SCHAFFER REPORTS $6.7M FIRST HALF PROFIT

Schaffer Corporation Limited (ASX: SFC) today announced a net profit for the first half of the 2005 financial year of $6.7 million. The interim result includes a $0.6 million after tax profit on disposal of investment property. The Company also announced that, as previously anticipated, the directors have declared:

- An ordinary interim dividend of 50 cents per share (fully franked)
- A special dividend of 10 cents per share (also fully franked).

FINANCIAL PERFORMANCE

The interim result is in line with SFC's revised earnings forecast released to the ASX on 10 December 2004.

As indicated in the revision and foreshadowed at the 2004 AGM, during the half year, both SFC's core businesses experienced difficult trading conditions. Each of the Automotive Leather and Building Products divisions recorded a decline in revenue and earnings when compared with the previous corresponding period (pcp). The following table summarises consolidated Group performance for the half year and the pcp:

	H1 FY2004	**H1 FY2005**	Change
Revenue ($M)	104.2	**76.6**	- 27%
NPAT from Operating Earnings ($M)	7.8	**6.1**	- 22%
NPAT from Investment Property Disposals ($M)	2.3	**0.6**	
Group Net Profit After Tax ($M)	10.1	**6.7**	- 34%
Earnings per Share ($)	0.73	**0.48**	- 35%
EBITDA ($M)	19.5	**13.9**	- 29%
EBIT ($M)	17.1	**11.4**	- 33%
Ordinary Dividend per Share ($)	0.50	**0.50**	
Special Dividend per Share ($)	0.20	**0.10**	
Cash Reserves ($M)	24.3	**20.0**	
Return on Capital Employed (excl. disposals)	28%	**22%**	
Interest Cover (EBIT/Interest Expense)	8.0	**5.8**	
Net Debt to Equity	51%	**57%**	

DIVIDENDS

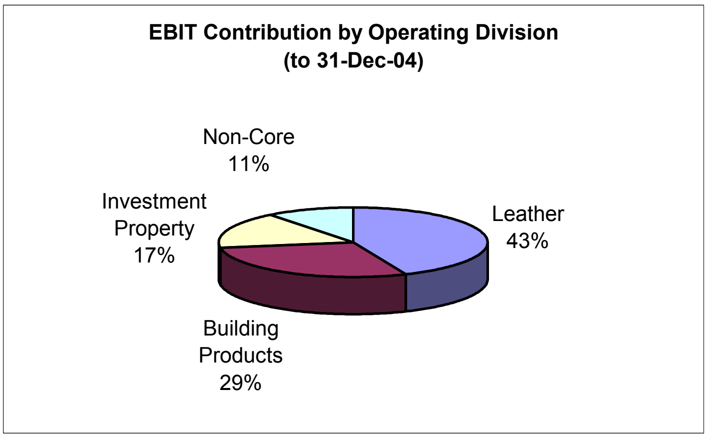
As previously stated, SFC will pay a fully franked interim dividend of 50 cents per share. The directors have also declared a fully franked special dividend of 10 cents per share.

SFC's current high level of ordinary and special dividend payments reflects the Company's cash position, the ongoing realisation of non-core assets and, as at 31 December 2004, a franking credit surplus of $5.2 million on a tax-paid basis.

Important dates in relation to both dividends are:

• Commencement of 'ex-dividend' trading	09 March 2005
• Record date	16 March 2005
• Payment of dividends	21 March 2005.

OPERATIONS



Leather Division

The Automotive Leather division (Howe) recorded revenue of $48.1 million (pcp: $66.0 million) and EBIT of $5.2 million (pcp: $8.6 million).

The decline in Howe's revenue resulted from two factors:

- Lower volume ($16.0 million): primarily due to a suspension of China sales ($11 million) where tighter Chinese government restrictions on car loans took effect; and lower US aftermarket sales ($4.0 million).
- A lower effective selling price ($2 million) as a result of the continued appreciation of the Australian dollar (AUD) against the US dollar (USD).

At present, approximately 60% of Howe's revenue is generated in USD. A substantial amount of that revenue receives a natural currency hedge from associated USD-denominated costs. However, unhedged USD exposure results in a reduction of Howe's EBIT of approximately AUD 300,000 for each cent that the AUD appreciates against the USD.

