EMBELTON

2013 ANNUAL REPORT

EMBELTON LIMITED

ACN 004 401 496

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Directors:	G R Embelton, Chairman J R Baldwin J J Embelton
Auditors:	Deloitte Touche Tohmatsu
Share Registry:	Boardroom Pty Limited Level 8, 446 Collins Street Melbourne VIC 3000
Secretary:	E P Galgano
Stock Exchange:	Embelton Limited shares are quoted on the Australian Stock Exchange.

DIRECTORS REPORT TO SHAREHOLDERS

The prolonged slump in building activity that first appeared in early 2012, continued throughout the current year. Sales in both the flooring and technical divisions suffered, leading to a fall in group revenue of 11% which flowed through to a decrease of 24% in net earnings compared with the previous corresponding period.

The difficulties experienced with reduced demand for much of the product range were compounded by the strong Australian currency adversely affecting competitiveness of locally manufacturing goods, including our own.

Against this background, the year was one of significant change as management responded with initiatives which included closure of manufacturing capacity, realignment of some operations and enhanced marketing focus in areas seen to offer the most prospective business opportunities.

Summary

	2013 ($'000s)	2012 ($'000s)
Sales Revenue	32,515	36,357
Operating Profit	1,513	2,001
Company Tax	465	626
Net Profit after Tax	1,048	1,375
Earnings per Share	49c	64c

Net Tangible Assets per Share

	2013	2012
• before declared final dividend	$5.27	$5.07
• after declared final dividend	$5.11	$4.92

DIVIDEND

A final ordinary dividend of 16 cents per share has been declared which, added to the 13 cents interim dividend, makes a total of 29 cents for the year, equivalent to 60% of net earnings after tax. This compares with the ordinary dividend for the 2012 financial year which was also 29 cents.

OPERATIONS

Flooring

Flooring division activities are directed at two broad market segments. The first is focussed largely on trade sales of solid timber flooring and ancillary products, with the second comprising supply of prefinished flooring to specialised retailers and large commercial installations. Whilst conditions were difficult for both businesses, trade operations faced the strongest headwinds where the market for solid timber saw much substitution by price conscious buyers choosing less expensive prefinished flooring, generally sourced overseas.

Reacting to the deteriorating outlook for the trade business, much emphasis was devoted to cost reduction, product rationalisation, including the introduction of new lines to maintain market share and more sharply defined marketing initiatives to build on our long-established strength in this segment.

The retail and commercial flooring business fared better than the trade segment because although revenues fell, seemingly in line with the experience of our major customer groups, the sales outcome suggests that we retained our market position despite emergence of new competition, typically represented by smaller, low margin importers.

The retail and commercial business continues to represent a significant opportunity to which considerable marketing effort has been devoted, especially as the retail flooring groups look to preferred suppliers such as Embelton Flooring to support their ongoing growth initiatives.

Accordingly, we have worked to develop a product range to match customer budgets, current design trends and diversity of choice, all whilst offering consistency in product quality and supply chain reliability.

Technical

Despite a fall of 11% in Technical Division revenues, better cost management reinforced by a minor improvement in gross margins, led to an increase of 73% in the contribution to group earnings.

The Division's central activity is the development of solutions to reduce, and where possible, to isolate structure borne noise and vibration in buildings. Problems associated with transmission of unwanted noise are increasingly an issue for building design, especially in multiple use commercial and residential construction.

Our product offering is directed at two principal areas. The first is represented by a catalogue range of standard noise and vibration isolation products which are sold to original equipment manufacturers, mechanical contractors and builders, whilst the second area focuses on design and provision of specially developed isolation systems for individual projects, typically in larger scale construction.

Publication of a new catalogue during the year coupled with greater marketing activity won an increased share of available business for the standard product range, although these gains were offset somewhat by the reduction in total demand resulting from lower construction activity in most parts of the country.

In recent years divisional earnings have been enhanced by major project work, but the contribution from such work has been largely absent from this year's results. However, emphasis on development of our engineering capacity has been maintained as a key element of continuing strategy and we remain well positioned to benefit from the increase in private and public sector project work which is expected in the period ahead.

Manufacturing

Weighed down by a difficult regulatory environment, expensive labour, high raw material costs and a high Australian dollar, the well documented issues facing Australian manufacturing have become an increasing challenge for us.

The last Annual Report flagged a probable contraction of our production activities and as a result of further review, all manufacturing operations have either been closed or rationalised during the year.

It is a source of disappointment that the two Victorian cork and rubber factories have now been closed, bringing an end to a long history for these operations. The move to overseas sourcing has been necessary given the cost advantages over local production, advantages which are just too great to ignore as these operations progressively became financially untenable. Shutdown of each plant has resulted in abnormal costs that are unlikely to be repeated in following periods.

Likewise, as a result of reducing demand for expensive solid timber flooring, it has been necessary to reduce the operating scale and thus the output of our flooring mill in NSW. Sales of solid timber products are being progressively replaced as increased production of the less expensive engineered flooring of the type we supply to our retail and commercial customers becomes available. Large scale manufacturing of engineered flooring has followed from major Asian and European investment in new technology such that current products, both engineered timber and laminates, represent a compelling choice for new high quality timber flooring installations. As a consequence, the limited continuing production at our NSW plant will concentrate on manufacture of block and mosaic parquetry, being two items that continue to have a market in Australia which cannot be easily sourced elsewhere.

Our Metals Division has also suffered under the current economic circumstances. Traditional customers for our fabricated high temperature alloy products have themselves faced reduced demand in line with the experience of automotive and other heat treatment operators. These customers have moved either to source substitute products from overseas or extend the life of their manufacturing facilities pending greater clarity about future prospects for Australian manufacturing as a whole.

However, given that our Metals business has always been the principal supplier of component parts for our Technical Division, and with more of these components now being sourced from overseas, a structural change within this division has seen it assume responsibility for procurement of all imported technical products. Accordingly the Metals Division now manages the procurement, assembly, and dispatch of all catalogue product items, wherever sourced, as well as continuing to be the major manufacturing resource for customised major project engineering work.

Outlook

Despite continuing economic uncertainty, there are a number of factors which give rise to optimism for the period ahead and although the financial year has started more slowly than we should like, our pipeline of work is healthier than it has been for some time.

Within the Flooring Division, efforts to develop our range and associated marketing materials for the key floor retailing groups, have seen more consistent revenue being derived from this channel. Additionally, our activity to gain flooring specifications from commercial work is proving fruitful, with a number of larger projects likely to arise during the year.

For the Technical Division, better staffing of the sales and engineering functions across the branch network has resulted in increased opportunities to participate in new building projects around Australia. Progress with offshore procurement is facilitating more competitive pricing across our product range and it is expected that new opportunities for catalogue products will follow. And, with inefficient manufacturing operations now closed, rationalised or restructured at lower cost levels, this area of the business should return to profitability in the coming period.

Added to the above factors which are directly within our control, a prolonged low interest rate environment and the probability of more certainty in development of federal Government policy, encourage us to expect increasingly buoyant consumer and business sentiment ahead. As in the past, stabilisation of property prices, which is now becoming apparent, is often matched by a renewal in building and construction activity, both of which can positively influence our diversified businesses.

