CHAIRMAN'S ADDRESS TO THE 50th ANNUAL GENERAL MEETING

Ladies and gentlemen, it is my great pleasure to welcome you to Schaffer Corporation's 2004 Annual General Meeting – the fiftieth in your Company's history.

The Company that we oversee on your behalf has grown and changed dramatically over the last fifty years, along with the world and markets in which it operates.

However, our mission remains to reward our shareholders for the investment that they make in the Company. We have encapsulated that mission in the statement of corporate objective that you can see on the first page of the Annual Report. It reads:

> "To efficiently operate and grow our core business for the benefit of shareholders".

Schaffer Corporation vigorously pursues a clear and well-defined strategy to meet that objective by:

- Focussing on our core businesses in automotive leather and building products
- Realising value from an orderly selling down of our surplus and non-core assets.

For the 2004 financial year, that strategy once again delivered strong financial and operational performance, an increased share price and a high dividend return for our shareholders.

HIGHLIGHTS OF THE FINANCIAL YEAR

Your Company earned a net profit after tax of $16.6 million – a slight decrease from 2003's $17.0 million.

The two percent decrease in NPAT represents a balance of competing factors:

- A decrease in operating earnings of 18% or $3.1 million, driven principally by $2.8 million in adverse currency movements
- A $2.8 million profit contribution from the continuing rationalisation of Schaffer Corporation's non-core investment property portfolio.

On the operational front:

- The automotive leather division secured new supply contracts with both Audi and Land Rover
- Across the Company, we continued the roll out of our 'cost control culture'
- We successfully and profitably sold down our minority interest in seven investment properties.

In addition to our bottom line result, that operational focus delivered other strong indicators of Schaffer Corporation's performance.

A figure that you will have seen regularly in the Company's reports is our Return on Capital Employed.

ROCE is a figure that we in the Company like because it measures how efficiently we generate earnings from the capital that shareholders and lenders provide.

Investment analysts will tell you that an ROCE above 20% is very good. Even after stripping out the contributions from the investment property sell down, your Company's ROCE for the year was 27 percent.

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Furthermore, the Company has significantly strengthened its balance sheet. Schaffer Corporation's level of debt continues to fall, with Net Debt to Equity of approximately 50 percent. The debt that we carry is essentially structural and benefits the operations of both core businesses. That debt is offset by cash reserves that continue to grow – up 35 percent to $28.5 million.

As the Company continues to realise the non-core property portfolio, the associated $14.2 million in debt will come off the balance sheet. Schaffer Corporation also has $35.0 million in undrawn debt facilities which is available to fund future growth.

RETURNS TO SHAREHOLDERS

The benefits of your Company's performance are continuing to flow through to shareholders.

We measure Total Shareholder Returns as:

Share price growth (including bonus issues) + Dividends paid + Dividend imputation credits

Over the past five years, Schaffer Corporation has delivered to its shareholders Total Shareholder Returns of 48 percent on an annualised basis.

For the 2004 financial year:

- Your directors declared ordinary dividends of $1.00 per share, fully franked, matching last year's record level of ordinary dividends
- The sale of non-core assets funded special dividends of 40 cents per share, fully franked, which doubled the 20 cents in special dividends paid in 2003
- The Company's market capitalisation increased by 18 percent to almost $200 million.

I can confirm to shareholders that, for the 2005 financial year, the Company intends to maintain its ordinary dividends at $1.00 per share, fully franked. In addition, the directors anticipate declaring two 10 cent per share, fully franked, special dividends during the year.

COMMENTS ON OPERATIONS

LEATHER

Australian Leather Holdings (ALH) returned both lower earnings and revenue in the 2004 financial year.

Within the Howe automotive leather business, those decreases were principally caused by the appreciation of the Australian dollar against the US dollar. Currency movements caused a $16 million decrease in Howe's revenue and a decrease of $4.5 million in earnings before interest and tax.

To give you some idea of how currency appreciation affected the business, Howe's EBIT fell by approximately $340,000 each time the Australian dollar appreciated by one US cent.

In addition, Howe's EBIT also fell by $1.5 million as a result of lower sales volume associated with programme timing issues.

Automotive leather is a demanding market with high barriers to entry, which include:

- Exacting quality standards
- A high level of technical knowledge
- A long customer approval cycle
- High capital costs.

