

# **SCHAFFER CORPORATION LIMITED**

ACN 008 675 689



**CONDENSED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED**

**31 DECEMBER 2007**

# SCHAFFER CORPORATION LIMITED HALF YEAR FINANCIAL STATEMENTS

## DIRECTOR'S REPORT

Your directors submit their report for the half year ended 31 December 2007 made in accordance with a resolution of the directors.

### DIRECTORS

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

**J M SCHAFFER,**  
**B. Com (Hons.) FCPA**  
Managing Director  
Executive Director since 06/09/72

Mr John Schaffer joined the company in 1972. Mr Schaffer has held the position of Managing Director since 1988.

**D E BLAIN, BA**  
Non-executive Director,  
Appointed 05/06/87

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

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

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

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

Mr David Schwartz is the chairman of Loftus Capital Partners Limited. He has over 20 years experience in manufacturing and distribution businesses. During the past 3 years Mr Schwartz has served as a director of the following listed companies:

Clime Investment  
Management Limited      01/10/99 - current

Home Leisure limited      26/08/04 - current

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

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

Port Bouvard Ltd      12/05/98 – current

GME Resources Ltd	21/11/96 – current
Portman Ltd	30/06/97 – current
Gage Roads Brewing Co. Ltd.	20/10/06 – 24/10/07
Bone Medical Ltd	31/05/01 – 01/08/05

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

### **ATTENDANCE AT BOARD MEETINGS**

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

	Meetings Eligible To Attend	Meetings Attended
J M Shaffer	5	5
D E Blain	5	4
D J Schwartz	5	5
A K Mayer	5	5
M D Perrott	5	3

### **AUDIT COMMITTEE**

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

### **REVIEW OF OPERATIONS**

The consolidated entity's revenue increased by 23% from \$73,941,000 to \$91,083,000 this half year.

The net after tax consolidated profit, after minority interests increased by 11% from \$5,226,000 to \$5,790,000.

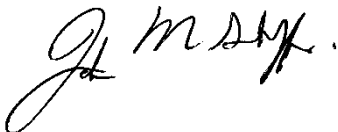
## **ROUNDING**

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

## **AUDITOR'S INDEPENDENCE DECLARATION**

We have obtained an independence declaration from our auditors, Ernst & Young, as presented on page 18 of this half-year financial report.

Signed in accordance with a resolution of the directors

A handwritten signature in black ink, appearing to read 'J. Schaffer', with a stylized flourish at the end.

John Schaffer  
Managing Director

Perth, 20 February 2008

**SCHAFFER CORPORATION LIMITED  
CONSOLIDATED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

		CONSOLIDATED	
	Note	Dec 2007 \$'000	Dec 2006 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>			
Sale of goods		88,783	71,989
Rental income		1,991	1,838
Dividends received		1	1
Finance Income	4(a)	308	113
Total revenue		<u>91,083</u>	<u>73,941</u>
Cost of sales		<u>(71,876)</u>	<u>(56,072)</u>
Gross profit		19,207	17,869
Rental property expenses		(991)	(1,143)
Other income	4(b)	2,237	1,134
Marketing expenses		(4,115)	(2,655)
Administrative expenses		<u>(4,807)</u>	<u>(5,297)</u>
<b>Profit from continuing operations before tax and finance costs</b>		11,531	9,908
Finance costs	4(c)	<u>(2,951)</u>	<u>(2,155)</u>
<b>Profit before income tax</b>		8,580	7,753
Income tax expense	9	<u>(2,500)</u>	<u>(2,193)</u>
<b>Net profit for the period</b>		<u>6,080</u>	<u>5,560</u>
Attributable to:			
Minority interest		290	334
<b>Members of the parent</b>		<u>5,790</u>	<u>5,226</u>
<b>Earnings per share (EPS)</b>			
Basic EPS		41.0¢	37.0¢
Diluted EPS		41.0¢	37.0¢
Dividends paid per share		25¢	25¢