The capital strength of the Group, together with our associated financial and organisational flexibility, positions the Company to take advantage of any interesting prospects which may emerge in the period ahead. Whilst no corporate activity is planned, the Board remains willing to consider adjacent business opportunities should they arise.

Staffing

In common with all businesses, staffing remains the most important component for our ongoing success. There have been a number of changes to our staff during the year, with the closing of manufacturing operations resulting in a reduction of total staff numbers to 70 at June 30, 2013, compared with 84 one year earlier.

Otherwise the number of front-line and operational support staff has remained constant during a year characterised by difficult markets and ongoing change. The volume of work required of them to maintain and grow our market share has been significant and the Board thanks them for their real contribution. We look forward to working with them in the period ahead which we hope will be underpinned by better economic conditions.

We remain optimistic about an interesting future for the Company and continue to seek talented individuals who wish to join our team and contribute to the business.

CORPORATE GOVERNANCE

Management and oversight

The Board of Embelton Limited takes seriously its accountability for the performance of the Company and is responsible for corporate governance practices.

The Board's principal objective is to maintain and increase shareholder returns within a business and governance setting that provides proper and effective management of the Company's business activities and future strategic direction.

Strategy is set by the Board through approval of corporate activities and direction, establishment of management guidelines, and development of appropriate governance and management practices.

Management oversight is provided at Board level, and the Board is responsible for appointing each of the Managing Director, the Company Secretary, and approving the provision of services by the Group Commercial Manager. The Board approves capital expenditure commitments, acquisitions and divestments, and monitors the financial performance and reporting of the Company.

Day-to-day operational and administrative management of the Company is delegated to the Managing Director. Within this setting, the Managing Director and, as necessary, senior staff including the Group Commercial Manager, regularly report to the Board on all operational and financial matters affecting the Company's operations.

Performance of the Company's senior management is regularly reviewed by the Managing Director against individual and area performance targets and compliance with the Company's overall objectives.

The Company has an established policy for determining the nature and amount of emoluments of Board Members and Senior Executives of the Company to align remuneration with the creation of shareholder value. The remuneration structure for Senior Executives, including the Chief Executive Officer, seeks to emphasise payment for results. Objectives of the reward scheme include both reinforcement of short and long term corporate goals and provision of a common interest between management and shareholders.

The Board considers the remuneration of key management personnel to be appropriate given the results for the year.

Remuneration for Senior Executives and staff is reviewed annually by the Managing Director, using a formal performance appraisal process.

A performance evaluation for senior executives was undertaken during the year in accordance with the above policy.

Structure of the Board

The Board of Embelton Limited is composed of three Directors, including the Chairman, Managing Director and one non-executive Director. The Board acknowledges that there is a requirement to look at the Company's long-term approach to Board independence.

The Board believes that the current directors provide an adequate range of skills in relation to the size, geographic concentration and the business of the Company.

Mr G R Embelton has remained Chairman of the Board during the year while Mr James Embelton has remained the Managing Director.

Mr Ross Baldwin remains an independent Director of the Company. In considering whether an independent non-executive Director of the Company can be considered to be independent, regard has been given to whether or not that Director holds an interest in more than 2% of the Company's shares, and whether that same Director has an interest in any form of contractual relationship with the Company other than by virtue of their continuing service as a Non-Executive Director of the Company.

Details of Directors in office at the date of this report, together with their experience and qualifications are set out in the Statutory Director's Report.

The Board does not have a formal Nominations Committee but is responsible for establishing criteria for Board membership, for accepting appropriate recommendations for appointment of Board members and for management of any changes.

When the need arises to make changes to the structure of the Board, the process is managed by the Chairman and other Board members.

As a smaller Company, evaluation of Board performance is not subject to formal process but is considered to be important and is regularly reviewed by the Board as a whole.

So that the non-Executive Director may be competently advised on any matter in relation to their responsibilities, he has the right to seek, at the Company's expense, independent professional advice in furtherance of their Director's duties. The prior approval of the Board is required for such expenditure.

Ethical decision-making

As a guide to all employees and directors, the Board has formalised a Code of Conduct to reflect practices which, for many years, have formed the ethical framework upon which our business operations have been based.

The Code provides guidance as to how the Company should conduct its business affairs and all employees, directors and officers will be expected to comply with this Code.

Above all, the Code requires that all directors and employees conduct themselves with honesty and integrity.

Subjects covered by this Code include, inter alia, promotion of a safe working environment, dealing with conflicts or potential conflicts of interest, responsible use of company property, guidelines for trading in Company shares and the regular monitoring and active reporting of any unseemly or unethical practices which might arise or be seen to arise.

Integrity in financial reporting

Because of its relatively small size the Company, has not established an audit committee but the responsibilities which would ordinarily be exercised by such a committee have been accepted by the Board.

The Company's auditor is requested to attend the AGM and be available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report.

Timely and balanced disclosure

The Company maintains an appropriate and responsive continuous disclosure regime, which is intended to support the timely and balanced disclosure of all matters concerning the Company. The Company Secretary is responsible, on the Board's behalf, for communicating issues to the ASX.

The disclosure management framework provides for

- compliance with the Corporations Law, and the ASX Listing Rules;
- timely disclosure to the market of all price sensitive Company information;
- a conservative approach to the release and dissemination of price or event sensitive information; and
- avoidance of selective or differential disclosure to selected individuals or groups or in selected situations.

Respect for shareholder rights

The Company supports an investor relations management regime, which is intended to provide timely and effective communication and/or dissemination of information to, shareholders.

The primary source of information disclosure to shareholders, under the ASX Corporate Governance Guidelines, comprises the Half Yearly, and Annual Reports of the Company.

The Company releases, as necessary, information to ensure that investors and members of the public are kept informed about new developments concerning the Company and its business operations.

Recognition and management of risk

As part of its role, the Board assumes responsibility for identification of significant areas of business risk, implementation of procedures to manage such risks and development of policies regarding the establishment and maintenance of appropriate ethical standards.

Its specific role in this area is to:

- ensure compliance with both formal and informal standards in legal, statutory and ethical matters
- monitor the business environment
- identify business opportunities; and
- monitor procedures to ensure that responses to shareholder enquiries and/or complaints are appropriate and prompt

Responsibilities which might ordinarily be exercised by a Risk Management Committee in larger corporations have been accepted by the Board. The Managing Director and Group Commercial Manager report regularly to the Board on all matters of financial integrity and risk management.

Fair and responsible remuneration

All Board members are responsible for determining and reviewing compensation arrangements for Directors, Managing Director and Senior Executives.

The Board annually assesses the appropriateness of the nature and the amount of remuneration received by Directors and Senior Executives by reference to relevant employment market conditions and, with an overall objective of ensuring maximum stakeholder return, seeking to ensure the retention of a high quality board and executive team. Professional advice is taken when appropriate.

Each director receives a fee for being a Director of the Company but no additional fees for additional work undertaken in Board committees.

