

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
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Home Leisure limited	26/08/04 - current
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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 five directors meetings were held in respect of which all directors were eligible to attend. Mr J M Schaffer, Mr A K Mayer, and Mr D J Schwartz attended all five of the directors' meetings held during the half-year. Mrs D E Blain and Mr M D Perrott attended four meetings.

AUDIT COMMITTEE

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

REVIEW OF OPERATIONS

The consolidated entity's revenue increased by 0% from \$73,695,000 to \$73,714,000 this half year.

The net after tax consolidated entity profit, after minority interests decreased by 45% from \$6,608,000 to \$3,631,000.

ROUNDING

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

DIRECTORS' BENEFITS

During or since the end of the previous half year no director of the company has received or become entitled to receive a benefit, other than a benefit included in the

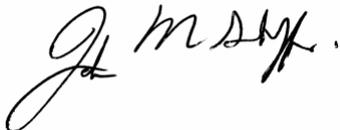
aggregate amount of emoluments received or due and receivable by the directors shown in the annual financial statements, by reason of a contract entered into by the company or an entity that the company controlled or a body corporate that was related to the company when its contract was made or when the directors received, or become entitled to receive, the benefit with:

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

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, as presented on page 33 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
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	Note	CONSOLIDATED Dec 2005 \$'000	Dec 2004 \$'000
Continuing operations			
Revenue			
Sale of goods		71,799	71,533
Rental income		1,652	1,556
Finance Income		263	606
Total revenue		<u>73,714</u>	<u>73,695</u>
Cost of sales and other directly attributable costs		<u>(56,250)</u>	<u>(51,007)</u>
Gross profit		17,464	22,688
Rental property expenses		(827)	(566)
Other income	3(a)	698	1,252
Marketing expenses		(3,284)	(3,031)
Administrative expenses		<u>(6,787)</u>	<u>(8,378)</u>
Profit from continuing operations before tax and finance costs		7,264	11,965
Finance costs		<u>(1,934)</u>	<u>(1,979)</u>
Profit before income tax		5,330	9,986
Income tax expense		<u>(1,611)</u>	<u>(2,914)</u>
Net profit after income tax for the period		3,719	7,072
Profit attributable to minority interest		<u>(88)</u>	<u>(464)</u>
Profit attributable to members of the parent		<u>3,631</u>	<u>6,608</u>
Earnings per share (EPS)			
Basic EPS		<u>25.8¢</u>	<u>47.1¢</u>
Diluted EPS		<u>25.8¢</u>	<u>47.1¢</u>
Dividends paid per share		<u>25¢</u>	<u>60¢</u>

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

	CONSOLIDATED	
	Dec 2005	Jun 2005
	\$'000	\$'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	10,427	12,737
Trade and other receivables	26,831	28,123
Inventories	35,507	35,107
Prepayments	1,523	868
Available-for-sale financial assets	269	83
TOTAL CURRENT ASSETS	<u>74,557</u>	<u>76,918</u>
NON CURRENT ASSETS		
Property, plant and equipment	41,360	41,657
Investment properties	11,149	11,038
Deferred income tax asset	2,545	2,937
Intangible assets	1,299	1,299
TOTAL NON CURRENT ASSETS	<u>56,353</u>	<u>56,931</u>
TOTAL ASSETS	<u>130,910</u>	<u>133,849</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	19,003	13,705
Interest bearing loans and borrowings	191	3,139
Income tax payable	1,014	1,213
Derivatives	65	-
Provisions	4,700	4,348
TOTAL CURRENT LIABILITIES	<u>24,973</u>	<u>22,405</u>
NON CURRENT LIABILITIES		
Interest bearing loans and borrowings	53,477	53,292
Deferred income tax liabilities	2,315	2,524
Provisions	906	1,794
TOTAL NON CURRENT LIABILITIES	<u>56,698</u>	<u>57,610</u>
TOTAL LIABILITIES	<u>81,671</u>	<u>80,015</u>
NET ASSETS	<u>49,239</u>	<u>53,834</u>
EQUITY		
Parent entity interest		
Issued capital	17,034	17,034
Reserves	2,960	2,819
Retained earnings	25,398	30,222
Total parent entity interest in equity	<u>45,392</u>	<u>50,075</u>
Minority interests	3,847	3,759
TOTAL EQUITY	<u>49,239</u>	<u>53,834</u>

