Schaffer Corporation Limited

ABN 73 008 675 689

SCHAFFER CORPORATION REPORTS $9.9 MILLION NET PROFIT; DECLARES 60¢ PER SHARE IN DIVIDENDS

Schaffer Corporation Limited (ASX: SFC) recorded a headline net profit after tax (NPAT) of $9.9 million for the 2005 financial year (FY 2004: $16.6 million).

The headline profit figure includes a $0.67 million contribution on the disposal of surplus West Perth land (FY 2004: $2.8 million). Accordingly, NPAT excluding property disposals was $9.2 million (FY2004: $13.8 million).

SFC will pay a final ordinary dividend of $0.25 per share (fully franked), bringing the ordinary dividend for the 2005 financial year to $0.75 per share (fully franked) (FY 2004: $1.00 per share (fully franked)).

SFC will also pay a special dividend of $0.35 per share (fully franked), which brings special dividends for the year to $0.45 per share (fully franked) (FY 2004: $0.40 per share (fully franked)).

FINANCIAL PERFORMANCE

	2003/04	**2004/05**
Revenue ($M)	192.4	**148.9**
NPAT from Operating Earnings ($M)	13.8	**9.2**
NPAT from Property Disposals ($M)	2.8	**0.7**
Group Net Profit After Tax ($M)	16.6	**9.9**
Earnings per Share ($)	1.20	**0.70**
EBITDA ($M)	33.5	**22.4**
EBIT ($M)	28.5	**17.5**
Ordinary Dividend per Share ($)	1.00	**0.75**
Special Dividend per Share ($)	0.40	**0.45**
Cash Reserves ($M)	28.5	**12.7**
Return on Capital Employed (excl. disposals)	27%	**16%**
Interest Cover (EBIT/Interest Expense)	9.9	**6.2**
Net Debt to Equity	42%	**81%**

SFC's revenue and earnings represent significant decreases over the previous financial year and resulted from difficult trading conditions experienced by SFC's two core businesses - automotive leather and building products. Despite the difficult conditions, SFC recorded return on capital employed (ROCE) of 16%, which is a commendable effort.

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DIVIDENDS

In line with previous years, SFC continues its practice of paying out a large proportion of profits as dividends to shareholders.

Total ordinary dividends for 2005 are $0.75 per share. Special dividends amount to another $0.45 cents per share. Again, as in previous years, all dividends are fully franked.

The special dividends for the 2005 financial year bring the total of fully franked special dividends declared since August 2003 to $1.05 per share or a total of $14.7 million.

SFC instituted its special dividend programme to distribute to its shareholders (in part) its excess franking credits and the proceeds from the disposal of SFC's non-core investment properties and other surplus asset sales.

As outlined in SFC's 23 February 2005 release, the Company does not intend to make further investment property disposals. Accordingly, the special dividend to be paid in Sep-2005 represents the balance of these undistributed proceeds and will be the last under the current special dividend programme.

As a result of the special dividend programme and SFC's ordinary dividend payout ratio of greater than 100%, over the last two years SFC has effectively passed on its franking account surplus to its shareholders.

In future years, SFC intends to maintain a high ordinary dividend payout ratio of at least 75% (subject to capital expenditure and acquisition activity).

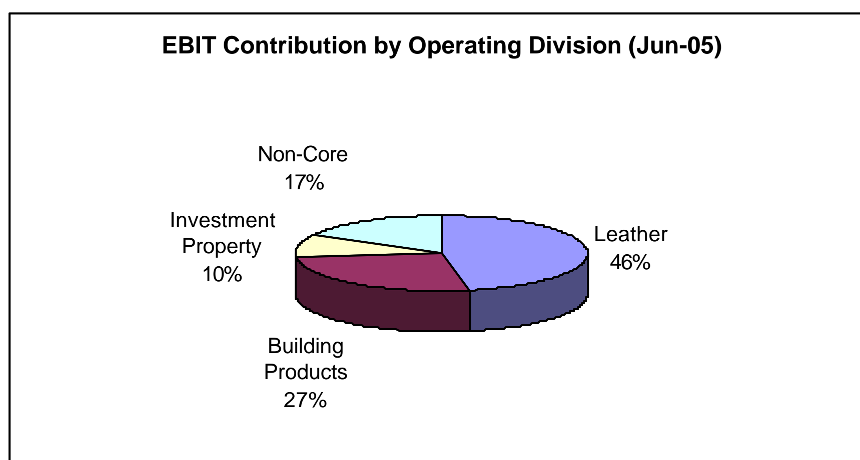
Key dates in relation to the final and special dividend are as follows:

- SFC's shares commence trading ex-dividend — 8 September 2005
- Record date for final and special dividends — 14 September 2005
- Payment of dividends — 19 September 2005

OPERATIONS SUMMARY

The year's difficult trading conditions had the greatest impact on the automotive leather division.

