



## CHAIRMAN'S ADDRESS TO THE 53<sup>RD</sup> ANNUAL GENERAL MEETING

Good morning, ladies and gentlemen

Thank you for joining us and welcome to Schaffer Corporation's 2007 Annual General Meeting.

Schaffer Corporation's businesses operate across a range of markets and the Group's performance naturally depends upon conditions in each of those markets. In the 2007 financial year, Schaffer recorded an improved result on the back of record highs in some markets while others were more challenging.

To explain, I'd like to take you through the impact of market conditions on each of our core divisions: Building Materials, Leather, and Property and Investments.

### **Building Materials**

The Building Materials division posted another record result. With its leverage to Western Australia's resource-driven economy, this division benefited from record demand from an array of infrastructure and resource projects. In addition, we acquired the WA-based Limestone Resources and Archistone businesses, which has expanded our product range of paving and, particularly, into walling. This expansion has also broadened our customer demographics. By contrast, sales into NSW – historically one of our most important markets – continued to be impacted by weaker demand. The Building Materials division is well positioned for future growth. By February 2008, we will have invested some \$26 million acquiring additional businesses and retail properties to service them.

We are also well advanced with site works and equipment upgrades at Delta, for a total capital cost of \$3 million. The upgrades will improve Delta's ability to service the growing number of infrastructure and resource projects in Western Australia. We have invested strongly and expect improved earnings as these projects get underway. We are in an important evolutionary phase in the Building Materials division, as we work to strengthen and secure its long-term future.

### **Automotive Leather**

Our automotive leather division, Howe, is a global business with over 90% of its sales in Europe, Asia and North America. Like all exporters, the stronger Australian Dollar has eroded both revenue and earnings. The strength or weakness of the Australian dollar is out of our control. However, over the last two years, we have successfully repositioned the leather business by relocating Howe's labour-intensive operations offshore. The outcome was to successfully reset Howe's cost base. It now has about 600 employees overseas and a bit less than 200 in Australia. These were necessary steps to ensure Howe's long-term future.

## Property

You will have read of the severe shortage of rentable commercial property in Western Australia. Reflecting this shortage, our property holdings, which are located principally in Western Australia, have appreciated strongly in value over the year. Twelve months ago, our current Joint Venture Investment Property assets were valued at about \$31 million. Today, their value is closer to \$45 million. The value of the wholly-owned properties from which our businesses operate has also increased substantially.

Obtaining regular, and by that I mean six monthly or annually, formal valuations of each property would be financially costly and impractical. Consequently, the increase in value over the past twelve months is not reflected in Schaffer's Balance Sheet. Instead, under international accounting standards, which now apply in Australia, our property interests are recorded at their 'Depreciated Cost'. However, we have provided regular updates on their estimated values, so our shareholders can better appreciate the worth of our property assets.

## Financial Results

Against that background, the 2007 financial year was a significant improvement on the prior period.

For the year, the Company's sales revenue of \$148 million was two percent higher, with improvements in Building Materials offsetting reduced Leather revenue.

Earnings before Interest and Tax (**EBIT**) increased by 21% to \$19.1 million – again driven by a record result for Building Materials and, also, an improved result for Leather.

### Performance Summary

Operations (\$million)	Revenue		EBIT		NPAT	
	06/07	05/06	06/07	05/06	06/07	05/06
Building Products	55.1	39.0	8.7	6.6		
Leather	84.4	98.1	6.0	4.8		
Property/Investments	8.1	8.2	4.4	4.5		
Total	147.7	145.3	19.1	15.9	10.3	8.1

Moving down to the bottom line, group Net Profit after Tax (**NPAT**) of \$10.3 million was 26% up on last year's \$8.1 million. Similarly, Earnings per Share (**EPS**) improved to 73¢ per share from the previous year's 58¢ per share.

Schaffer's policy continues to be to pay out a majority of earnings as dividends whenever we can do so. The Company paid dividends totalling 50¢ per share (fully franked) for the financial year, representing a payout ratio of 68% of after-tax profits.

## COMMENTS ON OPERATIONS

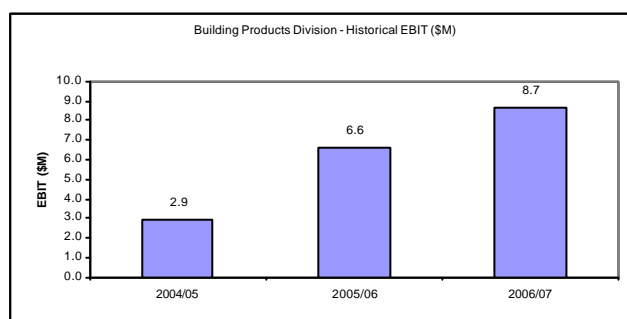
### BUILDING MATERIALS

The Building Materials division encompasses UrbanStone Pty Limited, Limestone Resources Australia Pty Ltd, Delta Corporation Limited and, from 31 July 2007, Archistone Pty Limited. The current year will also see the launch of UrbanStone Central Pty Ltd – the division’s new retailing arm.

Building Materials is a niche Australian supplier of complementary building, construction and landscaping products. The division manufactures and markets a premium range of niche paving, walling and landscaping products along with pre-cast and pre-stressed concrete floor, beam and wall products.

Several years ago, Schaffer identified strong growth opportunities for Building Products and implemented a strategy to expand the division. At that time, UrbanStone had developed a national distribution network with a chain of sales centres across Sydney, Melbourne, Adelaide, Brisbane and Perth. Our objective was and is simple: to grow the product range available through that distribution network by developing new UrbanStone product lines and by acquiring complementary businesses whose products can be sold through the UrbanStone distribution network.