The composition of Howe's sales is changing. In future periods, an increasing proportion of Howe's revenue will be earned in Euros (EUR). The result will be a decrease in Howe's exposure to the USD/AUD exchange rate and an increase in its exposure to the EUR/AUD exchange rate.

Within the global automotive leather market, Howe is a top 10 producer by revenue and is an internationally competitive supplier. SFC estimates the market at AUD 4 billion. The market's key growth driver is an increasing proportion of vehicles with leather interiors. That growth is partially offset by a smaller amount of leather per vehicle in some models.

Howe is focusing its sales growth on the European and Chinese markets.

In Europe, Howe's sales program is targeted at automotive giants BMW, Audi (Volkswagen's luxury brand) and Land Rover (now owned by Ford). European Union expansion and the fall of trade barriers with much of Eastern Europe are allowing manufacturers to take advantage of lower cost Eastern European labour. Howe has negotiated a long-term lease over premises in eastern Slovakia. Slovakia is ideally located geographically to supply Howe's European customers and production of cut sets from this facility is scheduled to commence in April 2005.

In China, despite the Chinese government's recent moves to control consumer spending, the market will inevitably continue to grow. Accordingly, Howe has also leased premises in Shanghai to cut leather to cater for increasing Chinese demand.

Gosh Leather, the furniture leather business, continues to operate in an extremely competitive market. In order to remain competitive, Gosh differentiates itself via original designs, high quality standards and customer service.

Building Products

The Building Products division reported sales of $15.6 million (pcp: $19.5 million) and EBIT of $2.4 million (pcp: $3.6 million). Over many years, the division has recorded stronger results in the first half of the financial year.

Returns of Capital Employed and cash flows within the division remain sufficient. However, the division is actively pursuing further growth opportunities that will leverage its current product excellence, ongoing product innovation and cost control. The potential opportunities encompass organic and acquisitive growth.

Investment Property

At the end of the half year, SFC's joint venture interests in six commercial and retail properties were valued at $23.0 million. The portfolio has $14.1 million of associated debt and generates annual EBIT of approximately $1.8 million. The first half result for the division was increased by the one-off sale of property in West Perth, Western Australia, which generated EBIT of $0.9 million.

At this stage, SFC has no intention to divest additional investment properties.

Non-Core Investments

SFC owns a 15% interest in the Mindarie Keys land subdivision located on the north coast of the Perth, Western Australia metropolitan area. Mindarie Key's owners expect the subdivision to be completed by the end of the 2007 calendar year. By completion, SFC expects its interest to generate a further $2.7 million of cash and $2.4 million in EBIT.

During the second half of the 2005 financial year, SFC expects to settle the sale of its remaining interest in Kurrajong, New South Wales. The sale will generate approximately $0.6 million in cash and $0.2 million in EBIT.

In September 2004, SFC settled the sale of its 51% interest in Solco Industries Pty Ltd, which generated an EBIT contribution of $0.3 million to SFC's half year results.

OUTLOOK

Given first half performance, SFC expects full year operating earnings to be materially lower than the $13.8 million recorded for the 2004 financial year.

In the Automotive Leather division, certain factors have impacted sales volumes and margins in both China and Europe:

- In China, the suspension of sales due Chinese government's restrictions on car loans;
- In Europe, program timing issues, specifically the program ramp-up with Audi and sales into BMW.

In the short term, those factors will continue to impact earnings. However, Howe has established global market share and is internationally competitive. From that base, Howe is positioned for further growth opportunities, particularly in Europe.

As mentioned above, SFC is pursuing growth opportunities to build on the Building Product's division's earnings and strong cash flow.

SFC expects sustainable earnings from its rationalised investment property portfolio. The Mindarie land subdivision will provide a reducing contribution until fully sold in late 2007.

As previously indicated and based on SFC's current cash position and franking credit account, SFC expects to pay an ordinary final dividend of 50 cents per share and a special dividend of 10 cents per share in September 2005. Both those dividends will be fully franked.

Given the factors currently impacting on earnings and potential costs associated with pursuing growth opportunities in the Building Products division, SFC does not expect that dividends will be maintained at their current levels post September 2005.

