)	(39)	–	–
		22,068	21,535	107	61
Plant and equipment under lease					
Carrying amount at beginning		384	363	–	–
Additions		969	218	–	–
Transfers to plant and equipment		(170)	(149)	–	–
Depreciation expense		(38)	(48)	–	–
Disposals		(47)	–	–	–
		1,098	384	–	–
Total carrying amount of plant and equipment		23,166	21,919	107	61

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

NOTE 14
INVESTMENT PROPERTIES

Land and buildings				
At cost	16,262	13,883	7,064	5,510
Accumulated depreciation	(1,773)	(1,558)	(562)	(474)
	<u>14,489</u>	<u>12,325</u>	<u>6,502</u>	<u>5,036</u>
Improvements				
At cost	4,431	4,070	1,521	1,489
Accumulated depreciation	(1,567)	(1,360)	(455)	(379)
	<u>2,864</u>	<u>2,710</u>	<u>1,066</u>	<u>1,110</u>
Total				
At cost	20,693	17,953	8,585	6,999
Accumulated depreciation	(3,340)	(2,918)	(1,017)	(853)
Net carrying amount of investment properties	<u>17,353</u>	<u>15,035</u>	<u>7,568</u>	<u>6,146</u>

The directors do not consider there is any impairment loss on investment properties at 30 June 2007.

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:

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

Investment properties	17,353	15,035	7,568	6,146
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Reconciliations

Land and buildings				
Carrying amount at beginning	12,325	11,038	5,036	3,762
Additions	2,380	1,491	1,554	1,355
Depreciation expense	(216)	(204)	(88)	(81)
Total carrying amount	<u>14,489</u>	<u>12,325</u>	<u>6,502</u>	<u>5,036</u>
Plant and equipment				
Carrying amount at beginning	2,710	2,724	1,110	1,134
Additions	352	185	31	46
Depreciation expense	(198)	(199)	(75)	(70)
Total carrying amount	<u>2,864</u>	<u>2,710</u>	<u>1,066</u>	<u>1,110</u>

NOTE 15
GOODWILL

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

Goodwill at cost 1,299 1,299 - -

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

No impairment loss was recognised in the 2007 financial year.

At 30 June 2006

Cost (gross carrying amount)	1,299	1,299	-	-
Net carrying amount	<u>1,299</u>	<u>1,299</u>	<u>-</u>	<u>-</u>

At 30 June 2007

Cost (gross carrying amount)	1,299	1,299	-	-
Net carrying amount	<u>1,299</u>	<u>1,299</u>	<u>-</u>	<u>-</u>

(a) Impairment testing of goodwill

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

- Leather
- Investment Properties

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.

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

	CONSOLIDATED				PARENT			
	LEATHER	INVESTMENT PROPERTIES	TOTAL	TOTAL	LEATHER	INVESTMENT PROPERTIES	TOTAL	TOTAL
Carrying amount of goodwill	1,215	1,215	84	84	1,299	1,299	-	-

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

NOTE 16

TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors	17,123	14,480	98	164
Goods and services tax net	764	612	12	13
Other creditors	426	278	293	278
Amount owing by wholly owned controlled entities	(c) –	–	11,110	8,437
	<u>18,313</u>	<u>15,370</u>	<u>11,513</u>	<u>8,892</u>

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:

	2007		2006	
	\$'000	AUST \$ EQUIVALENT \$'000	\$'000	AUST \$ EQUIVALENT \$'000
US \$	5,591	6,561	3,793	5,098
RMB	–	–	1,543	261
SKK	–	–	2,111	92
EURO	1,347	2,112	–	–

(c) Amounts owing by wholly owned controlled entities

These loans are interest free and repayable on demand.

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

NOTE 17

INTEREST BEARING LOANS AND BORROWINGS (CURRENT)

Lease liability (refer note 25(c)) – secured	(b) 166	131	–	–
Working capital revolver facility (a)	–	1,388	–	–
Bank loan – secured	(d) 1,520	–	1,520	–
Government loan secured	(e) 2,000	–	–	–
	<u>3,686</u>	<u>1,519</u>	<u>1,520</u>	<u>–</u>

(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 8.98% per annum (2006 – 8.63%).

(b) Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 7.8% per annum (2006 – 7.4% per annum).

(c) Financing facilities available – refer note 19

(d) Bank loan – refer note 19(a)

(e) Government loan – bears a fixed interest rate of 4.4% per annum.

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

NOTE 18

PROVISIONS (CURRENT)

Claims	1,020	1,340	–	–
Redundancies	–	339	–	–
Employee entitlements (refer note 26a)	4,383	4,064	450	367
	<u>5,403</u>	<u>5,743</u>	<u>450</u>	<u>367</u>

Movement in provision for employee entitlements redundancies and claims

	CLAIMS \$'000	REDUNDANCIES \$'000	EMPLOYEE ENTITLEMENTS \$'000	TOTAL \$'000
--	---------------	---------------------	------------------------------	--------------

CONSOLIDATED

At 1 July 2006	1,340	339	4,064	5,743
Acquisition of new business	–	–	311	311
Arising during the year	–	–	785	785
Utilised	(320)	(339)	(777)	(1,436)
At 30 June 2007	<u>1,020</u>	<u>–</u>	<u>4,383</u>	<u>5,403</u>

PARENT

At 1 July 2006	–	–	367	367
Arising during the year	–	–	83	83
At 30 June 2007	<u>–</u>	<u>–</u>	<u>450</u>	<u>450</u>

Redundancy provisions

The redundancy provisions relate to the closure of the Gosh Leather facility.

Claim provisions

The claim provision relates to external claims for quality related matters.

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

NOTE 19

INTEREST BEARING LOANS AND BORROWINGS (NON CURRENT)

Lease liability (refer note 25c) – secured	(b) 912	186	–	–
Government loan – secured	(c) 36,654	38,654	–	–
Bank loan – secured	(a) 20,447	17,645	5,566	6,119
Commercial bills	(d) 3,550	–	3,550	–
	<u>61,563</u>	<u>56,485</u>	<u>9,116</u>	<u>6,119</u>

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

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	
			CURRENT \$'000	NON-CURRENT \$'000
May 2008	7.49%	Variable	638	–
Jun 2008	7.64%	Variable	882	–
Sept 2011	7.15%	Variable	–	3,841
Aug 2008	7.49%	Variable	–	2,638
Oct 2010	7.19%	Variable	–	4,080
Dec 2008	7.89%	Variable	–	1,154
Oct 2010	7.49%	Variable	–	1,246
Apr 2010	7.39%	Variable	–	870
Jun 2011	7.49%	Variable	–	490
Nov 2009	8.09%	Variable	–	890
Aug 2008	6.80%	Fixed	–	2,038
Apr 2010	6.61%	Fixed	–	800
Oct 2010	6.80%	Fixed	–	1,200
Oct 2010	6.95%	Fixed	–	1,200
			1,520	20,447

b) Finance leases

Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 7.8% per annum (2006 – 7.4% per annum). The lease liability is secured by a charge over the leased assets.