However, automotive leather continues to be SFC's principal driver of earnings before interest and tax (EBIT):



LEATHER (HOWE)

EBIT for Howe was $8.6 million (FY 2004: $16.1 million). Sales totaled $107 million (FY 2004 $141 million).

A number of factors impacted sales and earnings during the financial year, including:

- South Africa's heavily subsidised industry support scheme, which provides rebates of approximately 23% for South African automotive leather suppliers
- For much of the year, a suspension of sales to China where tighter Chinese government restrictions on car loans took effect
- A downturn in the United States original equipment manufacturer (OEM) market, where General Motors and Ford have lost market share to Japanese and Korean OEMs
- Production overcapacity, which has increased competition among component suppliers
- Further strengthening of the Australian dollar against the US dollar (a further US$0.04 over the 2004 financial year), which negatively impacts Australian dollar earnings.

Importantly, sales to China recommenced late in the financial year. Volumes are building steadily but remain below previous peak levels.

Howe has responded to these challenges by:

- Reducing manning and overhead levels at its Melbourne crusting, finishing and cutting facilities
- Establishing cutting plants in Slovakia (April 2005) and Shanghai (August 2005), where labour costs are substantially lower.

Both new plants are similar to the plant that Howe has operated successfully in Mexico for the past nine years.

The Melbourne plant will continue to provide cut sets for the Australian market and surplus cutting equipment will be relocated to Howe's offshore cutting plants.

In the short term, Howe will experience some duplication in cutting costs as the Melbourne cutting facility supports the Slovakian and Shanghai plants during their ramping-up phase. SFC also expects Howe's working capital to rise as product is shipped to Slovakia and Shanghai.

An unfortunate consequence of these initiatives is staff redundancies, which are necessary to underwrite the future competitiveness of the business. In the medium term, Howe's offshore cutting plants will strengthen Howe's competitive position and substantially improve Howe's market presence in Europe and China.

At present approximately 50% of Howe's revenue is generated in US dollars and 25% in Euros. A substantial amount of that revenue receives a natural hedge from associated US dollar-and-Euro-denominated costs. The remaining unhedged exposure to the US dollar and Euro exposes Howe's EBIT to variations of approximately 350,000 Australian dollars for each US cent or Eurocent, respectively, the Australian dollar rises or falls against the other currencies.

Furniture leather business Gosh operates in an extremely competitive sector of the global market and at current sales level will struggle to provide a satisfactory ROCE.

BUILDING PRODUCTS

The Building Products division reported sales of $28.9 million (FY 2004 $34.8 million) and EBIT of $2.9 million (FY 2004 $4.2 million).

The fall in operating revenue resulted from:

- The divestment of Solco, which contributed $3 million in revenue in the previous financial year
- Reduced UrbanStone sales, particularly in the NSW market.

However, the businesses generated acceptable cash flow and a satisfactory ROCE.

INVESTMENT PROPERTY

In the 2005 financial year, SFC's investment property leasing operations contributed $1.8 million in EBIT and $0.9 million of cash.

At the end of the financial year, SFC had joint venture interests in six commercial and retail properties valued at approximately $24.8 million with $14.1 million of associated debt.

SFC has no current intention to divest additional investment properties. SFC's Board is reviewing its exposure to the property sector and may consider further acquisitions should a suitable opportunity present itself.

NON-CORE ASSET DIVESTMENT

The sale of surplus land at West Perth, Western Australia generated $0.9 million of EBIT and $1.5 million of cash.

SFC retains a 15% interest in the Mindarie Keys Residential subdivision. In the financial year, the Mindarie investment provided $1.7 million of EBIT and $0.9 million of cash. Over the next two to three years, SFC expects to receive another $2.0 million of EBIT and $3.0 million in cash.

