CHAIRMAN'S ADDRESS TO THE 2010 ANNUAL GENERAL MEETING

Good morning, ladies and gentlemen.

Welcome to Schaffer Corporation's 2010 Annual General Meeting. My fellow Directors join me in thanking you all for coming and particularly those familiar faces, who for many years have joined us on this day.

My principal focus today is to review the last financial year. Part of my comments will highlight how your Company responded to the challenges that arose and continues to respond to them in the current year.

As you know, Schaffer Corporation operates three divisions, being Building Materials, Automotive Leather and Property. Not surprisingly, all have felt the impact of global and Australian economic conditions.

In Automotive Leather, reduced consumer demand in the aftermath of the financial crisis resulted in overcapacity at the Original Equipment Manufacturer (OEM) level, which naturally affected suppliers to the OEMs, such as Howe Automotive Limited. Global production of motor cars and light trucks declined for the second consecutive year. We anticipate a further decline in the current year. The sales decline has most dramatically affected luxury models, which are the vehicles with the highest leather content. In addition, the strong appreciation of the Australian Dollar has greatly impacted margins for the division.

In Building Materials, three principal factors were at play. Firstly, the residential housing market weakened, reducing the demand for our products. Secondly, demand in the commercial and industrial market fell due to the severe constraints imposed by remarkably lower credit availability for development, and also rising interest rates. The third factor, which provided some benefit, was Federal Government stimulus, particularly the Building Education Revolution (BER). However, the stimulus package was not enough to offset the drop in ongoing business following the completion of several of Delta's major construction projects early in the 2010 financial year.

The Property division witnessed a slight increase in vacancy levels across the portfolio and an increase in average interest rates as well.

These factors, combined, resulted in a substantial decline in net profit after tax to $4.5 million (down 57%) on revenue which was 19% lower at $137 million.

Now, to each division in more detail.

Automotive Leather

Howe Automotive Ltd exports virtually all of its whole finished hides to China, Europe and North America, where we operate leather cutting plants.

Following a material and unacceptable deterioration in trading terms in the 'whole hide' market in China, Howe took the difficult but correct decision to exit that part of the market. That occurred during the second half of 2009/10. Whole hides are a low margin product and Howe was facing increasing exposure to product quality claims. We had entered the market on a business case, valid at the time, of high sales volumes, superior payment terms and reasonable pricing. But the GFC and the subsequent strong appreciation of the Australian dollar affected prices and volumes substantially. The position was further complicated by our major Chinese customer largely withdrawing our previously favourable payment terms. Following the receipt of a large and unreasonable product quality claim, Howe decided it was time to exit the market.

The immediate financial impact of that decision was substantial, wiping out the profits earned during the year and leaving a disappointing 2010 financial result. The decision was nonetheless strategically correct and Howe's management are now very focused on reducing costs and excess inventory. I am pleased to announce that Howe has returned to profitability during the first quarter of the current financial year, but at present it is still operating at a very modest level of profitability.

Building Materials

The Building Materials division recorded mixed performance for the 2010 financial year.

Delta Corporation – the pre-stressed and pre-cast concrete manufacturing business – experienced a large drop-off in revenue. It was due to the successful completion of several major projects, including bridges for the new Perth to Bunbury Forrest Highway project, and two major office development projects in the Perth CBD (Bishop's See and Century City). Those projects had contributed to record revenue in 2009. Correspondingly, profits for Delta were substantially lower in 2010, compared to 2009.

In contrast, the Building Products segment of Building Materials, which comprises Urbanstone, Urbanstone Central, Archistone, Limestone Resources, Imported Stone products and Lumeah, achieved a small increase in revenue. Even more pleasing was a substantial improvement in profitability, which was driven by our two-year integration and restructuring programme for Building Products.

Property

Property increased its EBIT by 34% for the year. The result was boosted by the sale of Schaffer Corporation's interest in the Joondalup House property syndicate and the sale of the majority of the remaining residential lots at the Mindarie Keys marina development.

Rental income increased by a small amount. Despite a significant softening in the commercial rental market, there was only a modest increase in the average vacancy rate across the portfolio.

OUTLOOK

The outlook for all three of our operating divisions remains challenging, as a result of factors as diverse as the strong Australian Dollar, weakness in global automobile sales (particularly sales of luxury cars), higher interest rates, and restricted credit available for commercial property developments. Those factors are all likely to have a negative impact on profitability. In contrast, increased spending on infrastructure developments and major resource projects, particularly in Western Australia, has the potential to offer some upside for the Building Materials division, particularly Delta, in the next few years.

