



CHAIRMAN'S ADDRESS TO THE 52ND ANNUAL GENERAL MEETING

Ladies and Gentlemen

Welcome to the 2006 Annual General Meeting of Schaffer Corporation Limited.

The 2006 financial year was challenging. Our three core businesses – building products, automotive leather and property – experienced markedly differing market conditions, which flowed through into your Company's financial performance.

The Howe automotive leather business continued to operate in a particularly difficult market. However, record performance by the Building Products division and a solid performance by our joint venture property activities partially offset Howe's reduced earnings.

At the group level, your Company recorded stable revenues of \$145 million and a headline net profit after tax, or NPAT, of \$8.1 million. That is \$1.3 million lower than in the 2005 financial year. When we remove the impact of last year's non-recurring gain from selling Investment Property, NPAT in fiscal 2006 was \$0.6 million lower than last year:

SFC Group NPAT (\$ million)	Fiscal 2006	Fiscal 2005
NPAT (Headline)	8.1	9.4
NPAT from Investment Property Disposals	0.0	0.7
NPAT excluding Investment Property Disposal	8.1	8.7

Earnings per share for the year were 58 cents per share. Given the underlying strength of our businesses, Schaffer Corporation's policy of distributing a large proportion of profits as dividends to the Company's owners remains appropriate. To that end, dividends for the year totalled 50 cents per share, fully franked.

COMMENTS ON OPERATIONS

BUILDING PRODUCTS

The Building Products division comprises the UrbanStone and Delta Concrete businesses and since July 2006, the Limestone Resources business. Those operations deliver creative and practical solutions for the construction industry.

The division experienced outstanding conditions in the 2006 financial year:

- Revenue totalled \$39 million (an increase of \$10.2 million over the previous year)
- Earnings before interest and tax ("EBIT") was \$6.6 million (a \$3.7 million increase)

For the year, the Building Products division was the largest contributor to group earnings, generating 43% of EBIT.

I am sure that you have seen or read about the economic boom that Western Australia has been experiencing in recent times – driven by Chinese demand for the natural resources that Western Australia has in abundance. While Schaffer Corporation is an industrial, rather than a resources company, the effects of this buoyant time for resources flowed onto the Building Products division.

Delta is a major supplier to the rebound in Western Australian commercial and infrastructure projects. Similarly, the Western Australian market for UrbanStone's products has been excellent, although weaker demand in the Eastern States, particularly New South Wales, has tempered that result.

As I have discussed in previous years' General Meetings and Annual Reports, UrbanStone distributes its product range through an excellent national distribution network. For some time, Schaffer Corporation has investigated opportunities to leverage the UrbanStone distribution network and extend the range of products that the Company can make available to its customers.

In July 2006, Schaffer Corporation acquired Limestone Resources, one of Western Australia's largest natural and reconstituted limestone products producers. The business operates within the residential, commercial and land subdivision markets. Its products complement those of UrbanStone and provide a natural fit. Importantly, Schaffer Corporation has identified areas where both the Limestone Resources business and its products can be improved. Over time, Limestone Resources products will be distributed alongside UrbanStone's through this distribution network.

To showcase UrbanStone and Limestone Resources' products, Schaffer Corporation has acquired a property at Osborne Park, Western Australia's premier home improvement retail destination. This 4,800 m² property will provide both a prestige showroom and retail distribution centre. The property will become a focal marketing point and we expect it to open for business in early 2007.

AUSTRALIAN LEATHER HOLDINGS (ALH)

ALH comprises the Howe automotive leather division and, until recently, the Gosh furniture leather division.

Howe is an excellent business that operates in a highly competitive international market. In fiscal 2006:

- Revenue was \$91 million (compared with \$105 million in the previous period)
- Earnings before interest and tax (EBIT) was \$6.2 million (down from \$8.3 million).

Several years ago, Howe's managers and Schaffer Corporation recognised that the automotive leather industry was undergoing structural change. To remain internationally competitive, Howe required substantial repositioning to, principally, lower the labour costs that represent a significant component of Howe's costs of production. In addition, the growth markets for automotive leather were shifting away from the traditionally strong North American market towards Europe and Asia.

The labour component of the production process is most intensive in the cutting stage. Schaffer Corporation identified that accessing lower labour cost markets that are also close to key customers was fundamental to Howe's ongoing competitiveness. To that end, Howe established new cutting operations in Slovakia and China, modelled on its existing cutting operation in Mexico. An unfortunate consequence of this need to adapt to the changing market was redundancy at Howe's Australian operations.

The Slovakian, Chinese and Mexican cutting facilities have achieved our twin goals of (i) producing Howe's products closer to its customers and (ii) lowering the cost of producing them.