John Schaffer
Chairman

23 February 2005

APPENDIX 4D

Preliminary half-year report

1. Name of entity

SCHAFFER CORPORATION LIMITED

ABN	Financial year ended ('current period')
008 675 689	**31 DECEMBER 2004**
	Previous corresponding period
	31 DECEMBER 2003

2. For announcement to the market

Results for announcement to the market: .

					$'000
2.1	Revenues from ordinary activities	down	27%	to	76,555
2.2	Profit from ordinary activities after tax attributable to members	down	34%	to	6,691
2.3	Net profit for the period attributable to members	down	34%	to	6,691

2.4	**Dividends (see section 6)**	Amount per security	Franked amount per security
	Final dividend		
	Special Dividend	10¢	10¢
	Interim period	50¢	50¢
2.5	Record date for determining entitlements to the dividend	16th March 2005	

3. Condensed consolidated statement of financial performance

	Notes	Dec 2004 *$'000*	Dec 2003 *$'000*
REVENUES FROM ORDINARY ACTIVITIES	1	**76,555**	104,297
Changes in inventories of finished goods, work in progress and land held for resale		**2,841**	(1,503)
Raw materials and consumables used		**(37,603)**	(50,869)
Cost of sales – joint venture interests		**-**	(2,699)
Cost of sales – property		**(2,962)**	(1,018)
Depreciation and amortisation expenses	2	**(2,419)**	(2,379)
Borrowing costs expense	2	**(1,979)**	(2,139)
Salaries, Wages and On-costs		**(17,917)**	(21,374)
Other expenses from ordinary activities		**(6,440)**	(6,810)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		**10,076**	15,506
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		**2,926**	4,496
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		**7,150**	11,010
NET PROFIT ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST		**459**	872
NET PROFIT ATTRIBUTABLE TO THE MEMBERS		**6,691**	10,138
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		**6,691**	**10,138**

Earnings per security (EPS) (see section 14.1)

		Dec 2004	Dec 2003
Basic EPS		47.7¢	73.2¢
Diluted EPS		46.9¢	71.6¢

Notes to the condensed consolidated statement of financial performance

	Dec 2004 $'000	*Dec 2003 $'000*
1. REVENUE FROM ORDINARY ACTIVITIES		
Revenue from operating activities		
Revenue from sale of goods	**67,401**	94,046
Revenue from sale of property	**5,775**	1,590
Revenue from sale of equity securities	**54**	15
Rent received	**1,556**	2,047
Other	**6**	23
Total revenues from operating activities	**74,792**	97,721
Revenue from non-operating activities		
Interest received	**606**	507
Dividends received	**6**	32
Proceeds on sale of plant and equipment	**84**	30
Proceeds on sale of joint venture interests	**-**	6,007
Proceeds on sale of partly owned controlled entity	**1,067**	-
Total revenues from non-operating activities	**1,763**	6,576
Total revenues from ordinary activities	**76,555**	104,297

Notes to the condensed consolidated statement of financial performance

	Dec 2004 $'000	*Dec 2003 $'000*
2. EXPENSES AND LOSSES/(GAINS)		
(a) **Expenses**		
Cost of sales – manufactured goods	**44,572**	63,634
Cost of sales – joint venture property interests	**-**	2,699
Cost of sales – property	**2,962**	1,018
Cost of sales – equity securities	**44**	35
Depreciation of non-current assets		
Plant and equipment	**2,055**	2,001
Buildings	**173**	181
Total depreciation of non-current assets	**2,228**	2,182
Amortisation of non-current assets		
Goodwill	**66**	66
Leasehold improvements	**36**	31
Plant and equipment under lease	**89**	100
Total amortisation of non-current assets	**191**	197
Total depreciation and amortisation expenses	**2,419**	2,379
Borrowing costs expense		
Interest expense		
Finance lease	**27**	57
Other	**1,875**	2,059
Other borrowing costs	**77**	23
Total borrowing costs expensed	**1,979**	2,139
Bad and doubtful debts – trade debtors	**88**	(77)
(b) **Losses/(Gains)**		
Loss/(gain) on disposal of investment in listed and unlisted shares	**(10)**	20
Gain on sale of shares in controlled entity	**(351)**	(100)
Write back of retained losses of former controlled entity	**(314)**	-
Loss/(gain) on disposal of non-current assets	**(1,408)**	10
Net foreign currency (gains)/losses	**(137)**	66
Gain on disposal of joint venture interests	**-**	(3,308)

