CHAIRMAN'S ADDRESS TO

THE 51ST ANNUAL GENERAL MEETING

Ladies and Gentlemen

It is, as always, a great honour to welcome you to the Annual General Meeting of Schaffer Corporation.

The 2005 financial year was difficult for our Company. Market conditions for our core businesses meant that our performance was disappointing relative to previous years.

The Company earned a headline net profit after tax (NPAT) of $9.9 million for the year – down $6.7 million on 2004. Stripping out the non-recurring gains from Investment Property disposals, the decrease on fiscal 2004 was $4.6 million.

SFC Group NPAT ($ million)	**Fiscal 2005**	Fiscal 2004
Headline NPAT	**9.9**	16.6
NPAT from Investment Property Disposals	**0.7**	2.8
NPAT excluding Investment Property Disposal	**9.2**	13.8

In line with previous years – and reflecting the underlying quality of SFC's core businesses – your Company continued its practice of paying out a large proportion of profits as dividends to shareholders.

Ordinary dividends for the year totalled 75 cents per share. In addition, the final tranches of SFC's special dividends programme added another 45 cents per share. As in previous years, all dividends were fully franked.

In future years, SFC intends to maintain an ordinary dividend payout ratio of at least 75%, subject to capital expenditure requirements, acquisition activity, liquidity and the availability of franking credits.

COMMENTS ON OPERATIONS

AUSTRALIAN LEATHER HOLDINGS (ALH)

ALH comprises the Howe automotive leather division and the Gosh furniture leather division.

ALH returned both lower revenue and lower earnings in the 2005 fiscal year:

- Revenue was $107 million (compared with $141 million in the previous period)
- Earnings before interest and tax (EBIT) was $8.6 million (down from $16.1 million).

ALH's EBIT of $8.6 million constituted 46% of Schaffer's earnings.

As we have advised several times throughout the last 12 months, political and market factors have adversely impacted sales and earnings at Howe:

- In South Africa, government subsidies to the local motor industry resulted in lower sales to that country
- In China, tight government restrictions on car loans resulted in a suspension of sales for much of the year
- In the United States, Japanese and Korean manufacturers have gained market share against Howe's American customers, resulting in reduced sales, cost cutting and overstocking
- The further strengthening of the Australian dollar against the US dollar to over US 75 cents negatively impacted Australian dollar earnings.

In anticipation of and in response to such changes in the market, your Company has taken and continues to take major steps to reposition the automotive leather business to secure its long-term international competitiveness.

One year ago, I confirmed Howe's plans with regard to lowering its cost base. The principal platform in this initiative was the establishment of cutting operations in Slovakia and China, where labour costs are lower than in Australia. Labour is a significant input cost for the cutting of automotive leather.

I am pleased to confirm that the Chinese and Slovakian cutting facilities have been commissioned and are operational. Both plants are similar to Howe's Mexican facility, which has operated successfully for nine years. The new cutting plants have strengthened Howe's competitive position and going forward will substantially improve its market presence throughout Europe and Asia, where growth is forecast to be at its strongest. I commend the management team for the speed and efficiency with which these facilities have been brought on stream.

Gosh, ALH's furniture leather division, operates in a fiercely competitive sector of the global market and continues to restructure in order to remain competitive.

BUILDING PRODUCTS

The Building Products division (UrbanStone and Delta Concrete) delivers niche solutions for the construction and landscaping markets.

In the 2005 financial year:

- Revenue was $28.9 million (a reduction of $5.8 million)
- EBIT was $2.9 million (down $1.3 million) and represented 27% of earnings.

The division's performance was adversely affected by the well publicised slowdown in building activity, which resulted in increased competition and margin compression, particularly in the New South Wales market.

The New South Wales market remains difficult but overall activity in the sector has been building strongly since late in the last quarter of the 2005 financial year, most notably in the Western Australian market.

INVESTMENTS

Over the past two financial years, your Company has sold down much of its investment property portfolio. That process has funded in large part the $14.7 million or $1.05 per share of fully franked special dividends paid to shareholders over that period.