**SCHAFFER CORPORATION LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**

	Note	CONSOLIDATED Dec 2007 \$'000	CONSOLIDATED Jun 2007 \$'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		19,895	9,537
Trade and other receivables		33,413	28,158
Inventories		43,967	38,917
Prepayments and deposits		1,661	619
Derivative financial instruments		-	608
Available-for-sale financial assets		82	103
<b>TOTAL CURRENT ASSETS</b>		<b>99,018</b>	<b>77,942</b>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment		56,023	48,382
Investment properties		17,235	17,353
Deferred income tax asset		699	585
Goodwill		4,924	1,299
<b>TOTAL NON CURRENT ASSETS</b>		<b>78,881</b>	<b>67,619</b>
<b>TOTAL ASSETS</b>		<b>177,899</b>	<b>145,561</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		36,858	18,313
Derivative financial instruments		96	-
Interest bearing loans and borrowings		9,913	3,686
Income tax payable		350	1,477
Provisions		6,079	5,403
<b>TOTAL CURRENT LIABILITIES</b>		<b>53,296</b>	<b>28,879</b>
<b>NON CURRENT LIABILITIES</b>			
Interest bearing loans and borrowings		66,765	61,563
Deferred income tax liabilities		560	734
Provisions		1,292	1,265
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>68,617</b>	<b>63,562</b>
<b>TOTAL LIABILITIES</b>		<b>121,913</b>	<b>92,441</b>
<b>NET ASSETS</b>		<b>55,986</b>	<b>53,120</b>
<b>EQUITY</b>			
Parent entity interest			
Issued capital	8	17,034	17,034
Reserves		2,790	2,476
Retained earnings		31,845	29,583
Total parent entity interest in equity		<b>51,669</b>	<b>49,093</b>
Minority interests		4,317	4,027
<b>TOTAL EQUITY</b>		<b>55,986</b>	<b>53,120</b>

**SCHAFFER CORPORATION LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Attributable to Equity Holders of the Parent			Minority Interest	Total Equity	
	Issued Capital \$'000	Retained Earnings \$'000	Other Reserves \$'000	Total \$'000	\$'000	
<b>CONSOLIDATED</b>						
<b>At 1 July 2006</b>	17,034	26,388	2,976	46,398	3,708	50,106
Unrealised gain on available for sale investments	-	-	80	80	-	80
Net realised gain on sale of available-for-sale investments net of tax	-	-	(194)	(194)	-	(194)
Foreign currency translation reserve	-	-	(287)	(287)	-	(287)
Total expense recognised directly in equity	-	-	(401)	(401)	-	(401)
Profit for the half-year	-	5,226	-	5,226	334	5,560
Total income for the half-year	-	5,226	(401)	4,825	334	5,159
Cost of share-based payments	-	-	40	40	-	40
Settlement of Employee Participation Units	-	-	(119)	(119)	(68)	(187)
Equity dividends	-	(3,528)	-	(3,528)	-	(3,528)
<b>At 31 December 2006</b>	17,034	28,086	2,496	47,616	3,974	51,590
<b>At 1 July 2007</b>	17,034	29,583	2,476	49,093	4,027	53,120
Unrealised loss on available for sale investments	-	-	(15)	(15)	-	(15)
Foreign currency translation reserve	-	-	302	302	-	302
Total expense recognised directly in equity	-	-	287	287	-	287
Profit for the half-year	-	5,790	-	5,790	290	6,080
Total income for the half-year	-	5,790	287	6,077	290	6,367
Cost of share-based payments	-	-	27	27	-	27
Equity dividends	-	(3,528)	-	(3,528)	-	(3,528)
<b>At 31 December 2007</b>	17,034	31,845	2,790	51,669	4,317	55,986

**SCHAFFER CORPORATION LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

		CONSOLIDATED	
	Note	Dec 2007 \$'000	Dec 2006 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		90,421	74,628
Payments to suppliers and employees		(66,365)	(65,933)
Other revenue		56	128
Borrowing costs paid		(2,951)	(2,155)
Income taxes paid		(3,268)	(2,744)
Goods and services tax paid		(826)	(207)
Research & development expenditure		(1,400)	(400)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<u>15,667</u>	<u>3,317</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income		308	113
Acquisition of property, plant and equipment		(6,772)	(5,887)
Acquisition of investment properties		(1,222)	(2,285)
Proceeds on sale of investment properties		2,363	-
Acquisition of business		-	(7,420)
Acquisition of controlled entity	11	(5,791)	-
Proceeds on sale of plant and equipment		8	41
Proceeds on disposal of available-for-sale investments		-	337
Dividends received		1	1
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<u>(11,105)</u>	<u>(15,100)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	3	(3,528)	(3,528)
Proceeds from borrowings		10,470	6,301
Repayment of borrowings		(1,175)	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<u>5,767</u>	<u>2,773</u>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<u>10,329</u>	<u>(9,010)</u>
Cash and cash equivalents at the beginning of the period		<u>9,537</u>	<u>13,596</u>
<b>CASH &amp; CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	10	<u>19,866</u>	<u>4,586</u>



## **NOTES TO THE HALF YEAR FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

### **1. CORPORATE INFORMATION**

The financial report of Schaffer Corporation Limited (the Company) for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 20 February 2008. Schaffer Corporation Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 12.

