

SCHAFFER CORPORATION LIMITED

2001 ANNUAL REPORT

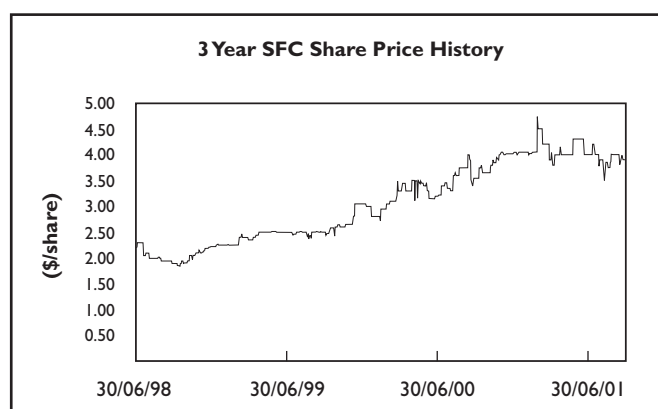


INVESTOR INFORMATION

Schaffer Corporation Limited is classified by the ASX as "Diversified Industrial" and is coded SFC.

LISTED SECURITIES

	FYE 2000	FYE 2001
Market Capitalisation (up 39%)	\$35.8m	\$49.7m
Shares on Issue at start of year	10,059,145	11,115,721
Shares Allotted (Bonus / Subs)	1,056,576	1,311,058
Shares bought back on market	0	(9,015)
Total Shares on Issue at FYE	11,115,721	12,417,764
No. of Shareholders	1,002	1,033



ANNUAL GENERAL MEETING

The 47th Annual General Meeting of Schaffer Corporation Limited will be held at the Pagoda Broadwater Hotel at 112 Melville Parade, Como, Western Australia on Wednesday 21st November 2001 at 11.30am.

DIRECT CREDIT OF DIVIDENDS

SFC provides shareholders with the option to have dividends paid electronically to a nominated Australian bank, building society or credit union account. Payments are credited electronically on the dividend date and confirmed by a payment advice by mail. Shareholders not already using this facility are encouraged to contact Computershare Investor Services Pty Limited who can arrange for an instruction advice to be sent to shareholders for completion.

CORPORATE TIMETABLE

Final Dividend Payment (9 cents fully franked)	26 June 2001
Preliminary Final Statement	23 August 2001
Despatch of Annual Report and Notice of Meeting	17 October 2001
Annual General Meeting and MD's Address	21 November 2001
Preliminary Half-year Statement	February 2002
Interim Dividend (to be advised)	April 2002



CHANGE OF ADDRESS / BANKING DETAILS

Shareholders who have changed their address or banking particulars should advise our share registry of their new details by writing to:

Computershare Investor Services Pty Limited
GPO Box D 182
Perth, WA 6840

CONTENTS AND CORPORATE DIRECTORY

TABLE OF CONTENTS

Managing Directors Report	1
Building Products	3
Leather	7
Property Investments.....	9
Property Projects	11
Financial Services.....	12
Corporate Governance Report.....	13
Financial Statements	16

DIRECTORY

Schaffer Corporation Limited ABN 73 008 675 689

The Board of Directors

Executive Directors

JM Schaffer B.Com.(Hons.), FCPA *Managing Director*

JB Abernethy B.Com.(Econ.), LLB

Non-Executive Directors

DE Blain BA

DJ Schwartz

KK Webster FCPA

Company Secretary

GV Davieson MA FCIS

Audit Committee

KK Webster *Chairman of the Committee*

JB Abernethy

DE Blain

DJ Schwartz

Head Office and Registered Office

1305 Hay Street

West Perth W.A. 6005

Telephone: 61 8 9483 1222

Facsimile: 61 8 9481 0439

E-mail: reception@schaffer.com.au

Website: www.schaffer.com.au

Share Registry

Computershare Investor Services Pty Limited

GPO Box D 182

Perth, WA 6840

Telephone: 61 8 9323 2000

Facsimile: 61 8 9323 2033

Auditors

Ernst and Young

Solicitors

Blake Dawson Waldron

Bankers

Challenge Bank (a division of Westpac Banking)

I am delighted to present the Schaffer Corporation Annual Report for 2001.

A record profit before tax of \$10.9m was achieved for the year. This represents a 2% increase on the previous year and we look forward to continuing growth in our businesses.

SFC is a diversified industrial company with a focus on creating shareholder value and maintaining a strong dividend yield for investors. Shareholder value flows from earning a return on capital in excess of our cost of capital. For the 12 months ending 30 June 2001, Group interests earned an EBIT of \$16 million on \$100.0 million of capital employed representing a return of 16%. We will continue to focus on returns within the core business divisions of:

- **Building Products**
- **Leather**
- **Property Investment**
- **Financial Services**

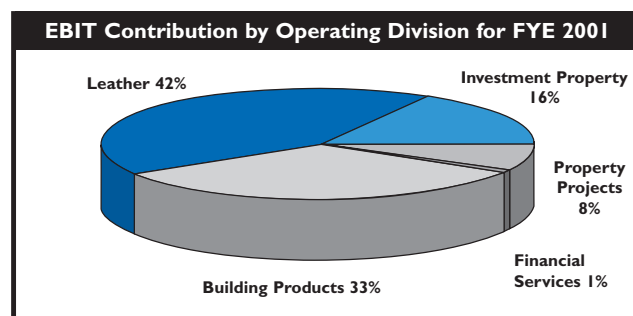
Our diversified earnings stream reduces volatility and provides a range of growth opportunities. We have built a dedicated management team on which our future success is based. On behalf of the Board I thank them all for their commitment and performance.

DIVIDENDS

Dividends paid for the year totalled 27 cents per share. This represents a dividend yield of approximately 6.75% (based on a share price of \$4.00) and a payout ratio of 42% of after tax earnings. In addition shareholders received a 1:10 bonus share issue in September 2000. The franking account balance as at 30 June 2001 was \$6.3 million.

DIVERSIFIED BUSINESS PORTFOLIO

The contribution to Group earnings made by each of our operating divisions is illustrated graphically:



The Building Products division comprises UrbanStone paving, Delta concrete and Solco hot water systems. UrbanStone continues its nationwide expansion based on matching exceptional service with premium products. The range of Deltacore products is achieving strong support as evidenced by the increasing level of product specification in commercial projects. The Solartech Genius water heater was recently launched in Perth. This business has the potential for significant growth in parallel with the increasing worldwide focus on renewable energy.

Our investment in leather manufacturing has again generated sound returns. The automotive leather business which operates under the Howe brand is a global business generating over 90% of its sales offshore - 50% in the US, 30% in Europe and 10% in Asia. Importantly the automotive leather components business operates with no government subsidies. The current operating returns are based on business fundamentals and evidence Howe's status as a world low-cost producer. This business has significant opportunity for growth and should continue to underpin future earnings for the Group.

Schaffer has \$5.2 million invested in long term high yielding property investment. This division has relatively high gearing levels and an increasing proportion of non-recourse funding. Our investment property division is seen as providing relatively low risk earnings with an acceptable return on capital and the potential for significant capital gains.

The Financial Services division comprises Loftus Capital, Loftus Corporate and a small equity investment portfolio. Loftus Capital has approximately \$30m under management in a range of funds. Loftus Corporate provides specialised

corporate consulting in the areas of capital raisings, research reports and valuations.

Since 1994, our numerous Property Project joint ventures have contributed positively to earnings. The current Mindarie Keys and Majestic Quay projects are tracking similarly. However, by their nature Property Projects generate no, or negative earnings for the majority of their financial life cycle. It is generally not until the end of each project's life cycle that there is a positive earnings and cash flow spike. Our objective going forward is to focus on businesses which will provide recurring earnings. For this reason, it is not our intention to allocate further capital to these one-off type of projects.

FINANCIAL POSITION

SFC continues to improve its financial position. Profitability is sustainable and cash flow is strong. Importantly debt is increasingly non-recourse to the parent entity, significantly reducing the level of financial risk to the Group. Of the total debt of \$33 million, \$12 million is non-recourse.

TECHNOLOGY

There will be an increased emphasis on technology and in particular management information systems to assist in business decision making. The use of technology to improve business efficiency will remain a core objective of the Group.

PEOPLE

The Schaffer Group (including ALH) now has a total Australian workforce of about 800 people and 230 people employed overseas. Our people have already achieved a great deal and are the key to our future successes.

30 employees acquired shares in SFC at a price of \$3.60 throughout the year. SFC currently has a modest Employee Share Option Plan and we will endeavour to further align executive objectives with shareholder values through the use of appropriate incentive schemes.



RECENT DEVELOPMENTS

I am delighted to advise that SFC has entered into arrangements to increase our holding in ALH from 42% to 83%. SFC will pay \$5.9m to the retiring shareholders for their ordinary shares. ALH will pay \$6.5m to existing shareholders under a proposed preference share buyback of which SFC will receive \$2.5m. The net funding requirement for SFC is therefore \$3.4m of which \$1.4m is deferred for 12 months. The acquisition will increase SFC's ownership of ALH to 83% with the balance being held by ALH management. The purchase by SFC of the majority of the ALH shares is conditional on ALH buying back all of the outstanding preference shares for \$6.5 million, which is in turn conditional upon the approval of ALH senior lenders and shareholders.

The ALH acquisition will be earnings per share positive for SFC and cements our position as a significant industrial company with controlling interests in a balanced mix of high quality businesses.

OUTLOOK

Generally difficult economic conditions will constrain potential earnings however our businesses primarily operate in defensible niches. We therefore expect to maintain our recent history of above average returns.

On the basis of SFC's most recent corporate plan, I am confident that the company's profits can continue to grow in the years ahead.

A more detailed description of the Group's activities is contained in the following pages.

John Schaffer
 Managing Director

Our Building Products division consists of UrbanStone Pty Ltd, Delta Corporation Limited and Solco Industries Pty Ltd.

URBANSTONE PTY LTD

www.urbanstone.com.au

Despite deterioration in market conditions post the introduction of the GST, UrbanStone delivered another strong result for the FYE2001. UrbanStone's focus remains firmly on customer service, product quality and innovation, factors which will keep the UrbanStone brand at the forefront of customer's minds.



Reef Paving - leading the market.



Value added honed commercial paving.

At the production level, modified moulding techniques have improved product quality. Machinery providing additional capacity has enabled greater flexibility and efficiencies. UrbanStone's ongoing objective with these product quality improvements is to reset the quality benchmark and provide increased service to our customers.



Honed Dual Colour Bullnosing - a commercial specialty.

Architects and Designers continue to embrace the UrbanStone product range, specifying our many and varied sizes, shapes and finishes, for both residential and commercial applications.



Residential Paving - sets the scene.

UrbanStone is leading the way with innovation in both Residential and Commercial markets and its national sales expansion program is progressing well with strong representation in all states.

UrbanStone has featured in many prominent developments over the past year including Perth's Bell Tower project, WA's Mormon Temple and the City of Perth's Aberdeen Street upgrade.

Nationally, UrbanStone has also been featured this year at the continuation of Port Stephens and Burwood City's streetscape programme in New South Wales, the New Zealand War Memorial and Airport upgrade in Canberra, South Australia's Centre for Visual and Performing Arts, The Convention Centre, and Jimmy Melrose Park at Glenelg, Victoria's Federation Square, Geelong Mall, Stage one of the Docklands Precinct Project, Queensland's QUT Bridge Link, the City of Toowoomba main Streetscape, Shield St Cairns, upgrade Stage 3 and the Town of Nambour Streetscape to mentioned but a few.



Radius Bullnoses - detailed to perfection.

DELTA CORPORATION LTD

www.deltacorp.com.au

Delta had a slow start to the year, but continuing sales momentum provides a strong business outlook. Revenues flowed from our marketing focus on the Deltacore range of products.

In order to meet current and future demands, Delta has embarked on a major upgrade of its production facilities and product range.

In future we can provide the building industry Deltacore floor panels in thicknesses of 150mm to 400mm capable of spanning 18 metres. This product has already been specified in a number of large commercial projects.

Other exciting developments include our entry into prestressed Super Tee bridge beam production. Delta now has the capacity to produce beams up to 38 metres long by 1.5 metres high weighing up to 70 tonnes.



Upper East Side Apartments - East Perth.



Commercial Projects

Major projects undertaken during the year:

- Panorama Apartments, Perth.
- Upper East Side Apartments, East Perth.
- The Box Apartments, Perth.
- Myer Megamart, Perth.
- Subiaco Square, Subiaco.
- Garden Office Park, Osborne Park.
- 166 Murray Street, Perth.
- Curtin University, Bentley.
- Colin Street Offices, West Perth.
- St Ignatius College, Adelaide.
- Riverbank Promenade, Adelaide.
- St Thomas School, Adelaide.
- Seacliffe Hotel Carpark, Adelaide.



Myer MegaMart - Perth.



Riverbank - South Australia.



Narrows Bridge duplication - Perth.

Infrastructure Projects

- Narrows Bridge Duplication - Soffit Panels.
- Kwinana Freeway South Extensions - Parapets.
- Northam Bypass - Super Tee Beams.
- Hamersley Iron, West Angelas and Mt Newman - Turnouts.
- Roe Highway Extensions - Noise Walls.
- Bulk West Grain Storage Cells, Wyalkatchem.

