APPENDIX 4D

Preliminary half-year report

1. Name of entity

SCHAFFER CORPORATION LIMITED

ABN	Financial year ended ('current period')
008 675 689	**31 DECEMBER 2005**
	Previous corresponding period
	31 DECEMBER 2004

2. For announcement to the market

Results for announcement to the market: .

					$'000
2.1	Revenues from ordinary activities	up	-%	to	73,714
2.2	Profit from ordinary activities after tax attributable to members	down	45%	to	3,631
2.3	Net profit for the period attributable to members	down	45%	to	3,631

2.4	**Dividends (see section 6)**	Amount per security	Franked amount per security
	Final dividend		
	Interim period	25¢	25¢
2.5	Record date for determining entitlements to the dividend	16 MARCH 2006	

3. Condensed consolidated income statement

	Note	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		**73,714**	73,695
Cost of sales and other directly attributable costs		**(56,250)**	(51,007)
Gross profit		**17,464**	22,688
Rental property expenses		**(827)**	(566)
Other income	1(a)	**698**	1,252
Marketing expenses		**(3,284)**	(3,031)
Administrative expenses		**(6,787)**	(8,378)
Profit from continuing operations before tax and finance costs		**7,264**	11,965
Finance costs		**(1,934)**	(1,979)
Profit before income tax		**5,330**	9,986
Income tax expense		**(1,611)**	(2,914)
Net profit after income tax for the period		**3,719**	7,072
Profit attributable to minority interest		**(88)**	(464)
Profit attributable to members of the parent		**3,631**	6,608
Earnings per share (EPS) (see section 14.1)			
Basic EPS		**25.8¢**	47.1¢
Diluted EPS		**25.8¢**	47.1¢
Dividends paid per share		**25¢**	60¢

Notes to the condensed consolidated income statement

	Dec 2005 **_$'000_**	Dec 2004 _$'000_
1. REVENUE & EXPENSES		
Profit before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:		
(a) Other income/(losses)		
Dividends received from other corporations	**1**	6
Gain/(loss) on sale of property, plant and 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
	698	1,252
(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	**203**	73

4. Condensed consolidated balance sheet

	Dec 2005 $'000	June 2005 $'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
Available-for-sale financial assets	**269**	83
Prepayments	**1,523**	868
TOTAL CURRENT ASSETS	**74,557**	76,918
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	**56,353**	56,931
TOTAL ASSETS	**130,910**	133,849
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	**24,973**	22,405
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	**56,698**	57,610
TOTAL LIABILITIES	**81,671**	80,015
NET ASSETS	**49,239**	53,834
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	**45,392**	50,075
Minority interests	**3,847**	3,759
TOTAL EQUITY	**49,239**	53,834

5.1 Condensed consolidated statement of cash flows

	Dec 2005 *$'000*	Dec 2004 *$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**77,254**	77,555
Payments to suppliers and employees	**(62,078)**	(71,062)
Acquisition/(disposal) of equity securities	**(46)**	104
Dividends received	**1**	6
Borrowing costs paid	**(1,934)**	(1,979)
Income tax paid	**(2,423)**	(3,888)
Goods and services tax refunded/(paid)	**(406)**	(168)
Government scheme income	**348**	-
Other	**51**	6
NET CASH FLOWS FROM OPERATING ACTIVITIES	***10,767***	*574*
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**10**	1,901
Proceeds on disposal of joint venture interests	**-**	1,188
Purchase of property, plant and equipment	**(2,132)**	(2,129)
Interest received	**263**	606
Net cash impact of disposal of controlled entity	**-**	690
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES	***(1,859)***	*2,256*
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	**-**	724
Proceeds from borrowings	**293**	-
Repayments of borrowings	**(136)**	(1,079)
Dividends Paid	**(8,455)**	(9,819)
Dividends paid to minority interest in controlled entity	**-**	(1,178)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	***(8,298)***	*(11,352)*
NET (DECREASE)/INCREASE IN CASH & CASH EQUIVALENTS	***610***	*(8,522)*
Cash and cash equivalents at beginning of period	**9,765**	28,489
CASH AND CASH EQUIVALENTS AT END OF PERIOD	***10,375***	*19,967*

