Schaffer Corporation Limited

SCHAFFER'S HALF YEAR PROFIT INCREASES TO $6.7 MILLION

17 February 2016

Dear Shareholders

Schaffer Corporation Limited (ASX: SFC) has reported a net profit after tax (NPAT) of $6.7 million for the first half of the 2016 financial year (pcp: $2.1 million). The result includes a $4.2 million net profit from the sale of property, which sale included SFC's 20% interest in the 616 St Kilda Road syndicate.

On an underlying basis, SFC achieved a 17% increase in NPAT on the prior period. SFC will maintain its interim dividend at $0.12 per share (fully franked).

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-15 (current)	**31-Dec-14 (pcp)**	**% change on pcp**
Revenue ($m)	**103.8**	75.7	37%
EBIT[1] ($m)	**11.4**	4.5	152%
NPAT* ($m)	**6.7**	2.1	221%
Earnings per share	**$0.48**	$0.15	221%
Ordinary dividends per share	**$0.12**	$0.12	-
Underlying Profit ($m)	**2.5**	2.1	17%
Underlying EPS	**$0.18**	$0.15	17%

1 Refer to most recent Annual Report for definitions of Non-IFRS measures.
* Net Profit after tax and minority interests.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-15 (current)	**30-Jun-15**	**31-Dec-14 (pcp)**
Revenue ($m)	**71.4**	53.9	47.2
EBIT ($m)	**2.3**	2.8	3.5

Automotive Leather's revenue increased by 51% on the prior period. The uplift in revenue resulted from the commencement of numerous new programs over the previous and current financial year.

Sales volumes increased 41% over the prior period, with the increase split evenly between the European and Asian operations.

The average AUD:EUR exchange rate for the period decreased by 5% (from EUR0.69 to EUR0.65). That change positively impacted reporting currency (AUD) revenue, as sales are largely made in EUR.

As anticipated, the additional costs associated with the start up of new programs have negatively impacted margins in the half year. As the cutting facilities scale up for the new programs, cutting yields have been lower. This in turn affects profitability. Cutting yields will improve as the new programs fully settle in and as volumes for each program reach their steady state levels.

Other non-recurring costs are associated with the new programs, such as development work, testing costs and customer visits. These costs will, again, decline as the programs reach maturity. Management is very focused on transitioning from the start-up phase of the new programs as quickly and cost efficiently as possible.

During the half year, the new Slovakian finishing facility was successfully commissioned and the first hides were processed in October. The volume of leather finishing being completed in Slovakia is ramping up to plan. During the early stages, when volumes are relatively lower, the fixed costs per metre of product are higher, which also impacts profitability. The Slovakian facility will move through this 'profitability gap' as volumes increase to steady state levels.

The average US dollar cost of imported hides (which excludes the effect of currency movements) was 11% lower than the same period the previous year. However, the positive impact of these lower costs has been offset by the average AUD:USD exchange rate decreasing by 19% (from USD0.89 to USD 0.72) compared to prior year. This increases the AUD cost of Automotive Leather's raw materials.

SFC expects Howe's volumes to increase further for the second half and into the 2017 financial year. The flow through to margin improvement will take some time. SFC anticipates, second half EBIT to be similar to the second half of last year. That will represent a slight improvement on the first half result.

As European finishing volumes move to the Slovakian facility, Howe's stock days will substantially reduce. This is because semi processed hides (known as "crust") are shipped directly to Europe, rather than via Australia. Overall stock levels will fall relative to total sales and provide working capital to finance increased hide volumes to supply the new programs.

BUILDING MATERIALS

FINANCIAL PERFORMANCE SUMMARY	**Financial Half-Year to**		
	31-Dec-15 (current)	**30-Jun-15**	**31-Dec-14 (pcp)**
Revenue ($m)	**28.4**	24.0	25.1
EBIT ($m)	**2.4**	0.8	0.6

The Building Materials division substantially increased EBIT to $2.4 million (pcp: $0.6 million), as revenue increased by 13% to $28.4 million.