Residential Housing

This sector of the market continues to grow and with our professional approach with the Deltacore Double Strength Flooring System, Delta will continue to gain acceptance in the housing industry.

We have completed a large number of double storey houses and units during the year.

Some of the larger projects include:

- Lakeside Apartments, Joondalup.
- Shoalwater Units, Safety Bay.
- Ningaloo Back Packers, Coral Bay.



Panorama Apartments - Perth.

SOLCO INDUSTRIES PTY LTD
(51% Interest)

Solco has designed and developed a world patented polymer based solar hot water system.

It also manufactures its own plastic process rotational moulding equipment which moulds the solar unit and a wide range of large commercial plastic products for licensees in selected overseas countries.

Solco has continued to develop its range of solar units and continues to build on the success it achieved last year with the release of the Solartech Genius solar units in the South West of W.A.

In April this year, Solco opened a second showroom and commenced a wide scale television and newspaper campaign to release the solar units onto the Perth metropolitan retail market.



The 200 litre Solartech Genius - Mobile Promotional Display Unit.

The Solartech Genius solar unit which is priced at around the same level as a storage gas hot water system has a number of advantages over traditional storage hot water systems. The solar unit is impervious to corrosion, varying water qualities, is unaffected by frost conditions and comes with a 10 year warranty.

Renewable energy products are receiving Federal Government endorsements with particular emphasis being placed on solar hot water systems.

Renewable Energy Certificates (R.E.C.) are issued to consumers who replace an electric hot water unit with an accredited solar hot water system. These certificates have a significant monetary value and can be traded to power generation companies as part of their Greenhouse gas reduction requirements.

The Solartech Genius solar units have completed their independent certification and testing program conducted by Murdoch University and are in the process of final qualification for the REC.

This should result in significant reductions in the selling price of the Solartech Genius solar units and provide further impetus to the national release of these solar units.

POLY TUFF (WA) PTY LTD

Poly Tuff is a wholly owned subsidiary of Solco and is the Australian manufacturer of the solar hot water system.

To cater for the expected uplift in demand for the Solartech Genius range of products, Poly Tuff has increased its production capabilities by the extension of its manufacturing facility to a 3,800m² custom built factory.

This new building incorporates the new computer driven rotational moulding ovens needed to produce the components of the solar units.

A widely expanded polyurethane foaming and assembly section has also been incorporated and gives the Poly Tuff enough capacity to keep pace with the expected consumer demand.

AUSTRALIAN LEATHER HOLDINGS LIMITED

ALH achieved another strong operating result with an EBIT of \$14.5m primarily driven by the Automotive Division. Net Profit after tax was \$8.8 million after booking non-recurring expenses of \$2.9 million due to the closure of the Darkan facility and its subsequent sale. SFC equity accounted \$4.3 million of ALH's final result (based on our weighted average interest for the year of 48.9%).



AUTOMOTIVE COMPONENTS - HOWE

(www.howe.com.au)

Howe is a world class manufacturer of high performance leather for the automotive industry and is ranked 7th in the world by size. Over 90% of production is exported with approximately 50% destined for the US automotive market.

Howe is a world low cost automotive leather producer based on:

- Access to good quality local raw material (Australia has the 4th largest cattle herd in the world);
- Modern, global scale manufacturing facilities;
- Highly skilled workforce;
- Established customer base and distribution network;
- Access to advanced process technologies.

Howe is a major leather supplier for BMW's 3, 5 and 7 series of vehicles.

The automotive leather market is characterised by significant barriers to entry arising from:

- Exacting quality standards;
- High knowledge requirements due to variation associated with natural products;
- Long customer approval cycle.



Entry to the global automotive components industry required Howe to overcome not only the above barriers but also competitor reaction via the World Trade Organisation challenges to Australian subsidies. Howe has successfully overcome all obstacles and is well positioned to build a sustainable and profitable global business.

FURNITURE LEATHER - GOSH (www.goshleather.com.au)

Gosh Leather remains Australia's premium furniture leather brand. However the domestic market is increasingly losing ground to cheaper imported furniture products. Accordingly Gosh export sales have increased significantly as a percentage of total sales. Gosh Leather is focussed on becoming a global supplier of premium furniture leather.



Leather by Gosh. Furniture by Molmic.

Gosh Leather, as part of the ALH group, has the ability to purchase raw materials at globally competitive prices and has exposure to the latest technologies available in the industry. These factors combined with a global brand should allow Gosh to remain profitable in this highly competitive sector of the leather market.



PROPERTY INVESTMENTS

In December 1995, SFC acquired a joint venture interest in the IBM Centre in West Perth. Since then SFC, with its joint venture partners has grown the portfolio to 13 investment properties, 6 commercial and 7 retail. Our Investment Property portfolio now represents a substantial operating business within the group as a generator of recurring income and cash flow.



THE IBM CENTRE.
(Hay St, West Perth).
Interest - 22.1%.

Typically we acquire up to a 25% interest in each property in association with a group of experienced local property specialists. Our philosophy is simple. We look to acquire prestigious properties at well below their replacement value, generally when the property has a significant vacancy level. Where necessary, we refurbish each property to enhance its appearance and marketability, increase its occupancy, cash flow and ultimately its value. Indeed, when we first acquired most of these properties, many of them had high vacancy rates. Today, they are mostly fully let, with long term leases that provide for rent review increases in the years ahead.



OCE HOUSE.
(St. Kilda Rd, Melbourne).
Interest - 20%.

The syndication philosophy has enabled us to adopt a portfolio approach that we believe reduces our risk profile by giving a wider spread of properties and tenants. In addition, by pooling our resources with those of our syndicate partners, we are able to acquire significantly larger properties than if acting alone.

The total Investment Property portfolio is currently valued at approximately \$195 million, of which our share equates to \$34.9 million. The properties are typically geared at between 50% and 70%, and as a portfolio the gearing average is 60%. Our share of the portfolio debt is \$21.4 million. However, only \$9.4 million of this debt is recourse to Schaffer. The remaining \$12 million is structured as non-recourse debt and is secured by the individual properties. Based on the portfolios current valuation, our equity (including unrealised gains) is valued at approximately \$13.4m million (compared to actual equity invested of \$5.2 million).



607 BOURKE STREET.
(Melbourne).
Interest - 12.1%.



GHD HOUSE.
 (Adelaide Tce, Perth).
 Interest - 18%.



ZURICH HOUSE.
 (71 Queens Rd, Melbourne).
 Interest - 9%.



PERPETUAL TRUSTEES.
 (St George's Tce, Perth).
 Interest - 20%.



SOUTH HEDLAND SHOPPING CENTRE.
 (South Hedland, WA).
 Interest - 18.75%.



HOMETOWN.
 (Albany Hwy, Cannington).
 Interest - 25%.



GATEWAY CENTRAL.
 (Scarborough Beach Rd, Osborne Park).
 Interest - 25%.



THE GLEDDEN BUILDING.
 Mall and basement strata's
 (Hay St Mall, Perth).
 Interest - 22.1%.



HARDWAREHOUSE.
 (Scarborough Beach Road, Innaloo).
 Interest - 6.5%.



401 GREAT EASTERN HIGHWAY.
 (Midland).
 Interest - 25%.



CROSSLANDS SHOPPING CENTRE.
 (Bunbury, WA).
 Interest - 16.7%.

PROPERTY PROJECTS

Developments

Under the management of the Mirvac Fini Group and in conjunction with several local property developers, SFC has a 25% financial interest in the Majestic Quay residential development on the south cove of Claisebrook Inlet in East Perth. Construction of Stage I was completed in October 2001 with settlements scheduled to begin soon after. The development has sold steadily and has a wide selection of luxury apartments still available.

Subdivisions and Property Holdings

SFC currently has interests in three property subdivisions. In NSW we have two wholly owned properties, the Southwind Industrial Estate (Windsor) and the Kurrajong Quarry and surrounding land (Kurrajong). Land sales at the Windsor subdivision are steady and are likely to provide good returns and cash flow over the next two years. The Kurrajong land is being readied for subdivision and sale. Our 15% interest in the Mindarie Keys residential subdivision had another strong year. We also anticipate further contributions from Mindarie over the next two years. In addition, SFC also owns its head office in Hay St, West Perth.

Due to the irregular nature of the earnings from these projects, it is not intended that additional capital will be allocated to this operating division.



The marina at Mindarie is just one of the lifestyle features attracting home owners to this prize-winning subdivision.

FINANCIAL SERVICES

LOFTUS CAPITAL PTY. LTD.

www.loftuscap.com.au

Loftus Capital Pty Limited ("Loftus") is a wholly owned subsidiary of SFC. Loftus has two core operating divisions: Private Capital Management and Corporate Consulting Services.



Private Equity Management

During the year Loftus increased its funds under management towards \$30 million. In December 2000 Loftus Pooled Development Limited listed on the Australian Stock Exchange following a \$7 million capital raising. At the time of writing the Fund is valued on the market at about \$14 million which is a substantial discount to its underlying net asset backing.

Loftus has focused on Pooled Development Fund structures because of the significant tax savings granted to investors. However, these returns are achieved over a medium term time horizon as the Fund invests patient capital in small companies.

Loftus manages a range of other unlisted funds, and derives management fees and incentive options under its management agreements with these funds. The intention in the next twelve months is to create an investment vehicle for investing in listed small companies outside the Pooled Development structure.

Corporate Consulting Services

Loftus has developed extensive contacts in capital markets and throughout industry in general. In the last twelve months our consulting team has advised on company sales transactions and given valuation advice to corporates. Further, we have developed the capabilities of generating independent research on listed companies which various stockbrokers and corporates have been able to market.

By remaining independent and focused on quality production, Loftus Corporate Pty. Ltd. intends to forge a niche in independent research with a focus on the financial services and insurance industries.

EQUITY PORTFOLIO

SFC currently holds a range of listed and unlisted securities. At 30 June 2001, the portfolio was valued at approximately \$3.5 million. Since then we have sold the portfolio down to under \$2.8 million. Our strategy is to maintain a modest equity portfolio of liquid and longer-term investments.



The SFC Board of Directors - L to R - Kel Webster, John Abernethy, John Schaffer, David Schwartz and Danielle Blain

Introduction

A growing area of interest to shareholders, potential shareholders and analysts alike is the set of non-financial disciplines applied within the Company. For this reason, we are pleased to include a special report on the main Corporate Governance practices in place within SFC. The purpose of this report is to make transparent to shareholders, investors and the public the self-imposed values and principles applied to our activities by the Company and the Board.

Board Structure and Role

The Company's Constitution requires the number of Directors be not less than three and not more than ten. SFC has a five-member Board. The Board has three Non-Executive Directors and two Executive Directors (including the Managing Director) who bring to the Board an appropriate range of qualifications and experience.

The Board's principal responsibility is to ensure that SFC is managed in a way which protects and enhances the interests of its shareholders, a responsibility it undertakes whilst being cognisant of the interests of employees, customers, suppliers, financiers and the communities in which it operates. The Board defines

the Company's strategic direction, establishes goals and monitors management's progress towards them. The Managing Director is responsible to the Board for the day-to-day management of the Company. The Board monitors standards of performance and risk management strategies, and acts as a key reference point in matters of planning and policy. The SFC Board has at least ten scheduled meetings (annually) to discuss financial and operating results and to review strategies going forward. The Board also meets as necessary to discuss individual project based items or issues which management assess as falling within the requirements of continuous disclosure regime.

Continuous Disclosure

The Board has nominated the Company Secretary as the senior Company Officer responsible for communicating matters falling within the continuous disclosure regime to the ASX and shareholders. Collectively, the Managing Director, Chief Financial Officer and Company Secretary constitutes the executive team charged with managing all corporate elements of the Company's activities. They confer when a matter comes to their attention that may trigger a requirement for disclosure.

When the executive team consider a matter may require disclosure, a recommendation and draft announcement is put to the Board as a matter of priority for their consideration. In addition, Continuous Disclosure appears as a standing item at monthly Board meetings.

Trading in Securities by Directors

Under the provisions of the Company's Constitution, Directors are not required to hold shares in the Company. All Directors are, however, currently shareholders. The Company has adopted a policy which regulates the trading by Directors of the Company's securities.

The restrictions imposed by law on dealings by Directors in the securities of the Company have been supplemented by the Board adopting a policy which further limits any dealings in the Company's securities by Directors. This policy provides that in addition to Directors being prohibited from trading in the Company's securities when they possess any unpublished price sensitive information, Directors may buy or sell the Company's securities only within certain windows or when special requests to buy or sell are approved by the Managing Director or the Board.

The periods within which a Director may buy or sell the Company's securities without the Managing Director's or the Board's approval are from 24 hours to 4 weeks after the Company has announced its results for the half year, its preliminary final year result, and the Managing Director's Address to the AGM. Directors

are prohibited from trading in the 4 week period prior to a scheduled announcement. At all other times, or if there is any overlap between prohibited and permitted trading windows, a Director who wishes to trade is required to advise the Managing Director and receive acknowledgement from the Managing Director prior to entering into any dealing in the Company's securities. Where the Managing Director proposes to deal in the Company's securities, the Managing Director must advise the Board of Directors and receive the acknowledgement of the Board prior to entering into any dealing in securities.