Non-executive directors are remunerated by way of cash payments or superannuation contributions. Remuneration does not include any retirement benefits other than contributions to his nominated superannuation fund.

EMBELTON LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 $	2012 $
Sales Revenue	3	**32,515,272**	36,357,294
Cost of Sales		**(20,470,317)**	(23,700,151)
Gross Profit		**12,044,955**	12,657,143
Other Income		**179,606**	399,178
Less Expenses:			
Manufacturing Expenses		**(1,521,378)**	(1,710,028)
Marketing Expenses		**(4,704,217)**	(4,671,183)
Storage and Distribution Expenses		**(763,760)**	(818,177)
Administration and Other Expenses		**(3,722,246)**	(3,855,704)
Profit before income tax expense		**1,512,960**	2,001,229
Income tax expense	6	**(464,746)**	(626,317)
Profit for the year		**1,048,214**	1,374,912
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**1,048,214**	1,374,912
Profit attributable to:			
Owners of the company		**1,048,214**	1,374,912
Non-controlling interests		**-**	-
		1,048,214	1,374,912
Total comprehensive income attributable to:			
Owners of the company		**1,048,214**	1,374,912
Non-controlling interests		**-**	-
		1,048,214	1,374,912
Basic earnings per share	9	**49 cents**	64 cents
Diluted earnings per share	9	**49 cents**	64 cents

The accompanying notes form part of the financial statements.

EMBELTON LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	Notes	2013 $	2012 $
CURRENT ASSETS			
Cash and cash equivalents	23(i)	**261,225**	4,190
Trade receivables	10	**3,648,496**	3,802,876
Inventories	11	**8,070,010**	9,735,594
Other	12	**323,273**	217,793
TOTAL CURRENT ASSETS		**12,303,004**	13,760,453
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,497,653**	3,705,563
Deferred tax assets	6	**497,589**	555,917
TOTAL NON-CURRENT ASSETS		**3,995,242**	4,261,480
TOTAL ASSETS		**16,298,246**	18,021,933
CURRENT LIABILITIES			
Bank Overdraft	23(i)	**-**	954,397
Trade and other payables	15	**3,611,585**	4,744,006
Current tax liabilities	6	**109,815**	44,982
Provisions	16	**1,092,689**	1,246,228
TOTAL CURRENT LIABILITIES		**4,814,089**	6,989,613
NON-CURRENT LIABILITIES			
Deferred tax liabilities	6	**25,538**	24,706
Provisions	16	**81,260**	52,691
TOTAL NON-CURRENT LIABILITIES		**106,798**	77,397
TOTAL LIABILITIES		**4,920,887**	7,067,010
NET ASSETS		**11,377,359**	10,954,923
EQUITY			
Issued capital	8	**1,155,970**	1,155,970
Retained earnings	13	**10,221,389**	9,798,953
TOTAL EQUITY		**11,377,359**	10,954,923

The accompanying notes form part of the financial statements.

EMBELTON LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 $	2012 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**32,842,022**	36,490,262
Payments to suppliers and employees		**(30,511,718)**	(38,676,697)
Interest received		**-**	67,350
Finance costs		**(40,347)**	(22,855)
Income taxes paid		**(340,753)**	(816,265)
Net cash generated by / (used by) operating activities	23(ii)	**1,949,204**	(2,958,205)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**52,818**	72,081
Payment for property, plant and equipment		**(164,812)**	(553,540)
Net cash used in investing activities		**(111,994)**	(481,459)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(625,778)**	(722,882)
Net cash used in financing activities		**(625,778)**	(722,882)
Net increase / (decrease) in cash and cash equivalents		**1,211,432**	(4,162,546)
Cash and cash equivalents at the beginning of the financial year		**(950,207)**	3,212,339
Cash and cash equivalents at the end of the financial year	23(i)	**261,225**	(950,207)

The accompanying notes form part of the financial statements.

EMBELTON LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Issued Capital $	Retained Earnings $	Total $
As at 1 July 2011	**1,155,970**	**9,146,923**	**10,302,893**
Profit for the period	-	1,374,912	1,374,912
Total comprehensive income for the period	-	1,374,912	1,374,912
Dividends paid	-	(722,882)	(722,882)
At 30 June 2012	**1,155,970**	**9,798,953**	**10,954,923**
Profit for the period	-	1,048,214	1,048,214
Total comprehensive income for the period	-	1,048,214	1,048,214
Dividends paid	-	(625,778)	(625,778)
At 30 June 2013	**1,155,970**	**10,221,389**	**11,377,359**

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30th JUNE 2013

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

1.1 Standards and Interpretations not affecting amounts reported in the current year (and/or prior years)

The following new and revised Standards and Interpretations have been adopted in the current year and have not affected the amounts reported in these financial statements.

Amendments to AASB 101 'Presentation of Financial Statements'	The amendment (part of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income') introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively however as the Group has no items of other comprehensive income, the presentation of items of other comprehensive income has not changed. The amendments (part of AASB 2012-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle') requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position), when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The related notes to the third statement of financial position are not required to be disclosed.

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT'D)

1.2 Standards and Interpretations issued but not effective

At the date of authorisation of the financial report, the following Standards and Interpretations listed below were in issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014

The Directors have not yet determined what impact, if any, the implementation of the above standards would have on the financial statements of the Group.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of these financial statements are:

Statement of compliance

These financial statements are general purpose financial statements that have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Company is a for –profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 23 September 2013.

Critical accounts, judgement and key issues of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Accounting estimates are made in relation to inventory measurements (including obsolescence).

Judgements made by management in the application of the Group's accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. Judgements have been made in relation to depreciation rates.

Basis of preparation
The company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The consolidated financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a. Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all entities, being the parent entity and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 17 to the financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (as the date of the exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the excess is credited to profit and loss in the period of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

b. Foreign Currency Translation

The functional and presentation currency of Embelton Limited and its Australian subsidiaries is Australian dollars (A$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in the income statement.

c. Revenue Recognition

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods - Revenue from sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to buyer when goods have been delivered to the customer.

Interest - Income recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate being the rate which exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Dividends - Dividends from investments are recognised when the shareholders' right to receive payment has been established.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

d. Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them stem from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

Embelton Limited and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial year. Embelton Limited is the head entity in the tax consolidated group. The separate taxpayer within a group approach has been used to allocate current income tax expense and deferred tax balances to wholly-owned subsidiaries that form part of the tax consolidated group. Embelton Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial year.

e. Impairment of Assets

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an individual asset does not generate cash flows that are independent from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs.

f. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are included within borrowings in the statement of financial position.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

g. Trade Receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 60 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms.

h. Inventories

Raw Materials, Work in Progress and Finished Goods

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventory using either the weighted average cost or first-in-first-out basis, whichever is more appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

i. Property, Plant and Equipment

Land and buildings are measured at cost less accumulated depreciation.

