



## SCHAFFER CORPORATION REPORTS NET PROFIT OF \$4.5M

Schaffer Corporation Limited (ASX: SFC) today announced net profit after tax (NPAT) of \$4.5 million for the 2010 financial year. The result was in line with the guidance provided in June 2010.

NPAT was 57% lower than the previous year (\$10.5m) and was impacted by a disappointing result from the Automotive Leather division and reduced commercial construction activity, which affected Delta Corporation, SFC's pre-cast and pre-stressed concrete business.

SFC will pay a fully franked final ordinary dividend of \$0.20 per share, bringing dividends for the 2010 financial year to \$0.40 per share (fully franked).

### FINANCIAL PERFORMANCE SUMMARY

	30-Jun-10	30-Jun-09	% Change
Revenue (\$m's)	136.8	169.5	-19%
EBITDA (\$m's)	15.1	26.9	-44%
EBIT (\$m's)	10.2	21.3	-52%
NPAT (\$m's)	4.5	10.5	-57%
Earnings per Share (EPS)	\$ 0.32	\$ 0.74	-57%
Ordinary Dividends per share	\$ 0.40	\$ 0.45	-11%
Return on avg. capital employed	8%	17%	-52%

### BUILDING MATERIALS

Building Materials reported a 28% decrease in revenue to \$47.2 million and a 27% decrease in EBIT to \$7.3 million.

Revenue at Delta Corporation (pre-cast and pre-stressed concrete products) declined following the completion of several major projects, which contributed to the record turnover achieved last year. The reduced production impacted on earnings before interest and tax (EBIT), although management acted to minimise the impact via overhead reductions..

In the last quarter of the year, contract awards led to increased production at Delta. SFC expects that trend to continue in the current financial year.

The Building Products group (paving and walling products) significantly improved performance, with revenue increasing by 9%. Profitability also improved substantially, driven by the benefits of a two-year integration and restructuring programme.

## **AUTOMOTIVE LEATHER**

Automotive Leather revenue decreased 16% to \$81.5 million. The division recorded an EBIT line loss of \$52,000.

During the second half, SFC made the strategic decision to withdraw from the low margin whole hide sales market in Asia, following a deterioration in trading terms to an unacceptable level. The associated financial impact, together with adverse currency movements, resulted in the very disappointing overall result.

SFC has refocused Automotive Leather on higher margin cut component sales and restructured overheads accordingly.

## **PROPERTY**

Property revenue increased by 20% to \$7.8 million and EBIT increased by 34% to \$4.8 million.

The increased revenue was associated with sales of the majority of the remaining lots at the Mindarie Keys marina residential development. EBIT was boosted by \$0.9 million by the sale of SFC's interest in the Joondalup House property syndicate.

Net rental income from other investment properties increased slightly during the year. However, vacancy rates have increased slightly with the year-end occupancy rate at 91%.

## **CASH FLOW**

Operating cash flow for the year was \$15.4 million, which is a 129% increase over last year.

All divisions generated positive operating cash flow. SFC notes particularly the Automotive Leather division, where management is very focused on minimising working capital requirements.

Operating cash flow was supplemented by the proceeds from the sale and leaseback of two smaller Urbanstone Central retail properties (\$2.7 million) and part of the proceeds from the sale of SFC's interest in Joondalup House (\$1.3 million).

SFC utilised a net total of \$7.6 million to reduce borrowings with a further \$5.0 million invested in new capital expenditure, primarily for Building Materials.

## **OUTLOOK**

Continuing volatility in global markets and severely restricted credit for commercial property developments across Australia make forecasting future performance for SFC's operating divisions difficult.

The Board is confident that SFC's financial performance for the first half of the current financial year will exceed the results achieved during the second half of the 2010 financial year.

In the first half of the current year, SFC anticipates that revenue and EBIT for Building Materials will be lower than the previous corresponding period. In that period, Building Products benefited from additional sales associated with the government stimulus programme and Delta Corporation was completing two major projects.

The confirmed order book for Building Products remains well in excess of historical levels and, in recent months, the confirmed order book for Delta Corporation increased substantially from a low base. During 2011, Building Products will commence marketing a new range of masonry products manufactured at a state-of-the-art production facility within its Jandakot factory.

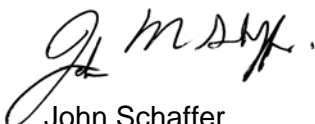
Based on existing contracts and current exchange rates, SFC anticipates Automotive Leather division returning to profitability during the first half. Increased sales to Europe will compensate for reduced sales to Asia. The withdrawal from the whole hide market in Asia should result in higher overall margins within the division.

Automotive Leather is continuing discussions with the Federal Government regarding the refinancing of the existing debt facilities that mature in February 2012.

In the absence of any further investment property sales, SFC expects revenue and EBIT for Property to be slightly lower during the first half, compared with the corresponding prior period. Those decreases would be associated with the possibility of a lower average occupancy rate across the investment property portfolio.

SFC expects interest costs for the first half to be higher than the previous corresponding period due to an increase in average interest rates, together with an increase in the average group net debt position.

As noted above, SFC will pay a final dividend of \$0.20 per share (fully franked) on 23 September 2010 to shareholders of record on 9 September 2010.



John Schaffer  
Chairman

18<sup>th</sup> August 2010