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

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

The half year financial report should be read in conjunction with the annual Financial Report of Schaffer Corporation Limited for the year ended 30 June 2007.

It is also recommended that the half year financial report be considered together with any public announcements made by Schaffer Corporation Limited and its controlled entities during the half year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

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

The half year financial report is a general-purpose condensed financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". The half year financial report has been prepared on an historical cost basis, except for derivative financial instruments and available-for-sale investments that have been measure at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the class order applies.

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

**(b) Significant accounting policies**

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007 except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2007, as described in note 2(d).

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

**(i) Basis of consolidation**

The half year consolidated financial statements comprise the financial statements of Schaffer Corporation Limited and its subsidiaries as at 31 December 2007.

The acquisition of Archistone Pty. Ltd. on 31 July 2007 has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair values of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the half year consolidated financial statements include the results of Archistone Pty. Ltd. for the period from its acquisition on 31 July 2007.

**(d) Changes in accounting policies**

Since 1 July 2007 the Consolidated Entity has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

These are outlined in the table below:

Reference	Title	Impact on Consolidated Entity financial report	Application Date of Standard	Application Date for Consolidated Entity
Revised AASB 101	Presentation of Financial Statements	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
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]	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED151 and Other Amendments	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 7	Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB Interpretation 10	Interim Financial Reporting and Impairment	No change to accounting policy required. Therefore no impact.	1 November 2006	1 July 2007
AASB Interpretation 11	Group and Treasury Share Transactions	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007

### 3. DIVIDENDS PAID OR PROPOSED

	CONSOLIDATED	
	Dec 2007	Dec 2006
	\$'000	\$'000
(a) Dividends declared and paid during the half year on ordinary shares. Final franked dividend for the financial year 30 June 2007: 25¢ (2006 – 25¢)	3,528	3,528
(b) Dividends proposed and not yet recognised as a liability Interim franked dividend for the half year 31 December 2007 – 25¢ (2006 – 25¢)	3,528	3,528
	7,056	7,056

#### 4. SIGNIFICANT REVENUE AND EXPENSES

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

**(a) Finance income**

Bank interest received	308	113
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**(b) Other income/(losses)**

Gain on sale of property, plant & equipment	7	(6)
Gain on sale of investment properties	1,371	-
Gain on sale of available-for-sale investments	-	269
Net foreign currency gain	900	265
Gain/(loss) on mark to market of derivatives	(96)	478
Other	55	128
	<u>2,237</u>	<u>1,134</u>

**(c) Finance Costs**

Bank loans and overdraft interest	2,587	1,986
Finance charges payable under finance leases	90	12
Other	274	157
	<u>2,951</u>	<u>2,155</u>

**(d) Expenses**

Depreciation and amortisation of property, plant and equipment	2,543	2,454
Employee benefits	20,191	20,987
Expense of share based payments	11	71

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

During the financial period the consolidated entity acquired plant and equipment with a fair value of \$Nil (2006 - \$50,000) by means of finance lease

#### 6. SUBSEQUENT EVENTS

Subsequent to the end of the half year the company declared a dividend of 25¢ per share totalling \$3,528,000 payable on 18 March 2008.

In February 2008 the Group acquired properties in Mandurah and Wangara in Western Australia which are currently being used as retail centres to promote the Group's building materials. The cost of the two properties was approximately \$5,000,000.

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

## 7. COMMITMENT AND CONTINGENT LIABILITIES

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

## 8. CONTRIBUTED EQUITY

	CONSOLIDATED	
	Dec 2007 \$'000	Dec 2006 \$'000
Ordinary Shares	<u>17,034</u>	<u>17,034</u>

All ordinary shares are fully paid and carry one vote per share and carry the right to dividends.

	Number of Shares	\$'000
Movements in ordinary shares on issue		
1 July 2007	14,113,251	17,034
Total capital issued during the period	<u>-</u>	<u>-</u>
At 31 December 2007	<u>14,113,251</u>	<u>17,034</u>

## 9. INCOME TAX

The major components of income tax expense for the half year ended 31 December 2007 and 31 December 2006 are:

	CONSOLIDATED	
	Dec 2007 \$'000	Dec 2006 \$'000
<b>Consolidated Income Statement</b>		
<i>Current income tax</i>		
Current income tax charge	2,366	2,435
Adjustments in respect of current income tax of previous years	270	245
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	<u>(136)</u>	<u>(487)</u>
Income tax expense reported in the consolidated income statement	<u>2,500</u>	<u>2,193</u>

## 10. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	Dec 2007 \$'000	Dec 2006 \$'000
For the purpose of the half year cash flow statement, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	19,895	4,700
Bank overdrafts	(29)	(114)
	<u>19,866</u>	<u>4,586</u>

## 11. BUSINESS COMBINATION

On 31 July 2007 Schaffer Corporation Limited acquired 100% of the share capital of Archistone Pty. Ltd. a producer of natural and reconstituted limestone building materials.