(c) Government loans

An amount of \$25,000,000 has interest payable at 2% per annum over the long term bond rate. The facility expires in February 2012. An amount of \$11,654,000 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 31 days, however, the facility has an expiry date of 1 July 2012. The effective interest rate is 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 (2006: 1 year).

Interest is at the rate of 9.43% per annum (2006 – 8.95%).

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 6.61% per annum to 8.09% per annum (2006 – 6.61% per annum to 7.48% per annum).

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

Financing facilities used and available

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities				
– bank overdraft	1,100	500	1,000	400
– bankers undertaking	3,694	3,794	154	154
– commercial bills	12,020	12,520	9,020	10,020
– finance leases	1,078	500	–	–
– bank loans	21,967	17,644	7,086	6,119
– working capital revolver facility	16,697	17,522	–	–
– Government loan	38,654	38,654	–	–
	95,210	91,134	17,260	16,693
Facilities used at reporting date				
– bank overdraft	–	–	–	–
– bankers undertaking (refer note 25(e))	1,456	1,369	10	10
– commercial bills	3,550	–	3,550	–
– finance leases	1,078	317	–	–
– bank loans	21,967	17,644	7,086	6,119
– working capital revolver facility	–	1,388	–	–
– Government loan	38,654	38,654	–	–
	66,705	59,372	10,646	6,129
Facilities unused at reporting date				
– bank overdraft	1,100	500	1,000	400
– bankers undertaking	2,238	2,425	144	144
– commercial bills	8,470	12,520	5,470	10,020
– finance leases	–	183	–	–
– bank loans	–	–	–	–
– working capital revolver facility	16,697	16,134	–	–
– Government loan	–	–	–	–
	28,505	31,762	6,614	10,564
Total facilities				
Facilities used at reporting date	66,705	59,372	10,646	6,129
Facilities unused at reporting date	28,505	31,762	6,614	10,564
	95,210	91,134	17,260	16,693

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
NOTE 20				
PROVISIONS (NON CURRENT)				
Employee entitlements (refer note 26a)	1,265	1,812	100	148
	EMPLOYEE ENTITLEMENTS \$'000			
CONSOLIDATED				
At 1 July 2006		1,812		
Arising during the year		47		
Utilised		(594)		
At 30 June 2007		1,265		
PARENT				
At 1 July 2006		148		
Utilised		(48)		
At 30 June 2007		100		

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

NOTE 21
CONTRIBUTED EQUITY

a) Issued and paid up capital

As at 30 June 2007				
14,113,251 ordinary fully paid shares (2006 – 14,091,935)	17,034	17,034	16,298	16,086

	2007		2006	
	NO OF SHARES	\$'000	NO OF SHARES	\$'000
b) Movement in ordinary shares on issue				
CONSOLIDATED				
At the beginning of the financial year	14,091,935	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	14,091,935	17,034
PARENT				
At the beginning of the financial year	14,091,935	16,086	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	14,091,935	16,086

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

NOTE 21
CONTRIBUTED EQUITY (CONTINUED)

(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.

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

NOTE 22
RESERVES AND RETAINED PROFITS

Reserves

Asset revaluation	2,585	2,585	2,283	2,283
Share based payment – EPU's	160	200	–	–
Share based payment – SFC options	115	115	115	115
Net unrealised gains reserve	34	127	34	127
Foreign currency translation reserve	(418)	(51)	–	–
	2,476	2,976	2,432	2,525

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. 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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 22
RESERVES AND RETAINED PROFITS (CONTINUED)

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 2005	2,585	124	111	–	–	2,820	2,283	111	–	2,394
Transitional adjustment relating to the application of AASB 132 and 139	–	–	–	6	–	6	–	–	6	6
Expensed for year	–	76	4	–	(51)	29	–	4	–	4
Unrealised gain on available-for-sale investments	–	–	–	121	–	121	–	–	121	121
At 30 June 2006	2,585	200	115	127	(51)	2,976	2,283	115	127	2,525
At 1 July 2006										
Unrealised gain on available-for-sale investments	–	–	–	34	–	34	–	–	34	34
Transfer out of realised gain on available-for-sale investment	–	–	–	(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

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Retained profits				
Balance 1 July	26,388	30,222	4,722	8,501
Net profit attributable to members of the parent entity	10,252	8,144	7,818	8,199
Dividends provided for or paid	(7,057)	(11,978)	(7,057)	(11,978)
Balance 30 June	29,583	26,388	5,483	4,722
	CONSOLIDATED		PARENT	
	2007 \$	2006 \$	2007 \$	2006 \$

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	246,025	266,300	70,525	111,000
Other services – tax compliance	32,841	26,204	15,603	8,066
	278,866	292,504	86,128	119,066
Amounts received or due and receivable by non-Ernst & Young audit firms for audit services	55,502	37,759	–	–

NOTE 24
DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

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

(ii) Executives

M Falconer	Group General Manager Schaffer Buildings Products Division
N Filipovic	Managing Director Howe & Company Pty. Ltd.
G V Davieson	Chief Financial Officer and Company Secretary Schaffer Corporation Limited
W Horton	Chief Financial Officer Howe Automotive Limited
M Perrella	General Manager Delta Corporation Limited

(iii) Remuneration of Key Management Personnel (KMP)

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to the key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the Remuneration Report of the Directors' Report. The Remuneration Report in the Directors' Report has been audited.