The policy also requires that Directors do not buy or sell the Company's securities on a short-term basis.

Board Appointed Committees

Committees are established to assist the Board in performing its duties. The Board is free to form and disband committees as it sees fit.

Audit Committee

The Audit Committee is comprised of an Executive Director (Mr Abernethy) and three Non-Executive Directors (Mrs Blain, Mr Schwartz and Mr Webster). The Audit Committee's role is to:

- Review the Company's Annual Report and ensure the reliability of the financial information presented and compliance with current laws, relevant regulations and accounting standards;
- Monitor compliance of the accounting records and procedures in conjunction with the Company's Auditor on matters overseen by the ASIC, ASX and ATO;
- Review internal controls and recommend enhancements;
- Review audit reports and management letters to ensure prompt action is taken by management; and
- Nominate the external auditor and review the adequacy of the scope and quality of the annual statutory audit and half-year review.

The Group Chief Accountant, Chief Financial Officer and the external Audit Partner also attend Audit Committee meetings by invitation.



SCHAFFER CORPORATION LIMITED - ACN 008 675 689

SCHAFFER CORPORATION LIMITED

FINANCIAL REPORT AND STATUTORY INFORMATION

AS AT 30 JUNE 2001

CONTENTS

Statement of Financial Position	2
Statement of Financial Performance	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 20
Directors' Declaration	21
Independent Audit Report	21
Directors' Statutory Report	22 - 23
ASX Additional Information	24

SCHAFFER CORPORATION

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2001

	Notes	CONSOLIDATED		CHIEF ENTITY	
		2001 \$000	2000 \$000	2001 \$000	2000 \$000
CURRENT ASSETS					
Cash assets		2,272	2,323	567	709
Receivables	8	8,408	6,215	4,164	2,621
Inventories	9	11,464	10,576	4,659	3,069
Other financial assets	10	2,910	2,231	2,519	1,879
Other	11	513	335	123	110
TOTAL CURRENT ASSETS		25,567	21,680	12,032	8,388
NON-CURRENT ASSETS					
Receivables	12	-	-	4,915	2,951
Investments	13	11,588	13,639	11,087	13,639
Other financial assets	14	20,594	17,620	13,303	13,196
Property, plant and equipment	15	24,195	23,684	8,510	8,450
Deferred tax assets	6	871	1,624	86	185
Intangible assets	16	166	171	-	-
TOTAL NON-CURRENT ASSETS		57,414	56,738	37,901	38,421
TOTAL ASSETS		82,981	78,418	49,933	46,809
CURRENT LIABILITIES					
Payables	17	6,750	7,877	1,052	1,334
Interest bearing liabilities	18	1,674	924	45	71
Current tax liabilities	6	1,343	2,211	-	-
Provisions	19	1,134	1,858	-	829
TOTAL CURRENT LIABILITIES		10,901	12,870	1,097	2,234
NON-CURRENT LIABILITIES					
Interest bearing liabilities	20	31,569	27,854	14,713	18,027
Deferred tax liabilities	6	1,817	1,989	454	261
Provisions	21	418	332	162	139
TOTAL NON-CURRENT LIABILITIES		33,804	30,175	15,329	18,427
TOTAL LIABILITIES		44,705	43,045	16,426	20,661
NET ASSETS		38,276	35,373	33,507	26,148
EQUITY					
Parent entity interest					
Contributed equity	22	7,797	7,335	6,849	6,387
Reserves	23	-	2,585	-	2,283
Retained profits	23	30,479	25,453	26,658	17,478
TOTAL EQUITY		38,276	35,373	33,507	26,148

The statement of financial position should be read in conjunction with the accompanying notes.

SCHAFFER CORPORATION



STATEMENT OF FINANCIAL PERFORMANCE

YEAR ENDED 30 JUNE 2001

	Notes	CONSOLIDATED		CHIEF ENTITY	
		2001 \$000	2000 \$000	2001 \$000	2000 \$000
REVENUE FROM ORDINARY ACTIVITIES	3	46,899	56,677	17,732	13,183
Cost of sales-manufactured goods and property	4	(21,235)	(26,469)	(2,731)	(1,275)
Cost of sales-equity securities	4	(1,623)	(6,917)	(1,464)	(6,457)
Depreciation and amortisation expense	4	(1,820)	(2,139)	(236)	(170)
Borrowing costs expense	4	(2,450)	(2,089)	(1,320)	(1,318)
Salaries, wages and on costs		(4,974)	(4,380)	(1,305)	(1,094)
Other expenses from ordinary activities		(8,230)	(8,798)	(487)	(1,008)
Reversal of diminution in value of investments	4	-	-	341	4,989
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	3	4,352	4,810	-	-
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		10,919	10,695	10,530	6,850
Income tax expense relating to ordinary activities	6	2,917	1,978	293	177
NET PROFIT ATTRIBUTABLE TO MEMBERS OF SCHAFFER CORPORATION LIMITED		8,002	8,717	10,237	6,673
Net decrease in asset revaluation reserve	23	2,585	-	2,283	-
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF SCHAFFER CORPORATION LIMITED AND RECOGNISED DIRECTLY IN EQUITY		-	-	-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		10,587	8,717	12,520	6,673
Basic earnings per share		64.4	71.0		
Diluted earnings per share		63.5	70.7		
Franked dividends per share		27.0	13.25		
Unfranked dividends per share		-	-		

The statement of financial performance should be read in conjunction with the accompanying notes.

SCHAFFER CORPORATION



STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2001

	Notes	CONSOLIDATED		CHIEF ENTITY	
		2001 \$000	2000 \$000	2001 \$000	2000 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		44,091	49,371	3,401	3,024
Payments to suppliers and employees		(38,713)	(36,484)	(6,034)	(4,605)
Purchase of equity securities		(2,432)	(7,884)	(2,304)	(7,185)
Proceeds on sale of equity securities		1,698	7,821	1,614	7,139
Dividends received from associate		1,289	-	-	-
Capital reduction by associated company		2,941	-	2,941	-
Dividends received		112	75	1,401	75
Other revenue		1,783	811	189	234
Interest income		112	76	26	405
Borrowing costs paid		(2,423)	(2,009)	(1,099)	(963)
Income taxes paid		(3,163)	(1,552)	-	-
Goods and services tax recovered/(paid)		(699)	-	280	-
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	5b	4,596	10,225	415	(1,876)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		(2,320)	(3,482)	(420)	(864)
Proceeds on sale of non-current assets		228	670	106	265
Receipts from controlled entities		-	-	1,592	9,967
Received from/(advances to) other debtors		2	(39)	141	152
Purchase of shares in controlled entities		-	-	(100)	-
Deposit refunded		(95)	(9)	(35)	(10)
Shares acquired in associated entity		(48)	-	(48)	-
Goodwill acquired		-	(84)	-	-
Joint venture property investments acquired		(2,974)	(6,039)	(6)	(4,298)
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		(5,207)	(8,983)	1,230	5,212
CASH FLOWS FROM FINANCING ACTIVITIES					
Finance lease principal payments		(275)	(376)	(71)	(135)
Shares acquired under share buy back scheme		(35)	-	(35)	-
Repayment of commercial bills		(1,000)	(4,300)	(1,000)	(3,800)
Dividends paid		(4,169)	(1,930)	(4,169)	(1,930)
Proceeds from share issue		497	-	497	-
Proceeds from loans advanced		5,553	5,551	2,989	3,110
NET CASH FLOWS FROM(USED IN) FINANCING ACTIVITIES		571	(1,055)	(1,789)	(2,755)
NET (DECREASE)/INCREASE IN CASH HELD		(40)	187	(144)	581
Add opening cash brought forward		2,310	2,123	709	128
CLOSING CASH CARRIED FORWARD	5a	2,270	2,310	565	709

The statement of cash flows should be read in conjunction with the accompanying notes.

NOTE 1 CORPORATE INFORMATION

Schaffer Corporation Limited is a company limited by shares that is incorporated and domiciled in Australia. Schaffer Corporation Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

The registered office of Schaffer Corporation Limited is located at:

**1305 Hay Street West Perth
Western Australia 6005**

During the year, the principal activities of Schaffer Corporation Limited and its controlled entities were:

- manufacture of precast concrete elements and paving
- manufacture of solar hot water systems
- commercial property investment
- investment in joint venture property development
- investment in other corporations and share trading

The consolidated entity employed 155 employees at 30 June 2001 (2000 - 176 employees)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have been complied with. The financial statements have been prepared in accordance with the historical cost convention.

Change in accounting policies

The accounting policies adopted are consistent with those of the previous year except for the accounting policies with respect to revaluation of non-current assets.

The consolidated entity has adopted Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" and the revised AASB 1010 "Recoverable amount of Non-Current Assets". Under the transitional provisions of these standards, the directors have made the following decisions: Freehold land, freehold quarries, buildings on freehold land and plant and equipment which were previously measured at revalued amounts, will be carried at their deemed cost being the carrying value of the assets at the beginning of the period.

Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Schaffer Corporation Limited (the parent entity) and all entities which Schaffer Corporation Limited controlled from time to time during the year and at balance date. Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value. For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred. Receivables from related parties are recognised and carried at the nominal amount due less a provision for any uncollectable debts. Interest is taken up as income on an accrual basis.

Property, plant and equipment

Cost and valuation

Freehold land, freehold quarries, buildings on freehold land and plant and equipment which were previously measured at revalued amounts, will be carried at their deemed cost being the carrying value of the assets at the beginning of the period.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land and quarries, at rates calculated to allocate the cost or valuation less estimated residual value at the end of the useful lives of the assets against revenue over those estimated useful lives. Major depreciation periods are:

	2001	2000
Freehold buildings	40 years	40 years
Leasehold improvements	the lease term	the lease term
Plant and equipment	5 to 15 years	5 to 15 years

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of improvements, whichever is the shorter.

Inventories

Manufacturing and maintenance

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials - purchase cost on a first-in first-out basis; and
- Finished goods and work-in-progress - cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Construction contracts - Construction work-in-progress is stated at cost plus profit recognised to date less progress billings. Cost includes all costs directly related to specific contracts, and an allocation of overhead costs attributable to contract activity in general. Property held for resale - property purchased for development and resale is valued at the lower of cost and net realisable value. Interest and other holding charges are capitalised until the properties are brought to a marketable condition.

Intangibles

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity. Goodwill is amortised by the straight line method over the period during which benefits are expected to be received. This is taken as being 20 years.

Licences

Licences are initially brought to account at the cost of acquisition and are amortised over their useful lives. This is taken as being five years. Where the expected benefit of the licences are no longer expected to be received the amounts are written off.

Recoverable amount

Non-current assets are not revalued to an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amounts the expected net cash flows have not been discounted to their present value.

Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Loans and borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues. Bills of exchange and promissory notes are carried at the principal amount. Finance lease liability is determined in accordance with the requirements of AASB 1008: "Leases".

Provisions

Dividends payable are recognised when a legal obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Control of the goods has passed to the buyer.

Rendering of services

Where the contract outcome can be reliably measured, control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Interest

Control of a right to receive the interest payment.

Dividends

Control of a right to receive the dividend payment.

Precast concrete manufacture

The consolidated entity recognises revenue on the percentage of completion method. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. If in any period, total estimated costs for a contract exceed total estimated revenue, the resultant loss is brought to account in that period.

Joint venture

Interests in joint ventures are brought to account by including in the respective classifications, the share of individual assets employed, liabilities, expenses incurred and revenue earned.

Investments

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report and the lower of cost and recoverable amount in Schaffer Corporation Limited's financial report. All other listed investments or other non-current investments are carried at the lower of cost and recoverable amount.

Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised. Where assets are revalued no provision for potential capital gains tax has been made. The income tax expense for the year is calculated using the 34% tax rate, however the deferred tax balances have been adjusted for the decreased corporate tax rate of 30% for the tax year 2001-02 and thereafter. The adjustment recognises that reversal of timing differences will occur within the 2001-02 or later income tax year, at which time tax will be attributed at a lower rate. The corresponding adjustment has been charged to income tax expense.

Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee entitlements expected to be settled within twelve months of the



NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used. Employee entitlements expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee entitlements are charged against profits on a net basis in their respective categories.

In respect of the consolidated entity's accumulated benefits superannuation plans, any contributions made to the superannuation funds by entities within the consolidated entity are charged against profits when due.

The value of the employee share scheme described in note 26(e) is not being charged as an employee entitlement expense.

Earnings per share

Basic earnings per share is determined by dividing the operating profit from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share is determined by dividing the profit from ordinary activities after related income tax expense and after preference dividends adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.