In the 2005 financial year, investment property leasing operations contributed $1.8 million in EBIT and $0.9 million in cash. At the end of the financial year, SFC retained joint venture interests in six commercial and retail properties. The current value of the investment property portfolio is approximately $28 million. The investment property portfolio currently has $14.4 million of associated debt.

The Board has no present intention to divest additional investment properties. SFC will continue to review its exposure to the property sector and may consider further acquisitions should a suitable opportunity arise.

DIVESTMENTS

During the financial year, SFC made several divestments:

- A 51% interest in Solco Industries
- Surplus land adjacent to the Company's West Perth premises
- The balance of SFC's old quarry and land in Kurrajong NSW
- Certain residual equities.

These disposals collectively generated $1.5 million of EBIT and $2.8 million of net cash.

Your Company's 15% interest in the award winning Mindarie Keys Marina residential land subdivision north of Perth in Western Australia had a strong year, providing $1.7 million of EBIT and $0.9 million of cash. Over the next two to three financial years, SFC anticipates the Mindarie investment will generate at least another $2.0 million in EBIT and $3.0 million in cash.

OUTLOOK

Earnings

In August, SFC advised shareholders that it expected its earnings for the first half of the 2006 financial year would be materially lower than the NPAT of $6.0 million reported in the previous corresponding period. The expected decrease was due to a material reduction in earnings from ALH.

Based on group results from July to October 2005, SFC anticipates that first half profit will be around $3.5 million after tax. The expected result includes a $1.0 million one-off charge against group EBIT resulting from redundancies at ALH during this half year.

At an operational level at Howe, overcapacity in the industry is driving competition between suppliers, putting pressure on selling price and margin. However, steps taken at Howe to lower its cost base are flowing through as originally expected. Moreover, our move to Slovakia and China has provided Howe with a local presence and will strengthen Howe's European and Asian market position in the years ahead.

Despite the loss of BMW as a customer since the beginning of the 2006 financial year, Howe revenue is expected to be stable due to recommencement of sales into China and growth in European volumes. Howe also continues to aggressively pitch for additional business.

Volatility in the Australian dollar will influence future earnings. ALH's unhedged exposure to the US dollar and Euro exposes Howe's EBIT to variations of approximately 350,000 Australian dollars for each US cent or Eurocent, respectively, that the Australian currency rises or falls.

In the Building Products division, SFC expects first half revenue to be significantly above the $15.6 million reported for the previous corresponding period. A rebound in the commercial market and supply to infrastructure projects are the primary drivers of increased activity. Based on current revenue forecasts, EBIT will be significantly above the $2.4 million reported for the previous corresponding period.

The Building Products businesses have the capacity to increase turnover this financial year without further significant capital expenditure. SFC expects the division will improve return on capital and continue to provide strong free cash flow. The division remains on the lookout for opportunities to increase sales by extending product offerings through our existing UrbanStone distribution network.

The Board expects sustainable and improving earnings from its investment property leasing operations as a result of rent reviews and higher occupancy levels. Earnings from our interest in the Mindarie Keys Marina residential land subdivision will be minimal during the current half year as a result of low stock levels resulting from subdivision staging issues.

In respect of the full year, improved group earnings in the second half should partially offset the first half reduction. However, the Board expects full year earnings to be materially below the $9.2 million reported for the 2005 financial year.

Dividends

Based on our most recent first-half earnings forecast, the Board currently expects to declare an interim ordinary dividend of 25 cents per share fully franked, payable in March 2006.

PEOPLE

Before I close, I would like to take this opportunity to recognise the commitment, skill and professionalism of our group employees. SFC is currently operating in one of the toughest and most challenging set of market conditions experienced for many years. The commitment and dedication of our employees are fundamental to our ongoing success. I am confident that we have a core of management to see us safely and profitably through the challenges and opportunities that lay ahead.

Finally, I would like to thank you, our shareholders and providers of capital for your ongoing support. Despite the challenging conditions we face, the fundamentals of our business are strong and sustainable in the long term.

Yours sincerely

John Schaffer
Chairman
16 November 2005