Over the course of the year, SFC divested other non-core assets including a land parcel in Kurrajong NSW, its 51% interest in Solco and various equity investments. Collectively, these divestments had provided $0.6 million of EBIT and $1.3 million of cash by year end.

FINANCE

Group operating cash flow was neutral mainly due to:

- Lower earnings, with earnings before interest, tax, depreciation and amortisation (EBITDA) lower by $11 million
- Increased working capital levels (up by $9 million) due largely to overstocking at Howe for the reasons outlined above.

Capital expenditure for the year totaled $4.6 million. Of that amount, the Slovakia and Shanghai plants represented less than $2 million.

At year end, SFC's net debt to equity ratio was 81% (30 June 2004: 42%). The increase over the previous year reflects mainly a reduction in cash levels resulting from payment of dividends totaling $20.1 million in August 2004 and March 2005. The debt is predominantly non-recourse to SFC and Directors are comfortable with the ratio at current levels.

OUTLOOK

During the 2006 financial year, SFC expects challenging trading conditions to continue in the automotive leather division, as high oil prices continue to impact upper-end vehicle sales.

Higher steel prices, supplier overcapacity and aggressive cost cutting programs by OEMs will also impact earnings. Continued Australian dollar strength will impact earnings as described above.

SFC expects volume increases in Europe and China to largely offset the loss of the BMW program (see SFC's 20 June 2005 release).

To strengthen its competitive position, Howe has acted to reduce production costs by commissioning cutting plants in lower cost countries.

While these measures will substantially reposition the business, there will be some unavoidable cost duplication in the short term. Once the facilities are fully operational, Howe's local presence will provide an ideal platform to pursue growth opportunities in the Europe and China markets.

In the Building Products division, SFC expects stable revenues with some margin compression due to increasing competition and input cost increases. The business retains strong cash flow generating capacity and has minimal capital expenditure requirements.

SFC expects sustainable and improving earnings from its investment property leasing operations as a result of rent reviews and higher occupancy levels.

SFC expects earnings from its interest in the Mindarie land subdivision to be lower due to low stock levels resulting from subdivision staging issues. This year's Mindarie earnings will be predominantly biased to the second half of the financial year.

SFC's first half historically exceeds second half earnings. SFC anticipates that earnings for the half year to be materially lower than the previous corresponding period ($6.1 million).

While improved earnings in the second half should partially offset the first half reduction, SFC expects full year earnings in 2006 to be materially below the $9.2 million reported for the 2005 financial year.

John Schaffer
Chairman

24 August 2005

SCHAFFER CORPORATION RECORDS LOWER NET PROFIT; DECLARES 60¢ IN DIVIDENDS

Schaffer Corporation Limited (ASX: SFC) today announced a headline NPAT of $9.9 million for the 2005 financial year (FY 2004: $16.6 million).

The headline profit figure includes a $0.67 million contribution on the disposal of surplus West Perth land (FY 2004 property disposals: $2.8 million). Accordingly, NPAT excluding investment property disposals was $9.2 million (FY2004: $13.8 million).

SFC also announced that it will pay:

- A final ordinary dividend of $0.25 per share (fully franked), bringing the ordinary dividend for the 2005 financial year to $0.75 per share (fully franked)
- A special dividend of $0.35 per share (fully franked), which brings special dividends for the year to $0.45 per share (fully franked).

SFC Chairman John Schaffer said that SFC's earnings (and, accordingly, ordinary dividends) had been adversely affected by difficult trading conditions in its two core businesses of automotive leather and building products:

	2003/04	**2004/05**
Revenue ($M)	192.4	**148.9**
Group Net Profit After Tax ($M)	16.6	**9.9**
Earnings per Share ($)	1.20	**0.70**
Ordinary Dividend per Share ($)	1.00	**0.75**
Special Dividend per Share ($)	0.40	**0.45**
Cash Reserves ($M)	28.5	**12.7**

"SFC's earnings were significantly lower in the 2005 financial year as a combination of factors affected our principal businesses," Mr Schaffer said.

"The suspension of sales in China due to government policy and the South African government's subsidy to leather suppliers in that country, particularly, impacted on the Howe automotive leather business."

"Howe has taken steps to ensure its long-term competitiveness by opening plants in Shanghai and Slovakia, which will enable to the business to take advantage of lower labour costs in the labour-intensive cutting process," Mr Schaffer added.

