

SCHAFFER CORPORATION LIMITED

ACN 008 675 689



FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED

31 DECEMBER 2005

SCHAFFER CORPORATION LIMITED HALF YEAR FINANCIAL STATEMENTS

DIRECTOR'S REPORT

Your directors submit their report for the half year ended 31 December 2005 made in accordance with a resolution of the directors.

DIRECTORS

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

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

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

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

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

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

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

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

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

Loftus Capital Partners Limited	01/10/99 - current
------------------------------------	--------------------

Home Leisure limited	26/08/04 - current
----------------------	--------------------

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

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

Port Bouvard Ltd	12/05/98 – current
------------------	--------------------

GME Resources Ltd	21/11/96 – current
Portman Ltd	30/06/97 – current
Bone Medical Ltd	31/05/01 – 01/08/05
Asset Backed Holdings Ltd	23/10/00 – 03/10/03

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

ATTENDANCE AT BOARD MEETINGS

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

AUDIT COMMITTEE

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

REVIEW OF OPERATIONS

The consolidated entity's revenue decreased by % from \$73,755,000 to \$ this half year.

The net after tax consolidated entity profit, after minority interests decreased by % from \$6,635,000 to \$.

ROUNDING

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

DIRECTORS' BENEFITS

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

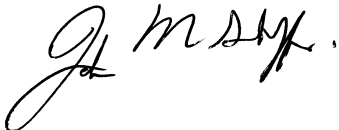
related to the company when its contract was made or when the directors received, or become entitled to receive, the benefit with:

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

AUDITOR'S INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of the directors



John Schaffer
Managing Director

Perth, 22 February 2006

**SCHAFFER CORPORATION LIMITED
CONDENSED INCOME STATEMENT
HALF YEAR ENDED 31 DECEMBER 2005**

	Notes	CONSOLIDATED	
		Dec 2005 \$000	Dec 2004 \$000
Continuing operations			
Revenue			
Sale of goods			71,533
Cost of sales			(51,007)
Gross profit			<u>20,526</u>
Net rental income			990
Other income			757
Marketing expenses			(3,031)
Administrative expenses			<u>(7,850)</u>
Profit from continuing operations before tax and finance costs			11,392
Finance income			606
Finance costs			<u>(1,979)</u>
Profit before income tax			10,019
Income tax expense			<u>2,914</u>
Net profit after income tax for the period			7,105
Profit attributable to minority interest			<u>470</u>
Profit attributable to members of the parent			<u><u>6,635</u></u>
Earnings per security (EPS) (see section 14.1)			
Basic EPS		<u>¢</u>	<u>47.3¢</u>
Diluted EPS		<u>¢</u>	<u>46.5¢</u>
NOTES TO THE CONDENSED INCOME STATEMENT			
Revenue			
Revenue from sale of goods and property developments			71,533
Revenue from sale of equity securities			54
Rent received			1,556
Interest received			606
Dividends received			<u>6</u>
Total revenues			<u><u>73,755</u></u>

**SCHAFFER CORPORATION LIMITED
CONDENSED BALANCE SHEET
AT 31 DECEMBER 2005**

	Notes	CONSOLIDATED	
		Dec 2005 \$000	Jun 2005 \$000
CURRENT ASSETS			
Cash assets			12,737
Receivables			28,123
Inventories			35,107
Other			951
TOTAL CURRENT ASSETS			76,918
NON CURRENT ASSETS			
Property, plant and equipment			52,695
Deferred tax assets			3,212
Intangible assets			1,299
TOTAL NON CURRENT ASSETS			57,206
TOTAL ASSETS			134,124
CURRENT LIABILITIES			
Payables			13,705
Interest bearing liabilities			3,139
Current tax liabilities			1,213
Other provisions			4,348
TOTAL CURRENT LIABILITIES			22,405
NON CURRENT LIABILITIES			
Interest bearing liabilities			53,292
Deferred tax liabilities			2,524
Provisions			2,709
TOTAL NON CURRENT LIABILITIES			58,525
TOTAL LIABILITIES			80,930
NET ASSETS			53,194
EQUITY			
Parent entity interest			
Contributed equity			17,034
Reserves			2,696
Retained Profit			29,792
Total parent entity interest in equity			49,522
Total outside equity interest			3,672
TOTAL EQUITY			53,194