SCHAFFER CORPORATION LIMITED
CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE 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	\$'000	
CONSOLIDATED						
At 1 July 2004	15,916	39,077	2,672	57,665	4,874	62,539
Profit for the halfyear		6,608		6,608	464	7,072
Exercise of options	724			724		724
Cost of share-based payments			73	73		73
Equity dividends		(9,819)		(9,819)	(1,178)	(10,997)
At 31 December 2004	16,640	35,866	2,745	55,251	4,160	59,411
At 1 July 2005	17,034	30,222	2,819	50,075	3,759	53,834
Profit for the halfyear		3,631		3,631	88	3,719
Cost of share-based payments			43	43		43
Gain on available for sale investments			98	98		98
Equity dividends		(8,455)		(8,455)		(8,455)
At 31 December 2005	17,034	25,398	2,960	45,392	3,847	49,239

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

	CONSOLIDATED	
	Dec 2005 \$'000	Dec 2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	77,254	77,555
Payments to suppliers and employees	(61,478)	(70,508)
Proceeds on disposal of equity securities	(46)	104
Dividends received	1	6
Other revenue	51	6
Government scheme income	348	-
Borrowing costs paid	(1,934)	(1,979)
Income taxes paid	(2,423)	(3,888)
Goods and services tax refunded/(paid)	(406)	(168)
Research & development expenditure	(600)	(554)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>10,767</u>	<u>574</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	263	606
Acquisition of property, plant and equipment	(2,132)	(2,129)
Proceeds on sale of property, plant and equipment	10	1,901
Proceeds on disposal of joint venture interests	-	1,188
Net cash impact on disposal of controlled entity	-	690
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	<u>(1,859)</u>	<u>2,256</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance lease principal payments	(136)	(804)
Dividends paid	(8,455)	(9,819)
Dividends paid to minority interest in controlled entity	-	(1,178)
Proceeds from share issue	-	724
(Repayment of)/proceeds from borrowings	293	(275)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	<u>(8,298)</u>	<u>(11,352)</u>
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	610	(8,522)
Cash and cash equivalents at the beginning of period	<u>9,765</u>	<u>28,489</u>
CASH & CASH EQUIVALENTS AT THE END OF PERIOD	<u><u>10,375</u></u>	<u><u>19,967</u></u>

NOTES TO THE HALF YEAR FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

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

The half year financial report should be read in conjunction with the annual Financial Report of Schaffer Corporation Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable for financial years beginning before 1 January 2005 (AGAAP).

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 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

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 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. 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.

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

(b) Statement of compliance

The half year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the half year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards IAS 34 "Interim Financial Reporting".

This is the first half year financial report prepared based on AIFRS and comparatives for the half year ended 31 December 2004 and full year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half year report and 30 June 2005 full year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Schaffer Corporation Limited (the parent entity) and all entities which Schaffer Corporation Limited controlled from time to time during the period and at balance date (the "Group").

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent entity has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Minority interests represent the interests in Australian Leather Holdings Limited, not held by the Group.

(ii) Interest in joint venture operations

The Group recognises its interests in joint venture operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of income that it earns from the joint venture.

(iii) Foreign currency translation

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 differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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 weighted average exchange rates for the period.

The exchange differences arising on the retranslation 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.

(iv) Property, plant and equipment

Freehold land, buildings on freehold land, joint venture investment properties and plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

Joint venture investment properties – over 40 years

Plant and equipment – over 5 to 15 years

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

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.

(v) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the acquirer'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 and 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.

Where 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.

(vi) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

(vii) Investments

All investments are initially measured at fair value, net of transaction costs. Investments are classified into the following specified categories: held for trading, available for sale and held to maturity.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments 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 investment.

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.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

(viii) 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.

Construction work-in-progress – cost to date plus profit recognised based on percentage of completion method less progress billings to date. Cost includes all costs directly related to specific contracts, and an allocation of overhead costs attributable to contract activity in general.

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.

(ix) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(x) Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two workings days, net of outstanding bank overdrafts.

(xi) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(xii) 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.

(xiii) 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; and
- Other types of employee entitlements

are charged against profits on a net basis in their respective categories.

(xiv) 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 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").

(xv) Employee participation units

A controlled entity Australian Leather Holdings Limited may grant employee participation units (EPUs) in accordance with its Employee Incentive Plan adopted by ALH 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 Australian Leather Holdings 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").

(xvi) Leases

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 charged directly against income.

Leases where the lessor 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 lease income.

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.

(xvii) Revenue

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

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 joint venture 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.

Pre-cast concrete manufacture

The consolidated entity recognises revenue on the percentage of completion method. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. If in any period, total estimated costs for a contract exceed total estimated revenue, the resultant loss is brought to account in that period.

Sale of property

Revenue on the sale of property is brought to account when the sale is unconditional.

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.

(xviii) Income Tax

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 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where 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 assets 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are 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 differences 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.

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 income statement.