NOTE 3	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
REVENUE FROM	\$000	\$000	\$000	\$000
ORDINARY ACTIVITIES				
Revenue from operating activities				
Revenue from the sale of goods and from property	38,392	43,569	3,178	1,523
Revenue from sale of equity securities	1,698	7,821	1,614	7,139
Revenue from services	773	304	-	-
Rent received from				
- controlled entities	-	-	232	146
- other persons/corporations	4,574	3,655	1,731	1,208
Other	1,010	462	113	118
Total revenues from operating activities	46,447	55,811	6,868	10,134
Revenues from outside the operating activities				
Interest received from:				
- other persons/corporations	112	76	26	21
- controlled entities	-	-	190	384
Total interest	112	76	216	405
Royalties received from:				
- other persons/corporations	-	45	-	45
Dividends received from:				
- controlled entities	-	-	9,141	2,259
- associated entities	-	-	1,289	-
- other corporations	112	75	112	75
Total dividends	112	75	10,542	2,334
Proceeds on sale of non-current assets	228	670	106	265
Total revenues from outside the operating activities	452	866	10,864	3,049
Total revenues from ordinary activities	46,899	56,677	17,732	13,183
Share of net profit of associates accounted for using the equity method	4,352	4,810	-	-

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000

NOTE 4

EXPENSES AND LOSSES (GAINS)

(a) Expenses

Cost of sales-manufactured goods and property	21,235	26,469	2,731	1,275
Cost of sales - equity securities	1,623	6,917	1,464	6,457
Bad debts written off				
- trade debtors	106	107	-	-
- other debtors	601	-	601	-
Provision for doubtful debts				
- trade debtors	(129)	222	-	-
- other debtors	(601)	241	(601)	241
Bad debts recovered				
- trade debtors	(15)	1	-	1
Total bad and doubtful debts	(38)	571	-	242

Depreciation of non-current assets

Buildings	161	151	10	10
Leasehold improvements	72	295	-	-
Plant and equipment	1,376	1,385	210	141
Total depreciation of non-current assets	1,609	1,831	220	151

Amortisation of non-current assets

Goodwill	6	97	-	-
Licences	-	4	-	-
Plant and equipment under lease	205	207	16	19
Total amortisation of non-current assets	211	308	16	19

Total depreciation and amortisation expenses

	1,820	2,139	236	170
--	--------------	-------	------------	-----

Borrowing costs expensed

Interest expense				
- other persons	2,206	1,814	1,099	963
- directors of the entity	31	22	-	-
- controlled entities	-	-	213	289
Total interest expense	2,237	1,836	1,312	1,252

Finance charges

- lease liability	186	173	-	-
- other	27	80	8	66

Total other borrowing costs

	213	253	8	66
--	------------	-----	----------	----

Total borrowing costs

	2,450	2,089	1,320	1,318
--	--------------	-------	--------------	-------

Rental on operating leases -

minimum lease payments	915	631	-	-
------------------------	------------	-----	---	---

Provision for/(reversal of)

employee entitlements	146	267	-	(354)
-----------------------	------------	-----	---	-------

Reversal of diminution in value

of investments	-	-	(341)	(4,989)
----------------	---	---	--------------	---------

Provision for/non-recovery of loans

to controlled entities	-	-	331	378
------------------------	---	---	------------	-----

(b) Losses/(Gains)

(Gains)/losses on sale of

non-current assets	(35)	389	18	22
--------------------	-------------	-----	-----------	----

Profit on sale of listed and

unlisted shares	(75)	(904)	(150)	(682)
-----------------	-------------	-------	--------------	-------

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000

NOTE 4 (CONTINUED)

EXPENSES AND LOSSES (GAINS)

(c) Significant items

Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:

Loan to controlled entity forgiven (no tax effect)

	-	-	-	(563)
--	---	---	---	-------

NOTE 5

STATEMENT OF CASH FLOWS

a) Reconciliation of cash

Cash balance comprises:

Cash on hand	2,272	2,323	567	709
Bank overdraft	(2)	(13)	(2)	-

Closing cash balance

	2,270	2,310	565	709
--	--------------	-------	------------	-----

b) Reconciliation of operating profit after income tax to the net cash flows from operations

Operating profit after taxation	8,002	8,717	10,237	6,673
Non cash items				
Depreciation	1,609	1,831	220	151
Profit of equity accounted associate	(4,352)	(4,810)	-	-
Dividend received from equity accounted associate	1,289	-	-	-
Amortisation of leased plant and equipment	205	207	16	19
Amortisation of goodwill and licences	6	101	-	-
Provision for/(reversal of) employee entitlements	191	268	23	(354)
Loss on sale of non-current assets	(35)	389	18	22
Provision for/(reversal of) provision for diminution in value of investments	-	-	(341)	(4,989)
(Reversal of)/provision for non-recovery of amounts owing by controlled entities	-	-	331	(278)
Amounts owing by controlled entities written off	-	-	-	563
Changes in assets and liabilities				
(Increase)/decrease in receivables	(2,195)	2,959	(10,831)	(1,435)
(Increase)/decrease in inventory	(888)	191	(1,590)	(1,319)
(Increase)/decrease in other financial assets	2,262	(967)	2,301	(728)
(Decrease)/increase in trade creditors	(1,128)	939	(283)	(383)
(Decrease)/increase in tax provision	(868)	1,256	-	-
(Decrease)/increase in deferred tax liability	(172)	(322)	193	32
(Increase)/decrease in future income tax benefit	753	(508)	99	145
(Increase)/decrease in prepayments	(83)	(26)	22	5
Net cash flows from/(used in) operating activities	4,596	10,225	415	(1,876)

c) Bank facilities

The consolidated entity has bank facilities available to the extent of \$40,045,000 (2000 - \$35,386,000).

The chief entity has bank facilities available to the extent of \$20,621,000 (2000 - \$17,603,000).

The unutilised facility for the consolidated entity at balance date was \$8,476,000 (2000 - \$7,532,000) and for the chief entity \$6,398,000 (2000 - \$5,326,000).

SCHAFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 5 (CONTINUED)

d) Non-cash financing activities

During the financial year the consolidated entity acquired plant and equipment with a fair value of \$198,000 (2000 - Nil) by means of finance leases.

e) Acquisition of associates

On 12 February 2001 a controlled entity, Schaffer Properties Pty Ltd acquired 50% of the share capital of South Creek Properties Pty Ltd for \$1.

Net assets of South Creek Properties Pty Ltd on 12 February 2001:

	\$
Cash	2
	===

CONSOLIDATED		CHIEF ENTITY	
2001	2000	2001	2000
\$000	\$000	\$000	\$000

**NOTE 6
INCOME TAX**

Operating profit/(loss) before income tax

	10,919	10,695	10,530	6,850
--	---------------	--------	---------------	-------

Prima facie tax thereon at 34% (2000 - 36%)

	3,712	3,850	3,580	2,466
--	--------------	-------	--------------	-------

Tax effect of permanent differences:-

- prima facie tax attributable to an equity accounted associate	(1,479)	-	-	-
- rebateable dividends	(59)	-	(3,166)	(813)
- unfranked portion of dividend received from associate entity	346	-	-	-
- expenses not allowable	161	65	15	1
- other items	50	(1,551)	(66)	(1,326)
- non assessable income	-	(4)	-	-
- Over provision of tax relating to previous years	104	(47)	-	-
- net gain attributable to change in income tax rate	7	(188)	(43)	(14)
	2,842	2,125	320	314

- current and prior year tax losses and timing differences brought to account	(54)	(147)	(27)	(137)
- current and prior year tax losses and timing differences not brought to account	129	-	-	-

Income tax expense attributable to ordinary activities

	2,917	1,978	293	177
--	--------------	-------	------------	-----

Deferred tax assets and liabilities

Current tax payable	1,343	2,211	-	-
Provisions for deferred income tax	1,817	1,989	454	261
Future income tax benefit	871	1,624	86	185

Future income tax benefit at 30% not brought to account at balance date as realisation of this benefit is not virtually certain

-tax losses	253	178	-	-
-------------	------------	-----	---	---

The future income tax benefit will only be obtained if:-

- (i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) the conditions for deductibility imposed by the tax legislation continue to be complied with; and
- (iii) no changes in the tax legislation adversely affect the consolidated entity in realising the benefit.

CONSOLIDATED		CHIEF ENTITY	
2001	2000	2001	2000
\$000	\$000	\$000	\$000

**NOTE 7
DIVIDENDS PROVIDED
FOR OR PAID**

(a) Dividends paid during the year

Interim - (1999 - 6c.)	-	603	-	603
Final - 6.75c. per share paid September 2000 (1999-6c.)	829	604	829	604
Special - 10c per share paid November 2000	1,228	-	1,228	-
Interim - 8c. per share paid April 2001 (2000 - 6.5c.)	994	723	994	723
Final - 9c. per share paid June 2001 (2000 - 6.75c.)	1,118	-	1,118	-
	4,169	1,930	4,169	1,930
Fully franked portion	4,169	1,930	4,169	1,930
Unfranked portion	-	-	-	-
	4,169	1,930	4,169	1,930

(b) Dividends provided for

Interim - 8c. per share paid April 2001 (2000 - 6.5c.)	994	723	994	723
Special - 10c per share paid November 2000	1,228	-	1,228	-
Final - 9c per share paid June 2001 (2000 - 6.75c.)	1,118	830	1,118	830
Over provision of dividend in previous year	-	(1)	-	(1)
Dividends provided for per profit and loss statement	3,340	1,552	3,340	1,552
Fully franked portion	3,340	1,552	3,340	1,552
Unfranked portion	-	-	-	-
	3,340	1,552	3,340	1,552

The tax rate at which dividends have or will be franked is Interim 34% (2000 - 36%), Final 34% (2000 - 34%).

(c) Franking account balance

The amount of franking credits available for the subsequent financial year are:

Franking account balance brought forward	435	1,096
Convert balance to 34% rate	40	-
Fully franked final dividend paid	(829)	-
Fully franked special dividend paid	(1,228)	-
Fully franked interim dividend paid	(994)	(723)
Fully franked final dividend paid	(1,118)	-
Franked dividends received from controlled entities	6,141	-
Franked dividend received from associated entity	269	-
Franked dividends received from other corporations	107	62
Franking account balance at The end of the financial year	2,823	435
Convert balance to 30% (2000 - 34%) rate	570	40
Franking credits to be received from controlled entities or associated entities	2,938	4,734
Franking debits that will arise from the payment of dividends as at the end of the financial year	-	(830)
Franking credits available	6,331	4,379

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 8				
RECEIVABLES (CURRENT)				
Trade debtors	7,989	5,923	3,168	1,490
Provision for doubtful debts	(211)	(340)	-	-
	7,778	5,583	3,168	1,490
Other debtors	630	1,233	149	891
Goods and services tax net	-	-	35	-
Provision for non-recovery of other debtors	-	(601)	-	(601)
Amounts owing by partly owned controlled entities	-	-	1,634	1,436
Provision for non-recovery of amount owing by partly owned controlled entities	-	-	(822)	(595)
	8,408	6,215	4,164	2,621

Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

(ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

NOTE 9
INVENTORIES (CURRENT)

Work in progress :-				
Cost to date plus profit recognised	7,627	8,652	-	-
Less progress billings to date	(7,030)	(8,382)	-	-
Work in progress - net realisable value	597	270	-	-
Finished goods - at cost	892	940	-	-
Raw materials - at cost	875	561	-	-
	2,364	1,771	-	-

Land held for resale				
Cost of acquisition	2,538	4,683	875	2,003
Development expenses capitalised	6,079	3,373	3,784	890
Rates and taxes capitalised	172	275	-	55
Interest capitalised	311	474	-	121
Carrying amount of land	9,100	8,805	4,659	3,069
	11,464	10,576	4,659	3,069

NOTE 10
OTHER FINANCIAL ASSETS (CURRENT)

Shares at cost				
- Listed on a prescribed stock exchange	935	1,039	800	687
- Unlisted	2,175	1,192	1,919	1,192
- Provision for diminution in value of unlisted shares	(200)	-	(200)	-
	2,910	2,231	2,519	1,879

(a) Aggregate quoted market value at balance date of investments listed on a prescribed stock exchange

	1,376	1,049	1,194	717
--	-------	-------	-------	-----

(b) Terms and conditions relating to the above financial instruments included under unlisted shares are convertible notes with a cost of \$NIL (2000 - \$74,700) receiving interest of 0% (2000 - 0%) pa convertible upon listing to the stock exchange.