SFC does not expect to realize the full benefit of these moves during the 2006 financial year as a result of a period of cost duplication with Howe's Melbourne plant and increased working capital requirements as the new plants ramp up.

The building products division also experienced difficult trading conditions where revenue and earnings were lower.

While ordinary dividends are lower and in line with the reduced earnings, SFC has increased its special dividend for the year to 45 cents per share.

Since September 2003, SFC will have paid out a total of $1.05 per share (fully franked) in special dividends as part of its programme of reducing the Company's franking credit surplus and the payout of cash generated by non-core operations (primarily property and surplus asset disposals).

SFC does not currently intend to divest any further investment property interests, with the result that the September 2005 special dividend will be the last in the current special dividend programme.

However, SFC intends to maintain a high ordinary dividend payout ratio of at least 75% in future years (subject to capital expenditure and acquisition activity).

Mr Schaffer added that ongoing challenging trading conditions meant that SFC was expecting earnings for the 2006 financial year to be materially lower than for 2005.

"The current financial year looks to be a period of consolidation for SFC, where we will continue to implement the steps we have taken to ensure the long term competitiveness of our businesses."

"We expect the benefits of this process should flow in periods following 2006," Mr Schaffer concluded.

Key dates in relation to the final and special dividend are as follows:

- SFC's shares commence trading ex-dividend — 8 September 2005
- Record date for final and special dividends — 14 September 2005
- Payment of dividends — 19 September 2005

For further information, please contact:

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Chief Financial Officer
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24 August 2005

APPENDIX 4E

Preliminary final report

1. Name of entity

SCHAFFER CORPORATION LIMITED

ABN	Financial year ended ('current period')
008 675 689	**30 JUNE 2005**
	Previous corresponding period
	30 JUNE 2004

2. For announcement to the market

Results for announcement to the market: .

					$'000
2.1	Revenues from ordinary activities	down	23%	to	148,869
2.2	Profit from ordinary activities after tax attributable to members	down	41%	to	9,891
2.3	Net profit for the period attributable to members	down	41%	to	9,891

2.4	**Dividends (see section 6)**	Amount per security	Franked amount per security
	Final – Ordinary Dividend	25¢	25¢
	Final – Special Dividend	35¢	35¢
	Interim – Ordinary Dividend	50¢	50¢
	Interim – Special Dividend	10¢	10¢
2.5	Record date for determining entitlements to the dividend	14 SEPTEMBER 2005	

3. Condensed consolidated statement of financial performance

	Notes	**2005** *$'000*	2004 *$'000*
REVENUES FROM ORDINARY ACTIVITIES	1	**148,869**	192,350
Changes in inventories of finished goods, work in progress and land held for re-sale		**4,020**	(4,195)
Raw materials and consumables used	2	**(78,552)**	(93,028)
Cost of sales joint venture interests	2	**-**	(3,067)
Cost of sales property	2	**(3,978)**	(1,781)
Depreciation and amortization expense	2	**(4,942)**	(4,996)
Borrowing costs expense	2	**(3,846)**	(3,998)
Salaries, wages and on-costs		**(36,782)**	(42,798)
Other expenses from ordinary activities		**(10,137)**	(12,862)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		**14,652**	25,625
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		**3,989**	7,348
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		**10,663**	18,277
NET PROFIT ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST		**772**	1,643
NET PROFIT ATTRIBUTABLE TO THE MEMBERS		**9,891**	16,634
NON-OWNER TRANSACTION CHANGES IN EQUITY		-	
Total transactions and adjustments recognised directly in equity		-	
TOTAL CHANGES IN EQUITY NOT RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		**9,891**	16,6
Earnings per security (EPS) (see section 14.1)			
Basic EPS		70.3¢	119.8¢
Diluted EPS		70.0¢	117.7¢

Notes to the condensed consolidated statement of financial performance

	2005 $'000	*2004 $'000*
1. REVENUE FROM ORDINARY ACTIVITIES		
Revenue from operating activities		
Revenue from sale of goods	**135,029**	176,010
Revenue from sale of property	**7,356**	3,365
Revenue from sale of equity securities	**736**	814
Rent received	**3,150**	3,648
Other	**384**	185
Total revenues from operating activities	**146,655**	184,022
Revenue from non-operating activities		
Interest received	**1,023**	1,116
Dividends received	**13**	38
Proceeds on sale of plant and equipment	**87**	124
Proceeds on sale of joint venture interests	**-**	7,050
Proceeds on disposal of controlled entity	**1,091**	-
Total revenues from non-operating activities	**2,214**	8,328
Total revenues from ordinary activities	**148,869**	192,350