(xix) 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.

(xx) Derivative financial instruments

Forward exchange contracts

The consolidated entity enters into forward exchange contracts where it agrees to sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

The Group has determined that these derivatives do or qualify for hedge accounting and as such, any gains or losses arising from changes in fair value are taken directly to the income statement.

(xxi) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(xxii) Earnings per share

Basic earnings per share is calculated as net profit attributable to members, 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.

(xxiii) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 “First-time Adoption of Australian Equivalents to International Financial Reporting Standards” as follows:

Business combinations

AASB 3 “Business Combinations” was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Designation of previously recognised financial instruments

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions

AASB 2 “Share-Based Payments” is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has elected to adopt this exemption and has not applied AASB 132 “Financial Instruments: Presentation and Disclosure” and AASB 139 “Financial Instruments: Recognition and Measurement” to its comparative information.

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") are illustrated below:

IMPACT OF ADOPTING ASSB EQUIVALENTS TO IASB STANDARDS

	*** 30 Jun 2005 \$'000	** 31 Dec 2004 \$'000	* 1 Jul 2004 \$'000
(i) 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)			
Adjustments relating to share based payments (see note (a) below)	319	781	848
Write-back of goodwill amortization (see note (b) below)	110	55	-
Deferred taxation (see note (c) below)	(40)	(101)	(88)
Accumulated depreciation of joint venture properties (see note (d) below)	(870)	(812)	(754)
	(481)	(77)	6
Adjustments to reserves			
Option premium reserve (see note (a) below)	111	70	30
Share based payments reserve (see note (h) below)	123	90	57
Adjustments to outside equity interests in controlled entities			
Write-back of goodwill amortization (see note (b) below)	22	11	-
Share based payment (see note (h) below)	87	172	178
Total equity under AIFRS	53,834	59,411	62,539

* 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 income tax liability under AIFRS as follows:

Adjustment in respect of capitalised finance leases	-	225	225
Fixed asset cost base difference due to revaluations (see note (c) below)	161	223	212
Increase in deferred income tax liability	161	448	437

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

Adjustment in respect of employee participation units (see note (h) below)	(275)	(477)	(477)
Adjustment in respect of capitalised financed leases	-	225	225
Fixed asset cost base difference due to revaluations (see note (c) below)	121	123	125
Accumulated depreciation of joint venture properties (see note (c) below)	373	348	323
Increase in deferred income tax asset	219	219	196

	*** 30 Jun 2005 \$'000	** 31 Dec 2004 \$'000
(ii) 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 (see note (a) below)	(619)	(73)
Write-back of goodwill amortisation (see note (b) below)	132	66
Write-down joint venture properties to depreciated cost (see note (d) below)	(166)	(83)
Adjustment to income tax expense (see note (c) below)	98	12
Adjustment to net profit attributable to outside equity interest relating to recognition of share based payment expense (see note (h) below)	90	6
Adjustment to net profit attributable to outside equity interests relating to write-back of goodwill amortization (see note (b) below)	(22)	(11)
Net profit under AIFRS	9,404	6,608

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

IMPACT OF ADOPTING AASB EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) *Share-Based Payments*

SFC operates a shareholder approved Employee Share Option Plan ("ESOP"). Pursuant to the ESOP the Company issues options to senior executives as part of its remuneration strategy designed to align the interests of the participants with those of all SFC shareholders. Under AASB 2 Share-Based Payments, the Company is required to recognize the fair value of equity settled share based payment arrangements as an expense over the vesting period. The standard applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. This treatment results in a transitional adjustment through retained earnings on 1 July 2004 and subsequent expense recognition in the Income Statement, with corresponding adjustments to equity. No tax deduction is allowed for the amount expensed.

(b) *Goodwill*

Under AASB 3 Business Combinations, goodwill is no longer amortized but instead will be subject to annual impairment testing. This will result in a change to the Group's previous accounting policy which amortizes goodwill over its useful life (usually 20 years). Under the new policy, amortization is no longer charged, but goodwill will be written down to the extent it is impaired. No transition adjustment is required as the Group believes there has been no impairment at 1 July 2004. In addition, the Group has determined that there is no impairment at 30 June 2005. The Group has not elected to apply AASB 3 retrospectively and hence prior year amortization would not be written back as at the date of transition.

(c) *Taxation*

Under AASB 112 Income Taxes, deferred tax assets and deferred tax liabilities are recognized using the balance sheet approach, which will result in a change in the Group's previous accounting policy that uses the income statement approach. AASB 112 has a wider scope than the Group's previous accounting policy hence upon transition the amount of deferred taxes recognized in the balance sheet will increase. Deferred tax liabilities will increase in relation to assets that are carried in the Balance Sheet at amounts greater than their tax cost base due to revaluations of assets in prior periods. The impact of this difference is to increase deferred tax liabilities and decrease opening retained earnings.