(iv) Remuneration by category: Key Management Personnel

	CONSOLIDATED		PARENT	
	2007 \$	2006 \$	2007 \$	2006 \$
Short term	2,270,258	1,815,412	881,628	917,974
Post employment	464,817	242,320	173,509	21,849
Share based payment	30,344	22,546	93	2,413
	2,765,419	2,080,278	1,055,230	942,236

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 24
DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(b) Option holdings of Key Management Personnel

30 JUNE 2007						VESTED AS AT 30 JUNE 2007		
DIRECTORS / EXECUTIVES	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	OPTIONS EXERCISED	LAPSED	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
Total	30,000	–	–	(7,500)	22,500	22,500	–	22,500

30 JUNE 2006						VESTED AS AT 30 JUNE 2006		
DIRECTORS / EXECUTIVES	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER	BALANCE AT END OF PERIOD	TOTAL	NOT EXERCISABLE	EXERCISABLE
M Falconer	12,500	–	–	–	12,500	7,500	–	7,500
G V Davieson	10,000	–	–	–	10,000	6,250	–	6,250
Total	22,500	–	–	–	22,500	13,750	–	13,750

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

30 JUNE 2007			TERMS AND CONDITIONS FOR EACH GRANT					
VESTED NO.	GRANTED 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	15,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Falconer	20,000	20,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Perrella	10,000	10,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
Total	45,000	45,000						

30 JUNE 2006			TERMS AND CONDITIONS FOR EACH GRANT					
VESTED NO.	GRANTED 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	10,000	10,000	20 Jun 02	\$1.89	\$ 9.49	20 Jun 07	20 Jun 02	20 Jun 05
G V Davieson	11,250	15,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Falconer	10,000	10,000	20 Jun 02	\$1.89	\$ 9.49	20 Jun 07	20 Jun 02	20 Jun 05
M Falconer	15,000	20,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
Total	46,250	55,000						

(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 2007	BALANCE AT BEGINNING OF YEAR	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR	AS AT 30 JUNE 2006	BALANCE AT BEGINNING OF YEAR	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR
Specified directors					Specified directors				
D E Blain	1,562,360	–	–	1,562,360	D E Blain	1,562,360	–	–	1,562,360
A K Mayer	347,185	–	–	347,185	A K Mayer	347,185	–	–	347,185
M D Perrott	1,000	–	–	1,000	M D Perrott	1,000	–	–	1,000
J M Schaffer	2,619,927	–	–	2,619,927	J M Schaffer	2,619,927	–	–	2,619,927
D J Schwartz	586,210	–	–	586,210	D J Schwartz	586,210	–	–	586,210
Specified executives					Specified executives				
M Falconer	20,000	–	–	20,000	M Falconer	20,000	–	–	20,000
G V Davieson	11,000	–	–	11,000	G V Davieson	36,745	–	(25,745)	11,000
M Perrella	59,534	–	–	59,534	Total	5,173,427	–	(25,745)	5,147,682
Total	5,207,216	–	–	5,207,216					

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 2007

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'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, 2007	642	617	642	617
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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	1,809	1,768	–	–
– later than 1 year and not later than 5 years	6,687	2,834	–	–
– later than 5 years	1,281	787	–	–
– aggregate lease expenditure contracted for at balance date	9,777	5,389	–	–

Operating leases – motor vehicles

– payable not later than 1 year	217	223	–	9
– later than 1 year and not later than 5 years	221	289	–	2
– aggregate lease expenditure contracted for at balance date	438	512	–	11

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:

	2007		2006	
	MINIMUM LEASE PAYMENTS \$'000	PRESENT VALUE OF LEASE PAYMENTS \$'000	MINIMUM LEASE PAYMENTS \$'000	PRESENT VALUE OF LEASE PAYMENTS \$'000
CONSOLIDATED				
Within one year	222	222	146	146
After one year but not more than five years	1,124	1,124	224	224
Total minimum lease payments	1,346	1,346	370	370
Less amounts representing unearned finance income	(268)	(268)	(53)	(53)
Present value of minimum lease payments	1,078	1,078	317	317

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).

CONSOLIDATED		PARENT	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

NOTE 25 CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS (CONTINUED)

(d) Expenditure commitments

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

– payable not later than 1 year	–	7,500	–	7,500
Acquisition of new business	–	–	–	–

(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:

	1,456	1,369	10	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	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

The aggregate employee entitlement liability is comprised of:

Accrued wages, salaries and on costs	405	218	–	–
Provisions (current) – refer note 18	4,383	4,064	450	367
Provisions (non current) – refer note 20	1,265	1,812	100	148
	6,053	6,094	550	515

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 26 EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

(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.

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

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
24 Aug 01	24 Aug 06	\$4.00	\$3.77	33%	5.42%	6.75%	\$0.83
4 Feb 02	4 Feb 07	\$5.65	\$5.42	36%	5.63%	4.78%	\$1.53
26 Mar 02	26 Mar 07	\$7.00	\$7.11	33%	6.12%	7.14%	\$1.32
20 Jun 02	20 Jun 07	\$9.50	\$9.49	34%	5.66%	6.84%	\$1.89
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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 26 EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (CONTINUED)

(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:

- If an employee dies or becomes permanently disabled at any time after the grant date.
- If an employee ceases employment after the three year initial vesting period.
- Upon a liquidity event (trade sale or listing on an Australian or overseas stock exchange).
- 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:

- up to 3 years – nil
- 3 years to 4 years – 33.3%
- 4 years to 5 years – 66.7%
- over 5 years – 100%

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

- termination due to misconduct
- failure to provide 90 days written notice of intention to terminate employment
- 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.

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)	(2,185,635)	698,799	1.1%
	Series 2	01-Jul-02	120,000	60,000	–	(30,000)	90,000	0.1%
	Series 3	01-Jul-03	245,000	53,333	–	(85,000)	160,000	0.3%
	Series 4	01-Jul-04	57,672	–	–	(32,672)	25,000	0.0%
	Series 5	16-May-05	150,000	–	–	–	150,000	0.2%
	Series 6	01-Jul-05	1,350,000	–	–	(250,000)	1,100,000	1.8%
	Series 7	21-Aug-06	500,000	–	–	–	500,000	0.8%
	Series 8	01-Jul-07	200,000	–	–	–	200,000	0.3%

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:

- the calculated unit price on the grant date;
- the exercise price of the EPUs;
- the volatility on Howe Automotive Limited shares over the 12 months ended immediately prior to the grant date;
- the options expected life;
- zero dividend yield as EPUs participate in dividends paid by Howe Automotive Limited; and
- 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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

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	
	2007	2006
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	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	–

Property Developments

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

	% INTEREST	
	2007	2006
Mindarie Keys Joint Venture	15.00	15.00
Neerabup Joint Venture	20.00	–

* On 6 August 2007 Schaffer Corporation Limited disposed of its interest in the Queens Road Joint Venture for a consideration of \$1,600,000 and realised a profit of \$1,300,000.