Notes to the condensed consolidated statement of financial performance

	2005 $'000	*2004 $'000*
2. EXPENSES AND LOSSES/(GAINS)		
(a) **Expenses**		
Cost of sales – manufactured goods and property	**100,524**	124,523
Cost of sales – equity securities	**518**	492
Depreciation of non-current assets		
Plant and equipment	**4,214**	4,216
Buildings	**476**	394
Total depreciation of non-current assets	**4,690**	4,610
Amortisation of non-current assets		
Goodwill	**132**	132
Leasehold improvements	**66**	73
Plant and equipment under lease	**54**	181
Total amortisation of non-current assets	**252**	386
Total depreciation and amortisation expenses	**4,942**	4,996
Borrowing costs expense		
Interest expense		
Finance lease	**40**	114
Other	**3,533**	3,844
Other borrowing costs	**273**	40
Total borrowing costs expensed	**3,846**	3,998
Provision for/(reversal of) Bad and doubtful debts – trade debtors	**74**	(27)
(b) **Losses/(Gains)**		
(Gain)/loss on disposal of investment in listed and unlisted shares	**(218)**	(322)
Gain on disposal of non-current asset	**(1,537)**	(79)
Net foreign currency (gains)/losses	**627**	(1,926)
Gain on disposal of joint venture interest	**-**	(3,982)
Gain on sale of shares in controlled entity	**689**	-

4. Condensed consolidated statement of financial position

	2005 $'000	2004 $'000
CURRENT ASSETS		
Cash assets	**12,737**	28,489
Receivables	**28,123**	26,953
Inventories	**35,107**	31,654
Other	**951**	1,274
TOTAL CURRENT ASSETS	**76,918**	88,370
NON-CURRENT ASSETS		
Property, plant and equipment	**53,938**	56,646
Deferred tax assets	**2,718**	3,275
Intangible assets	**1,167**	1,299
TOTAL NON-CURRENT ASSETS	**57,823**	61,220
TOTAL ASSETS	**134,741**	149,590
CURRENT LIABILITIES		
Payables	**13,705**	17,669
Interest-bearing liabilities	**3,139**	845
Current tax liabilities	**1,213**	2,635
Provisions	**4,348**	7,095
TOTAL CURRENT LIABILITIES	**22,405**	28,244
NON-CURRENT LIABILITIES		
Interest-bearing liabilities	**53,292**	53,901
Deferred tax liabilities	**2,363**	2,549
Provisions	**2,709**	2,628
TOTAL NON-CURRENT LIABILITIES	**58,364**	59,078
TOTAL LIABILITIES	**80,769**	87,322
NET ASSETS	**53,972**	62,268
EQUITY		
Parent entity interest		
Contributed equity	**17,034**	15,916
Reserves	**-**	2,585
Retained profits	**33,288**	39,071
Total parent entity interest in equity	**50,322**	57,572
Total outside equity interest	**3,650**	4,696
TOTAL EQUITY	**53,972**	62,268

5.1 Condensed consolidated statement of cash flows

	2005 ***$'000***	*2004* *$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**145,201**	187,830
Payments to suppliers and employees	**(136,301)**	(149,490)
Disposal of equity securities	**736**	814
Dividends received	**13**	38
Interest received	**1,023**	1,116
Borrowing costs paid	**(3,846)**	(3,998)
Income tax paid	**(6,124)**	(8,547)
Goods and services tax refunded/(paid)	**(314)**	(334)
Other	**(66)**	(1,515)
NET CASH FLOWS FROM OPERATING ACTIVITIES	***322***	*25,914*
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**4,090**	508
Purchase of property, plant and equipment	**(4,792)**	(4,461)
Net cash impact of disposal of controlled entity	**714**	-
Proceeds on disposal of joint venture interests	**1,188**	6,122
Other	**-**	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	***1,200***	*2,169*
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	**1,118**	1,178
Proceeds from borrowings	**-**	495
Repayments of borrowings	**(1,287)**	(514)
Dividends Paid	**(20,077)**	(21,824)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	***(20,246)***	*(20,665)*
NET INCREASE IN CASH HELD	***(18,724)***	*7,418*
Add opening cash brought forward	**28,489**	21,071
CLOSING CASH CARRIED FORWARD	***9,765***	*28,489*