The benefits from these changes will be realised in future years. However, in the 2006 financial year, Howe's performance was impacted by:

- Decreased demand from Howe's US customers as the American manufacturers lost market share in North America to Japanese and Korean original equipment manufacturers (OEMs);
- BMW's decision to move its business across to South African suppliers, who benefit from an effective 23% government subsidy;
- Ongoing cost cutting programmes at the OEM level;
- Restructuring costs associated with the repositioning of the Howe business.

ALH's Gosh furniture leather business ceased production in August. In recent years, the Australian furniture market has become dominated by finished imported leather furniture. Over the last three years, despite the very best efforts of its management, Gosh's performance declined to a level that was no longer sustainable for a Schaffer Corporation company.

Schaffer Corporation's 2006 NPAT result included a \$0.6 million (after tax) charge relating to the winding up of the Gosh business. We anticipate a further \$0.3 million (after tax) in closure costs in the first half of the current financial year. Gosh operated from a 2.2 hectare site in Hamilton Hill, which Schaffer Corporation will now lease for at least five years, pending its anticipated rezoning to urban use.

PROPERTY

In the 2006 financial year, Schaffer Corporation's joint venture investment property leasing operations contributed \$1.9 million in EBIT, which represents 13% of Group EBIT. Those activities also generated \$1.1 million in cash for the year.

At the end of the financial year, your Company held joint venture interests in seven commercial and retail properties. Since year end, Schaffer Corporation has also acquired a 20% joint venture interest in an 8,000m² office/warehouse property at Canning Vale in Western Australia. Including that acquisition, the current value of the Company's investment property portfolio is approximately \$33 million, with associated debt totalling \$17.8 million.

One of the enduring successes of our property portfolio is the Mindarie Keys Marina residential land subdivision. Schaffer Corporation holds a 15% interest in Mindarie Keys, which contributed \$1.9 million to group EBIT. Over the next 12 to 18 months, about 50 waterfront lots, including 3 medium density sites, will be released and sold.

Since fiscal year end, your Company has acquired a 20% joint venture interest in a 26-hectare property at Neerabup, Western Australia. The intention for the property is that it be developed and sold as an industrial subdivision starting in the next three to five years.

OUTLOOK

Earnings

In the first half last year, the Building Products division delivered outstanding results – EBIT of \$3.5 million on revenue of \$20.8 million – driven by the resources boom in Western Australia. The current half will include the first contribution from Limestone Resources. Accordingly, Schaffer Corporation expects that the division's revenue will increase. Earnings should be in line with the previous corresponding period, reflecting the costs of integrating Limestone Resources and its lower margins. Your Company's strategy remains to grow the Building Products division over time. We will be on the lookout for suitable opportunities to extend the range of products offered through the UrbanStone distribution network.

Howe will continue to face challenging market conditions, driven by supplier overcapacity, increasing hide prices and aggressive OEM pricing expectations. Conditions in North America will weaken further as General Motors and Ford manage their ongoing restructuring. Nonetheless, Howe anticipates that increased demand from European and Asian customers will largely offset a contraction in North America. Howe will also continue to aggressively pitch for new business.

In the first half of the 2006 financial year, ALH recorded EBIT of \$2.1 million on \$50 million of revenue. The EBIT result included \$1.2 million in redundancy expenses in addition to cost duplications associated with the establishment of the Slovakian and China cutting plants. In the current half, Schaffer Corporation expects Howe will report lower revenue due to difficult trading conditions. However, with restructuring now complete, earnings should improve significantly relative to the corresponding period last year.

Western Australia, particularly, continues to experience strong demand for floor space. Schaffer Corporation expects strong and sustainable earnings from your Company's investment property leasing activities. Earnings from Mindarie Keys will be influenced by the timing and success of land releases between now and 31 December 2006.

At the Group level, your Board expects NPAT for the six months ending 31 December 2006 to be approximately \$4.7 million, an improvement on last year's first half NPAT of \$3.6 million.

Dividends

Given the above, your Board currently expects to declare an interim ordinary dividend of 25 cents per share fully franked, payable in March 2007, in line with our current dividend policy. Under that policy, the Board plans to maintain ordinary dividends of at least 75% of NPAT, subject to capital expenditure, acquisitions, working capital requirements and the balance in the Company's franking credit account.

PEOPLE

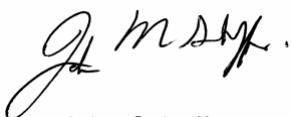
You will know that I traditionally take the opportunity to thank all of Schaffer Corporation's employees during my address to the AGM.

This year is no exception.

There are two groups whose support is essential to the Company's success: our employees, and our shareholders. The commitment and dedication of our employees in Australia, China, Mexico and Slovakia are fundamental and on behalf of the Board, I thank them all.

Similarly I thank you, our shareholders, because the capital you provide is the lifeblood of any company. It is because of the loyalty and support of our employees and shareholders that Schaffer Corporation's businesses remain strong, viable and sustainable – despite the challenging conditions in which we operate every day.

Yours sincerely



John Schaffer
Chairman
15 November 2006