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

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS				
Cash and cash equivalents	625	796	139	78
Trade and other receivables	1,008	2,324	36	372
Prepayments	92	79	20	22
Inventories	1,186	1,253	–	–
TOTAL CURRENT ASSETS	2,911	4,452	195	472
NON CURRENT ASSETS				
Plant and equipment	8	10	–	–
Investment properties	17,353	15,035	7,568	6,146
Goodwill	84	84	–	–
TOTAL NON CURRENT ASSETS	17,445	15,129	7,568	6,146
TOTAL ASSETS	20,356	19,581	7,763	6,618
CURRENT LIABILITIES				
Trade and other payables	385	362	25	22
TOTAL CURRENT LIABILITIES	385	362	25	22
NON CURRENT LIABILITIES				
Interest bearing loans and borrowings	21,967	17,644	7,086	6,119
Deferred income tax liabilities	621	755	84	87
TOTAL NON CURRENT LIABILITIES	22,588	18,399	7,170	6,206
TOTAL LIABILITIES	22,973	18,761	7,195	6,228
NET ASSETS/(LIABILITIES)	(2,617)	820	568	390

NOTE 27 INTERESTS IN JOINTLY CONTROLLED ASSETS (CONTINUED)

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

Profit after tax	\$1,975,000	(2006 – \$1,984,000)
Revenue	\$7,865,000	(2006 – \$7,611,000)

There are no contingent liabilities in respect of the jointly controlled assets.

Capital expenditure commitments of \$Nil (2006 – \$Nil) payable within one year were contracted for at balance date.

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.

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

The building products 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 investments comprise cash and cash equivalents, available-for-sale financial assets, surplus land and the Group's share of the Mindarie Keys joint venture land subdivision.

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 28 SEGMENT INFORMATION (CONTINUED)

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 2007 and 30 June 2006.

BUSINESS SEGMENT INFORMATION	LEATHER		BUILDING PRODUCTS		INVESTMENT PROPERTIES		OTHER INVESTMENTS		CONSOLIDATED	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue										
Total revenue from ordinary activities external customers	84,435	98,111	55,144	39,043	4,611	4,236	3,468	3,945	147,658	145,335
Unallocated revenue									-	-
Total revenue									147,658	145,335
Results										
Segment results	5,986	4,829	8,665	6,586	1,936	1,928	2,090	2,001	18,677	15,344
Interest and corporate overhead									(3,898)	(2,917)
Operating profit before income tax									14,779	12,427
Income tax expense									(4,140)	(3,997)
Profit after tax from continuing operations									10,639	8,430
Assets										
Segment assets	71,746	73,821	38,875	22,092	17,838	15,930	16,387	20,388	144,846	132,231
Unallocated assets									715	878
Total assets									145,561	133,109
Liabilities										
Segment liabilities	54,681	55,896	12,912	5,600	21,003	17,342	1,609	2,098	90,205	80,936
Unallocated liabilities									2,236	2,067
Total liabilities									92,441	83,003
Other Segment Information										
Acquisition of property, plant and equipment, intangible assets and other non current assets	992	1,819	7,682	1,205	2,731	1,675	-	-	11,405	4,699
Unallocated									76	-
									11,481	4,699
Depreciation and amortisation	2,470	3,268	1,799	1,525	415	405	43	-	4,727	5,198
Unallocated									33	36
									4,760	5,234
Non cash expenses other than depreciation and amortisation	(607)	(448)	268	270	-	-	-	-	(339)	(178)
Unallocated									-	(7)
									(339)	(185)

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 \$8,754,335 (2006 – \$6,919,241).

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 \$11,110,239 (2006 – \$8,437,062).

Transactions with other related parties

Schaffer Corporation Limited holds 83.17% (2006 – 83.17%) of the share capital of Howe Automotive Limited of which Mr J M Schaffer and Mr A K Mayer are directors. No dividends were received during the year (2006 – \$1,663,406).

Schaffer Corporation Limited holds 83.17% (2006 – 0%) 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 \$332,774 (2006 – \$Nil).

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

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 30 MINORITY INTEREST

	2007 \$'000	2006 \$'000
Reconciliation of outside equity interest in controlled entities:		
At 1 July 2007	3,708	3,759
– Add share of operating profit		
– Adjustment on settlement of employee participation units	387	286
– Dividends paid	(68)	–
	–	(337)
At 30 June 2007	<u>4,027</u>	<u>3,708</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.

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

	CONSOLIDATED	
	2007 \$'000	2006 \$'000
Net profit attributable to ordinary equity holders of the parent from continuing operations	10,252	8,144
Profit attributable to ordinary equity holders of the parent from discontinued operations	–	–
	<u>10,252</u>	<u>8,144</u>
	NUMBER OF SHARES	NUMBER OF SHARES
Weighted average number of ordinary shares for basic earnings per share	<u>14,109,572</u>	<u>14,091,935</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>14,109,572</u>	<u>14,091,935</u>

There have been no other transactions involving ordinary shares. The potential ordinary shares at the reporting date are 27,500 (2006 – 67,850). These amounts have not been included in the calculation of diluted earnings per share as they are not considered to be dilutive.

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.

(a) Foreign currency risk

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.

In an effort to mitigate the risk of its structural currency exposure between 30% and 40% of foreign denominated revenue is covered by forward exchange contracts.

(b) 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 \$38,654,000 loan from the Commonwealth Government to Howe Automotive Limited, \$25,000,000 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. Refer Note 33(ii).

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 32
FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

The following table sets out the carrying amount by maturity of the financial instruments exposed to interest rate risk.