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 11				
OTHER CURRENT ASSETS				
Prepayments	367	284	60	82
Deposits	146	51	63	28
	513	335	123	110

NOTE 12
RECEIVABLES (NON-CURRENT)

Amount owing by wholly owned controlled entities	-	-	5,405	3,337
Provision for non-recovery of amount owing by wholly owned controlled entities	-	-	(490)	(386)
	-	-	4,915	2,951

NOTE 13
INVESTMENTS

Associated companies at equity accounted amount

Unlisted shares				
Ordinary shares	9,088	11,139	-	-
Preference shares	2,500	2,500	-	-
	11,588	13,639	-	-

Associated companies at cost

Unlisted shares				
Ordinary shares	-	-	8,587	11,480
Preference shares	-	-	2,500	2,500
Provision for diminution in value of shares in unlisted associated companies	-	-	-	(341)
	-	-	11,087	13,639
	11,588	13,639	11,087	13,639

Investments in associated companies comprise:

	% held by consolidated entity		Place of Inc.
	2001	2000	
	%	%	
Australian Leather Holdings Limited	41.66	48.9	W.A.
E-Com investment Management Pty Ltd	50.0	-	N.S.W.
Solco Zimbabwe (Private) Limited	25.0	25.0	Zimbabwe
Bell Solco (M) Sdn. Bhd.	16.8	16.8	Malaysia

Accumulated losses attributable to associated companies:

	2001	2000
	\$000	\$000

Balance at the beginning of the financial year

	(4,345)	(9,155)
--	---------	---------

Share of associates:

Operating profit before income tax	4,376	4,941
Income tax expense attributable to operating profit	(24)	(131)

Operating profit after income tax	4,352	4,810
Dividends received from associated companies	(1,289)	-

Balance at the end of the financial year

	(1,282)	(4,345)
--	----------------	----------------

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Carrying amount of investments in associated companies				
Balance at the beginning of the financial year	13,639	8,829	13,639	8,829
Reversal of provision for diminution in value	-	-	341	4,810
Investment bought back by associate	(2,941)	-	(2,941)	-
Options to acquire shares in associate exercised	48	-	48	-
Adjustment on dilution of investment associated company	(2,221)	-	-	-
Dividend received from associate	(1,289)	-	-	-
Share of profits/(losses) for the financial year	4,352	4,810	-	-
Carrying amount of investment in associated companies	11,588	13,639	11,087	13,639
The consolidated entity's share of the assets and liabilities of associates in aggregate				
Current assets	29,570	34,696		
Non-current assets	16,602	19,525		
Current liabilities	(16,387)	(22,463)		
Non-current liabilities	(18,385)	(19,543)		
Net assets	11,400	12,215		

Principal activities of associated companies:	Balance date
Australian Leather Holdings Limited - leather manufacture	June 30
E-Com Investment Management Pty Ltd - investment manager	June 30
Solco Zimbabwe (Private) Limited - solar hot water system manufacture	September 30
Bell Solar Thermal Energy Sdn Bhd - solar hot water system manufacture	February 28

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 14				
OTHER FINANCIAL ASSETS				
(NON-CURRENT)				
Shares at cost				
Unlisted	-	70	-	70
Provision for diminution in value of unlisted shares	-	(70)	-	(70)
Controlled entities at cost				
Listed shares	-	-	-	-
Unlisted shares	-	-	5,585	5,485
Provision for diminution in value of shares in unlisted controlled entities	-	-	(214)	(214)
Joint venture properties at cost	20,594	17,620	7,932	7,925
	20,594	17,620	13,303	13,196

NOTE 14 (CONTINUED)

Controlled entities	Beneficial percentage held by consolidated entity		Place of inc.	Amount of chief entity's investment	
	2001	2000		2001	2000
	%	%		\$000	\$000
Schaffer Properties Pty Ltd *	100	100	W.A.	-	-
Schaffer Services Pty Ltd *	100	100	W.A.	-	-
Delta Corporation Limited *	100	100	W.A.	5,066	5,066
Urbanstone Pty Ltd *	100	100	W.A.	-	-
Urbanstone (Vic) Pty Ltd *	100	100	Vic.	-	-
Schaffer Corporation Management Pty Ltd*	100	100	W.A.	-	-
Delta Rail Services Ltd*	100	100	W.A.	-	-
Sydney Sandstone (Quarries) Pty Ltd **	50	50	W.A.	-	-
Solco Industries Pty Ltd #	51	51	W.A.	214	214
Poly Tuff (WA) Pty Ltd #	51	51	W.A.	-	-
Loftus Capital Pty Ltd *	100	100	N.S.W.	205	205
Loftus Corporate Pty Ltd	100	-	W.A.	100	-
Loftus Capital Nominees Pty Ltd	100	-	W.A.	-	-
				5,585	5,485

* Pursuant to Class Order 98/1418 relief has been granted to various controlled entities from the Corporations Law requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order Schaffer Corporation Limited and the controlled entities subject to the Class Order (the 'Closed Group') entered into Deeds of Cross Guarantee at various dates. The effect of the deeds is that Schaffer Corporation Limited has guaranteed to pay any deficiency in the event of winding up of the controlled entities. The controlled entities have also given a similar guarantee in the event that Schaffer Corporation Limited is wound up.

** Schaffer Corporation Limited consolidates the accounts of Sydney Sandstone Quarries Pty Ltd in which it holds an interest of 50%. Control exists in that three of the five directors of the entity are directors of Schaffer Corporation Limited.

Audited by firms other than the chief entity's auditor.

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 14 (CONTINUED)

The consolidated profit and loss statement and balance sheet of the entities which are members of the "Closed Group" are as follows:

	2001 \$000	2000 \$000
Statement of Financial Performance		
REVENUE FROM ORDINARY ACTIVITIES	44,624	55,140
Cost of sales manufactured goods and property	(19,433)	(24,085)
Depreciation and amortisation expense	(1,680)	(1,832)
Borrowing costs expense	(2,442)	(2,085)
Other expenses from ordinary activities	(13,119)	(19,800)
Reversal of provision for diminution in value of shares associate accounted for using the equity method	-	4,810
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	7,950	12,148
Income tax expense relating to ordinary activities	2,936	1,924
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	5,014	10,224
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF SCHAFFER CORPORATION LIMITED AND RECOGNISED DIRECTLY IN EQUITY		-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	5,014	10,224
Reconciliation of retained profits		
Retained profits at the beginning of the financial year	25,643	16,971
Net profit attributable to members of the parent entity	5,769	10,224
Dividends provided for or paid	(3,340)	(1,552)
Retained profits at the reporting date	28,072	25,643
Consolidated Statement of Financial Position	2001 \$000	2000 \$000
Current assets		
Cash assets	1,732	1,914
Receivables	9,474	6,480
Inventories	11,285	10,275
Other financial assets	2,519	1,883
Other	419	242
Total current assets	25,429	20,794
Non-current assets		
Receivables	204	-
Investments	11,086	13,639
Other financial assets	20,900	18,937
Property, plant and equipment	23,424	21,879
Intangible assets	84	84
Deferred tax assets	839	1,186
Total non-current assets	56,537	55,725
Total assets	81,966	76,519

NOTE 14 (CONTINUED)

	2001 \$000	2000 \$000
Current liabilities		
Payables	5,780	6,873
Interest bearing liabilities	1,631	901
Current tax liabilities	1,339	1,925
Provisions	1,056	270
Total current liabilities	9,806	9,969
Non-current liabilities		
Interest bearing liabilities	31,507	27,783
Deferred tax liabilities	1,812	1,849
Provisions	387	307
Total non-current liabilities	33,706	29,939
Total liabilities	43,512	39,908
Net assets	38,454	36,611
Equity		
Contributed equity	7,797	7,335
Reserves	2,585	2,585
Retained profits	28,072	26,691
Total equity	38,454	36,611

	CONSOLIDATED		CHIEF ENTITY	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000

NOTE 15

PROPERTY, PLANT AND EQUIPMENT

	2001 \$000		2000 \$000	
Freehold land				
At cost	5,369	5,366	4,699	4,696
	5,369	5,366	4,699	4,696
Freehold quarries				
At cost	900	900	900	900
	900	900	900	900
Buildings on freehold land				
At cost	5,287	5,123	319	319
Accumulated depreciation	(462)	(302)	(29)	(19)
	4,825	4,821	290	300
Leasehold improvements				
At cost	643	758	-	-
Accumulated depreciation	(460)	(571)	-	-
	183	187	-	-
	5,008	5,008	290	300
Plant and equipment				
At cost	16,349	14,726	3,174	3,093
Accumulated depreciation	(5,876)	(4,774)	(642)	(644)
Written down value	10,473	9,952	2,532	2,449
Plant and equipment under lease				
At cost	3,114	2,936	193	193
Accumulated depreciation	(669)	(478)	(104)	(88)
	2,445	2,458	89	105
Total written down value plant and equipment	12,918	12,410	2,621	2,554

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 15 (CONTINUED)				
Total property, plant and equipment				
At cost	31,662	29,809	9,285	9,201
Accumulated depreciation and amortisation	(7,467)	(6,125)	(775)	(751)
Total written down amount	24,195	23,684	8,510	8,450
Reconciliations				
Freehold land				
Carrying amount at beginning	5,366	5,361	4,696	4,691
Additions	-	5	-	5
	5,366	5,366	4,696	4,696
Freehold quarries				
Carrying amount at beginning	900	900	900	900
Additions	-	-	-	-
	900	900	900	900
Buildings on freehold land				
Carrying amount at beginning	4,821	4,705	300	305
Additions	165	267	-	5
Depreciation expense	(161)	(151)	(10)	(10)
	4,825	4,821	290	300
Leasehold improvements				
Carrying amount at beginning	187	380	-	-
Additions	68	102	-	-
Amortisation expense	(72)	(295)	-	-
	183	187	-	-
	5,008	5,008	290	300
Plant and equipment				
Carrying amount at beginning	9,952	8,461	2,449	654
Additions	2,047	2,898	417	1,810
Transfers from leased plant	6	163	-	163
Depreciation expense	(1,376)	(1,385)	(210)	(141)
Disposals	(156)	(185)	(124)	(37)
	10,473	9,952	2,532	2,449
Plant and equipment under lease				
Carrying amount at beginning	2,458	2,772	105	285
Additions	198	54	-	-
Transfers to plant and equipment	(6)	(161)	-	(161)
Amortisation expense	(205)	(207)	(16)	(19)
	2,445	2,458	89	105
	12,918	12,410	2,621	2,554
NOTE 16				
INTANGIBLES				
Goodwill at cost	172	314	-	-
Provision for amortisation	(6)	(143)	-	-
	166	171	-	-

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 17				
PAYABLES (CURRENT)				
Trade creditors	6,173	7,614	704	1,243
Goods and services tax net	56	-	-	-
Other creditors	349	91	348	91
Loan from other corporations	172	172	-	-
	6,750	7,877	1,052	1,334

(a) Terms and conditions relating to the above financial instruments
All current payables are non-interest bearing and are normally settled on 30 day terms.

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 18				
INTEREST BEARING LIABILITIES (CURRENT)				
Bank overdraft - secured	2	13	2	-
Lease liability (refer note 26c) - secured	423	379	43	71
Loan from directors of the entity	1,249	532	-	-
	1,674	924	45	71

(a) The bank overdraft, loans and bills payable are secured by first registered mortgage over all the assets and undertakings of controlled entities. The lease liability is secured by a charge over the leased assets.

(b) Terms and conditions relating to the above financial instruments
(i) Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8% (2000 - 7.5%).
(ii) Loans from directors of the entity are unsecured and are repayable on demand. Details of the terms and conditions are set out in note 29. The average interest rate was 4.96% (2000 - 4.64%)

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 19				
PROVISIONS (CURRENT)				
Employee entitlements (refer note 26d)	1,134	1,029	-	-
Dividends payable (refer note 7)	-	829	-	829
	1,134	1,858	-	829

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 20				
INTEREST BEARING LIABILITIES (NON-CURRENT)				
Lease liability (refer note 26c) - secured	1,875	1,996	31	74
Amount owing to wholly owned controlled entity	-	-	490	5,750
Bills payable - secured	3,000	4,000	3,000	4,000
Bank loan - secured	26,694	21,858	11,192	8,203
	31,569	27,854	14,713	18,027

(a) The bank loans and bills payable are secured by first registered mortgage over all the assets and undertakings of controlled entities. Included in bank loans is the consolidated entity's share of joint venture borrowings. The increase is a result of property acquisitions (refer note 27). The lease liability is secured by a charge over the leased assets.

(b) Terms and conditions relating to the above financial instrument
Finance leases have an average lease term of 4 years. The average discount rate implicit in the leases is 8% (2000 - 7.5%).

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 21

PROVISIONS (NON-CURRENT)

Employee entitlements
(refer note 26d)

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
	418	332	162	139
	418	332	162	139

NOTE 22

CONTRIBUTED EQUITY

a) Issued and paid up capital
As at 30 June 2001
12,417,764 ordinary fully paid
shares (2000 - 11,115,721)

	7,797	7,335	6,849	6,387
--	--------------	-------	--------------	-------

b) Movements in shares
on issue

	2001		2000	
	Number	\$000	Number	\$000
	of shares		of shares	

At the beginning of the
financial year **11,115,721** 7,335 **10,059,145** 7,335

On 10 April 2000 1,056,576
bonus shares were issued
to shareholders and option
holders on the basis of 1
ordinary fully paid share for every
10 shares or options held.

	-	-	1,056,576	-
--	---	---	------------------	---

On 15 September 2000
1,166,658 bonus shares
were issued to shareholders
and option holders on the
basis of 1 ordinary fully paid
share for every 10 shares or
options held.

	1,166,658	-	-	-
--	------------------	---	---	---

On 27 February 2001 112,400
shares were allotted to
employees pursuant to a
prospectus issued in
December 2000.

	112,400	405	-	-
--	----------------	-----	---	---

Share cancellation -
30 March 2001 -
9,015 shares purchased under
buy back arrangement

	(9,015)	(35)	-	-
--	----------------	------	---	---

On 2 April 2001 15,000
options converted to ordinary
shares under employee
share scheme

	15,000	39	-	-
--	---------------	----	---	---

On 2 April 2001 17,000
shares were allotted to
employees pursuant to a
prospectus issued in
December 2000.

	17,000	61	-	-
--	---------------	----	---	---

Capital raising costs

	-	(8)	-	-
--	---	-----	---	---

At the end of the
financial year

	12,417,764	7,797	11,115,721	7,335
--	-------------------	-------	-------------------	-------

NOTE 22

CONTRIBUTED EQUITY (CONTINUED)

c) Share options

Options issued over ordinary shares as part of an employee share
scheme are as follows. Further details are provided in note 26(e).

