Schaffer Corporation Limited

ABN 73 008 675 689

SCHAFFER INCREASES INTERIM PROFIT BY 7% AND DECLARES $0.20 FRANKED INTERIM DIVIDEND

Schaffer Corporation Limited (ASX: SFC) today announced a headline net profit after tax (NPAT) of $3.6 million for the first half of the 2010 financial year. This profit result represents a 7% increase over the corresponding period last year ($3.4 million). The Board of Directors has declared an interim ordinary dividend of $0.20 per share (fully franked). SFC will pay the interim dividend on 26 March 2010.

FINANCIAL PERFORMANCE SUMMARY

		Six months to 31 Dec 09		Six months to 31 Dec 08	
Revenue ($m's)		75.0		85.5	-12%
EBITDA ($m's)		9.3		10.4	-11%
EBIT ($m's)		7.0		7.6	-8%
NPAT ($m's)		3.6		3.4	7%
Group net debt at period end ($m's)	$	54.6	$	81.1	-33%
Earnings per share	$	0.26	$	0.24	7%
Operating cash flow per share	$	1.25	-$	0.73	271%
Interim Dividend per share	$	0.20	$	0.25	-20%

SFC achieved the increased profit from revenues 12% lower than the corresponding period last year. The reduction in revenue was primarily associated with anticipated lower activity levels at Delta Corporation, where several large construction contracts were completed during the 2009 financial year, resulting in record revenue.

Reduced earnings at Automotive Leather contributed to an 8% decrease in earnings before interest and tax (EBIT) ($7.0 million). Those lower earnings were partially offset by a 30% decline in net interest expense ($2.0 million), associated with reduced borrowings and a fall in the average interest rates across SFC's joint venture investment property portfolio.

Operating cash flow of $1.25 per share was driven by the profitable trading result and a significant reduction in inventory in the Automotive Leather division.

At the end of the period, net debt was $54.5 million. That figure represents a 33% reduction from the position at 31 December 2008 and a 22% reduction from 30 June 2009. Since June 2009, SFC has utilised the net proceeds from the sale and leaseback of two smaller UrbanStone Central retail facilities and decreased working capital requirements (from a reduction in inventory) to repay $8.4 million of borrowings.

BUILDING MATERIALS

Building Materials recorded revenue of $27.79 million (pcp: $37.9 million) and EBIT of $5.6 million (pcp: $5.7 million).

The drop in revenue was attributable to the completion of several large construction contracts at Delta Corporation, which also impacted Delta Corporation's margins. However, Building Products increased revenue by 8% over the corresponding period.

Despite the lower revenue, EBIT decreased by only 1.6% as Building Products improved margins following the completion of a restructuring process during the previous financial year. That process has driven productivity improvements, increased the proportion of higher margin product sales and decreased overheads.

AUTOMOTIVE LEATHER

Automotive Leather recorded revenue of $43.6 million (pcp: $44.2 million) and EBIT of $0.4 million (pcp: $1.1 million).

The marginal (1.3%) decrease in revenue was achieved despite a 17% decline in leather sales volume and the appreciation (compared with the corresponding period) of the Australian dollar against the US dollar and Euro, as the division increased its proportion of higher value product sales.

Nonetheless, the division's 'first in, first out' or FIFO accounting policy for inventory valuation affected gross margins. Hides are principally purchased in US dollars and many of the hides sold, were purchased during the second half of last year when the Australian dollar was substantially weaker against the US dollar. With SFC's Australian dollar reporting, the outcome was higher hide costs during the period under review. SFC anticipates that its reported hide costs will remain above present market prices for approximately three more months, as the higher cost hides work their way through the FIFO process.

PROPERTY

Property recorded revenue of $3.5 million (pcp: $3.1 million) and EBIT of $1.8 million (pcp: $1.5 million). Rental increases over the past year resulting in the 11% increase in revenue and 18% increase in EBIT.

The average vacancy rate across the portfolio increased slightly from the second half of the last financial year to 3.6%

No material property sales were recorded the period (pcp: nil).

OUTLOOK

The global economic outlook appears more stable and positive than a year ago.

However, a number of factors outside of management control continue to make it difficult to predict financial performance for the remainder of the financial year. In particular, the Australian dollar remains volatile, overcapacity persists in global automotive manufacturing and residential/commercial construction activity in Australia has slowed.

In recent months a greater level of pre-tendering and tendering activity has occurred. Delta Corporation is currently tendering for a significant amount of work on several major resources and infrastructure construction contracts. The lead time on project start up suggest that, if won, those tenders are unlikely to have a material impact on profits until next financial year. Nevertheless the award of a number of small but strategically important contracts in recent weeks has been encouraging.

SFC anticipates sales activity within Building Products to remain buoyant but will be offset by a decline in revenue and earnings at Delta Corporation. As result, SFC expects revenue and EBIT for the division overall for the second half to be lower than the previous corresponding period.

Trading conditions for Automotive Leather continue to be difficult. Margins should improve in the final quarter of this financial year as higher cost inventory is written off through cost of goods sold. SFC anticipates lower revenue and earnings in the second half than the previous corresponding period because of lower leather sales volumes and without the impact of the material devaluation of the Australian dollar against the US dollar, Euro and Renminbi that occurred last year.

Automotive Leather has supplied pre-production packages of leather components to a major European automotive manufacturer. Those packages have been approved and SFC expects full scale production to commence during the second half. Again, SFC does not anticipate a material impact from this new contract until next financial year. In the near term, working capital will increase to accommodate the new programme.

SFC expects revenue and earnings for Property to be slightly lower than the corresponding period. An increased vacancy rate and the re-emergence of lease incentives to attract or retain major tenants, is expected to restrict rent increases and increase leasing costs. SFC does not currently anticipate any significant property sales in the second half.

Increased net debt and higher average interest rates should increase interest costs over the first half. However net interest costs are still expected to be lower than during the second half of last year.

SFC's group earnings for the second half are likely to be materially lower than the the second half of last year, when Automotive Leather benefited from favourable exchange rates and Delta Corporation recorded record production levels.

SFC will provide a further update on the outlook for the full financial year when the Board has greater certainty regarding the likely final profit result.

DIVIDENDS

The Board has declared an interim dividend of $0.20 per share (fully franked).

Key dates in relation to the interim dividend are as follows:

SFC shares commence trading ex-dividend	15 March 2010
Record date for final dividend	19 March 2010
Payment of dividend	26 March 2010

John Schaffer
Chairman

17 February 2010