YEAR ENDED 30 JUNE 2007	1 YEAR	1 – 2 YEARS	2 – 3 YEARS	3 – 4 YEARS	4 – 5 YEARS	> 5 YEARS	TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
CONSOLIDATED								
FINANCIAL ASSETS								
Floating rate								
Cash assets	9,537	–	–	–	–	–	9,537	5.70%
Weighted average effective interest rate	5.70%							
FINANCIAL LIABILITIES								
Fixed rate								
Obligations under finance leases and hire purchase contracts	166	153	166	191	298	104	1,078	7.79%
Interest bearing loans and borrowings	–	2,038	800	2,400	–	–	5,238	6.81%
Government loan	–	–	–	–	13,654	–	13,654	4.40%
Weighted average effective interest rate	7.84%	6.87%	6.82%	6.95%	4.47%	8.00%		
Floating rate								
Interest bearing loans and borrowings	1,520	3,792	1,760	5,816	3,841	–	16,729	7.40%
Commercial bills	–	–	–	–	–	3,550	3,550	7.48%
Government loan	2,000	2,000	2,000	2,000	17,000	–	25,000	7.89%
Weighted average effective interest rate	7.76%	7.71%	7.82%	7.44%	7.75%	7.48%		
PARENT								
FINANCIAL ASSETS								
Floating rate								
Cash assets	3,384	–	–	–	–	–	3,384	5.70%
Weighted average effective interest rate	5.70%							
FINANCIAL LIABILITIES								
Fixed rate								
Interest bearing loans and borrowings	–	2,038	–	–	–	–	2,038	6.80%
Weighted average effective interest rate		6.80%						
Floating rate								
Commercial bills	–	–	–	–	–	3,550	3,550	7.48%
Interest bearing loans and borrowings	1,520	2,638	890	–	–	–	5,048	7.62%
Weighted average effective interest rate	7.58%	7.49%	8.09%			7.48%		

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 32
FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

YEAR ENDED 30 JUNE 2006	1 YEAR	1 - 2 YEARS	2 - 3 YEARS	3 - 4 YEARS	4 - 5 YEARS	> 5 YEARS	TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
CONSOLIDATED								
FINANCIAL ASSETS								
Floating rate								
Cash assets	13,596	-	-	-	-	-	13,596	5.40%
Weighted average effective interest rate	5.40%							
FINANCIAL LIABILITIES								
Fixed rate								
Obligations under finance leases and hire purchase contracts	131	25	26	28	107	-	317	7.40%
Interest bearing loans and borrowings	-	-	2,189	800	2,400	-	5,389	6.81%
Government loan	-	-	-	-	13,654	-	13,654	4.40%
Weighted average effective interest rate	7.40%	7.20%	6.80%	6.63%	6.89%			
Floating rate								
Interest bearing loans and borrowings	1,455	1,429	2,626	470	6,276	-	12,256	7.18%
Bank overdraft	1,388	-	-	-	-	-	1,388	8.63%
Government loan	2,000	2,000	2,000	2,000	17,000	-	25,000	7.34%
Weighted average effective interest rate	7.90%	7.30%	7.23%	7.28%	7.18%			
PARENT								
FINANCIAL ASSETS								
Floating rate								
Cash assets	2,560	-	-	-	-	-	2,560	5.40%
Weighted average effective interest rate	5.40%							
FINANCIAL LIABILITIES								
Fixed rate								
Interest bearing loans and borrowings	-	1,429	2,626	-	-	-	4,055	7.18%
Weighted average effective interest rate		7.24%	7.15%					
Floating rate								
Interest bearing loans and borrowings	-	-	2,064	-	-	-	2,064	6.80%
Commercial bills	-	-	-	-	-	3,550	3,550	7.48%
Weighted average effective interest rate			6.80%			7.48%		

(d) 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 at approximate fair value except for the following:

	TOTAL CARRYING AMOUNT AS PER BALANCE SHEET		AGGREGATE NET FAIR VALUE	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Government loans 4.4% per annum	13,654	13,654	11,451	11,509

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Recognised financial instruments

Cash, cash equivalents and short term investments:

The carrying amount approximates fair value because of their short term to maturity.

Trade receivables and payables:

The carrying amount approximates fair value.

Short term borrowings:

The carrying amount approximates fair value because of their short term to maturity.

Long term loans receivable:

The fair values of long term loans receivable are estimated based on the amount likely to be recovered.

Long term borrowings:

Other than noted above the fair values of long term borrowings have been calculated using market interest rates.

Non current investments/securities:

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.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

NOTE 32 FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity.

(e) Credit risk exposures

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.

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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.

Refer also to Note 28 – Segment Information

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

	MAXIMUM CREDIT RISK EXPOSURE			
	CONSOLIDATED			
	TRADE DEBTORS		TRADE DEBTORS	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Industry				
Leather	71	71	18,750	17,070
Building products	26	22	6,967	5,101
Other investments –				
Property subdivision	3	7	818	1,752
Total	100	100	26,535	23,923

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

Leather and building products

- payment terms 30 days
- a risk assessment process is used for all new customers
- all export sales are fully covered by credit insurance

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.

(f) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through bank overdrafts, bank and other loans, finance leases and hire purchase contracts.

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

\$38,654,000 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 \$21,967,000 at 30 June 2007. 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, 90% of the property borrowings were non-recourse to the Parent.

NOTE 33 DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

Current assets

Forward currency contracts				
– held for trading	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:

	2007	2006	2007	2006
	\$'000	\$'000	AVERAGE EXCHANGE RATE	AVERAGE EXCHANGE RATE

Sell US\$ / Buy Australian \$

Sell US\$ Maturity				
0-12 months – Consolidated	4,395	5,437	0.7963	0.7357

Sell Euro \$ / Buy Australian \$

Sell Euro \$ Maturity				
0-12 months – Consolidated	6,748	7,512	0.5928	0.5991

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 \$1,444,000 for the Group (2006 – Loss \$306,000)

(ii) Interest Rate Swaps – cash flow hedges

Interest bearing loans of the Group currently bear an average variable interest rate of 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 24% (2006 – 31%) of the principal outstanding and are timed to expire at the renewal dates of each loan. The fixed interest rates range between 6.61% and 6.95% (2006 – 6.80% and 7.32%) and the variable rates between 0.71% and 1.65% above the 90 day bank bill rate, which at balance date was 6.44% (2006 – 5.98%)

At 30 June 2007, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
1 – 2 years	2,038	–	2,038	1,429
2 – 3 years	800	2,189	–	2,626
3 – 4 years	2,400	800	–	–
4 – 5 years	–	2,400	–	–
5+ years	–	–	–	–
	5,238	5,389	2,038	4,055

The interest rate swaps require settlement of net interest receivable or payable each 300 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. All swaps are matched directly against the appropriate loans and interest expense and as such are considered fully effective, they are settled on a net basis. The swaps are measured at fair value and all gains and losses are taken directly to profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

year ended 30 June 2007

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 18 September 2007.