5.2 Reconciliation of the net profit after tax to the net cash flows from operations

	2005 ***$'000***	*2004* *$'000*
Net profit after tax	**10,663**	18,277
Non-cash items:		
Depreciation of non-current assets	**4,690**	4,610
Amortisation of non-current assets	**252**	386
Net (profit)/loss on disposal of non-current assets	**(1,537)**	(79)
Profit on disposal of joint venture interests	**-**	(3,982)
Movement on currency loss provisions and deferrals	**296**	(296)
Increase/(reversal of) provision for sales rebates	**-**	1,431
Profit on disposal of partly-owned controlled entity	**(689)**	-
(Reversal of)/provision for diminution in value of investments	**(23)**	(145)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(1,773)**	1,654
(Increase)/decrease in inventory	**(3,657)**	5,726
Decrease in other financial assets	**541**	492
(Increase)/decrease in future income tax benefit	**536**	403
(Increase)/decrease in prepayments	**(237)**	84
(Decrease)/increase in trade and other creditors	**(3,449)**	(2,747)
(Decrease)/increase in tax provision	**(2,485)**	(1,247)
(Decrease)/increase in deferred income tax liability	**(186)**	(355)
(Decrease)/increase in employee entitlements	**(2,620)**	1,702
Net cash flow from operating activities	**322**	25,914

5.3 Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

Cash on hand and at bank	12,737	[illegible]
Bank overdraft	(2 [illegible]	
Total cash at end of period	**9** [illegible]	[illegible]

5.4 Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows.

NONE

5.5 Financing facilities available

The consolidated entity has bank facilities available to the extent of $35,210,000 (2004 - $44,578,000). The unutilised facility for the consolidated entity at balance date was $15,706,000 (2004 - $28,486,000)

5.6 Acquisition of controlled entity

NONE

6.1 Dividends

Date the dividend is payable	19 SEPTEMBER 2005
Record date to determine entitlements to the dividend (ie, on the basis of security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules - securities are CHESS approved)	14 SEPTEMBER 2005
If it is a final dividend, has it been declared?	YES

6.2 Amount per security

	Amount per security	Franked amount per security at 30% tax
Final dividend:		
Current year	25¢	25¢
Previous year	50¢	50¢
Final special dividend:		
Current year	35¢	35¢
Previous year	20¢	20¢
Interim dividend:		
Current year	50¢	50¢
Previous year	50¢	50¢
Interim special dividend:		
Current year	10¢	10¢
Previous year	20¢	20¢

6.3 Total dividend per security (interim *plus* final and special)

	Current year	Previous year
Ordinary securities	120¢	140¢
Preference securities	-	-

6.4 Preliminary final report – dividend on all securities

	Current period $'000	Previous corresponding period $'000
Ordinary securities - Final	8,455	9,819
- Interim	8,440	9,752
Preference securities	-	-
Other equity instruments	-	-

Total	**16,895**	**19,511**

7. Dividend plan

The company does not have a dividend reinvestment plan.

8. Consolidated retained profits

	Current period $'000	Previous corresponding period $'000
Retained profits at the beginning of the financial period	39,071	41,905
Transfers from reserves	2,585	-
Net profit attributable to members	9,891	16,634
Dividends and other equity distributions paid or payable	(18,259)	(19,468)
Retained profits at end of financial period	**33,288**	**39,071**

9. NTA backing	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	$3.49	$4.04

10. Control gained/lost over entities having material effect

During the year the Group disposed of its 51% interest in Solco Industries Pty. Ltd. resulting in a profit of $689,000.

