



## SCHAFFER REPORTS \$5.8 MILLION INTERIM NET PROFIT; DECLARES 25¢ FULLY FRANKED DIVIDEND

Schaffer Corporation Limited (ASX: SFC) today announced a headline net profit after tax (NPAT) of \$5.8 million for the first half of the 2008 financial year (previous corresponding period (pcp) \$5.2 million) and confirmed its directors have declared an interim ordinary dividend of \$0.25 per share (fully franked).

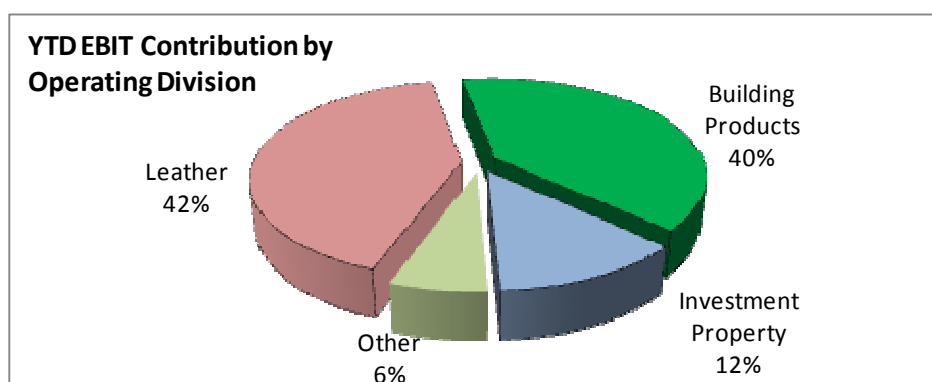
SFC also announced that, following the recent completion of independent valuations of the Group's property assets (including both its Joint Venture Investment Property portfolio and SFC-owned operating premises), the Group has approximately \$71 million (pre-tax) in unrealised capital gains in respect of those property assets.

### FINANCIAL PERFORMANCE SUMMARY

	31-Dec-06	31-Dec-07	Change
Revenue (\$M)	73.9	<b>91.1</b>	+ 23%
NPAT (\$M)	5.2	<b>5.8</b>	+ 11%
Earnings per Share (\$)	37.0	<b>41.0</b>	+ 11%
EBITDA (\$M)	12.2	<b>13.8</b>	+ 12%
EBIT (net interest) (\$M)	9.8	<b>11.2</b>	+ 15%
Ordinary Dividend per Share (\$)	0.25	<b>0.25</b>	
Cash Reserves (\$M)	9.5	<b>19.9</b>	
Return on Capital Employed	14%	<b>17%</b>	

Group revenue improved significantly to \$91.1 million, up 23% over the pcp (\$73.9 million). Building Materials achieved higher revenue and a strong result, despite costs associated with the launch of UrbanStone Central, delays caused by a wetter-than-normal September quarter and subdued demand in the New South Wales market. Automotive Leather achieved significant growth in sales to Howe's Asian customers but, as foreshadowed in the Chairman's AGM address, Automotive Leather earnings were lower than the pcp, as a result of the sharp appreciation of the Australian dollar. SFC's Joint Venture Investment Property portfolio made a solid contribution. SFC's headline NPAT includes a \$1.0 million contribution from the August 2007 sale of 71 Queens Road, Melbourne from the portfolio.

### OPERATIONS SUMMARY



## BUILDING MATERIALS

Building Materials reported revenue of \$33.0 million (pcp: \$27.0 million) and earnings before interest and taxes (EBIT) of \$3.7 million (pcp: \$3.9 million). The result was driven, in particular, by Delta, which continues to benefit from the strong Western Australian economy.

The increase in revenue also reflected the contribution from Archistone Pty Ltd (**Archistone**, acquired at 1 August 2007). But earnings were marginally lower than the pcp as a result of:

- additional advertising associated with the launch of UrbanStone Central;
- display upgrade, rebranding and integration expenses;
- the blending into the division of the lower margin Archistone and Limestone Resources businesses;
- subdued demand in the New South Wales market; and
- delays caused by a wetter-than-normal September quarter in WA and NSW.