All other plant and equipment is stated at cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings	2%
- Plant and Equipment	10% - 17%
- Vehicles	15% - 25%
- Furniture, fittings and equipment	10% - 33%

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the income statement in the year that the item is disposed of.

j. Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

k. Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms.

l. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of economic resources will be required to settle the obligation and when the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

<u>Onerous contracts</u>

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

m. Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined contribution plans - Contributions to defined contribution superannuation plans are expensed when employees have rendered services entitling them to the contribution.

n. Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

o. Dividends Payable

Provision is made for dividends declared, and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at reporting date.

p. Earnings Per Share

Basic earnings per share - Basic earnings per share is calculated by dividing the profit attributable to members of Embelton Limited, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share - Earnings used to calculate diluted earnings per share are the same as basic earnings per share as there are no diluting potential ordinary shares.

q. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

r. Financial Instruments

Recognition - Financial instruments are initially measured at fair value on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities - Non-derivative financial liabilities are recognised at amortised cost, comprising recognised amount less principal payments and amortisation.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models. At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired.

s. Investments in subsidiaries

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the financial statements of the company.

	2013 $	2012 $
3. INCOME		
Revenue from the sale of goods	**32,515,272**	36,357,294
Other Income		
Interest income	**-**	67,350
Net foreign exchange gain – realised	**169,088**	224,546
Sundry income	**3,282**	51,658
Profit on disposal of property, plant and equipment	**7,236**	55,624
Total other income	**179,606**	399,178

4. PROFIT BEFORE TAX

Profit before tax has been determined after:

Expenses:		
Finance costs	**40,347**	22,855
Depreciation of non-current assets:		
Buildings	**48,149**	45,289
Plant and equipment	**264,567**	294,766
Total depreciation	**312,716**	340,055
Bad debts written off – trade debtors	**27,662**	27,830
Operating lease rentals	**884,199**	705,682
Employee benefits	**5,376,211**	5,798,483
Payments made to Defined Contribution Plans on behalf of employees	**437,616**	474,651
	5,813,827	6,273,134

5. AUDITORS' REMUNERATION

Remuneration of the auditor for:		
Auditing or reviewing the financial report	**50,000**	45,505
Preparation of the tax return and other services	**26,894**	17,680
	76,894	63,185
Remuneration of other auditors of subsidiaries for:		
Auditing or reviewing the financial report	**1,651**	1,130

The auditor of Embelton Limited is Deloitte Touche Tohmatsu. The auditors did not receive any other benefits.

6. TAXATION

	2013 $	2012 $

a) Income tax expense recognised in profit

Tax expense comprises

	2013 $	2012 $
- current tax expense	**405,586**	617,705
- deferred tax expense relating to the origination and reversal of temporary differences	**59,160**	8,612
	464,746	626,317

The prima facie income tax expense on pre tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2013 $	2012 $
Profit from operations	**1,512,960**	2,001,229
Income tax expense calculated at 30%	**453.889**	600,370
Depreciation on property, plant and equipment not deductible for tax	**6,351**	8,242
Sundry items	**12,328**	17,705
Over provision prior year	**(7,822)**	-
Income tax expense recognised in profit	**464,746**	626,317

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

b) Current tax liabilities

Current tax payable

	2013 $	2012 $
Income tax attributable to:		
Parent entity	**12,965**	4,314
Entities in tax consolidated group	**96,850**	40,668
	109,815	44,982

c) Deferred tax balances

	2013 $	2012 $
Deferred tax assets comprise:		
Temporary differences	**497,589**	555,917
Deferred tax liabilities comprise:		
Temporary differences	**25,538**	24,706
Net deferred tax asset	**472,051**	531,211

6. TAXATION – Continued

d) Taxable and deductible temporary differences arise from the following:

	Opening balance $	Charged to Income $	Charged to equity $	Closing balance $
As at 30 June 2013				
Gross deferred tax assets				
Receivables	13,500	-	-	**13,500**
Provisions	476,456	(23,810)	-	**452,646**
Property, plant and equipment	65,961	(34,518)	-	**31,443**
	555,917	(58,328)	-	**497,589**
Gross deferred tax liability				
Property, plant and equipment	(24,706)	(832)	-	**(25,538)**
	531,211	59,160	-	**472,051**
As at 30 June 2012				
Gross deferred tax assets				
Receivables	13,500	-	-	13,500
Provisions	492,295	(15,839)	-	476,456
Property, plant and equipment	46,607	19,354	-	65,961
	552,402	3,515	-	555,917
Gross deferred tax liability				
Property, plant and equipment	(12,579)	(12,127)	-	(24,706)
	539,823	(8,612)	-	531,211

TAX CONSOLIDATION

Relevance of tax consolidation to the consolidated entity

The Company and its wholly owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Embelton Limited. The members of the tax-consolidated group are identified at Note 17.

Under the tax law, the taxable profit made by a tax-consolidated group in relation to an entity leaving the group depends on a range of factors, including the tax values and/or carrying values of the assets and liabilities of the leaving entities, which vary in line with the transactions and events recognised in each entity. The taxable profit or loss ultimately made on any disposal of the investments within the tax-consolidated group will therefore depend upon when each entity leaves the tax-consolidated group and the assets and liabilities that the leaving entity holds at that time.

The consolidated entity considers the effects of entities entering or leaving the tax-consolidated group to be a change of tax status that is only recognised when those events occur. As a result, temporary differences and deferred tax liability have not been measured or recognised in relation to investments within the tax-consolidated group.

Nature of tax funding arrangements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Embelton Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

7. DIVIDENDS PROVIDED FOR OR PAID

	2013 $	2012 $
Dividends paid by the Company are:		
(i) A final fully franked ordinary dividend of 16.0 cents (2010/11 – 15.0 cents) and no special dividend (2010/11 – 5.5 cents) was declared for the 2012 financial year and was paid on 12 October 2012 (21 October 2011)	**345,257**	442,361
(ii) An interim fully franked ordinary dividend of 13.0 cents (2012 – 13.0 cents) for the 2012/13 financial year was declared on 21 February 2013 (2012 – 15 February) and paid on 12 April 2013 (2012 – 13 April)	**280,521**	280,521
	625,778	722,882

A fully franked ordinary dividend of 16.0 cents per share was declared by the Directors on 15 August 2013, but this has not been provided for in the financial statements as at 30 June 2013.

The total estimated dividend to be paid is $345,257

FRANKING ACCOUNT BALANCE

Franking account balance	**4,213,346**	3,601,767

		2013 $	2012 $
8.	**ISSUED CAPITAL**		
	2,157,857 (2012 - 2,157,857) fully paid ordinary shares	**1,155,970**	1,155,970

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion of the number of shares held.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

9. EARNINGS PER SHARE

	2013	2012
Basic and diluted earnings per share	**49 cents**	64 cents
Net Profit used in calculation	**1,048,214**	1,374,912
Weighted average number of ordinary shares	**2,157,857**	2,157,857

10. TRADE RECEIVABLES

	2013	2012
CURRENT		
Trade receivables	**3,693,496**	3,847,876
Less provision of doubtful debts	**(45,000)**	(45,000)
	3,648,496	3,802,876
Ageing of past due but not impaired:		
30 – 60 days	**155,603**	65,630
Over 60 days	**48,796**	74,055
	204,399	139,685

The average credit period on sales of goods is 38 days (2012 – 37 days). No interest is charged on the trade receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and economic conditions. There has been no movement in the provision account in the current year (2012 – Nil).