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

	Dec 2005 *$'000*	Dec 2004 *$'000*
Net profit after tax	**3,719**	7,072
Non-cash items:		
Depreciation of non-current assets	**2,251**	2,311
Interest received	**(263)**	(606)
Amortisation of non-current assets	**61**	125
Share based payments expense	**203**	73
Net (profit)/loss on disposal of non-current assets	**(4)**	(1,408)
Profit on disposal of partly-owned controlled entity	**-**	(351)
Increase in/(reversal of) provision for currency loss	**-**	296
Deferred income tax liability on gain on available-for-sale investment	**(42)**	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**2,115**	3,469
(Increase)/decrease in inventory	**(400)**	(6,663)
(Increase)/decrease in deferred income tax asset	**461**	367
(Increase)/decrease in derivatives	**65**	-
(Increase)/decrease in prepayments	**(655)**	(440)
(Decrease)/increase in trade and other creditors	**5,298**	(418)
(Decrease)/increase in tax provision	**(1,022)**	(1,473)
(Decrease)/increase in deferred income tax liability	**(209)**	132
(Decrease)/increase in employee entitlements	**(765)**	(2,006)
(Increase)/decrease in other financial assets	**(46)**	94
Net cash flow from operating activities	**10,767**	574

5.3 Reconciliation of cash

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

Cash on hand and at bank	1(	
Bank overdraft		
Total cash at end of period	**1(**	

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 $33,725,000 (June 2005 - $35,210,000). The unutilised facility for the consolidated entity at balance date was $18,711,000 (June 2005 - $15,706,000)

5.6 Acquisition of controlled entity

NONE

6.0 Statement of changes in equity

	Attributable to Equity Holders of the Parent				Minority Interest	Total Equity
	Issued Capital $'000	Retained Earnings $'000	Other Reserves $'000	Total $'000	$'000	$'000
CONSOLIDATED						
At 1 July 2004	15,916	39,077	2,672	57,665	4,874	62,539
Profit for the half-year		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 half-year		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

6.1 Dividends

Date the dividend is payable	21 MARCH 2006
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)	16 MARCH 2006
If it is a final dividend, has it been declared?	N/A

6.2 Amount per security

		Amount per security	Franked amount per security at 30% tax
Final dividend:	Current year		
	Previous year		
Special dividend:	Current year	0¢	0¢
	Previous year	10¢	10¢
Interim dividend:	Current year	25¢	25¢
	Previous year	50¢	50¢

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

	Current year	Previous year
Ordinary securities	$3,523,000	$8,440,000
Preference securities	-	-

6.4 Preliminary final report - final dividend on all securities

	Current period $'000	Previous corresponding period $'000
Ordinary securities		
Preference securities		
Other equity instruments		
Total	**N/A**	**N/A**

7. Dividend plan

The company does not have a dividend reinvestment plan.

8. Consolidated retained profits

	Current period $'000	Previous financial year $'000
Retained profits at the beginning of the financial period	30,222	39,077
Net profit attributable to members	3,631	6,608
Dividends and other equity distributions paid or payable	(8,455)	(9,819)
Retained profits at end of financial period	**25,398**	**35,866**

9. NTA backing	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	$3.13	$3.86

10. Control gained/lost over entities having material effect

There has been no changes in control of entities.

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	595	1,730
	Income tax on ordinary activities	179	519
	Profit (loss) from ordinary activities after tax	416	1,211
	Extraordinary items net of tax		-
	Net profit (loss)	416	1,211
	Adjustments	-	-
	Share of net profit (loss) of associates and joint venture entities	416	1,211

12. Other significant information

All significant information is disclosed in this Appendix 4D 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

Refer attachment

14.1 Earnings per security (EPS)

Details of basic and diluted EPS reported separately in accordance with *AASB 134: 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	3,631	6,608
Diluted Earnings	3,631	6,608
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic EPS	14,091,935	14,026,462
Dilutive effect of employee options on issue	-	-
Weighted average number of ordinary shares used in the calculation of diluted EPS	14,091,935	14,026,462
Basic EPS	25.8	47.1
Diluted EPS	25.8	47.1

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: 22 FEBRUARY 2006
Company Secretary

Print Name: GEOFFREY VICTOR DAVIESON

SCHEDULE ACCOMPANYING APPENDIX 4D PRELIMINARY HALF-YEAR REPORT

SCHAFFER CORPORATION LIMITED

(ACN 008 675 689)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

REPORT FOR INDUSTRY SEGMENTS

	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

APPENDIX 1 ACCOMPANYING APPENDIX 4D PRELIMINARY HALF-YEAR REPORT

	*** 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) above)	(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	-
Shared 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 capitalized 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 (refer note (h) below)	(275)	(477)	(477)
Adjustment in respect of capitalized finance 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 amortization (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

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 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, required 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 from1 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.