11. Details of aggregate share of profits (losses) of associates and joint venture entities

		Current period	Previous corresponding period
11.1	Name of associate or joint venture	Percentage Interest	Percentage Interest
	Joint Ventures		
	IBM Centre Joint Venture	22.10	22.10
	St. Kilda Road Joint Venture	20.00	20.00
	Hometown Joint Venture	25.00	25.00
	Queens Road Joint Venture	9.00	9.00
	Crosslands Shopping Centre JV	16.70	16.70
	89 St. George's Terrace Joint Venture	20.00	20.00
	Mindarie Keys Joint Venture	15.00	15.00
11.2	**Group's share of associates' and joint venture entities':**	$'000	$'000
	Profit (loss) from ordinary activities before tax	2,505	5,836
	Income tax on ordinary activities	751	1,609
	Profit (loss) from ordinary activities after tax	1,754	4,227
	Extraordinary items net of tax	-	-
	Net profit (loss)	1,754	4,227
	Adjustments	-	-
	Share of net profit (loss) of associates and joint venture entities	1,754	4,227

12. Other significant information

All significant information is disclosed in this Appendix 4E and the attached press release.

13. Foreign entities

For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).

Australian Accounting Standards

14. Commentary on results

For a commentary on the results see the attached press release.

14.1 Earnings per security (EPS)

Details of basic and diluted EPS reported separately in accordance with paragraph 9 and 18 of *AASB 1027: Earnings Per Share* are as follows.	Current year $'000	Previous corresponding year $'000
The following reflects the income and share data used in the calculation of basic and diluted EPS:		
Basic Earnings	9,891	16,634
Diluted Earnings	9,891	16,634
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic EPS	14,069,712	13,881,167
Dilutive effect of employee options on issue	70,350	246,350
Weighted average number of ordinary shares used in the calculation of diluted EPS	14,140,062	14,127,517
Basic EPS	$0.70	$1.20
Diluted EPS	$0.70	$1.18

14.2 Segment reporting

See attached

15. Status of audit or review

This report is based on accounts to which one of the following applies.

☐	The accounts have been audited.	☐	The accounts have been subject to review.
☑	The accounts are in the process of being audited or subject to review.	☐	The accounts have *not* yet been audited or reviewed.

16. Dispute or qualification – accounts not yet audited or subject to review

If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.

N/A

17. Dispute or qualification – accounts audited or subject to review

If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification.

N/A

Sign here: .... Date: 24 AUGUST 2005
Company Secretary

Print Name: GEOFFREY VICTOR DAVIESON

SCHEDULE ACCOMPANYING APPENDIX 4E PRELIMINARY FINAL REPORT

SCHAFFER CORPORATION LIMITED

(ACN 008 675 689)

FOR THE YEAR ENDED 30 JUNE 2005

REPORT FOR INDUSTRY SEGMENTS

	LEATHER		BUILDING PRODUCTS		INVESTMENT PROPERTY		OTHER INVESTMENTS		CONSOLIDATED	
	2005 $000	2004 $000	2005 $000	2004 $000	2005 $000	2004 $000	2005 $000	2004 $000	2005 $000	2004 $000
Total Revenue from Ordinary Activities	107,424	140,870	28,856	34,750	3,940	11,227	7,489	5,359	147,709	192,206
Unallocated Revenue									1,160	144
Total Revenue									148,869	192,350
Segment Earnings	8,609	16,087	2,867	4,170	1,767	5,779	3,064	1,811	16,307	27,847
Interest and Corporate Overheads									(1,655)	(2,222)
Operating Profit Before Income Tax									14,652	25,625
Income Tax Expense									3,989	7,348
Net Profit After Tax									10,663	18,277
Segment Assets	78,355	75,141	21,389	20,598	15,324	16,467	17,507	34,541	132,575	146,747
Unallocated Assets									2,166	2,843
Total Assets									134,741	149,590
Segment Liabilities	57,738	61,939	5,025	6,360	14,966	14,690	617	1,607	78,346	84,596
Unallocated Liabilities									2,423	2,726

Total Liabilities									80,769	87,322

IMPACT OF ADOPTING AASB EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For financial periods commencing 1 July 2005, the Group must comply with Australian equivalents of International Financial Reporting Standards ("AIFRS") as issued by the Australian Accounting Standards Board ("AASB"). The Group will be required to present its financial statements in accordance with AIFRS for the financial year commencing 1 July 2005, including the interim financial report for the half-year ending 31 December 2005. Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Group's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Schaffer Corporation Limited ("SFC") prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

The Group is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards ("AGAAP") to AIFRS. SFC has allocated internal resources and consulted experts in performing an internal review to assess the impact of the anticipated conversion to AIFRS from the Group's existing accounting and reporting practices. The review focused on the standards reasonably believed to be relevant to the Group. The review has quantified the effects of the differences as set out below.