	2013	2012
Movement in allowance for doubtful debts		
Balance at the beginning of the year	**45,000**	45,000
Amounts provided for during the year	**27,662**	27,830
Amounts written off during the year as uncollectable	**(27,662)**	(27,830)
Balance at the end of the year	**45,000**	45,000

		2013 $	2012 $
11.	**INVENTORIES**		
	CURRENT		
	Raw materials - at cost	**282,634**	557,317
	Work in progress - at cost	**120,691**	163,198
	Finished goods - at cost	**7,666,685**	9,015,079
		8,070,010	9,735,594
12.	**OTHER CURRENT ASSETS**		
	Prepayments and sundry debtors	**323,273**	217,793
13.	**RETAINED PROFITS**		
	Retained profits at beginning of year	**9,798,953**	9,146,923
	Net profit attributable to members of the parent entity	**1,048,214**	1,374,912
	Dividends paid (Note 7)	**(625,778)**	(722,882)
	Retained profits at the end of the year	**10,221,389**	9,798,953
14.	**PROPERTY, PLANT AND EQUIPMENT**		
	LAND - At cost	**1,489,822**	1,489,822
	BUILDINGS – At cost	**1,888,929**	1,888,929
	- Accumulated depreciation	**(585,259)**	(537,110)
		1,303,670	1,351,819
	TOTAL LAND AND BUILDINGS	**2,793,492**	2,841,641
	PLANT & MACHINERY – At cost	**2,231,900**	2,203,994
	- Accumulated depreciation	**(2,070,290)**	(1,998,390)
		161,610	205,604
	FIXTURES AND FITTINGS – At cost	**1,333,729**	1,278,295
	- Accumulated depreciation	**(973,421)**	(898,447)
		360,308	379,848
	MOTOR VEHICLES – At cost	**340,807**	411,023
	- Accumulated depreciation	**(158,564)**	(132,553)
		182,243	278,470
	TOTAL – Cost	**7,285,187**	7,272,063
	- Accumulated depreciation	**(3,787,534)**	(3,566,500)
	NET BOOK VALUE	**3,497,653**	3,705,563

14. PROPERTY, PLANT AND EQUIPMENT - Continued
MOVEMENT IN CARRYING AMOUNTS

2013

	Freehold Land	Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	TOTAL
	$	$	$	$	$	$
Balance at beginning of year	1,489,822	1,351,819	205,604	379,848	278,470	3,705,563
Additions	-	-	31,327	133,685	-	164,812
Disposals	-	-	(728)	(28,132)	(31,146)	(60,006)
Depreciation expense	-	(48,149)	(74,593)	(124,893)	(65,081)	(312,716)
Carrying amount at end of year	1,489,822	1,303,670	161,610	360,308	182,243	3,497,653

2012

	Freehold Land	Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	TOTAL
	$	$	$	$	$	$
Consolidated						
Balance at beginning of year	1,489,822	1,275,090	276,786	285,475	212,660	3,539,833
Additions	-	122,018	11,996	230,944	188,582	553,540
Disposals	-	-	-	(26,946)	(20,809)	(47,755)
Depreciation expense	-	(45,289)	(83,178)	(109,625)	(101,963)	(340,055)
Carrying amount at end of year	1,489,822	1,351,819	205,604	379,848	278,470	3,705,563

Assets pledged as security
The bank facilities of $1,960,000 (2012 - $1,960,000) are secured by a registered mortgage over property situated at 147-149 Bakers Road, Coburg.

15. TRADE AND OTHER PAYABLES

	2013	2012
	$	$
CURRENT		
Trade Payables	**2,119,609**	3,069,673
Sundry Payables and accrued expenses	**1,491,976**	1,674,333
	3,611,585	4,744,006

The average credit period on purchases of goods is 45 days. No interest is charged on trade payables. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Amounts due to controlled entities are non-interest bearing and payable on call.

	2013 $	2012 $
16. PROVISIONS		
CURRENT		
Employee benefits	**1,092,689**	1,246,228
NON-CURRENT		
Employee benefits	**81,260**	52,691
Aggregate liability for employee entitlements	**1,173,949**	1,298,919

17. SUBSIDIARIES

Details of the Group's subsidiaries at the end of the reporting period are as follows

	Notes	Ownership Interest		Carrying Amount of Investment in Company	
		2013	2012	**2013**	2012
		%	%	**$**	$
EMBELTON LIMITED					
CONTROLLED ENTITIES					
G. P. Embelton & Co. Pty. Ltd.	a	**100**	100	**654,768**	654,768
Windolite (Australia) Pty. Ltd.	a	**100**	100	**199,732**	199,732
Wood Flooring Wholesale Pty. Ltd. as trustee for Wood Flooring Unit Trust	a	**100**	100	**100**	100
Embelton Manufacturing Co. Pty. Ltd.	a	**100**	100	**963,295**	963,295
Embelton Industries Pty. Ltd.	a	**100**	100	**18,750**	18,750
Wood Flooring Pty. Ltd.	a	**100**	100	**1**	1
Embelton Singapore Pte. Ltd.	a,b	**100**	100	**10,288**	10,288
Embelton (Malaysia) Sdn. Bhd.	a,b	**100**	100	**1**	1
Embelton Timber Services Pty. Ltd.	a	**100**	100	**2**	2
Embelton-Grail Inc.	a,b,c	**54.5**	54.5	**-**	-
				1,846,937	1,846,937

a. With respect to controlled entities, the only class of share issued is ordinary. All controlled entities are incorporated in Australia and operate in Australia, with the exception of Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd and Embelton-Grail Inc, which are incorporated in Singapore, Malaysia and USA respectively. All controlled entities are included in the tax consolidated group referred to in Note 2d, with the exception of Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd and Embelton-Grail Inc.

b. Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd and Embelton-Grail Inc are not audited by Deloitte Touche Tohmatsu.

c. Embelton Limited has a 54.5% interest in Embelton-Grail Inc. which is incorporated in the USA. The investment in and advances to Embelton-Grail Inc. by Embelton Limited have been written off in the Company's accounts and consolidated accounts in prior years. The Directors of Embelton Limited do not intend to provide any financial support to enable any amounts which may be due by Embelton-Grail Inc. to be repaid.

18. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of Embelton Limited during the year were:

G R Embelton	Chairman
J J Embelton	Managing Director
J R Baldwin	Non-executive Director
E P Galgano	Company Secretary (appointed September 2011)

The aggregate compensation of key management personnel of the consolidated entity and company is as follows:

	2013	2012
	$	$
Short term employment benefits	**603,132**	589,824
Post-employment benefits	**81,239**	105,647
	684,371	695,471

Details of key management personnel compensation are disclosed in the Remuneration Report that forms part of the Directors' Report.

19. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE RENTAL COMMITMENTS

Future operating lease rentals of buildings and motor vehicles, not provided for in the financial statements and payable:

Lease commitments due		
Not later than one year	**752,609**	711,590
Later than one but not later than five years	**1,614,671**	1,478,930
	2,367,280	2,190,520

Operating leases relate to properties used by the Group and motor vehicle leases with lease terms between 1 to 5 years, with some property leases having further options to extend. Some property operating lease contracts contain market review clauses. The lessee does not have an option to purchase the property at the expiry of the lease period.

20. RELATED PARTIES

KEY MANAGEMENT PERSONNEL

The names of each person holding the position of Director of Embelton Limited during the financial year are - Messrs G R Embelton, J R Baldwin, and J J Embelton.

Details of key management personnel compensation, superannuation and retirement payments are set out in the Remuneration Report that forms part of the Director's Report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interest existing at year end.

The interest of each key management person and their related parties in the share capital of the Company during the year are set out as follows:

Fully paid ordinary shares of Embelton Limited

To be updated	Balance at 30.06.11	Received as Compensation	Other Changes	Balance at 30.06.12	Received as Compensation	Other Changes	Balance at 30.06.13
Directors							
G R Embelton	938,326	-	-	938,326	-	-	938,326
J R Baldwin	6,535	-	-	6,535	-	-	6,535
J J Embelton	31,877	-	-	31,877	-	-	31,877
Executives							
E P Galgano	-	-	-	-	-	-	-

CONTROLLED ENTITIES

Details of interests in controlled entities are set out in Note 17. Details of transactions with controlled entities are set out below.

Tax Sharing Agreement – Transactions between Embelton Limited and its wholly owned Australian controlled entities under the tax sharing agreement are described in Note 6.

21. SEGMENTAL INFORMATION

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director (the chief operating decision maker) in assessing performance and in determining allocation of resources.

The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Managing Director on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

The reportable segments identified are unchanged from those identified previously.

Reportable segments

Technical Products
The Technical Products business comprises the sale of various vibration control devices, building materials, industrial cork, rubber products and metal fabrications.

Flooring Products
The Flooring Products business comprises the sale of timber and cork flooring and accessory products.

Manufacturing
Manufacturing operations supply to both market segments.

Business Segments

	Merchandising			
	Technical Products $'000	**Flooring Products $'000**	**Manufacturing $'000**	**Consolidated $'000**
(i) **2013**				
Revenue				
Sale of Goods and Commission Received	**6,119**	**25,065**	**5,717**	**36,901**
Elimination on Consolidation	**-**	**-**	**(4,386)**	**(4,386)**
Total Segment Revenue	**6,119**	**25,065**	**1,331**	**32,515**
Results				
Segment results	**608**	**1,093**	**(10)**	**1,691**
Unallocated expenses				**(178)**
Total Operating Profit before income tax				**1,513**
Income tax expense				**465**
Total Operating Profit after income tax				**1,048**
Assets				
Segment assets	**2,849**	**10,804**	**2,645**	**16,298**
Unallocated assets				**-**
Total Assets				**16,298**
Liabilities				
Segment Liabilities	**1,549**	**2,851**	**473**	**4,873**
Unallocated Liabilities				**48**
Total Liabilities				**4,921**
Other				
Acquisition of non-current assets	**47**	**86**	**32**	**165**
Depreciation of non-current assets	**81**	**149**	**83**	**313**

SEGMENTAL INFORMATION continued
Business Segments

	Merchandising Technical Products $'000	Merchandising Flooring Products $'000	Manufacturing $'000	Consolidated $'000
(ii) **2012**				
Revenue				
Sale of Goods and Commission Received	6,875	28,250	6,381	41,506
Elimination on Consolidation	-	-	(5,149)	(5,149)
Total Segment Revenue	6,875	28,250	1,232	36,357
Results				
Segment results	351	1,703	60	2,114
Unallocated expenses				(113)
Total Operating Profit before income tax				2,001
Income tax expense				626
Total Operating Profit after income tax				1,375
Assets				
Segment assets	2,848	11,799	3,375	18,022
Unallocated assets				-
Total Assets				18,022
Liabilities				
Segment Liabilities	2,242	4,128	676	7,046
Unallocated Liabilities				21
Total Liabilities				7,067
Other				
Acquisition of Segment Assets	190	350	14	554
Depreciation of Segment Assets	87	161	92	340

Geographical Segments
The Consolidated Entity predominately operates in Australia.

22. FINANCIAL INSTRUMENTS

Capital Risk Management
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group adopts a conservative capital management approach by financing its operating activities through cash generating operations and by minimising debt.

The Group's overall strategy remains unchanged from 2012.

Operating cash flows are used to maintain and expand the Group's operations as well as to manage the routine outflows of tax and dividends.

The Group's principal financial instruments comprise cash, deposits at call, receivables, other financial assets, external debt and payables. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market price risk (currency risk and interest rate risk).

(a) **Market risk**
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Group comprises two types of risk: market interest rates (interest rate risk) and foreign exchange rates (currency risk). There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(b) **Credit risk**

The Group and Company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying value of those assets as indicated in the balance sheet.

Credit risk in trade receivables is minimised by:

- having 30 day payment terms,
- close monitoring of all overdue balances by senior management, and
- providing credit insurance for all accounts over $5,000.

Cash balances and short term deposits are maintained with the Commonwealth Bank.

The carrying amount of financial assets in this financial report represents the Group and Company's maximum exposure to credit risk at reporting date.

(c) **Categories of financial instruments**

	2013	2012
	$'000	$'000
Financial Assets at amortised cost		
Cash and cash equivalents	**261**	4
Trade receivables	**3,648**	3,803
Other receivables	**323**	218
Financial Liabilities at amortised cost		
Bank overdraft	**-**	954
Trade and sundry payables	**3,612**	4,744

(d) **Interest rate risk**

Interest rate risk is the risk that the market value of the Group's investments will be adversely affected by fluctuations in interest rates. The Group's and the Company's exposure to interest rate risk and the effective return on its financial assets and liability is summarised below:

Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year end held constant throughout the reporting period.

At reporting date if interest rates had been 25 basis points higher or lower and all other variables were held constant Group net profit would vary by $nil (2012: $2,385).

(e) **Currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group operates within Australia and whilst the Group does import certain inventory items from overseas there were no forward exchange contracts in place at the year end.

Foreign Currency Sensitivity The Group is mainly exposed to USD and Euro currencies. The following table sets out the Group's sensitivity to a 5% variation in the Australian dollar against the relevant foreign currencies. The analysis includes all trade payables outstanding at year end.

	USD Impact		Euro Impact	
	2013	2012	**2013**	2012
	$	$	**$**	$
Profit would vary by	**13,735**	17,315	**988**	2,576

(f) **Fair values**

There is no material difference between the carrying amounts of financial instruments at amortised cost and the fair values of financial assets and liabilities.

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

(g) **Liquidity risk**

Liquidity risk is the risk that the Group will have insufficient liquidity to meet its obligations as they fall due. All non-related payables are non-interest bearing and standard settlement terms apply. This risk is managed by regularly monitoring liquid reserves and obligations falling due and by holding cash and deposits at call.