The total cost of the combination was \$5,791,000.

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

	Carrying Value \$'000	CONSOLIDATED Recognised on acquisition \$'000
Quarry resource	103	750
Trade receivables	819	819
Plant and motor vehicles	2,744	2,493
Prepayments	382	382
Deferred tax asset	-	476
Inventories	1,538	1,538
Income tax refundable	77	77
	<u>5,663</u>	<u>6,535</u>
Employee entitlements	(229)	(229)
Deferred tax liability	-	(315)
Trade payables	(1,720)	(1,720)
Borrowings	(748)	(748)
Lease liability	(1,357)	(1,357)
	<u>(4,054)</u>	<u>(4,369)</u>
Fair value of identifiable net assets	<u>1,609</u>	<u>2,166</u>
Goodwill arising on acquisition		<u>3,625</u>
Total cost of the combination		<u>5,791</u>

The cash outflow on acquisition is as follows:

Cash paid in current period	<u>(5,791)</u>
Net cash outflow	<u>(5,791)</u>

The assets and liabilities recognised on acquisition are provisional as the tax cost bases and resultant deferred tax treatment is still being determined as at 31 December 2007.

The key factors contributing to the \$3,625,000 of goodwill are:

- Archistone has an established revenue with strong retail sales component
- Archistone is a market leader in reconstituted small limestone block walling market
- Archistone creates opportunities for operational improvement in tandem with Limestone Resources
- The Archistone product range is complementary to those of Urbanstone and Limestone Resources
- The building materials segment will realise synergies as products will be sold through Urbanstone's national distribution network.

From the date of acquisition Archistone Pty. Ltd. has contributed \$599,000 to the net profit of the Group before tax.

If the combination had taken place at the beginning of the half year, the pre-tax profit contribution to the Group would have been \$571,000 and revenue from continuing operations would have been \$6,649,000.

## **12. SEGMENT INFORMATION**

The Group comprise the following segments:

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

The building materials segment comprises Delta Corporation Limited, Urbanstone Pty. Ltd., Archistone Pty. Ltd. 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 assets.

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

## 12. SEGMENT INFORMATION *continued*

The following table presents revenue and profit information regarding business segments for the half year periods ended 31 December 2007 and 31 December 2006

	LEATHER		BUILDING MATERIALS		INVESTMENT PROPERTY		OTHER		CONSOLIDATED	
	Dec 2007 \$'000	Dec 2006 \$'000	Dec 2007 \$'000	Dec 2006 \$'000	Dec 2007 \$'000	Dec 2006 \$'000	Dec 2006 \$'000	Dec 2006 \$'000	Dec 2007 \$'000	Dec 2006 \$'000
<b>Total Revenue from Ordinary Activities</b>	54,337	43,818	32,951	26,977	2,458	2,272	1,337	874	91,083	73,941
Unallocated Revenue									-	-
<b>Total Revenue</b>									91,083	73,941
Segment Earnings	3,848	4,023	3,676	3,913	2,523	1,010	580	737	10,627	9,683
Interest and Corporate Overheads									(2,047)	(1,930)
Operating Profit Before Income Tax									8,580	7,753
Income Tax Expense									(2,500)	(2,193)
Net Profit After Tax									6,080	5,560



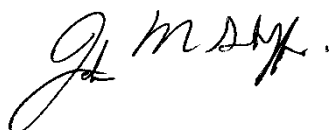
## DIRECTORS' DECLARATION

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

In the opinion of the directors:

- (a) The financial statements and notes of the consolidated entity:
  - (i) Give a true and fair view of the financial position as at 31 December 2007 and the performance for the half year ended on that date of the consolidated entity; and
  - (ii) Comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



John Schaffer  
Managing Director

Perth, 20 February 2008

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

In relation to our review of the financial report of Schaffer Corporation Limited for the half year ended 31 December 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



Gavin A Buckingham  
Partner  
Perth  
20 February 2008

To the members of Schaffer Corporation Limited

## **Report on the Condensed Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Schaffer Corporation Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### *Directors' Responsibility for the half-year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with 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 half-year 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.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of Schaffer Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### *Independence*

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

*Conclusion*

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Gavin A Buckingham  
Partner  
Perth  
20 February 2008