4. Condensed consolidated statement of financial position

	Dec 2004 $'000	*June 2004 $'000*
CURRENT ASSETS		
Cash assets	**19,977**	28,489
Receivables	**23,478**	26,953
Inventories	**38,113**	31,654
Other	**1,579**	1,274
TOTAL CURRENT ASSETS	**83,147**	88,370
NON-CURRENT ASSETS		
Property, plant and equipment	**54,149**	56,646
Deferred tax assets	**2,864**	3,275
Intangible assets	**1,233**	1,299
TOTAL NON-CURRENT ASSETS	**58,246**	61,220
TOTAL ASSETS	**141,393**	149,590
CURRENT LIABILITIES		
Payables	**17,051**	17,669
Interest-bearing liabilities	**91**	845
Current tax liabilities	**1,179**	2,635
Provisions	**4,982**	7,095
TOTAL CURRENT LIABILITIES	**23,303**	28,244
NON-CURRENT LIABILITIES		
Interest-bearing liabilities	**53,586**	53,901
Deferred tax liabilities	**2,670**	2,549
Provisions	**2,689**	2,628
TOTAL NON-CURRENT LIABILITIES	**58,945**	59,078
TOTAL LIABILITIES	**82,248**	87,322
NET ASSETS	**59,145**	62,268
EQUITY		
Parent entity interest		
Contributed equity	**16,640**	15,916
Reserves	**2,585**	2,585
Retained profit	**35,943**	39,071
Total parent entity interest in equity	**55,168**	57,572
Total outside equity interest	**3,977**	4,696
TOTAL EQUITY	**59,145**	62,268

5.1 Condensed consolidated statement of cash flows

	Dec 2004 $'000	Dec 2003 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**77,555**	94,856
Payments to suppliers and employees	**(71,062)**	(79,373)
Disposal of equity securities	**104**	16
Dividends received	**6**	32
Interest received	**606**	507
Borrowing costs paid	**(1,979)**	(2,139)
Income tax paid	**(3,888)**	(6,223)
Goods and services tax refunded/(paid)	**(168)**	223
Other	**6**	23
NET CASH FLOWS FROM OPERATING ACTIVITIES	***1,180***	*7,922*
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**1,901**	29
Proceeds on disposal of joint venture interests	**1,188**	6,428
Purchase of property, plant and equipment	**(2,129)**	(2,433)
Net cash impact of disposal of controlled entity	**690**	-
Other	**-**	854
NET CASH FLOWS FROM INVESTING ACTIVITIES	***1,650***	*4,878*
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	**724**	733
Proceeds from borrowings	**-**	742
Repayments of borrowings	**(1,079)**	(192)
Dividends Paid	**(9,819)**	(9,714)
Dividends paid to minority interest in controlled entity	**(1,178)**	(1,178)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	***(11,352)***	*(9,609)*
NET (DECREASE)/INCREASE IN CASH HELD	***(8,522)***	*3,191*
Add opening cash brought forward	**28,489**	21,071
CLOSING CASH CARRIED FORWARD	***19,967***	*24,262*

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

	Dec 2004 $'000	*Dec 2003 $'000*
Net profit after tax	**7,150**	11,010
Non-cash items:		
Depreciation of non-current assets	**2,228**	2,213
Amortisation of non-current assets	**191**	166
Recoverable amount write down of non-current assets		
Net (profit)/loss on disposal of non-current assets	**(1,408)**	10
Profit on disposal of joint venture interests	**-**	(3,308)
Profit on disposal of partly-owned controlled entity	**(351)**	-
Dividends received from associates		
Increase in/(reversal of) provision for currency loss	**296**	522
(Reversal of)/increase in other provisions	**-**	1,291
Decrease in other final assets		
(Reversal of)/provision for diminution in value of investments	**-**	9
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**3,469**	(4,562)
(Increase)/decrease in inventory	**(6,663)**	5,553
(Increase)/decrease in future income tax benefit	**390**	299
(Increase)/decrease in prepayments	**(440)**	(536)
(Decrease)/increase in trade and other creditors	**(418)**	(2,564)
(Decrease)/increase in tax provision	**(1,473)**	(1,713)
(Decrease)/increase in deferred income tax liability	**121**	(313)
(Decrease)/increase in employee entitlements	**(2,006)**	(191)
(Increase)/decrease in other financial assets	**94**	36
Net cash flow from operating activities	**1,180**	7,922

