

# SCHAFFER CORPORATION LIMITED (“SFC”)

## SFC BOARD CHARTER

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The strategic control of the business of the Group is vested with the Board. The Board's objective to create, build and sustain shareholder value is carried out in accordance with their duties and obligations to act honestly, fairly, diligently as are imposed upon them by the Constitution, regulatory authorities and ethical standards. Key matters reserved for the Board include the following:

- Approval of the Strategic Business Plan
- Approval of the Annual Budgets
- Review of the operating results and approval of the financial accounts
- Setting the Corporate Governance practices within the Group
- Determining SFC's dividend policies
- Approval of the Group financial policies
- Approval of the Group risk management strategies
- Review of Board nominations and composition
- Determining the terms and conditions for and evaluate the performance of the Managing Director
- Delegation of authority to the Managing Director and senior management on operational matters, or approval of matters in excess of any discretion which may have been delegated from time to time;
- Acquisition, establishment, disposal or cessation of any significant business of SFC
- Approving the issue of any securities in SFC
- Approving the capital management strategy of SFC
- Approving the appointment of SFC's External Auditor

The Board has delegated authority for the management of the Group through the Managing Director to executive management. Accordingly the Group's executive management team are charged with implementing Board directives and the day-to-day management and reporting of the Group's activities.

### **Board Meetings**

Management provides the Board with information in a form, timeframe and quality that facilitates the Board in effectively discharging its duties. The Board meets at least 8 times per year. Board papers are where possible provided to directors at least four days prior to the relevant meeting. The non-executive Board members are joined at Board meetings by the group's Managing Director, the Managing Director of Australian Leather Holdings Limited and the Company's Chief Financial Officer/Company Secretary.

## **Board Committees**

The Board may from time to time establish committees where the Board is of the belief that the establishment of such a committee will improve the performance of the Board in accomplishing its duties.

The Board operates an Audit Committee. The committee shall be members of, and appointed by, the board of directors and shall comprise at least three non-executive directors. A majority of the members shall be independent of management and the Company. The main functions of the Audit Committee are to oversee the Company's financial reporting process and report the findings of their activities to the Board, assess the accounting financial and internal controls and appoint and liaise with the external audit firm.

The Board also operates a Nominations and Remuneration Committee. The Nomination and Remuneration Committee operates pursuant to a formal charter, a full copy of which can be accessed from SFC's website. The Nominations and Remuneration Committee shall comprise of at least three non-executive directors. A majority of the Committee members are required to be independent of management of the Company.

The Nominations and Remuneration Committee supports and advises the Board to ensure the Board comprises individuals with the requisite skills and experience to competently discharge the Board's duties. In identifying and forming a recommendation, the Committee takes into consideration such factors as it deems appropriate in each case. The primary criteria adopted in selection of suitable Board candidates is their capacity to contribute to the ongoing development of the Company having regard to the nature of the Company's core business interests and to the candidates attributes in the context of the attributes of existing Board members. These factors may include commercial acumen, skill, judgement, experience and the extent to which the candidate would be a desirable addition to the Board or Board sub-committees. The Committee also determines the remuneration payable to the Managing Director (and executive directors if any) and the remuneration of the non-executive directors within the aggregate approved by shareholders. The Company has performance-based incentive plans in place at each of its operations in which management and the labour force participate. The incentive plans in operation have been tailored specifically to each of the Group's operations. Benchmarks, applicable hurdle rates and vesting provisions vary between each of the plans.

The Board does not believe the Board or the Company are of sufficient size to warrant the establishment of additional dedicated Board Committees.

## **Board Membership**

The Board currently consists of 5 directors. The Board considers that between them, the directors bring the range of skills, knowledge and experience (both local and international) necessary to successfully direct the Group's operations.

Directors are subject to shareholder re-election by rotation at least every three years. Shareholders are also required to ratify, at the next annual general meeting, the appointment of any director appointed throughout the year to fill a casual vacancy.