In its first half as part of SFC, Archistone performed in line with our expectations. Archistone is the Western Australian market leader in the reconstituted limestone block walling market. It also supplies a range of natural premium stone products. Archistone complements the UrbanStone and Limestone Resources product ranges and allows the Building Materials division to offer a broader range of paving and walling products through SFC's 15 retail stores and national distribution network.

As SFC has noted in previous announcements, the Group's strategy for Building Materials is to build value through:

- expansion of the division's product range to cover walling, as well as paving;
- development of its retail offering through the launch of UrbanStone Central concept stores; and
- acquisition of the retail properties from which the division operates.

In line with that strategy, an SFC subsidiary, UrbanStone Central Properties, exercised its option to acquire the Archistone Yangebup retail store and purchased a 2,300m<sup>2</sup> vacant site zoned showroom/warehouse in the Ocean Keys business estate for future development as an UrbanStone Central concept store. Both transactions were settled in December 2007. Since then, UrbanStone Central Properties has exercised options to purchase Archistone's Mandurah and Wangara properties. The purchase of those two properties was settled last week and they have been rebranded as UrbanStone Central stores.

Over the last 18 months, SFC has made a number of acquisitions and capital investments within Building Materials totaling in excess of \$30 million, as set out below:

	Timing	\$ million
Limestone Resources business	Jul-06	\$7.5
UrbanStone Central store - Osborne Park	Aug-06	\$4.0
Archistone business	Aug-07	\$7.7
UrbanStone Central store- Yangebup	Dec-07	\$1.8
UrbanStone Central site - Ocean Keys	Dec-07	\$0.9
UrbanStone Central store - Wangara	Feb-08	\$4.4
UrbanStone Central store - Mandurah	Feb-08	\$0.9
Delta site storage and handling upgrade	H1 2008	\$1.9
Additional production machinery	H1 2008	\$1.0
Total Expenditure		\$30.1

SFC has made those acquisitions and invested that capital in order to build scale within Building Materials and place it on a strong footing to deliver further improvements in revenue and earnings in coming years. That expenditure has also increased SFC's leverage to the Western Australian economy, which SFC anticipates will grow strongly for the foreseeable future.

The division continues to review opportunities to grow its product range. SFC believes there is scope for further expansion of the product lines sold through UrbanStone's established distribution network.

## **AUTOMOTIVE LEATHER**

For the first half of the 2008 financial year, Howe's revenue increased significantly to \$54 million (pcp: \$44 million). The increase was driven by a doubling of sales into the Asian market, to \$25.9 million from \$12.7 million in the pcp. The European market was again an important contributor to Howe revenue and, following a steady downward trend in recent years, Howe's North American sales appear to have stabilised.

Howe's improved revenue is a direct result of its strengthened sales team and the local sales presence provided by Howe's cutting operations in the Asian, European and North American automotive markets. SFC anticipates the upward sales trend will continue and that Howe's full year revenue will be significantly higher than last financial year's.

The Australian dollar's (AUD) appreciation, particularly against the US dollar (USD), resulted in Howe's EBIT decreasing to \$3.8 million (pcp: \$4.0 million). In the half under review, the average USD/AUD exchange rate was 86.9¢ compared with 76.4¢ in the pcp. The average Euro/AUD (EUR) exchange rate was 61.6¢ (pcp 59.6¢).

At present, approximately 63% of Howe's revenue is generated in USD and 30% in EUR. A substantial proportion of that revenue receives a natural hedge from associated costs incurred in those currencies. The remaining unhedged exposure to movements in the USD and EUR relative to the AUD causes Howe's EBIT to rise and fall by approximately AUD 400,000 for each Eurocent and AUD 250,000 for each US cent that the AUD weakens or strengthens against those currencies.

## **PROPERTY**

SFC has built a valuable portfolio of property assets both within its operating divisions and in its Joint Venture portfolio.