Given we are well into the first half of the 2011 financial year, I will outline how your Board currently expects the first half to unfold.

Automotive Leather

The global automobile industry continues to suffer from significant overcapacity, especially in the North American markets and despite the growing market in China. That position is likely to result in further rationalisation among component manufacturers, as the major car companies streamline global supply chains and consolidate assembly in fewer plants.

For several years, Howe Leather has experienced declining volumes and pricing in the North American market. In addition, the level of violence in Juarez (where our cutting plant is located) associated with Mexico's crackdown on drug cartels has escalated to alarming levels this year. For example, several employees of one of our competitors were recently killed in an attack on a vehicle transporting the workers to their plant. As a result, the Board has decided to close the Mexico cutting plant in early 2011, when current supply contracts will have been completed. The closure will result in a restructuring charge of approximately A$1 million in the current half year.

In Europe, a significant increase in new orders has resulted in substantial growth in the workforce at our Slovakian cutting plant to around 400 people. Howe anticipates the increased activity in Europe will more than offset the impact of the closure of the Mexican cutting plant and the withdrawal from the whole hide market in China.

As a result, and despite the one-off charge and the effects of the strong Australian Dollar, Automotive Leather still anticipates being profitable in the first half, with EBIT expected to be broadly similar or slightly higher compared to the first half of last year.

Howe is continuing its negotiation with the Federal Government in relation to refinancing the present non-recourse debt facility provided by the Government. While progress is being made, we have not yet received a formal refinancing offer. The current facilities expire on 1 February 2012.

Building Materials

Within the Building Materials division, activity levels at Delta have improved and the order book has increased significantly from its low point early this calendar year. Sales of Building Products have lagged slightly in the first quarter. However, revenue from Building Products is typically lowest in the winter months.

Schaffer Corporation anticipates that the highly constrained market for commercial property developments, the impact of reduced consumer discretionary spending on home improvements and a decrease in new home starts will have a negative effect on margins. Consequently, overall EBIT for the Building Materials division in the first half is likely to be materially lower than in the previous corresponding period.

Building Products recently began commissioning a state-of-the-art production line to manufacture a new range of masonry products. While it is being commissioned at a low point in the market, it is a business we know particularly well, having operated similar plants for many years before selling out to Boral in 1988. Also, we will soon open a new Urbanstone Central retail centre in the Perth suburb of Clarkson. Both initiatives are integral to Schaffer Corporation’s strategy to grow the Building Products business, and to that end we will continue to explore options to expand our retail network.

As part of our plan to roll out more Urbanstone Central Stores, we have recently put three of our Company owned stores on the market for sale and long term leaseback. This will release capital and enable us to open more stores.

Delta, which has been considerably expanded over the last few years, is well placed to cope with an expansion of resource projects and infrastructure spending, which we believe will mainly occur from late this financial year and should continue for at least the next few years.

Delta is installing a concrete polishing production line to manufacture polished concrete (reconstituted granite) architectural products – a type of product not presently offered in the Western Australian market. The initiative provides Delta with a significant opportunity to add further value to its core pre-cast concrete architectural product range.

Property

Earnings from the Property division for the first half are likely to be lower than in the previous corresponding period, resulting from a slightly increased average vacancy rate across the portfolio and higher incentives being required to retain or attract anchor tenants. With the expiration of several leases in coming months, vacancies could increase.

On the positive side, the redevelopment of the Hometown bulky goods centre on Albany Highway is progressing well. Upon completion, this development will have a much higher potential net rental income, as evidenced by new leases recently signed at increased base rents.

Dividends

In line with its policies, in January next year the Board will consider the interim dividend, after reviewing the half year results and the updated forecast for the second half of the 2011 financial year.

Summary

To summarise, your Board is expecting 2011 on the whole to be a difficult year. Earnings for the first half will be materially lower than the previous corresponding period. Conditions remain volatile and at this stage we cannot reasonably forecast the likely outcome for the second half of this financial year. In line with our normal practice, the Board will provide a further update on the outlook for the full year in February, when Schaffer Corporation releases its first half results.

Your Board appreciates your support of the Company as shareholders and also the dedication and hard work of our employees. This Company has experienced bounty and adversity in many forms over its 55 year history and these are undoubtedly times of adversity.

Alignment of interests between management and shareholders is something we believe in strongly at Schaffer Corporation. As you may be aware, the Board and the management team together own in excess of a third of the issued shares of the Company. While the current year has and will continue to present challenges, your Board and the executive management team remain absolutely focused on creating long-term shareholder value, and we look forward to sharing future successes with you in the years ahead.

Yours sincerely

John Schaffer
Chairman

17 November 2010