**SCHAFFER CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY
HALF YEAR ENDED 31 DECEMBER 2005**

	Attributable to Equity Holders of the Parent			Minority Interest	Total Equity	
	Issued Capital \$000	Retained Earnings \$000	Other Reserves \$000			Total \$000
CONSOLIDATED						
At 30 June 2004	15,916	39,071	2,585	57,572	4,696	62,268
IFRS Adjustments		(872)	30	(842)		(842)
At 1 July 2004	15,916	38,199	2,615	56,730	4,696	61,426
Profit for the half-year		6,635		6,635	470	7,105
Exercise of options	724			724		724
Cost of share-based payments			40	40		40
Equity dividends		(9,819)		(9,819)	(1,178)	(10,997)
At 31 December 2004	16,640	35,015	2,655	54,310	3,988	58,298
Profit for the half-year		3,217		3,217	324	3,541
Exercise of options	394			394		394
Cost of share-based payments			41	41		41
Equity dividends		(8,440)		(8,440)	(640)	(9,080)
At 30 June 2005	17,034	29,792	2,696	49,522	3,672	53,194
Profit for the half-year						
Exercise of options						
Cost of share-based payments						
Equity dividends						
At 31 December 2005						

**SCHAFFER CORPORATION LIMITED
CONDENSED STATEMENT OF CASH FLOWS
HALF YEAR ENDED 31 DECEMBER 2005**

	CONSOLIDATED	
	Dec 2005	Dec 2004
	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		77,555
Payments to suppliers and employees		(70,508)
Proceeds on disposal of equity securities		104
Dividends received		6
Other revenue		6
Interest income		606
Borrowing costs paid		(1,979)
Income taxes paid		(3,888)
Goods and services tax refunded		(168)
Research & development expenditure		(554)
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,180
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment		(2,129)
Proceeds on sale of property, plant and equipment		1,901
Proceeds on disposal of joint venture interests		1,188
Other		-
Net cash impact on disposal of controlled entity		690
NET CASH FLOWS FROM INVESTING ACTIVITIES		1,650
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance lease principal payments		(804)
Dividends paid		(9,819)
Dividends paid to minority interest in controlled entity		(1,178)
Proceeds from share issue		724
(Repayment of)/proceeds from borrowings		(275)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(11,352)
NET (DECREASE)/INCREASE IN CASH HELD		(8,522)
Cash at the beginning of the half year		28,489
CASH AT THE END OF THE HALF YEAR		19,967

**NOTES TO AND FORMING PART OF THE
HALF YEAR FINANCIAL STATEMENTS
31 DECEMBER 2005**

1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

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

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

It is recommended that the half year report is read in conjunction with the Annual Financial Statements of Schaffer Corporation Limited as at 30 June 2005 together with any public announcements made by Schaffer Corporation Limited and its controlled entities during the half year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

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

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

Changes in Accounting Policies

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

2. DIVIDENDS PAID OR PROPOSED

	Dec 2005 \$000	June 2005 \$000
Dividends paid during the period		
Franked Dividends	<u> </u>	<u>18,259</u>
Dividends proposed after period end and not recognised as a liability		
Franked Dividends	<u> </u>	<u>8,455</u>
Dividends paid or proposed for the period		
Interim		7,033
Final		3,523
Special	<u> </u>	<u>6,339</u>
	<u> </u>	<u>16,895</u>

3. RETAINED PROFITS

	Dec 2004	Jun 2005
Balance at the beginning of the year	29,792	39,071
Net profit attributable to the members of Schaffer Corporation Limited		9,852
Dividends provided for or paid	(8,455)	(18,259)
Adjustment on transition to AIFRS	<u>-</u>	<u>(872)</u>
Balance at end of period	<u><u>29,792</u></u>	<u><u>29,792</u></u>

4. EARNINGS PER SHARE

	Dec 2005	Dec 2004
(a) Basic earnings per share (cents per share)	<u>¢</u>	<u>47.3¢</u>
(b) Diluted earnings per share (cents per share)	<u>¢</u>	<u>46.5¢</u>

5. SIGNIFICANT ITEMS

Profit from ordinary activities before income tax includes the following:

Gain/(loss) on disposal of non-current assets	<u>_____</u>	<u>1,408</u>
Gain on sale of shares in controlled entity	<u>_____</u>	<u>665</u>

6. NON CASH FINANCING AND INVESTING ACTIVITIES

There were no non-cash financing or investing activities during the current period.