The Board of Directors consists of:

*John Schaffer Chairman and Managing Director*

John joined the Company in 1972 and has held the position of Chairman and Managing Director since 1988. John is also Chairman of Australian Leather Holdings Limited, UrbanStone Pty Ltd, Delta Corporation Limited and Solco Industries Pty Ltd. John holds a Bachelor of Commerce degree with honours from the University of Western Australia and is an FCPA.

*Anton Mayer Executive Director*

Anton joined the Board in 2001. Anton is the Managing Director of Australian Leather Holdings Limited, a position he has held since 1998. Anton is also a director of a number of the ALH group subsidiaries. Anton has over 35 years of international leather experience, broad business skills and a global business perspective.

*Danielle Blain Non-Executive Director*

Danielle joined the Board in 1987. Mrs Blain served as a director of Australian Leather Holdings Limited from 1993 to 2005 and as Managing Director of Gosh Leather Pty Ltd (the furniture division) from 1993 to 2001. Mrs Blain holds a Bachelor of Arts degree from the University of Western Australia. Mrs Blain is a member of the Board's Audit Committee and the Nominations & Remuneration Committee.

*David Schwartz Independent Director*

David joined the Board in 1999 and is independent Chairman of the Board's Audit Committee and the Nominations & Remuneration Committee. David is Chairman of the investment company Loftus Capital Limited. David has many years of experience in successfully managing manufacturing and distribution businesses in Australia and South Africa. He is Chairman of Pascoes Pty Limited, ToLife Technologies Pty Limited and Stefani Pure Water Australasia Pty Limited.

*Michael Perrott Independent Director*

Michael joined the Board as an independent director in Feb-05 and is a member of the Board's Audit Committee and the Remuneration and Nominations Committee. Michael has over 35 years experience in the construction and contracting industry. He was previously Managing Director of the Gardner Perrott Group Limited until that business was sold to Brambles Limited in 1989. He is currently chairman of Bone Medical Limited, GME Resources Limited and Canning Vale Weaving Mills and a director of Portman Limited.

## **Director Independence**

The Company applies the following criteria in assessing director independence. That is, a director is only regarded by the Company as independent if that director is a non-executive director and:

1. Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided.
2. Is not a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
3. Has no material contractual relationship with the Company or another Group member other than as a director of the Company.

4. Is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company.
5. Is free from any interest or any business or other relationship which could, or could reasonably be perceived to materially interfere with the director's ability to act in the best interest of the Company.
6. Within the last three years has not been employed in an executive capacity by the Company or another Group member, or been appointed or continued as a director after ceasing to hold such employment.
7. Has not served on the Board for a period which could or reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company.
8. Does not have family ties or cross directorships which may compromise independence.

Mrs Blain, Mr Schwartz and Mr Perrott are the Company's non-executive directors. Mr Schwartz and Mr Perrott are considered by the Board to be independent directors. The Board does not classify Mrs Blain as an independent director.

### **Conflicts of Interest**

A director is required to disclose to all directors any material personal interest they may have, or may reasonably be perceived to have, in a matter which relates to the affairs of the Company. A director is expected to disclose their interest as soon as practicable after the director becomes aware of that interest.

In the event a potential material conflict of interest arises, the director concerned does not receive the relevant Board papers and leaves the Board meeting while the matter is discussed and considered. Directors must keep the Board advised on an ongoing basis of any interests which could cause, or may reasonably be perceived to cause, a conflict with the interests of the Company. The minutes of the meeting should record the decision taken by those directors who do not have an interest in the matter.

### **Independent Legal Advice**

With the consent of the Chairman, individual directors may seek independent professional advice at the Company's expense on any matter connected with the discharge of their responsibilities. The Chairman requires the submission of a cost estimate by a director in order to establish the reasonableness of the projected fee. The Chairman's consent will not be unreasonably withheld.

### **Directors Remuneration**

The maximum aggregate amount of fees that that may be paid to the non-executive Directors was last approved at the 2004 Annual General Meeting held at \$250,000 per annum. Only non-executive directors which held office prior to 2000 are entitled to a retirement benefit equivalent to one year's annual director's fees.