On 31 July 2007 Schaffer Corporation Limited purchased 100% of the share capital of Archistone Pty. Ltd. a limestone building product producer for a cash consideration of \$6,200,000. It is impractical for the Company to disclose the allocation of the purchase price over the fair value of assets, liabilities and contingent liabilities acquired as this allocation is still being undertaken.

On 6 August 2007 Schaffer Corporation Limited disposed of its interest in Queens Road Joint Venture for a consideration of \$1,600,000 and realised a profit of \$1,300,000.

NOTE 35 BUSINESS COMBINATION

Acquisition of business

On 5 July 2006 Schaffer Corporation limited acquired the entire 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
Leasehold improvements	317
Plant and equipment	1,771
Deferred tax asset	93
Inventories	150
	<u>7,981</u>
Employee entitlements reimbursement	(311)
Fair value of identifiable net assets	<u>7,670</u>
Cost of combination:	
Cash paid	<u>7,670</u>
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	<u>7,670</u>

It is impractical to disclose carrying value of the assets and liabilities prior to acquisition as information is not available.

From the date of acquisition the limestone business contributed \$259,000 to the net after tax profit of the group based on revenue of \$13,783,000.

DIRECTORS' DECLARATION

year ended 30 June 2007

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 2007 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 2007.
- (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, 28 September 2007

INDEPENDENT AUDIT REPORT

year ended 30 June 2007

We have audited the accompanying financial report of Schaffer Corporation Limited, which comprises the balance sheet as at 30 June 2007, 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.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 52 to 56 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

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. The directors are also responsible for the remuneration disclosures contained in the directors' report.

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 and that the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

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, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, 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 2007 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 disclosed in Note 2.
3. the remuneration disclosures that are contained on pages 52 to 56 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



G A Buckingham

Partner

Perth

28 September 2007

DIRECTORS' REPORT

year ended 30 June 2007

Your directors submit their report for the year ended 30 June 2007 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 – 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 – current

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

COMPANY SECRETARY

GEOFFREY V DAVIESON BSc(Hons), MA, GDAFI, FCIS, F Fin

Mr Geoff Davieson joined Schaffer Corporation Limited as a Cost Analyst in 1993. He has been Company Secretary of Schaffer Corporation Limited since 1994 and was also appointed Chief Financial Officer in 2005. Prior to joining Schaffer Corporation Limited, Mr Davieson had been engaged in the development capital, importing and mining industries. Mr Davieson holds a Masters degree from Murdoch University majoring in development capital and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. Mr Davieson is a Fellow of the Financial Services Institute of Australasia and a Fellow of the Institute of Secretaries and Administrators.

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	9
D J Schwartz	9	9
A K Mayer	9	9
M D Perrott	9	7

In accordance with the Articles of Association:

Mr D J Schwartz 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 NOMINATIONS AND REMUNERATIONS COMMITTEE MEETINGS

The SFC Board established the Nominations 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 Nominations 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:

	SCHAFER 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 \$10,629,000 (2006 – \$8,430,000).

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 2007

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 2007:

	\$'000
On ordinary shares	
– 25¢ per share final, paid on 19 September 2006	3,528
– 25¢ per share interim, paid on 20 March 2007	<u>3,529</u>
	<u>7,057</u>

Out of profits for the year ended 30 June 2006

On ordinary shares	
– 60¢ per share final, paid on 16 September 2005	8,455
– 25¢ per share interim, paid on 21 March 2006	<u>3,523</u>
	<u>11,978</u>

Proposal for approval at AGM (not recognised as a liability as at 30 June)

Final franked dividend for 2007 – 25¢ (2006 – 25¢)	<u>3,528</u>
--	--------------

REVIEW OF OPERATIONS

The consolidated entity's revenue increased by 2% from \$145,335,000 to \$147,658,000 this year. This resulted in a pre tax operating profit of \$14,779,000 compared to \$12,427,000 for last year. The net after tax consolidated entity profit, after minority interests increased by 26% from \$8,144,000 to \$10,252,000.

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 19 September 2007.

On 31 July 2007 Schaffer Corporation Limited purchased 100% of the share capital of Archistone Pty. Ltd. a limestone building product producer for a cash consideration of \$6,200,000. The Company is in the process of allocating the purchase price over the fair value of assets, liabilities and contingent liabilities acquired.

On 6 August 2007 Schaffer Corporation Limited disposed of its interest in the Queens Road Joint Venture for a consideration of \$1,600,000 and realised a profit of \$1,300,000.

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

DIRECTORS' AND OTHER OFFICERS COMPENSATION

Remuneration of Key Management Personnel

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the Remuneration Report of the Directors' Report. This Remuneration Report of the Directors' Report has been audited.

Details of Key Management Personnel

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

M Falconer	Group General Manager, Schaffer Buildings Products Division
N Filipovic	Managing Director, Howe & Company Pty. Ltd.
G V Davieson	Chief Financial Officer and Company Secretary, Schaffer Corporation Limited
W Horton	Chief Financial Officer, Howe Automotive Limited
M Perrella	General Manager, Delta Corporation Limited

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 Nominations 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.

DIRECTORS' REPORT

year ended 30 June 2007

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 executive remuneration with the interests of shareholders, link rewards with the strategic goals of 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 cost to 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 Nominations and Remuneration Committee in respect of each executive director. The fixed remuneration of executives is reviewed annually by the SFC Managing Director in case of Building Products and Corporate divisions and by the 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 to the wages cost index as published by the Australian Bureau of Statistics. For the year beginning 1 July 2007, a review 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. SFC's Managing Director and Chief Financial Officer/Company Secretary do not currently participate in any annual incentive program. A summary of the annual incentive schemes for the Building Products and Leather divisions is provided below:

Building Products Division – Management Bonus Incentive Scheme

The Company operates a Management Bonus Incentive Scheme (MBIS) for the management group of the Building Products division. Prior to the commencement of each financial year the Building Products 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 participant's 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 audited financials of each business unit and is payable at the discretion of the Managing Director. 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

Howe Automotive Limited (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 Products 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.