The Group and Company manages liquidity risk by maintaining adequate cash reserves sufficient to pay intercompany loans. This is done by continually monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities classed as financial instruments.

CONSOLIDATED	**Weighted Average Interest Rate** %	**Less than 1 year** $'000	**1-5 Years** $'000	**5+ years** $'000
2013				
Assets				
Non interest bearing		4,233	-	-
Interest bearing		-	-	-
Liabilities				
Non interest bearing		3,612	-	-
Interest bearing		-	-	-
2012				
Assets				
Non interest bearing assets		4,025	-	-
Interest bearing		-	-	-
Liabilities				
Non interest bearing liabilities		4,744	-	-
Interest bearing	7.2	954		

23. NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of Cash

For the purposes of the Statement of Cash Flow, cash includes cash and cash equivalents on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

	2013 **$**	2012 $
Cash and cash equivalent	**4,540**	4,190
Cash at Bank / (Bank overdraft)	**256,685**	(954,397)
	261,225	(950,207)

(ii) Reconciliation of Profit for the period to Net Cash provided by Operating Activities

	2013	2012
Profit for the period	**1,048,214**	1,374,912
Depreciation	**312,716**	340,055
Profit on sale of property, plant and equipment	**(7,236)**	(55,624)
Net bad debts written off	**27,662**	27,830
Net Cash Provided by Operating Activities before change in Assets and Liabilities	**1,381,356**	1,687,173
Change in Assets and Liabilities during the financial year:		
Decrease / (Increase) in assets:		
Trade receivables	**154,380**	(266,210)
Inventory	**1,665,584**	(4,001,780)
Other current assets	**(105,480)**	(77,076)
Deferred tax asset	**58,328**	(3,515)
Increase / (Decrease) in liabilities:		
Income taxes payable	**64,833**	(198,560)
Trade payables	**(950,064)**	248,444
Sundry payables	**(182,357)**	(307,491)
Provisions	**(138,208)**	(51,317)
Deferred tax liability	**832**	12,127
Net Cash Provided by / (Used by) Operating Activities	**1,949,204**	(2,958,205)

(iii) **FINANCING ARRANGEMENTS**

The consolidated entity has access to bank overdraft, trade and bill facilities to a maximum of $1,960,000 (2012 - $1,960,000) which, after allowing for outstanding trade L/Cs and Bank Guarantees, resulted in an unused facility of $1,900,334 (2012 - $952,853) at year end. The bank overdraft is payable on demand and is subject to annual review. The bank facilities are secured by a registered mortgage over property situated at 147-149 Bakers Road, Coburg, Victoria.

24. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.
Refer note 2 for a summary of the significant accounting policies relating to the group.

Financial position	**2013**	2012
	$	$
Assets		
Current assets	**13,072**	10,944
Non-current assets	**8,854,086**	9,296,615
Total assets	**8,867,158**	9,307,559
Liabilities		
Current liabilities	**131,815**	66,441
Non-current liabilities	**3,406**	-
Total Liabilities	**135,221**	66,441
Equity		
Issued capital	**1,155,970**	1,155,970
Retained earnings	**7,575,967**	8,085,148
Total equity	**8,731,937**	9,241,118
Financial performance		
Profit for the year	**116,596**	132,006
Other comprehensive income	**-**	-
Total comprehensive income	**116,596**	132,006
Contingent liabilities of the parent entity	**-**	-
Commitments for the acquisition of property, plant and equipment by the parent entity		
Not longer than one year	**-**	**-**
Longer than one but no later than 5 years	**-**	**-**
Longer than 5 years	**-**	**-**
	-	**-**

25. SUBSEQUENT EVENTS

No significant events have occurred since the balance date which would impact on the financial position of the Group at 30 June 2013 or the results for the period ended on that date.

DIRECTOR'S DECLARATION

The Directors declare that:

a) in the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b) In the Director's opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;

c) in the Director's opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

G R Embelton
Chairman
27 September 2013

STATUTORY DIRECTOR'S REPORT

Your Directors present their report on the Company and its subsidiaries for the financial year ended 30 June 2013.

DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

Mr G R Embelton
Mr J R Baldwin
Mr J J Embelton

COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year:

Mr E P Galgano
Appointed September 2011

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year comprised the manufacture and distribution of flooring products, structural noise and vibration control systems, metal fabrication, rubber and cork sheeting, and other industrial products. There has been no significant change in these activities during the year.

OPERATING RESULTS

The consolidated profit of the consolidated entity after providing for income tax and eliminating outside equity interests amounted to $1,048,214 (2012: $1, 374,912).

DIVIDENDS	**2013** **$**	2012 $
Dividends paid or declared for payment in respect of the financial year are as follows:		
An interim fully franked ordinary dividend of 13.0 cents per share (2012 – 13.0 cents) was paid on 12 April 2013	**280,521**	280,521
A final fully franked ordinary dividend of 16.0 cents per share (2012 – 16.0 cents) has been declared by the Directors	**345,257**	345,257
	625,778	625,778

CHANGE IN STATE OF AFFAIRS

During the financial year, there was no significant change in the state of affairs of the consolidated entity other than those referred to in the financial statements or notes thereto.

EVENTS AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect operations of the consolidated entity, results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

ENVIRONMENTAL ISSUES

Operations of the consolidated entity are subject to regulation under environmental legislation in many aspects of its businesses. Operating entities monitor compliance with environmental regulations to maintain a safe and healthy working environment at all times.

The directors are not aware of any significant breaches or non-compliance with such regulations during the period covered by this report.

DIRECTORS

The Directors in office at the date of this report, their shareholdings, qualifications and experience are set out below.

George Embelton, BE, MBA, FIEAust
Mr Embelton was appointed Chairman in 1984.

James Embelton, BA
Appointed Non-Executive Director in April 2008
Appointed Managing Director in November 2010
Prior to joining the company as Managing Director, Mr Embelton had 15 years experience in financial services most recently with Macquarie Group Limited, where he was a Division Director. Earlier he spent ten years in the North American Financial Services Sector, including time as a Director for Legg Mason in Toronto, responsible for business development with Financial Institutions and Pension Funds. Prior to this Mr Embelton was Associate Vice-President for AIC Mutual Funds. He completed a Bachelor of Arts from Monash University in 1992, has completed the Canadian Securities Institute designation and completed the first level of the Chartered Financial Analyst Program in 2004.

Ross Baldwin, DipCE, FIEAust,
Appointed Non-Executive Director in 2002.
Mr Baldwin consults to clients involved in all aspects of development, construction, operation and maintenance of major infrastructure projects. He also specialises in advising on projects in the Asian region, having been resident there for eleven years, during which time he occupied key positions including Director and/or Managing Director with companies which undertook significant infrastructure and mining projects.

He is a director, immediate past Chairman and principal of Flagstaff Consulting Group and a director of Flagstaff Engineering Services. He is also a former Managing Director of John Holland Asia, former Director of the Overseas Projects Corporation of Victoria and the Mayfair Hanoi Joint Venture.