Date issued	No. of options	Exercise price	Exercisable on or before
17 Nov 1999	460,000	\$2.61	17 Nov 2004
Less exercised:			
2 Apr 2001	(15,000)		
Balance on issue			
28 Mar 2000	445,000	\$3.30	28 Mar 2005
10 July 2000	42,900	\$3.26	10 July 2005
	52,100		
	540,000		

d) Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and,
in the event of winding up the company, to participate in the proceeds
from the sale of all surplus assets in proportion to the number of
and amounts paid up on shares held. Ordinary shares entitle their
holder to one vote, either in person or by proxy, at a meeting of the
company.

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000

NOTE 23

RESERVES AND RETAINED PROFITS

Asset revaluation

Opening balance **2,585** 2,585 **2,283** 2,283

Adjustment resulting from
reverting to cost basis in
accordance with Accounting
Standard AASB 1041

	(2,585)	-	(2,283)	-
--	----------------	---	----------------	---

Closing balance

	-	2,585	-	2,283
--	---	-------	---	-------

Retained profits

Retained profits at the

beginning of the financial year **25,453** 18,288 **17,478** 12,357

Net profit attributable
to members of the parent entity

	8,002	8,717	10,237	6,673
--	--------------	-------	---------------	-------

Transfer from asset
revaluation reserve

	2,585	-	2,283	-
--	--------------	---	--------------	---

Dividends provided for or paid

	(3,340)	(1,552)	(3,340)	(1,552)
--	----------------	---------	----------------	---------

Adjustment on dilution of investment
in associated company

	(2,221)	-	-	-
--	----------------	---	---	---

Retained profits at the
reporting date

	30,479	25,453	26,658	17,478
--	---------------	--------	---------------	--------

NOTE 24

AUDITORS REMUNERATION

Amounts received or due
and receivable by the auditors
of Schaffer Corporation
Limited for:

Audit of the accounts **88,747** 90,145 **10,000** -

Other services **26,077** 32,014 - 14,931

114,824 122,159 **10,000** 14,931

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 24 (CONTINUED)

Included above are amounts received or due and receivable by auditors other than the auditors of Schaffer Corporation Limited. Auditing accounts of certain controlled entities

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$	\$	\$	\$
Auditing accounts of certain controlled entities	4,000	4,000	-	-
Other services	-	-	-	-
	4,000	4,000	-	-

NOTE 25

REMUNERATION OF DIRECTORS

(a) Directors' remuneration.

Income paid or payable or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party

1,588,280 1,477,967

Income paid or payable or otherwise made available, in respect of the financial year, to all directors of Schaffer Corporation Limited directly or indirectly, from the entity or any related party.

1,052,126 1,044,682

The number of directors of Schaffer Corporation Limited whose remuneration (including superannuation contributions) falls within the following bands.

\$20,000 - \$29,999	1	1
\$30,000 - \$39,999	2	1
\$40,000 - \$49,999	-	1
\$180,000 - \$189,999	-	1
\$190,000 - \$199,999	1	-
\$220,000 - \$229,999	1	1
\$530,000 - \$539,999	1	1

In the 1999/2000 financial year Directors were issued with the following options under an employee share scheme (refer note 26(e)). The options were issued for nil consideration and are cancellable if the employees service with the company is terminated under any circumstances. No options have been issued to directors in the current financial year. As a result of the 1:10 bonus share issue on 15 September 2000 and pursuant to the employee share scheme approved by shareholders at the Annual General Meeting in November 1999, shares were issued on the basis of one ordinary fully paid share for every ten options held.

The share price of a fully paid share on 15 September 2000 was \$3.50. A 1:10 bonus share issue also occurred in April 2000 in which the options listed below participated. Thus the details of the bonus issue below also include the bonus shares issued as a result of the bonus issue in April 2000.

The value of the bonus issue below has not been included in the remuneration above.

NOTE 25 (CONTINUED)

	Date issued	No. of options	Exercise price	Exercisable on or before	Bonus issue No. of shares	15 Sept 2000 Value at \$3.50 per share
J B Abernethy	17 Nov 1999	90,000	\$2.61	17 Nov 2004	9,900	34,650
J M Schaffer	17 Nov 1999	170,000	\$2.61	17 Nov 2004	18,700	65,450
D J Schwartz	17 Nov 1999	80,000	\$2.61	17 Nov 2004	8,800	30,800

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$	\$	\$	\$

(b) Executives remuneration.

Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise.

2,425,378 2,524,194

Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the company or any related party, whether as an executive officer or otherwise.

1,067,382 1,062,274

The number of executives of the consolidated entity and the company whose remuneration falls within the following bands.

\$100,000 - \$109,999	3	3	-	-
\$110,000 - \$119,999	-	1	-	-
\$130,000 - \$139,999	-	1	-	1
\$140,000 - \$149,999	2	1	1	1
\$150,000 - \$159,999	1	-	1	-
\$170,000 - \$179,999	1	-	-	-
\$180,000 - \$189,999	-	2	-	-
\$190,000 - \$199,999	1	-	1	-
\$220,000 - \$229,999	1	1	-	1
\$250,000 - \$259,999	1	1	-	-
\$270,000 - \$279,999	1	-	-	-
\$420,000 - \$429,999	-	1	-	-
\$530,000 - \$539,999	1	1	1	1

Executive remuneration includes the value of share options using the Black-Scholes model.

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
NOTE 26				
CONTINGENT LIABILITIES AND EXPENDITURE COMMITMENTS				
(a) Termination benefits under Service agreements:				
No. of service agreements - 6				
Maximum liability at June 30, 2001				
	757	746	757	746
(b) Commitments under lease agreements				
Operating leases - office and retail premises				
- payable not later than 1 year				
	532	511	-	-
- later than 1 year and not later than 5 years				
	1,291	951	-	-
- later than 5 years				
	404	258	-	-
- aggregate lease expenditure contracted for at balance date				
	2,227	1,720	-	-
Operating leases - motor vehicles				
- payable not later than 1 year				
	210	156	-	-
- later than 1 year and not later than 5 years				
	284	275	-	-
- aggregate lease expenditure contracted for at balance date				
	494	431	-	-
Operating leases for motor vehicles have an average lease term of 4 years. In return for the lease payments a fully maintained vehicle is provided. No implicit interest rate is applicable.				
(c) Finance leases and hire purchase commitments				
- payable not later than 1 year				
	579	544	47	82
- later than 1 year and not later than 5 years				
	2,109	2,316	34	80
Total lease payments				
	2,688	2,860	81	162
Future finance charges				
	(390)	(485)	(7)	(17)
	2,298	2,375	74	145
- Current liability (refer note 18)				
	423	379	43	71
- Non-current liability (refer note 20)				
	1,875	1,996	31	74
	2,298	2,375	74	145

Finance leases have an average lease term of 5 years and an average implicit interest rate of 8%. Assets that are the subject of finance leases include motor and large items of plant and machinery.

(d) Employee entitlements and superannuation commitments

The consolidated entity has established certain superannuation plans. Employees contribute to these plans at various percentages of their wages and salaries and the end benefit is determined by accumulation of contributions and earnings of the plans.

The consolidated entity also contributes to the plan, generally at the rate of 8% of gross salaries and wages.

These contributions are not legally enforceable other than those payable in terms of a ratified award obligation or to comply with the Superannuation Guarantee Charge.

NOTE 26 (CONTINUED)

At balance date the assets of the plans are sufficient to satisfy all accumulated benefits that have vested under the plan in the event of termination of the plan and voluntary or compulsory termination of each employee.

The aggregate employee entitlement liability is comprised of:

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Accrued wages, salaries and on costs				
	25	31	-	-
Provisions (current) - refer note 19				
	1,134	1,029	-	-
Provisions (non-current) - refer note 21				
	418	332	162	139
	1,577	1,392	162	139

(e) Employee share scheme

An employee share scheme has been established. The scheme was approved by shareholders at the AGM in November 1999. Senior executives of the Group are issued with options to acquire ordinary shares in Schaffer Corporation Limited. The options issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of Schaffer Corporation Limited. The options cannot be transferred and will not be quoted on the ASX. The number of options which can be issued is limited to 5% of the number of shares on issue. There are currently nine executives eligible for the scheme.

As at balance date 15,000 options had been converted to shares.

(f) Capital expenditure commitments

	CONSOLIDATED		CHIEF ENTITY	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Estimated capital expenditure contracted for at balance date but not provided for:				
	440	-	-	-

(g) A first mortgage has been registered over the assets and undertakings of a controlled entity by a bank which has issued performance guarantees to third parties on behalf of the consolidated entity. At June 30, 2001 the aggregate of the performance guarantees issued by the bank amounted to \$ 1,684,311 (2000 - \$1,808,339).

(h) The consolidated entity has a several liability only for borrowings made to finance the following joint ventures:

Mindarie Keys Joint Venture
 IBM Centre Joint Venture
 616 St Kilda Rd Joint Venture
 Gledden Arcade Joint Venture
 South Hedland Shopping Centre Joint Venture
 Majestic Quay Joint Venture
 SanSimeon Joint Venture
 Hometown Joint Venture
 G H D House Joint Venture
 Queens Rd Joint Venture
 Bourke St Joint Venture
 401 Great Eastern Highway Joint Venture
 Crosslands Shopping Centre Joint Venture
 Perpetual Trustees Joint Venture

The consolidated entity's share of all liabilities has been included in the financial statements (refer note 27).

The maximum liability to the consolidated entity is \$ 26,694,000 (2000 - \$21,857,000).

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 26 (CONTINUED)

(i) Under the terms of the grant of the Hamilton Hill property, Schaffer Corporation Limited has a contingent liability for the subdivision and construction of premises on the site. Schaffer Corporation Limited's performance to meet the conditions of the grant is secured by way of a bank guarantee to Landcorp for \$Nil (2000 - \$395,700). Other bank guarantees amount to \$304,500 (2000 - \$480,987)

NOTE 27

INTERESTS IN BUSINESS UNDERTAKINGS
- JOINT VENTURES

Schaffer Properties Pty Ltd and Schaffer Corporation Limited have interests in a number of property development joint ventures in Western Australia and Victoria.

The joint ventures are established for the purposes of redeveloping, constructing and resale of residential and commercial properties.

	% interest	
	2001	2000
St. James Estate Northbridge Joint Venture	12.50	12.50
IBM Centre Joint Venture	22.10	22.10
Mindarie Keys Joint Venture	15.00	15.00
St Kilda Rd Joint Venture	20.00	20.00
Gledden Arcade Joint Venture	22.10	22.10
South Hedland Shopping Centre Joint Venture	18.75	18.75
Palladio Joint Venture	-	25.00
Rialto Joint Venture	-	25.00
Villa Medici Joint Venture	-	25.00
Majestic Quay Joint Venture	25.00	25.00
Aqua Vista Joint Venture	25.00	25.00
SanSimeon Joint Venture	20.00	20.00
Hometown Joint Venture	25.00	25.00
G H D House Joint Venture	18.00	18.00
Queens Rd Joint Venture	9.00	9.00
Bourke St Joint Venture	12.10	12.10
401 Great Eastern Highway Joint Venture	25.00	25.00
Crosslands Shopping Centre Joint Venture	16.70	16.70
Perpetual Trustees Joint Venture	20.00	20.00
Gateway Central Joint Venture	25.00	-

The interest in the joint ventures is included in the accounts as follows:

	CONSOLIDATED	
	2001	2000
	\$000	\$000
Current assets		
Cash assets	386	164
Receivables	3,786	2,641
Other	141	104
Inventories	7,948	8,432
Total current assets	12,261	11,341
Non-current assets		
Plant and equipment	4,426	3,378
Property	20,594	18,733
Intangible assets	84	84
Deferred tax assets	162	230
Total non-current assets	25,266	22,425
Total assets	37,527	33,766
Current liabilities		
Payables	1,305	2,387
Total current liabilities	1,305	2,387

CONSOLIDATED
2001 2000
\$000 \$000

NOTE 27 (CONTINUED)

Non-current liabilities		
Interest bearing liabilities	26,694	21,857
Deferred tax liabilities	1,138	1,258
Total non-current liabilities	27,832	23,115
Total liabilities	29,137	25,502
Net assets	8,390	8,264

The joint ventures have contributed \$1,401,000 (2000 - \$890,000) to the profit after tax of the consolidated entity.

There are no capital expenditure commitments and contingent liabilities in respect of the joint ventures.

NOTE 28

SEGMENT INFORMATION

The company operates predominantly in Australia.

Industry Segment Information	Manufacturing	Investments	CONSOLIDATED			
	2001	2000	2001	2000		
	\$000	\$000	\$000	\$000		
Sales to customers outside the group	29,716	33,277	13,250	13,947	42,966	47,224
Interest received from other persons	-	-	112	76	112	76
Royalties received	-	-	-	45	-	45
Dividends received	-	-	112	75	112	75
Proceeds on sale of investments	-	-	1,698	7,821	1,698	7,821
Other revenue	344	52	1,082	217	1,426	269
Proceeds on sale of non-current assets	27	109	95	546	122	655
	30,087	33,438	16,349	22,727	46,436	56,165
Unallocated revenue					463	512
Total revenue					46,899	56,677
Segment results:						
Operating profit	5,973	6,359	1,423	1,804	7,396	8,163
Share of associates profit/(loss)	-	-	4,352	4,810	4,352	4,810
	5,973	6,359	5,775	6,614	11,748	12,973
Unallocated expenses					(829)	(2,278)
Consolidated entity operating profit/(loss)					10,919	10,695
Segment assets	20,421	17,470	58,773	56,808	79,194	74,278
Unallocated assets					2,537	4,140
Total assets					81,731	78,418

Intersegment transactions are on a commercial basis.

SCHAFFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 29

RELATED PARTY DISCLOSURES

(a) The directors of Schaffer Corporation Limited during the year were Messers J.M.Schaffer, K.K.Webster, J.B.Abernethy, D J Schwartz and Mrs D E Blain.

(b) The following related party transactions occurred during the financial year within the consolidated entity

Transactions with directors of Schaffer Corporation Limited and the consolidated entity

During the year certain directors, their relatives and related entities placed funds on deposit with the company at call and bearing interest at normal commercial rates.

The balance due by Schaffer Corporation Limited to these directors and related parties totalled \$1,249,122 at 30 June 2001 (2000 - \$532,050). Interest paid on the funds loaned from these directors and their related parties during the year totalled \$30,769 (2000 - \$22,161).

Disclosures relating to wholly owned group

Schaffer Corporation Limited has provided 100% controlled entities with working capital loans which are interest free and have no fixed repayment date. The aggregate amounts owing from those controlled entities at year end is \$785,350 (2000 - \$486,952) of which \$489,758 (2000 - \$386,246) has been provided for as non-recoverable.

Schaffer Corporation Limited has provided 100% controlled entities with working capital loans which have no fixed repayment date. Interest charged at normal commercial rates amounted to \$190,361 (2000 \$384,437).

The aggregate amounts owing from those controlled entities at year end is \$4,619,483 (2000 - \$2,848,116) of which \$Nil (2000 - \$Nil) has been provided for as non-recoverable.

Wholly owned controlled entities have provided Schaffer Corporation Limited with loans which have no fixed repayment date. Interest charged at normal commercial rates amounted to \$212,855 (2000 \$289,407).

The aggregate amounts owing to those controlled entities at year end is \$684,248 (2000 - \$5,750,126).

Transactions with other related parties

Schaffer Corporation Limited holds 41.66% (2000 - 48.9%) of the share capital of Australian Leather Holdings Limited of which Mr J M Schaffer and Mrs D E Blain are directors. Schaffer Corporation Limited provided management services under normal commercial terms and conditions to Australian Leather Holdings Limited. Fees received during the year were \$240,000 (2000 - \$Nil).

Schaffer Corporation Limited holds 51% of the ordinary share capital of Solco Industries Pty Ltd of which Messers J M Schaffer and K K Webster are directors (representing Schaffer Corporation Limited). Schaffer Corporation Limited provided Solco Industries Pty Ltd with a secured loan with no fixed terms of repayment. Normal commercial interest rates were charged on the loan up until 31 December 1997. Since that date interest has not been charged. The balance of the loan outstanding at 30 June 2001 is \$462,411 (2000 - \$462,411) of which \$155,851 (2000 - \$134,688) has been provided for as non-recoverable. Interest paid during the year was \$Nil (2000 - \$Nil).

Schaffer Corporation Limited holds 50% of the ordinary share capital of Sydney Sandstone Quarries Pty Ltd of which Messers J M Schaffer, K K Webster and Mrs D E Blain are directors (representing Schaffer Corporation Limited). Schaffer Corporation Limited provided Sydney Sandstone Quarries Pty Ltd with an unsecured loan interest free with no fixed terms of repayment. The balance of the loan outstanding at 30 June 2001 is \$1,172,144 (2000 - \$997,768) of which \$666,466 (2000 - \$460,526) has been provided for as non-recoverable.

In addition, a company associated with a director of Sydney Sandstone Quarries Pty Ltd has provided Sydney Sandstone Quarries Pty Ltd with an unsecured loan interest free with no fixed terms of repayment. The balance of the loan outstanding at 30 June 2001 is \$171,843 (2000 - \$171,843).

(c) Schaffer Corporation Limited is the ultimate Australian holding company.

(d) Interests in the shares of entities within the consolidated entity held by directors of the reporting entity and their director related entities, as at 30 June 2001.

Schaffer Corporation Limited ordinary shares

	Acquired during the year	2001	2000
Mr J B Abernethy	52,045	255,360	203,315
Mrs D E Blain	122,916	1,352,098	1,229,182
Mr J M Schaffer	170,621	1,706,895	1,536,274
Mr D J Schwartz	57,973	406,210	348,237
Mr K K Webster	4,236	46,597	42,361

Change in directors shareholdings is the result of on market transactions, exercise of options (see below) or the one for ten bonus issue on 15 September 2000 (refer note 25).

Directors have been issued for nil consideration options to acquire ordinary shares under an employee share scheme (refer note 26(e)) as follows. These options participated in the one for ten bonus issue on 15 September 2000 resulting in one ordinary fully paid share being issued for every ten options held.

	Date issued	No. of options	Exercise price	Exercisable on or before
J B Abernethy	17 Nov 1999	90,000	\$2.61	17 Nov 2004
Less exercised:				
2 Apr 2001		(15,000)		
Balance on issue		<u>75,000</u>		
J M Schaffer	17 Nov 1999	170,000	\$2.61	17 Nov 2004
D J Schwartz	17 Nov 1999	80,000	\$2.61	17 Nov 2004

There have been no other transactions concerning shares or share options between entities in the reporting entity and directors of the reporting entity or their director related entities.

NOTE 30

EARNINGS PER SHARE

	CONSOLIDATED ENTITY	
	2001	2000
a) Basic earnings per share (cents per share)	66.2	71.0
b) Diluted earnings per share (cents per share)	63.5	70.7
(c) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	12,079,679	10,292,977

The comparative information has been restated due to a bonus issue on 15 September 2000 (refer note 22).

SCHAFER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 31
FINANCIAL INSTRUMENTS

(a) Interest rate risk

Financial instruments	Floating interest rate		Fixed interest rate maturing in:				Non - interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
(i) Financial assets												
Cash	-	-	-	-	-	-	2,272	2,323	2,272	2,323	N/A	N/A
Receivables - trade	-	-	-	-	-	-	7,778	5,583	7,778	5,583	N/A	N/A
Receivables - other	-	-	-	-	-	-	630	632	630	632	N/A	N/A
Listed shares	-	-	-	-	-	75	935	964	935	1,039	10%	10%
Unlisted shares	-	-	-	-	-	-	2,175	1,192	2,175	1,192	N/A	N/A
Other current assets - deposits	-	-	-	-	-	-	146	51	146	51	N/A	N/A
Total financial assets	-	-	-	-	-	75	13,936	10,745	13,936	10,820		
(ii) Financial liabilities												
Trade creditors, accruals and other creditors	-	-	-	-	-	-	6,522	7,705	6,522	7,705	N/A	N/A
Bank overdraft	2	13	-	-	-	-	-	-	2	13	9.55%	8.88%
Finance lease liability	-	-	423	377	1,875	1,998	-	-	2,298	2,375	8.0%	7.5%
Loans from directors of the entity	1,249	532	-	-	-	-	-	-	1,249	532	4.96%	4.64%
Loans from other corporations	-	-	-	-	-	-	172	172	172	172	N/A	N/A
Dividends payable	-	-	-	-	-	-	-	829	-	829	N/A	N/A
Bills of exchange	-	1,000	-	-	3,000	3,000	-	-	3,000	4,000	7.3%	7.2%
Bank loans	13,419	10,114	-	-	13,275	11,744	-	-	26,694	21,858	7.13%	7.77%
Total financial liabilities	14,670	11,659	423	377	18,150	16,742	6,694	8,706	39,937	37,484		

(b) Net fair values

All financial assets and liabilities have been recognised at the balance sheet date at their net fair values except for the following:

	Total carrying amount as per the statement of financial position		Aggregate net fair value	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Financial assets				
Listed shares	935	1,039	1,376	1,049

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

RECOGNISED FINANCIAL INSTRUMENTS

Cash, cash equivalents and short-term investments:

The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables and payables: The carrying amount approximates fair value.

Dividends payable: The carrying amount approximates fair value.

Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.

Long term loans receivable: The fair values of long-term receivable are estimated based on the amount likely to be recovered.

Long-term borrowings: The fair values of long-term borrowings are the amounts repayable at the end of the term of the loan.

Non-current investments/securities: For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security. The net fair value of the unlisted options is determined to be the difference between the market price and the exercise price of the underlying shares.

(c) Credit risk exposures

The consolidated entity's maximum exposure * to credit risk at balance date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet.

(d) Concentrations of credit risk

The consolidated entity minimise concentrations of credit risk in relation to trade receivables by undertaking transaction with a large number of customers within the specified industries. However, the majority of customers are concentrated in Australia Refer also to Note 28 - Segment information.

SCHAFFER CORPORATION



NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2001 (CONTINUED)

NOTE 31 (CONTINUED)

Concentration of credit risk on trade receivables arises in the following industry.

	Maximum credit risk exposure			
	Consolidated			
	Percentage of total trade debtors		\$000	
Industry	2001	2000	2001	2000
Manufacturing	56%	63%	4,348	3,382
Property development	44%	37%	3,430	2,201

Credit risk in trade receivables is managed in the following ways:

Manufacturing

- payment terms 30 days
- a risk assessment process is used for all new customers

Property development

- amounts outstanding represent unconditional sales but are subject to completion of the project or the issue of Certificate of Title
- title does not pass to the purchaser until payment is received in full

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

NOTE 32

SIGNIFICANT EVENTS AFTER BALANCE DATE

A deposit of \$60,000 was paid prior to the end of the financial year being for a 6.5% interest in the BBC Hardware Innaloo property. Estimated settlement date for this acquisition is October 2001.

Subsequent to the end of the financial year Schaffer Corporation Limited entered into an arrangement to increase its holdings in Australia Leather Holdings Limited from 42% to 83%. Schaffer Corporation Limited will pay \$5.9m to the retiring shareholders for their ordinary shares. Australian Leather Holdings Limited will pay \$6.5m to existing shareholders under a proposed preference share buyback of which Schaffer Corporation Limited will receive \$2.5m. The net funding requirement for Schaffer Corporation Limited is therefore \$3.4m of which \$1.4m is deferred for 12 months. The purchase by Schaffer Corporation Limited of the majority of the Australian Leather Holdings Limited shares is conditional on Australian Leather Holdings Limited buying back all of the outstanding preference shares for \$6.5 million, which is in turn conditional upon the approval of Australian Leather Holdings senior lenders and shareholders.

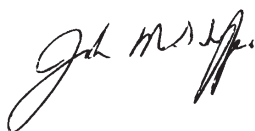
SCHAFFER CORPORATION
INDEPENDANT AUDIT REPORT
DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Schaffer Corporation Limited, we state that:

- (1) In the opinion of directors:
- a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable:
- (2) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 14 will be able to meet any obligation or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



J M Schaffer
Chairman and Managing Director
Perth, 26 September 2001

INDEPENDENT AUDIT REPORT

To the Members of Schaffer Corporation Limited

SCOPE

We have audited the financial report of Schaffer Corporation Limited for the financial year ended 30 June 2001 as set out on pages F1 to F20 and the Directors' Declaration. The financial report includes the financial statements of Schaffer Corporation Limited and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the financial report of Schaffer Corporation Limited is in accordance with;

- (a) the Corporations Act 2001 including:
- (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



Ernst & Young



G H Meyerowitz
Partner
Perth

Date: 26 September 2001

Your directors submit their report for the year ended 30 June 2001 made in accordance with a resolution of the directors.

DIRECTORS

Details of the directors of the company during the financial year and up to the date of this report are:

<p>J M SCHAFFER, B Com (Hons.), FCPA Chairman & Managing Director Executive Director since 6/9/72</p>	<p>Mr John Schaffer joined the company in 1972. Mr Schaffer was appointed Operations Manager in 1974, Managing Director in 1987 and has held the position of Chairman and Managing Director since 1988. Mr Schaffer is also Chairman of both Delta Corporation Limited and Australian Leather Holdings Limited and a director of Loftus Pooled Development Limited, Loftus Small Company Fund Limited and Loftus US Technology Fund Limited.</p>
<p>D E BLAIN, BA Director, appointed 5/6/87</p>	<p>Mrs Danielle Blain joined the company in 1987. Mrs Blain is also a director of Delta Corporation Limited and Australian Leather Holdings Limited.</p>
<p>K K WEBSTER, FCPA Non-executive Director, appointed 5/6/87</p>	<p>Mr Kelvin Webster joined the company in 1978 as Group Administration Manager. Mr Webster is also a director of Delta Corporation Limited.</p>
<p>J B ABERNETHY, B.Com (Econ) - LLB Executive Director, appointed 19/2/98</p>	<p>Mr John Abernethy is Managing Director of Loftus Pooled Development Limited. Mr Abernethy is also a director of Loftus Small Company Fund Limited and Jasco Holdings Limited. Mr Abernethy has over 15 years experience in capital markets encapsulating senior investment management positions and corporate advisory roles.</p>
<p>D J SCHWARTZ Non-executive Director, appointed 29/6/99</p>	<p>Mr David Schwartz is the chairman of Loftus Small Company Fund Limited and Loftus Pooled Development Limited. He is a joint venture partner with Schaffer Properties Pty Ltd in some of their properties. He has 20 years experience in property developments, manufacturing and distribution businesses.</p>

ATTENDANCE AT BOARD MEETINGS

During the year fourteen directors meetings were held. The number of meetings attended by each director is as follows:

	Meetings attended
Mr J M Schaffer	14
Mr K K Webster	13
Mr D J Schwartz	13
Mr J B Abernethy	12
Mrs D E Blain	11

ATTENDANCE AT AUDIT COMMITTEE MEETINGS

During the year two audit committee meetings were held. Mr J M Schaffer, Mr K K Webster and Mr J B Abernethy attended both meetings. Mrs D E Blain attended one meeting. All the above committee members are also directors of the company.