In the case of joint venture properties that were carried in the Balance Sheet at cost and not depreciated, an adjustment has been made to bring to account this depreciation that would have been expensed since acquisition in accordance with AIFRS and an associated increase in deferred tax asset.

(d) *Investment Property*

Under previous Australian Standards, investment properties were not depreciated and the Group has carried its investment property joint venture interests in the Statement of Financial Position at the lower of cost and net realizable value. AASB 140 Investment Property, requires the value of investment properties to be recorded by the Group at either fair value or depreciated cost. The fair value option utilizes a mark to market approach whereby revaluation increments or decrements are required to be recognized in the Group's Income Statement at each balance date. The Group has adopted the depreciated value approach.

(e) *Financial Assets and Liabilities*

AASB 139 Financial Instruments: Recognition and Measurement requires financial instruments to be classified into one of the following categories which in turn determine the accounting treatment for the item. The classifications are:

- Financial assets held for trading – which are to be measured at fair value and fair value changes applied through the Income Statement;
- Financial assets held to maturity – which are to be measured at amortized cost;
- Loans and receivables – which are to be measured at amortized cost;
- Available-for-sale financial assets – which are to be measured at fair value with fair value changes taken to equity;
- Non-trading financial liabilities – which are to be measured at amortized cost.

This results in a change in the previous accounting policy that does not classify financial instruments.

Listed Shares

Previously listed shares were valued at the lower of cost and net realizable value. The new AASB 139 Financial Instruments: Recognition and Measurement, requires listed shares to be valued at their market value at balance date and any increment or decrement from the previous balance date to be recognized in the Company's Balance Sheet at each balance date. The new AASB 139 applied from 1 July 2005. The impact at 1 July 2005 is \$6,181 being an increase in the carrying value to bring the carrying value up to market value under AIFRS.

2. DIVIDENDS PAID OR PROPOSED

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

3. 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:

	Dec 2005 \$'000	Dec 2004 \$'000
(a) Other income/(losses)		
Dividends received from other corporations	1	6
Gain on sale of property, plant & equipment	4	428
Gain on sale of listed and unlisted shares	-	10
Profit on disposal of controlled entity	-	665
Net foreign currency gain	294	137
Government scheme income	348	-
Other	51	6
	<u>698</u>	<u>1,252</u>
(b) Expenses		
Depreciation and amortisation of property, plant and equipment	2,312	2,436
Provision for employee benefits increase/(decrease)	(528)	2,114
Expense of share based payments	<u>203</u>	<u>73</u>

4. NON CASH FINANCING AND INVESTING ACTIVITIES

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

5. SUBSEQUENT EVENTS

Subsequent to the end of the half year the company declared a dividend of 25¢ per share totalling \$3,523,000 payable on 21 March 2006.

Post 31 December 2005, Schaffer Corporation Limited has acquired an 11% joint venture interest in a commercial property at Joondalup (north of Perth) which has development potential

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.

6. CONTINGENT LIABILITIES

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

7. 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	50,318	51,453	20,799	15,567	2,056	3,735	541	2,940	73,714	73,695
Unallocated Revenue									-	-
Total Revenue									73,714	73,695
Segment Earnings	2,076	5,249	3,580	2,414	992	1,951	118	1,265	6,766	10,879
Interest and Corporate Overheads									(1,436)	(893)
Operating Profit Before Income Tax									5,330	9,986
Income Tax Expense									(1,611)	(2,914)
Net Profit After Tax									3,719	7,072
Segment Assets	76,587	76,401	22,254	20,967	14,801	14,422	15,454	26,408	129,096	138,198
Unallocated Assets									1,814	2,319
Total Assets									130,910	140,517
Segment Liabilities	57,985	57,638	5,372	4,370	15,382	15,195	589	1,398	79,328	78,601
Unallocated Liabilities									2,343	2,505
Total Liabilities									81,671	81,106

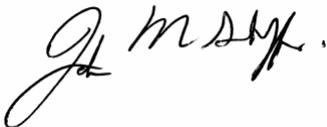
DIRECTORS' DECLARATION

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 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, 22 February 2006

Independent review report to members of Schaffer Corporation Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Schaffer Corporation Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the half-year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and 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 review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Schaffer Corporation Limited and the entities it controlled during the half-year is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 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; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



G H Meyerowitz
Partner
Perth

22 February 2006

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 2005, 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 H Meyerowitz
Partner
Perth

22 February 2006