The Building Products business unit supplies paving and walling products to residential and commercial building sectors. Comparatively better economic conditions on the East Coast, including local government spending, has contributed to an improved result for this business unit. The business unit has also improved margins with ongoing cost reductions and production efficiency programs. As in recent years, cost control and efficiency have been the key focuses for management.

Delta Corporation produces pre-cast and pre-stressed concrete products. With the decline in activity in the resources sector, Delta is operating in extremely competitive conditions. In that competitive environment, margins have been under intense pressure. Delta has developed a speciality in producing highly technical prestressed, precast concrete. The competitive environment has meant that those skills are no longer being rewarded as previously. Despite those commercial realities, Delta achieved an improved result on the previous period. Delta remains a distinct and cost competitive player in the space. Should rationalisation of the competition occur, it would likely result in the industry returning to more sustainable conditions, that is, a balancing of supply and demand.

Order banks across the Building Materials division are reasonable. The division will continue to focus on winning profitable work and reducing costs. SFC remains cautious given the current industry conditions but expects EBIT for the second half to increase over the previous corresponding period.

INVESTMENT PROPERTY

The Investment Property division comprises SFC's interests in syndicated property investments.

In December 2015, SFC sold its 20% share in the 616 St Kilda Road syndicate. SFC acquired the interest in 616 St Kilda Road for $1 million. 19 years later, after having received strong annual income returns, the interest has been sold for additional EBIT of $5.7 million ($4.0 million after tax). SFC applied the cash generated initially to reduce corporate debt.

This type of opportunity is 'cream' for SFC shareholders. The operating businesses are managed to maximise value over time. SFC also maximises rental returns from the property portfolio. But SFC is always aware of opportunities to release capital value for shareholders.

Outside the sale, first half revenue decreased slightly due to the timing of the abovementioned divestment. Underlying EBIT increased by 3% to $1.3 million as occupancy, at 95%, was slightly higher than the previous corresponding period.

For the second half, EBIT will decrease following the sale of the 616 St Kilda Road syndicate interest.

GOSH CAPITAL

Investment business Gosh Capital has utilised the land asset on which the Gosh Leather business previously operated at 10 Bennett Avenue, North Coogee, Western Australia as a substantial initial asset upon which to develop an investment portfolio.

The Cockburn Coast area, encompassing North Coogee, is undergoing conversion to a high-density residential precinct. Landcorp, the majority land owner, has started significant work on the properties and public spaces surrounding Gosh Capital's 2.1 hectare site, enhancing its future development potential.

During the first half, Gosh Capital has added a $0.5 million investment in listed shares to further diversify the nature and risk profile of its investment portfolio. Gosh Capital also realised $0.3 million from the sale of the Space 207 property which was previously held by a property trust of which Gosh Capital is a unitholder.

At 31 December 2015, the market value of the Gosh Capital asset portfolio was $27.6 million ($21.5 million net of debt), an increase of $0.9 million in 12 months.

Profits for this division are growing steadily. SFC forecasts an increase in profit for the second half of the 2016 financial year (from a low base).

OUTLOOK

The growth in SFC's Group turnover during the first half is encouraging. SFC expects the revenue growth trend to continue. As the Slovakian facility improves profitability over time, earnings should follow revenue. However, as has been experienced in the first half, volatile international currency movements and challenging local economic conditions are ongoing threats to SFC's profitability.

For the second half, SFC anticipates that Group performance will be moderately higher than the previous corresponding period, assuming prevailing foreign exchange rates are maintained.

That forecast is driven by:

- A significant increase in volume and revenue for Automotive Leather, but similar profit to last year due to high AUD hide costs and additional costs associated with new program start ups
- An increased EBIT for Building Materials
- A modest decrease in EBIT for Investment Property
- A steady increase in the EBIT for Gosh Capital (from a low base).

DIVIDENDS

On 18 March 2016, SFC will pay a fully franked interim ordinary dividend of $0.12 per share, which matches the previous corresponding period. The record date for the dividend is 11 March 2016.

John Schaffer
Chairman