INTERESTS IN THE SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

At the date of this report the interests of the Directors in the shares of the Company were:

	Schaffer Corporation Limited	
	Ordinary shares	Options over ordinary shares
J M Schaffer	1,706,895	170,000
D E Blain	1,352,098	-
K K Webster	46,597	-
J B Abernethy	255,360	75,000
D J Schwartz	406,210	80,000

ROTATION AND ELECTION OF DIRECTORS

In accordance with the Articles of Association:

Mr K K Webster and Mrs D E Blain retire by rotation and being eligible offer themselves for re-election.

PRINCIPAL ACTIVITIES

The principal activities of the entities within the consolidated entity, in the course of the financial year were concrete element and paving manufacture, property development, investments in other companies and share trading.

RESULTS

The consolidated entity's operating profit after tax for the financial year after abnormal items and outside equity interests, was a profit of \$8,002,000 (2000 - \$8,717,000). This included the equity accounted share of the profit of Australian Leather Holdings Limited of \$4,346,000 (2000 - 4,810,000).

The comparative result to last year excluding Australian Leather Holdings Limited was \$3,656,000. (2000 - \$3,907,000).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors of the consolidated entity there has not arisen during the financial year or in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

DIVIDENDS

The following dividends have been paid or declared by the company since the commencement of the financial year:

	\$
Out of profits, as recommended in the financial statements, for the year ended 30 June 2000	
On ordinary shares	
- 6.5c. per share interim, paid on 19 April 2000	723,000
- 6.75c. per share final, paid on 15 September 2000	829,000
	<hr/> 1,552,000
Out of profits for the year ended 30 June 2001	
On ordinary shares	
- 10c. per share special, paid on 15 November 2000	1,228,000
- 8c. per share special, paid On 23 April 2001	994,000
- 9c. per share final, declared to be paid on 26 June 2001	1,118,000
	<hr/> 3,340,000

SCHAFFER CORPORATION

DIRECTORS' STATUTORY REPORT
 (CONTINUED)

REVIEW OF OPERATIONS

The consolidated entity's revenue decreased by 17% from \$56,677,000 to \$ 47,089,000 this year. This resulted in a pre-tax operating profit of \$10,919,000 compared to \$10,695,000 for last year. The net after tax consolidated entity profit, after minority interests decreased by 8% from \$8,717,000 to \$8,002,000. The above results include the equity accounted share of the profit of Australian Leather Holdings Limited. Excluding Australian Leather Holdings Limited the net after tax consolidated entity profit, after minority interests decreased by 6% from \$3,907,000 to \$3,656,000.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than matters referred to in this report, the Directors have no comment to make on likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Schaffer Corporation Limited is subject to a range of environmental regulations. During the financial year Schaffer Corporation Limited met all reporting requirements under any relevant legislation. There were no incidents which required reporting. The company aims to continually improve its environmental performance.

SIGNIFICANT EVENTS AFTER BALANCE DATE

A deposit of \$60,000 was paid prior to the end of the financial year being for a 6.5% interest in the BBC Hardware Innaloo property. Estimated settlement date for this acquisition is October 2001. Subsequent to the end of the financial year Schaffer Corporation Limited entered into an arrangement to increase its holdings in Australia Leather Holdings Limited from 42% to 83%. Schaffer Corporation Limited will pay \$5.9m to the retiring shareholders for their ordinary shares. Australian Leather Holdings Limited will pay \$6.5m to existing shareholders under a proposed preference share buyback of which Schaffer Corporation Limited will receive \$2.5m. The net funding requirement for Schaffer Corporation Limited is therefore \$3.4m of which \$1.4m is deferred for 12 months. The purchase by Schaffer Corporation Limited of the majority of the Australian Leather Holdings Limited shares is conditional on Australian Leather Holdings Limited buying back all of the outstanding preference shares for \$6.5 million, which is in turn conditional upon the approval of Australian Leather Holdings senior lenders and shareholders.

INDEMNIFICATION AND INSURANCE OF DIRECTORS

During or since the financial year the company has agreed to indemnify directors against a liability for costs and expenses incurred in defending proceedings brought against them for a liability incurred in their role as directors of the company. The total amount of insurance contract premiums paid is not disclosed due to a confidentiality clause within the insurance policy.

DIRECTORS' AND OTHER OFFICERS EMOLUMENTS

The nature and amount of emoluments of directors and officers of the company are reviewed on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optional for the recipient without creating undue cost for the company. To assist in achieving these objectives some senior executives participate in a performance bonus plan which provides cash incentives where specified criteria relating to profitability are met.

Details of the nature and amount of each element of the emolument of each director of the company and each of the five executive officers of the company and the consolidated entity receiving the highest emolument for the financial year are as follows:

Emoluments of directors of Schaffer Corporation Limited

	Annual Emoluments			Long Term Emoluments		
	Basic fee	Bonus	Other	Termination & similar payments	Super-annuation	Other
	\$	\$	\$	\$	\$	\$
J B Abernethy	225,657	-	3,188	-	18,944	3,188
D E Blain	25,000	-	-	-	2,000	6,957
J M Schaffer	319,767	-	130,982	-	40,305	45,747
D J Schwartz	25,000	-	-	-	2,000	4,167
K K Webster	76,693	-	54,092	-	66,444	-

In addition to the above Directors were issued with bonus shares based on options issued under an employee share scheme (refer note 26(e)). On 15 September 2000 Directors were issued with 1 share for every 10 options held.

In April 2000 a 1:10 bonus issue also occurred. Thus on 15 September 2000 Directors were also issued with bonus shares on the previous bonus issue in April 2000. The information below therefore reflects the number of shares issued in relation to both the above matters. The value of \$3.50 per share is the share price of a fully paid share on 15 September 2000. (Refer also note 25(a).

	Bonus issue 15 September 2000	
	Number of shares	Value at \$3.50 per share
J B Abernethy	9,900	34,650
J M Schaffer	18,700	65,450
D J Schwartz	8,800	30,800

Emoluments of the five most highly paid executive officers of the company and the consolidated entity

	Annual Emoluments			Long Term Emoluments		
	Basic fee	Bonus	Other	Termination & similar payments	Super-annuation	Other
	\$	\$	\$	\$	\$	\$
P M Breckler	116,573	-	14,315	-	12,719	1,823
G V Davieson	118,000	-	32,294	-	9,440	-
M Falconer	117,761	81,675	47,328	-	28,473	2,196
G P Monkhouse	192,600	-	16,776	-	15,408	-
M Perrella	102,960	28,669	22,251	-	14,010	2,196

* Includes the value of share options using the Black-Scholes model.

P M Breckler - Group Chief Accountant
 G V Davieson - Company Secretary
 M Falconer - General Manager Urbanstone Pty Ltd
 G P Monkhouse - Chief Financial Officer
 M Perrella - General Manager Delta Corporation Limited

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity. Executives are those directly accountable and responsible for the operational management and strategic direction of the company and the consolidated entity. The category 'Other' includes the value of any non-cash benefits provided.

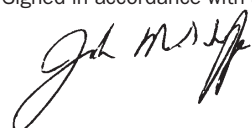
ROUNDING

The amount contained in this report and in the financial statements have been rounded off under the option available to the company under ASIC class order 98/0100.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Schaffer Corporation Limited support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the corporate governance section of this annual report.

Signed in accordance with a resolution of the directors



J M Schaffer
 Chairman and Managing Director

Perth, 26 September 2001

Additional information required by the Australian Stock Exchange Ltd is as follows.

TOTAL SHARE CAPITAL

Issued as at 21 September 2001 - 12,417,764 ordinary fully paid shares

SHARE REGISTRY ADDRESS

c/o Computershare Investor Services Pty Ltd Postal Address:
 Level 2, Reserve Bank Building G P O Box D182
 45 St George's Terrace PERTH WA 6840
 PERTH WA 6000

STOCK EXCHANGE LISTING

The shares of the Company are listed on the Australian Stock Exchange Limited. The home exchange is Perth.

VOTING RIGHTS

Subject to any restrictions from time to time being attached to any class or classes of shares at general meetings of Members or classes of Members.

- (1) each Member entitled to vote may vote in person or by proxy, attorney or representative;
- (2) on a show of hands, every person present who is a Member or a proxy, attorney or representative of a Member has one vote;
- (3) on a poll, every person present who is a Member or a proxy, attorney or representative of a Member shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, shall have a fraction of a vote for each partly paid share. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call are ignored when calculating the proportion.

DISTRIBUTION OF HOLDINGS

As at 21 September 2001	Shareholdings	Shareholders
	1-1,000	399
	1,001-5,000	414
	5,001-10,000	113
	10,001-100,000	101
	100,001 and over	14
		1,041

Number of shareholders holding less than a marketable parcel ie less than 125 shares: 58

SUBSTANTIAL SHAREHOLDERS

As at 21 September 2001, the substantial shareholders of the company pursuant to the Corporations Law, were:

	No. of Shares	Percentage of issued ordinary shares
Swan Holdings Pty Ltd	2,730,146	
Mrs B Schaffer	432,897	
Kablan Nominees Pty Ltd	12,100	
	3,175,143	25.57
Mr J M Schaffer	1,124,448	
Delvin Investments Pty Ltd	343,148	
Schaffer Nominees Pty Ltd	168,096	
Mrs D R Schaffer	38,207	
Miss B Schaffer	10,998	
Mr G Schaffer	10,999	
Mr T Schaffer	10,999	
	1,706,895	13.75
Mrs D E Blain	1,333,184	
Mr A G J Blain	8,405	
Mr A N J Blain	2,103	
Miss T J Blain	8,406	
	1,352,098	10.89
Jobling Investments Pty Ltd	608,312	
Mr A E Jobling	321,543	
Mrs L Jobling	51,843	
Miss L M Jobling	5,749	
Mrs M Bookham	5,749	
	993,196	8.01

TWENTY LARGEST SHAREHOLDERS

As at 21 September 2001	No. of Shares	Percentage of issued ordinary shares
Swan Holdings Pty Ltd	2,730,146	21.99
Mrs Danielle Eva Blain	1,333,184	10.74
Mr John Michael Schaffer	1,124,448	9.06
Jobling Investments Pty Ltd	608,312	4.90
Mrs Blanka Schaffer	432,897	3.49
Delvin Investments Pty Ltd	343,148	2.76
Mr Albert Edward Jobling	321,543	2.59
Mr Anton Mayer	238,031	1.92
The Sports Cafe (Australia) Pty Ltd	226,072	1.82
Double Pty Ltd	221,460	1.78
Mr David Schwartz	179,654	1.45
Schaffer Nominees Pty Ltd	168,096	1.35
Alan Forrester Pty Ltd	110,241	0.89
Stoddarts (1980) Pty Ltd	106,706	0.86
S C E Superannuation Pty Ltd	98,809	0.80
Mr Edward James Lewis	69,105	0.56
Mrs Winifred Francis Schulze	66,918	0.54
Mr Frederick Bruce Wareham	60,639	0.49
Perpetual Custodians Limited	60,500	0.49
Darryl James Smalley	55,000	0.44
	8,554,909	68.92

ANNUAL GENERAL MEETING

The Annual General Meeting of Schaffer Corporation Limited will be held at Perth on Wednesday, 21 November 2001 at 11.30 am. Further information regarding the meeting including the business to be dealt with is contained in the separate notice of meeting.

Information Systems/Risk Management

SFC takes a systematic approach to the assessment and mitigation of risk. Our risk management focuses on implementing and applying systems to improve decision making capabilities. The SFC executive team is continuously developing its management and reporting systems as it strives for an effective performance and exposure measurement regime.

The application of systemisation to SFC's commercial activities provides important benefits to the group. Firstly, there are efficiency and productivity benefits. Secondly, our systems are designed to present information in a way that not only identifies potential problem areas, but also

identifies opportunities for improvement. This is an evolutionary process as SFC measures and analyses its key performance indicators (KPI's), benchmarks those KPI's when such benchmarks exist and assimilates this information back into its management system as standards, goals and strategies going forward.

Independent Advice

Each Director has the right to seek independent professional advice at the Company's expense. The Managing Director requires the submission of a cost estimate by a Director in order to establish the reasonableness of the projected fee. The Managing Director's consent will not be unreasonably withheld.





SHAPE, COLOUR, SIZE, TEXTURE - URBANSTONE'S TOTAL DESIGN FLEXIBILITY