DIRECTORS' REPORT

year ended 30 June 2007

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:

- If an employee dies or becomes permanently disabled at any time after the grant date.
- If an employee ceases employment after the three year initial vesting period.
- Upon a liquidity event (trade sale or listing on an Australian or overseas stock exchange).
- 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:

- up to 3 years – nil
- 3 years to 4 years – 33.3%
- 4 years to 5 years – 66.7%
- over 5 years – 100%

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

- termination due to misconduct
- failure to provide 90 days written notice of intention to terminate employment
- 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 the building the long term value of HA 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)(i) of the Corporation Act and details the proportion of fixed remuneration and variable remuneration paid for the year ended 30 June 2007 as detailed in this report:

	2006/07 REMUNERATION STRUCTURE	
	% FIXED	% VARIABLE
Specified Directors		
JM Schaffer	100%	0%
AK Mayer	82%	18%
DE Blain	100%	0%
DJ Schwartz	100%	0%
MD Perrott	100%	0%
Specified Executives		
M Falconer	64%	36%
N Filipovic	74%	26%
G Davieson	100%	0%
W Horton	75%	25%
M Perrella	55%	45%

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 Nominations 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 Total Shareholder Returns

TAX RATE	SEP-02 30%	SEP-03 30%	SEP-04 30%	SEP-05 30%	SEP-06 30%	SEP-07 30%
Share Price (\$)	10.10	14.25	14.00	5.25	6.15	9.00
Bonus Issue (\$)	-	-	-	-	-	-
Ord Divs (\$)		1.00	1.00	0.75	0.50	0.50
Special Divs (\$)		0.20	0.40	0.45	-	-
Imputation Credit (\$)		0.51	0.60	0.51	0.21	0.21
TSR		5.86	1.75	-7.04	1.61	3.56
TSR%		58%	12%	-50%	31%	58%

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.

DIRECTORS' REPORT

year ended 30 June 2007

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 \$	RETIRE- MENT BENEFITS \$	TERMIN- ATION 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	18.20%
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	36.06%
M Perrella	99,310	** 42,762	27,082	125,901	7,738	–	–	62	302,855	44.57%
N Filipovic	266,299	** 97,694	–	32,758	–	–	–	16,916	413,667	25.74%
W Horton	140,426	** 51,803	–	17,300	–	–	–	13,148	222,677	25.36%
G V Davieson	153,924	–	11,960	33,853	5,732	–	–	93	205,562	–
	1,814,427	310,419	145,412	420,096	44,721	–	–	30,344	2,765,419	

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 amounts included in the table represent the entire bonus earned. The amount of bonus accrued at 30 June 2007 was \$142,557.

Any adjustments between the actual amounts to be paid and the amounts accrued will be adjusted in the 2008 financial year.

No bonus was forfeited during the year.

Remuneration of Key Management Personnel for the year ended 30 June 2006

30 JUNE 2006	SHORT TERM			POST EMPLOYMENT		OTHER	EQUITY	OTHER	TOTAL	PERFORM- ANCE RELATED
	SALARY & FEES \$	CASH BONUS \$	NON MONETARY BENEFITS \$	SUPER- ANNUATION \$	RETIRE- MENT BENEFITS \$	\$	TERMIN- ATION BENEFITS \$	SHARE OPTIONS AND EPU'S# \$	\$	
Directors										
J M Schaffer	*387,944	–	54,907	100,587	5,968	–	–	–	549,406	–
D E Blain	55,046	–	–	4,954	5,957	–	–	–	65,957	–
A K Mayer	356,725	**78,505	–	–	–	–	–	–	435,230	18.04%
D J Schwartz	55,046	–	–	4,954	3,273	–	–	–	63,273	–
M D Perrott	60,000	–	–	–	–	–	–	–	60,000	–
Executives										
M Falconer	166,543	**87,309	48,534	59,372	3,401	–	–	3,217	368,376	31.35%
N Filipovic	216,300	**72,107	–	25,957	–	–	–	16,916	331,280	23.73%
G V Davieson	151,231	–	25,215	24,511	3,386	–	–	2,413	206,756	–
	1,448,835	237,921	128,656	220,335	21,985	–	–	22,546	2,080,278	

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 \$128,585.

** Cash bonus –	percentage paid during the year	percentage payable subsequent to year end
Mr A K Mayer	0%	100%
Mr M Falconer	29%	71%
Mr N Filipovic	47%	53%

The amount of bonus accrued at 30 June 2006 was \$165,834. The amount subsequently paid in the year ended 30 June 2007 was \$156,506.

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.

DIRECTORS' REPORT

year ended 30 June 2007

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

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

Compensation options: Granted and vested during the year

30 JUNE 2007	TERMS AND CONDITIONS FOR EACH GRANT							
	VESTED NO.	GRANTED 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	15,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Falconer	20,000	20,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Perrella	10,000	10,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
Total	45,000	45,000						

Options lapsed

On 20 June 2007 the following unexercised options lapsed

EXECUTIVE	NO.	EXERCISE PRICE PER OPTION \$
G V Davieson	2,500	\$9.49
M Falconer	2,500	\$9.49
M Perrella	2,500	\$9.49

30 JUNE 2006	TERMS AND CONDITIONS FOR EACH GRANT							
	VESTED NO.	GRANTED 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	11,250	15,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
M Falconer	15,000	20,000	15 Jul 03	\$1.82	\$12.31	15 Jul 08	15 Jul 03	15 Jul 06
Total	26,250	35,000						

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 27,500 unissued ordinary shares under options (27,500 at reporting date). Refer to note 24(c) 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% subsidiaries have formed a tax consolidated Group.

ROUNDING

The amount contained in this report and in the financial statements has been rounded 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.

DIRECTORS' REPORT

year ended 30 June 2007

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 2007, 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 28 September 2007

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 \$32,841

Signed in accordance with a resolution of the directors.



J M Schaffer

Chairman and Managing Director

Perth, 28 September 2007

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2007

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

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 57)

John joined the Company in 1972 and has held the position of Chairman and Managing Director since 1988. John is also Chairman of Howe Automotive Limited, UrbanStone Pty Ltd and Delta Corporation Limited. John holds a Bachelor of Commerce degree with honours from the University of Western Australia and is an FCPA.

Anton Mayer *Executive Director*
(Age 65)

Anton joined the Board in 2001. Anton is the Executive Chairman of Howe Automotive Limited, and held the position of HA Managing Director from 1998 to June 2007. Anton is also a director of a number of the HA 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 63)

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 Nominations & Remuneration Committee.