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	19,977	24,283
Bank overdraft	(10)	(21)
Total cash at end of period	**19,967**	**24,262**

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 $42,270,000 (June 2004 - $44,578,000). The unutilised facility for the consolidated entity at balance date was $27,247,000 (June 2004 - $28,486,000)

5.6 Acquisition of controlled entity

NONE

6.1 Dividends

Date the dividend is payable	21st March 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)	16th March 2005
If it is a final dividend, has it been declared?	

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	10¢	10¢
	Previous year	20¢	20¢
Interim dividend:	Current year	50¢	50¢
	Previous year	50¢	50¢

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

	Current year	Previous year
Ordinary securities	$8,460,000	$9,714,000
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		

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	39,071	41,905
Net profit attributable to members	6,691	16,634
Dividends and other equity distributions paid or payable	(9,819)	(19,468)
Retained profits at end of financial period	**35,943**	**39,071**

9. NTA backing	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	$3.85	$4.25

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
	South Hedland Shopping Centre JV	-	18.75
	Hometown Joint Venture	25.00	25.00
	GHD House Joint Venture	-	18.00
	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
	Majestic Quay Joint Venture	-	25.00
11.2	**Group's share of associates' and joint venture entities':**	$'000	$'000
	Profit (loss) from ordinary activities before tax	1,813	919
	Income tax on ordinary activities	544	276
	Profit (loss) from ordinary activities after tax	1,269	643
	Extraordinary items net of tax	-	-
	Net profit (loss)	1,269	643
	Adjustments	-	-
	Share of net profit (loss) of associates and joint venture entities	1,269	643

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

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 correspondin g year $'000
The following reflects the income and share data used in the calculation of basic and diluted EPS:		
Basic Earnings	6,691	10,138
Diluted Earnings	6,691	10,138
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic EPS	14,026,46 2	13,844,198
Dilutive effect of employee options on issue	238,600	308,350
Weighted average number of ordinary shares used in the calculation of diluted EPS	14,265,06 2	14,152,548
Basic EPS	47.7	73.2
Diluted EPS	46.9	71.6

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: 23 FEBRUARY 2005
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 2004

REPORT FOR INDUSTRY SEGMENTS

	LEATHER		BUILDING PRODUCTS		INVESTMENT PROPERTY		OTHER INVESTMENTS		CONSOLIDATED	
	Dec 2004 $000	Dec 2003 $000	Dec 2004 $000	Dec 2003 $000	Dec 2004 $000	Dec 2003 $000	Dec 2004 $000	Dec 2003 $000	Dec 2004 $000	Dec 2003 $000
Total Revenue from Ordinary Activities	53,096	74,278	15,571	19,532	3,785	8,272	2,972	2,144	75,424	104,226
Unallocated Revenue									1,131	71
Total Revenue									76,555	104,297
Segment Earnings	5,216	8,645	2,414	3,575	2,034	4,368	1,265	455	10,929	17,043
Interest and Corporate Overheads									(853)	(1,537)
Operating Profit Before Income Tax									10,076	15,506
Income Tax Expense									2,926	4,496
Net Profit After Tax									7,150	11,010
Segment Assets	76,812	83,104	20,967	21,873	15,582	17,305	26,408	31,054	139,769	153,336
Unallocated Assets									1,624	2,697
Total Assets									141,393	156,033
Segment Liabilities	59,228	64,671	4,370	6,213	15,195	16,041	1,398	2,288	80,191	89,213
Unallocated Liabilities									2,057	2,510
Total Liabilities									82,248	91,723

APPENDIX 1 ACCOMPANYING APPENDIX 4D PRELIMINARY HALF-YEAR REPORT

CHANGE IN COMPOSITION OF ENTITY

On 30 July 2004, the Group sold its interest in Solco Industries Pty. Ltd.