The figures disclosed below, are management's best estimates of the quantitative impact of the changes as at the date of preparing these 30 June 2005 financial statements. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the AIFRS project team; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

The review process has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004). These choices were analysed to determine the accounting policy most appropriate for the Group.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

(i) 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 will be required to recognize the fair value of options 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. Share based payment costs are not recognised under AGAAP.

	Consolidated		Chief Entity	
	30 Jun 05	1 Jul 04	30 Jun 05	1 Jul 04
	$'000	$'000	$'000	$'000
Adjustment to retained earnings	(111)	(30)	(111)	(30)
Adjustment to net profit	(81)	-	(81)	-

(ii) Goodwill

Under AASB 3 Business Combinations, goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change to the Group's current accounting policy which amortises goodwill over its useful life (usually 20 years). Under the new policy, amortisation will no longer be 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.

	Consolidated		Chief Entity	
	30 Jun 05	1 Jul 04	30 Jun 05	1 Jul 04
	$'000	$'000	$'000	$'000
Adjustment to retained earnings	-	-	-	-
Adjustment to net profit	110	-	-	-

(iii) Taxation

Under AASB 112 Income Taxes, deferred tax assets and deferred tax liabilities are recognised using the balance sheet approach, which will result in a change in the Group's current accounting policy that uses the income statement approach. AASB 112 has a wider scope than the Group's current accounting policy hence it is likely upon transition that the amount of deferred taxes recognised 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. 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 will be 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.

	Consolidated		Chief Entity	
	30 Jun 05 $'000	1 Jul 04 $'000	30 Jun 05 $'000	1 Jul 04 $'000
Future tax benefit increase	826	673	826	673
Deferred tax liability increase	(492)	(437)	(492)	(437)
Net tax effect taken as an increase in retained earnings	334	236	334	236

(iv) Investment Property

Under current Australian Standards, investment properties are 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 realisable value. The new standard, 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 utilises a mark to market approach whereby revaluation increments or decrements are required to be recognised in the Group's Income Statement at each balance date. The Group intends to adopt the depreciated value approach.

	Consolidated		Chief Entity	
	30 Jun 05 $'000	1 Jul 04 $'000	30 Jun 05 $'000	1 Jul 04 $'000
Adjustment to retained earnings (net of tax)	(870)	(754)	(276)	(2274)
Adjustment to net profit (net of tax)	(116)	-	(52)	-

(v) Financial Assets and Liabilities

AASB 139 Financial Instruments: Recognition and Measurement will require 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 amortised cost;
- Loans and receivables – which are to be measured at amortised 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 amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments particularly in relation to listed shares.

Listed Shares

Currently listed shares are valued at the lower of cost or net realisable 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 recognised in the Company's Statement of Financial Performance at each balance date. The new AASB 139 does not apply till 1 July 2005. The impact at 1 July 2005 is $6,181 being an increase in 30 June 2005 AGAAP carrying value to bring the carrying value up to market value under AIFRS.

(vi) Hedge Accounting

The Group uses forward contracts to manage foreign exchange exposure. AASB 139 Financial Instruments: Recognition and Measurement will require all derivatives to be measured at fair value and recognised in the Income Statement unless they qualify for specific hedge accounting. In order to meet the specific hedge criteria, the entity is required to meet the following criteria:

- Identified the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has been and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Due to the complexity and resources required to test hedge effectiveness pursuant to the AIFRS regime, future hedge contracts will be treated as general hedges with all movements in fair value recognised in the Income Statement.

On adoption of AIFRS, the forward exchange contracts will be marked to market whereas under AGAAP, these 30 June 2005 financial statements have been marked to spot.

There is no 1 July 2004 transitional adjustment, nor any 31 December 2004 half-year impact as the transition date for AASB 139 is 1 July 2005.

(vii) Embedded Derivatives

AASB 139 "Financial Instruments: Recognition and Measurement" introduces the concept of embedded derivatives and requires the identification, recognition and measurement of derivatives embedded within contracts entered into by a Group. Embedded derivatives are required to be recognised at fair value with movements reported in the Income Statement. The transition date for AASB 139 is 1 July 2005 and the Group is currently reviewing contracts to clarify embedded derivatives.

(viii) Employee Participation Units

The Group is currently in the process of determining the appropriate classification and recognition of the Employee Participation Units for AIFRS reporting purposes.