Michael Perrott *Independent Director*
(Age 61)

Michael joined the Board as an independent director in Feb-05 and is a member of the Board's Audit Committee and the Nominations and Remuneration Committee. Michael has over 35 years experience in the construction and contracting industry. He was previously Managing Director of the Gardner Perrott Group Limited until that business was sold to Brambles in 1989. He is currently Chairman of Port Bouvard Limited, GME Resources Limited and Canning Vale Weaving Mills Limited and a director of Portman Limited and Gage Roads Brewing Co. Ltd. Mr Perrott holds a Bachelor of Commerce degree from the University of Western Australia and is a Fellow of the Australian Institute of Management.

David Schwartz *Independent Director*
(Age 53)

David joined the Board in 1999 and is independent Chairman of the Board's Audit Committee and the Nominations & 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. He 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.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2007

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

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 Nominations 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.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2007

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

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, Gosh Leather Pty Ltd, UrbanStone Pty Ltd, Limestone Resources Australia Pty Ltd, Delta Corporation Limited 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

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 Howe Automotive Limited, UrbanStone Pty Ltd, Limestone Resources Australia Pty. Ltd. and Delta Corporation Limited.

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

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;

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2007

- 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 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 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.

ENCOURAGE ENHANCED PERFORMANCE

PERFORMANCE EVALUATION

SFC's Nominations and Remuneration Committee operates to support and advise the Board in fulfilling its responsibility to shareholders to ensure the Board comprises individuals best able to discharge the responsibilities of directors having regard to the law and corporate governance standards. With five members, the SFC Board is small but cohesive and effective. Given the relative size of the SFC Board, active participation and genuine performance by each director are qualities that are readily apparent.

The Board considers that adoption of a formal procedure for Board and director evaluation under these circumstances is not warranted and would serve little purpose.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2007

Key executives across the Group participate in a formal annual review of performance. These annual performance reviews are conducted by SFC's Managing Director in the case of the Building Material division and Corporate executives and by the Managing Director of HA in the case of Leather division executives. The performance review is a structured process which addresses the individual's core responsibilities, objective achievements, personal development activities, goals and objectives for the year ahead as well as longer term aspirations.

The executive performance review provides a valuable forum for encouraging enhanced performance and developing the Group's executive succession plan.

REMUNERATE FAIRLY AND RESPONSIBLY

EXECUTIVE REMUNERATION

SFC's Nominations 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. The Group Managing Director and Chief Financial Officer/Company Secretary do not participate in any annual incentive program.

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.

The only exception to this policy is that Mrs Blain receives remuneration from the HA EPU Plan, an entitlement originating from her time as an executive of the HA business. Payment of fees (including statutory superannuation) and the reimbursement of reasonable expenses are the only remuneration payable to Mr Schwartz and any future non-executive director.

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 of for the 2006/07 financial year of \$60,000 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.

RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

CODE OF CONDUCT

SFC has adopted a Code of Conduct which 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 the 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.

SFC's Code of Conduct is set out below:

Mutual Respect: SFC recognises that respect in all working relationships is fundamental in building team spirit and function. Harassing, discriminating, demeaning and offensive behaviour is not tolerated in the workplace. We practice the principle of equal opportunity employment without regard to age, gender, race, religion, political affiliation or physical disability. The privacy of our personnel is respected and is not disclosed without appropriate authority unless there is a legal obligation to do so. A culture of safety in the workplace is observed with all staff encouraged to take responsibility for ensuring a safe and secure working environment.

Conflicts of interest: The Board of Directors and all SFC personnel are required to conduct their business dealings in a manner that is in the best interests of the group and that avoids real, perceived or potential conflicts of interest which may interfere with the independent exercise of their judgement.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

year ended 30 June 2007

Ethical business conduct: SFC's marketing and advertising will be accurate and truthful. SFC competes in the context of the relevant legal framework of the jurisdictions in which it does business. SFC and its employees are required to act honestly and with integrity.

Trading in Securities: The release of information concerning SFC is done so within the context of the ASX's continuous disclosure regime. The overriding expectation on all SFC directors and personnel who become aware of material price sensitive information in the period pending its release to the ASX is that they will not use that information for personal profit and do not take advantage of the information by trading, or providing that information to others in order to trade in SFC securities.

Financial Reporting: SFC requires the honest and accurate reporting of any and all financial information in order to manage its business and facilitate responsible business decision making. The objective of SFC's statutory financial reports is to accurately reflect transactions and events, and conform to national accounting standards and the Corporations Act

Social responsibility:

We wish to be good corporate citizens and wish to build positive relationships with communities where we have a presence. SFC is committed to protecting the public interest by working to the requisite standards of environmental legislation. SFC believes behaving as a good corporate citizen is an important measure of our success.

Consistent with the Council Principles, the Company's information relevant to the Council Principles are posted to the corporate governance section of the Company's website – www.schaffer.com.au

ASX ADDITIONAL INFORMATION

year ended 30 June 2007

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

TOTAL SHARE CAPITAL

Issued as at 12 September 2007 – 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
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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 12 September 2007

SHAREHOLDINGS	SHAREHOLDERS
1 – 1,000	1,005
1,001 – 5,000	940
5,001 – 10,000	170
10,001 – 100,000	123
100,001 – and over	14
	<hr/> 2,252

Number of shareholders holding less than a marketable parcel i.e. less than 57 shares: 43

SUBSTANTIAL SHAREHOLDERS

As at 12 September 2007, 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	1,967,240	13.94%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.62%
	<hr/> 2,619,927	<hr/> 18.56%
Mrs D E Blain & Associates	909,673	6.45%
50% of interest held by Swan Holdings Pty. Ltd.	652,687	4.62%
	<hr/> 1,562,360	<hr/> 11.07%
*Combined interest of Mr J M Schaffer & Mrs D E Blain	4,182,287	29.63%
Jobling Investments Pty Ltd	507,812	
Estate of Mr A E Jobling Deceased	286,504	
	<hr/> 794,316	<hr/> 5.63%

*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 12 SEPTEMBER 2007	NO OF SHARES	PERCENTAGE OF ISSUED ORDINARY SHARES
Swan Holdings Pty. Ltd.	1,305,374	9.25
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		
PIIC Account	542,924	3.85
Jobling Investments Pty. Ltd.	507,812	3.60
RBC Dexia Investor Services Australian Nominees Pty. Limited		
PIPOLED Account	359,818	2.55
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	211,380	1.50
Argo Investments Limited	184,204	1.31
Mrs Debra Ruth Schaffer	108,207	0.77
Fredrick Bruce Wareham	85,010	0.60
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
	<hr/> 7,559,532	<hr/> 53.56

ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 14 November, 2007 at 11.30am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.