Despite these factors, the industry provides those companies that have the necessary characteristics with strong returns. Howe is a world class automotive leather manufacturer as a result of its:

- Consistent supply of raw materials
- Modern global-scale finishing facility
- Quality culture
- Established global customer base.

Howe's customers are the world's leading automotive manufacturers, including BMW, Ford, General Motors, Honda, Land Rover and Audi.

In response to increasingly fierce global competition Howe expects to start commissioning an Eastern European cutting plant in the last quarter of the 2005 financial year. This plant should maintain Howe's competitiveness and strengthen Howe's European market position. In addition, Howe is considering establishing a mainland China cutting facility. Both cutting facilities would be similar to the plant Howe has operated successfully for the past eight years in Mexico.

Gosh, ALH's furniture leather business, operates in a difficult market and has restructured its activities to remain competitive. Gosh anticipates reducing sales as it continues to reposition itself in niche markets.

BUILDING PRODUCTS

In the 2004 financial year, the Building Products division accounted for 15 percent of Schaffer Corporation's earnings, with an EBIT contribution steady at $4.2 million. While revenue was largely static, the division continues to provide strong cash flows and an acceptable return on capital employed with minimal capital expenditure requirements.

Both UrbanStone and Delta deliver niche products and design solutions for the landscaping and construction markets.

UrbanStone is Australia's leading manufacturer of premium paving products with a national distribution network supplying both the domestic and commercial paving markets. UrbanStone's market leadership and strong competitive position are built on:

- Plant flexibility
- Cost control
- Product innovation
- Premium branding
- Its own distribution network.

Delta manufactures pre-cast and pre-stressed concrete floors, beams and wall products primarily for the Western Australian construction market. Delta also supplies some product into the South Australian market. Delta's competitive position is based on supplying a cost efficient product to the niche pre-stressed concrete market. It has an established distribution network and the capacity to expand production without imposing additional fixed costs.

RATIONALISATION PROGRAM

As I mentioned previously, our focus is on our two core businesses and the rationalisation or realisation of non-core assets – principally the Company's investment property portfolio. That process has resulted in a series of special dividend payments in recent years.

Since the end of the 2004 financial year, the Company has settled the sale of its interest in Solco Industries Pty Ltd and secured the sale of surplus land in West Perth. Collectively those two transactions should contribute approximately $1.0 million to NPAT in the first half of 2005.

The current value of the investment property portfolio is approximately $23.3 million generating annual EBIT of $1.7 million. The portfolio currently has $14.2 million of associated debt.

The Company intends to continue to return the cash generated from the future sell down of SFC's non-core assets in the form of special dividends. While further sales are not imminent, we anticipate paying another 60 cents per share, fully franked, in special dividends over the next three to four years.

OUTLOOK

We are facing an increasingly challenging business environment. The Company expects that ALH's earnings will be materially adversely affected in the current period by a slow down in the Chinese automotive sector and fierce global competition. In Europe, the Audi and Land Rover programmes are ramping up more slowly than anticipated. Those programmes will not make significant contributions to Howe's sales in the first half of the 2005 financial year. Obviously currency movements (in either direction) may significantly impact the Company's earnings.

UrbanStone's performance is tracking more weakly than anticipated as a result of project timing issues and increased competition, particularly in the NSW market. The Company expects division earnings to return to previous levels in the second half.

However, group earnings are not expected to be as severely impacted when compared to the previous corresponding six months (excluding investment property sales) due to additional non-core contributions (sale of Solco Pty. Ltd. and surplus land in West Perth).

As I mentioned above, the Company intends to maintain $1.00 per share in ordinary dividends and pay a total of 20 cents per share in special dividends, all of which will be fully franked.

PEOPLE

Schaffer Corporation now has a permanent workforce of around 860 people, the majority of whom work in the leather division. As Managing Director and as a shareholder, I would like to thank all our employees for their dedication, commitment and passion, which are fundamental to our ongoing success.

Finally, on behalf of the Board I would like to thank all Schaffer Corporation shareholders for their support over our first 50 years. Your Company is in a strong position and you can rest assured that our focus is and remains on delivering the benefits of that strong position to you, the Company's owners.

John Schaffer
Chairman

10th November 2004