By maintaining our ‘return on capital’ discipline and, more recently, with the benefit of favourable market conditions, we have seen the division’s EBIT triple over the past three years – from \$2.9 million in the 2004/05 financial year to \$8.7 million in 2006/07. Building Materials revenue has almost doubled, from \$28.8 million to \$55.1 million, over the same period.



Schaffer Corporation continues to build value in the Building Products division through the expansion of its product range, development of its retail offering through the launch of UrbanStone Central concept stores and by acquiring the retail properties from which the division operates.

UrbanStone Central provides a unique opportunity for customers to see our diverse range of landscaping products in application. For those of you living in Perth, I invite you to visit our new UrbanStone Central concept store at the corner Howe and Frobisher Streets in Osborne Park, where you will see a showcase of our full range of paving and walling products.

## **AUTOMOTIVE LEATHER**

The Automotive Leather division reported increased EBIT of \$6 million for the year. However, EBIT in the previous year was affected by restructuring costs to do with establishing the Chinese and Slovakian cutting plants.

Revenue decreased to \$84 million as a result of lower North American sales. Improved revenue in Europe and Asia partially offset the impact of the decline in North America. The 2007 financial year was also the first without an operating revenue contribution from the discontinued Gosh furniture leather business, which accounted for \$7 million in revenue in the 2006 financial year.

As I have noted in previous addresses, the global automotive leather market has undergone substantial structural change. For Howe, the impact is felt primarily through decreased demand by the US auto industry, as consumers increasingly favour imported vehicles, and by higher hide prices. Other factors have been price competition due to production overcapacity, and cost rationalisation at the OEM level.

Howe has moved to secure its competitive future by shifting production operations to countries with lower labour costs. The focus now is on increasing our sales presence in key markets and securing new, and profitable, work programs. Howe is well placed to expand its revenue base in the short to medium term. The 'X' factor is the strength of the Australian dollar, particularly against the US dollar and the Euro, which adversely impacts on overseas revenue and earnings when they are measured in Australian dollars.

## **PROPERTY AND INVESTMENTS**

Property continues to provide a solid contribution and, as I noted earlier, our portfolio has appreciated strongly in value over the past year. Investment property leasing operations generated EBIT of \$1.9 million and \$1.2 million of cash over the last financial year.

The property portfolio now consists of joint venture interests in eight commercial and retail properties, following the sale, after the end of the financial year, of our interest in a property at 71 Queens Road, Melbourne. That sale will generate approximately \$1.3 million of EBIT in the first six months of this financial year.

The Mindarie Keys residential land subdivision, located north of Perth, has been and continues to be an outstanding investment. Our 15% interest generated EBIT of \$2 million last year. The development is due for completion over the next 18 months. In that period, we anticipate receiving another \$2.5 million of EBIT and \$3.5 million in cash.

We also have a land bank at Neerabup, north of Perth. We acquired a 20% joint venture interest in a 26-hectare property early in calendar 2006 and are targeting an industrial subdivision on the site, commencing within the next three to five years.

## OUTLOOK

In the first half of financial 2008, we expect Building Materials revenue to be higher, driven by the strength of the WA market. The first time inclusion of Archistone will boost first half revenue. On the earnings side, the division's performance will be restrained by the launch of UrbanStone Central with its additional advertising, display upgrade, rebadging and integration expenses. Delays caused by a wetter than normal September quarter in WA and NSW will also affect the first half results. However, as I mentioned in my introduction, we have invested across our businesses to strengthen Schaffer's leading market positions and generate long-term shareholder value.

While Howe is tracking towards a stronger revenue result for the first half, the sharp appreciation of the Australian dollar – up 20% against the US dollar compared with the same period last year – will adversely impact earnings in this first half. As a result, Howe's earnings will be materially below the result reported for the previous corresponding period.

Operating earnings from property leasing and subdivision will be boosted by the sale of the Queens Road, Melbourne property. We are also well positioned to capture any further valuation increases in the property market.

In sum, Schaffer Corporation continues to pursue long-term shareholder value by focusing on return on capital employed, cash flow and dividends. Despite the adverse currency environment for Leather and the additional costs and seasonal factors affecting the Building Materials division year to date, at the group level we expect our headline result for this half-year to be at least in line with last year's strong first half NPAT of \$5.2 million.

The Board currently anticipates declaring an interim ordinary dividend of 25¢ per share fully franked, payable in March 2008.

## PEOPLE

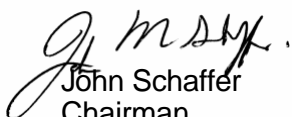
Schaffer Corporation is a Group of strong businesses and our employees are a critical part of that strength. We think people enjoy working with us and that they believe in what we're doing. I think that is why we have so many employees who have been with us for many years, even in a time when people seem to change jobs much more often than in the past.

We have a workforce of about 1,000 dedicated people in Australia and around the world. The ability of Schaffer Corporation to grow from a small industrial company in Perth to a Group with operations across the country and around the world depends on our people. I sincerely thank every employee for their efforts and achievements.

In these increasingly complex times, governance and regulation place ever-increasing demands on the skills and time of Board members. I am very fortunate to have such an experienced, intelligent and sensible group of fellow-directors, and I thank them for their help.

Let me finally thank you, our shareholders, for your ongoing backing. It is because of your loyalty, and the loyalty of our employees, that our business remains strong and profitable.

Yours sincerely



John Schaffer  
Chairman

14 November 2007