7. SUBSEQUENT EVENTS

Subsequent to the end of the half year the company declared a dividend of ¢ per share totalling \$ payable on March 2005.

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

8. CONTINGENT LIABILITIES

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

9. SEGMENT INFORMATION

	LEATHER		BUILDING PRODUCTS		INVESTMENT PROPERTY		OTHER INVESTMENTS		CONSOLIDATED	
	Dec 2005 \$000	Dec 2004 \$000	Dec 2005 \$000	Dec 2004 \$000	Dec 2005 \$000	Dec 2004 \$000	Dec 2005 \$000	Dec 2004 \$000	Dec 2005 \$000	Dec 2004 \$000
Total Revenue from Ordinary Activities		53,096		15,571		3,785		2,972		75,424
Unallocated Revenue										1,131
Total Revenue										76,555
Segment Earnings		5,282		2,414		1,951		1,265		10,912
Interest and Corporate Overheads										(893)
Operating Profit Before Income Tax										10,019
Income Tax Expense										2,914
Net Profit After Tax										7,105
Segment Assets		76,878		20,967		14,422		26,408		138,675
Unallocated Assets										2,319
Total Assets										140,994
Segment Liabilities		59,228		4,370		15,195		1,398		80,191
Unallocated Liabilities										2,505
Total Liabilities										82,696

10. IMPACT OF ADOPTING ASSB EQUIVALENTS TO IASB STANDARDS

	*** 30 Jun 2005 \$000	** 30 Dec 2004 \$000	* 1 Jul 2004 \$000
(a) Reconciliation of equity as presented under AGAAP to that under AIFRS			
Total equity under AGAAP	53,972	59,145	62,268
Adjustments to retained earnings (net of tax)			
Recognition of share-based payment expense	(111)	(70)	(30)
Write-back of goodwill amortization	110	55	-
Fixed asset cost base difference due to revaluations	(39)	(101)	(88)
Write-down joint venture properties to depreciated cost	(870)	(812)	(754)
	(910)	(928)	(872)
Adjustments to reserves			
Option premium reserve	110	70	30
Adjustments to outside equity interests in controlled entities			
Write-back of goodwill amortization	22	11	-
Total equity under AIFRS	53,194	58,298	61,426

* This column represents the adjustments as at the date of transition to AIFRS

** This column represents the adjustments as at the date of transition to AIFRS and those for the half-year ended 31 December 2004

*** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005

The above changes will result in an increase in deferred tax liability under AIFRS as follows:

Retained earnings			
Adjustment on payment of leases	(225)	-	-
Fixed asset cost base difference due to revaluations	386	448	437
Increase in deferred tax liability	161	448	437

The above changes will result in an increase in future tax benefit under AIFRS as follows:

Retained earnings			
Adjustment on payment of leases	(225)	-	-
Fixed asset cost base difference due to revaluations	346	348	350
Write-down joint venture properties to depreciated cost	373	348	323
Increase in deferred tax liability	494	696	673

	***	**	*
	30 Jun 2005	30 Dec 2004	1 Jul 2004
	\$000	\$000	\$000
(b) Reconciliation of net profit under AGAAP to that under AIFRS			
Net profit after tax and minorities as reported under AGAAP	9,891	6,691	
Recognition of share-based payment expense	(81)	(40)	
Write-back of goodwill amortisation	132	66	
Write-down joint venture properties to depreciated cost	(166)	(83)	
Adjustment to income tax expense	98	12	
Adjustment to net profit attributable to outside equity interests	(22)	(110)	
Net profit under AIFRS	9,852	6,635	

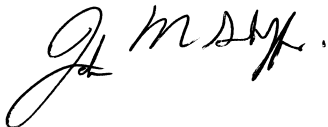
DIRECTORS' DECLARATION

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 2005 and the performance for the half year ended on that date of the consolidated entity; and
 - (ii) Comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



John Schaffer
Managing Director

Perth, 23 February 2006