Those properties are recorded in SFC's Balance Sheet at "depreciated cost" (ie, book value). Over the course of the last 12 months, SFC has commissioned independent valuations of all its property assets to verify their market value. The following table compares the assets' book values with their market values:

Property Class	Book Value (\$m)	Market Value (\$m)	Balance Sheet Debt (\$m)	LVR (%)
8 SFC Owned/Operating Premises	18.6	54.5	6.0	11%
2 Subdivision JV's	2.9	8.0	1.5	19%
7 Commercial/Retail JV's	15.7	45.9	20.2	44%
Total	37.2	108.4	27.8	26%

At the current valuations, unrealised capital gains on the Group's property assets amount to \$71 million (pre-tax).

SFC's Board believes it is appropriate to continue to record the property assets in the Group's financial statements at their depreciated cost as:

- revaluations can distort operational earnings when increased value flows through the Profit and Loss Statement; and
- applying the market value accounting standard would require (at least) annual revaluations, which would represent a significant ongoing cost.

The Board prefers to adopt a conservative position in its accounts while keeping shareholders informed of the unrealised value in SFC's property assets. If SFC adopted the independent market values in place of depreciated cost in its financial statements, the effect on SFC's balance sheet ratios would be substantially positive. By way of example, SFC's net debt to equity ratio would decrease to 54% (from 101%) and SFC's net tangible assets per share would increase by 106% to \$6.81 per share.

## **OUTLOOK - EARNINGS**

SFC's investments in Building Materials will deliver further revenue and earnings growth in coming years. In the short term, SFC anticipates that input cost increases, labour shortages and market fluctuations will exert downward pressure on earnings growth although supplemented by increased volume.

SFC expects Automotive Leather to deliver significant revenue improvement overall for the 2008 financial year as a result of a rebound in North American revenues and continued demand in the Asian market. Howe's Slovakian, Chinese and Mexican cutting and customer service facilities are critical to its growth strategy. While the strength of the AUD will impact negatively on revenues and earnings, the anticipated revenue growth for the second half should result in full-year EBIT significantly above the \$6.0 million reported last year.

SFC expects that its Investment Property leasing activities will generate solid and steadily improving returns. Mindarie Keys will continue to contribute to earnings and should deliver to SFC another \$3.0 million of EBIT and \$4.0 million of cash over the balance of the project.

At Group level, SFC will strive to add long-term shareholder value by growing the Building Materials division while maintaining a clear focus on return on capital employed, cash flow and dividends to shareholders.

## **OUTLOOK - DIVIDENDS**

The Board maintains its payout ratio policy of balancing returns to shareholders with the need to fund growth in the Building Materials Division. In line with that policy, it is the Board's present intention to pay a final dividend of \$0.25 per share (fully franked), which would bring dividends for the 2008 financial year to \$0.50 per share (fully franked).

Key dates in relation to SFC's \$0.25 per share fully franked interim dividend are as follows:

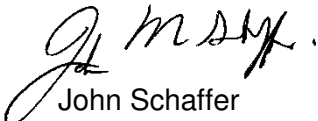
- SFC's shares commence trading ex-dividend 6 March 2008
- Record date for final dividend 13 March 2008
- Payment of dividend 18 March 2008

**Resignation and Appointment of CFO**

SFC's Chief Financial Officer and Company Secretary, Mr Geoff Davieson, has tendered his resignation effective from 31 March 2008. Geoff joined SFC in 1993 and has played a significant role in the development of the Company over the past 15 years.

The Board would like to thank Geoff sincerely for his contribution over that period and wishes him well in his future endeavors.

The Board is pleased to announce the appointment of Mr David Richardson to replace Geoff as Chief Financial Officer. David is currently General Manager (Finance) for WorleyParsons Limited Australia/New Zealand Region. David has over 18 years' experience in senior finance roles within Australia and internationally with WorleyParsons and with leading international oilfield service company, Schlumberger. David will commence his role with SFC on 10 March 2008.



John Schaffer  
Chairman

20 February 2008