	$000
Proceeds on divestment of subsidiary:	
Cash	310
Shares in Solar Energy Systems Ltd	255
Repayment of loan from Schaffer Corporation Limited	502
Total proceeds on divestment of subsidiary	1,067
Net assets of Solco Industries Pty. Ltd. disposed of	(402)
Profit	665
Profit made up as follows:	
Gain on disposal of shares by chief entity	351
Write back of retained losses of Solco Industries Pty. Ltd.	314
	665
Net cash impact on disposal:	
Cash proceeds from sale of shares in Solco Industries Pty. Ltd.	310
Repayment of Loan	502
Cash held by subsidiary	(122)
	690

IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

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

The Group is on schedule to transition its accounting policies and financial reporting from current Australian Standards to Australian equivalents of IFRS within the requisite time frame. Schaffer Corporation Limited (“SFC”) has allocated internal resources and consulted experts in performing an internal review to assess the impact of the anticipated conversion to IFRS from the consolidated entity’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 the best estimates as at the date of these half-year financial statements. They could change, however, due to further work being undertaken by the IFRS project team and any potential amendments to IFRSs and interpretations thereof being issued by the standard setters.

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 Standards 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. The changes identified to date that will be required to the Company’s existing accounting policies include the following.

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. The company already determines the fair value of options issued to employees pursuant to SFC's ESOP. Under AASB 2 Share-Based Payments, the Company will be required to recognise an expense over the vesting period for option issues in its Statement of Financial Performance. The standard applies to all share based payments issued after 7 November 2002 which have not vested as at 1 January 2005. This treatment will result in an increase in expenses in the Statement of Financial Performance. No tax deduction is allowed for the amount expensed.

The 1 July 2004 transitional adjustment is a reduction in retained earnings and credit to the option premium reserve of $30,333. The impact on the current half-year is to decrease the profit by an amount of $28,917.

Goodwill

Under the Australian equivalent to IFRS 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 Company believes there has been no impairment at 1 July 2004. The impact on the current half-year is to increase after-tax profit by $66,000 and profit after minorities by $55,000 reflecting the discontinuation of amortisation expense.

Taxation

Under AASB 112 Income Taxes, tax assets and liabilities are recognised using the balance sheet approach, which will result in a change in the entity's current accounting policy that uses the income statement approach. AASB 112 has a wider scope than the Company'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 Statement of Financial Position 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. The transition adjustment is $1,106,000. The impact on the current half-year is to decrease deferred tax and increase profit by $72,000.

Tax effects of adopting IFRS in relation to listed shares and investment property are dealt with separately below.

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 Statement of Financial Performance;
- 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. This will result in a transition adjustment of $117,000 to increase the value of listed shares and a deferred tax adjusted increase in retained earnings of $82,000. The effect on the current half-year is an increase in the carrying value of listed shares by $91,000 and an increase in net profit after tax of $64,000.

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 Statement of Financial Performance unless they qualify for specific hedge accounting. In order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identified the type of hedge – fair value of cash flow;
- Identify the hedge item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has 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 of accounting for specific hedges pursuant to the IFRS regime, future hedge contracts will be treated as general hedges with all movements in fair value recognised in the Statement of Financial Performance.

On adoption of IFRS, the forward exchange contracts will be marked to market whereas for the purposes of these 31 December 2004 half-year financial statements, they have been marked to spot.

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

Investment Property

Under current Australian Standards, investment properties are not depreciated and the Group has disclosed the value of its investment property joint venture interests at the lower of cost and net realisable value. The new standard, 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 utilises a mark to market approach whereby revaluation increments or decrements are required to be recognised in the Group's Statement of Financial Performance at each balance date. The Group intends to adopt the depreciated value approach. This will result in a transitional adjustment to reduce the carrying value of joint venture properties by $1,079,000 and take up in opening retained earnings a deferred tax adjusted loss of $755,000. The effect on the current half year is a reduction of pre-tax profit by $85,000 due to the ongoing requirements to depreciate joint venture properties. The effect on current half-year after-tax profits is a reduction of $59,000.

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 not related to the host contract are required to be recognised at fair value with movements reported in the Statement of Financial Performance. The Group is currently reviewing contracts to determine the extent of any embedded derivatives.