Mr Baldwin is considered an independent director.

MEETINGS OF DIRECTORS

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year are:

Directors' Meetings	Meetings attended	Meetings eligible to attend
G R Embelton	6	6
J R Baldwin	6	6
J J Embelton	6	6

DIRECTORS' AND EXECUTIVES' RELEVANT SHAREHOLDINGS

To be updated	Balance at 30.06.11	Received as Compensation	Other Changes	Balance at 30.06.12	Received as Compensation	Other Changes	Balance at 30.06.13
Directors							
G R Embelton	938,326	-	-	938,326	-	-	938,326
J R Baldwin	6,535	-	-	6,535	-	-	6,535
J J Embelton	31,877	-	-	31,877	-	-	31,877
Executives							
E P Galgano	-	-	-	-	-	-	-

REMUNERATION REPORT

This outlines the remuneration arrangements for directors and executives of Embelton Ltd. Remuneration of directors and key management personnel is referred to as compensation as defined in AASB 124 “Related Party Disclosures”.

Remuneration Policy

The Company has an established policy for determining the nature and amount of emoluments of Board Members and Senior Executives of the Company to align remuneration with the creation of shareholder value. The remuneration structure for the Senior Executives, including the Managing Director, seeks to emphasise payment for results. The objective of the reward scheme is both to reinforce the short and long terms goals of the Company and to provide a common interest between management and shareholders.

A review of the Group’s operations during the year is included in the Directors’ Report. The Board considers the remuneration of key management personnel to be appropriate given the results for the year.

Remuneration Committee

The Remuneration Committee comprises the Chairman and the non-executive Director of the Company and is responsible for determining and reviewing compensation arrangements for the Directors, Managing Director and Senior Executives.

The Remuneration Committee assesses the appropriateness of the nature and amount of the remuneration of Directors and Senior Executives on an annual basis by reference to the relevant employment market conditions with the overall objective of ensuring maximum stakeholder return from the retention of a high quality board and executive team. Professional advice is taken when appropriate.

Remuneration Structure

In accordance with the ASX Corporate Governance Council Recommendations, the remuneration structure for the non-executive Director is separate and distinct from that for Senior Executives.

Executive Directors and Senior Executives

The Company aims to reward executives with a remuneration package commensurate with their position and responsibilities with the Company and so as to:

- Reward executives for achievement of pre-determined key performance indicators;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Remuneration for Senior Executives and staff is reviewed annually by the Managing Director, using a formal performance appraisal process.

The remuneration structure is in two parts:
- Fixed remuneration; and
- Variable remuneration.

Fixed Remuneration comprises payroll salary, superannuation and other benefits. Some individuals have also chosen to sacrifice part of their salary to increase payments towards superannuation.

Variable Remuneration is based on a short-term incentive plan which is used to differentiate rewards based on performance and is assessed each year. The principal performance indicator of the short-term incentive plan relates to the Company's financial performance and individual achievement of specified goals, which may, for example, include accomplishment of growth initiatives.

The Remuneration Committee recommends to the Board adjustments to fixed remuneration each year based on the performance of individuals. In addition, the Committee reviews the performance and the remuneration of the Managing Director and recommends to the Board any short-term incentive payments and adjustments to his remuneration.

Non-Executive Directors

The Board seeks to set an aggregate remuneration level which provides the Company with the ability to attract and retain Non-Executive Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting, to be divided between the Directors as the Directors shall determine and, in default of agreement between them, then in equal share.

The Non-Executive Director receives a fee for being a Director of the Company but no additional fees for sitting on or chairing committees.

Non-Executive Directors are encouraged by the Board to own shares in the Company (purchased by Non-Executive Director on market). It is considered good governance for directors to have an ownership interest in the Company on whose board he or she sits.

Employment Contracts of Directors and Senior Executives

Senior Executives and Executive Directors are employed under employment contracts which allow three months notice to be given by either party, with no termination benefit payable other than the salary for that period and any other statutory obligations.

Relationship Between the Remuneration Policy and Company Performance

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2013. As stated above the Group aims to reward executives with a remuneration package commensurate with their position and responsibilities within the Group. Remuneration should embrace reward for achievement of pre-determined key performance indicators (such as EBT) linked to strategic goals whilst ensuring that the total remuneration remains competitive.

Remuneration for key management personnel and staff is reviewed annually using a formal performance appraisal process.

Year ended:	**30 June 2009** **$**	**30 June 2010** **$**	**30 June 2011** **$**	**30 June 2012** **$**	**30 June 2013** **$**
Revenue	27,193,671	30,351,938	34,051,729	36,756,742	32,694,878
Net profit before tax	1,506,395	1,887,208	2,200,682	2,001,229	1,512,960
Net profit after tax	1,046,574	1,308,150	1,530,193	1,374,912	1,048,214

Year ended:	30 June 2009	30 June 2010	30 June 2011	30 June 2012	30 June 2013
Share price at start of year	$ 4.50	$ 3.40	$ 4.60	$ 6.00	$ 7.60
Share price at end of year	$ 3.40	$ 4.60	$ 6.00	$ 7.60	$ 6.51
Interim Dividend[1]	10.0 cents	11.0 cents	12.5 cents	13.0 cents	13.0 cents
Special Dividend[1]	-	5.0 cents	5.5 cents	-	-
Final Dividend[1]	13.0 cents	14.0 cents	15.0 cents	16.0 cents	16.0 cents
Basic earnings per share	49 cents	61 cents	71 cents	64 cents	49 cents
Diluted earnings per share	49 cents	61 cents	71 cents	64 cents	49 cents
Total Dividends declared	23 cents	30 cents	33 cents	29 cents	29 cents

[1]Franked to 100% at 30% corporate tax rate.

Compensation of Key Management Personnel

Names and positions held of Company directors and other key management personnel in office at any time during the financial year are:

Company Directors:

Mr G R Embelton	Chairman – appointed Chairman 1984
Mr J J Embelton	Director – appointed Managing Director 2010
Mr J R Baldwin	Director – Non-executive – appointed Director 2002

Executives:

Mr E P Galgano	Company Secretary - appointed September 2011

Consolidated Entity and Company

	Short Term Employee Benefits				Post Employment		
	Salary & Directors Fees $	LSL $	Incentive Accrued for Current Period $	Non-monetary Benefit $	Superannuation Benefits $	Total $	Proportion of Remuneration Performance Related
Company Non-Executive Directors' Remuneration							
Year ending 30 June 2013							
Mr J R Baldwin	-	-	-	-	20,000	20,000	
	-	-	-	-	20,000	20,000	
Year ending 30 June 2012							
Mr J R Baldwin	-	-	-	-	20,000	20,000	
	-	-	-	-	20,000	20,000	
Company Executive Directors and Specified Executives' Remuneration							
Year ending 30 June 2013							
Mr G R Embelton	75,646	1,666	-	10,985	24,248	112,545	-
Mr J J Embelton	257,384	11,365	62,000	10,985	16,470	358,204	17%
Mr E P Galgano	135,000	1,997	28,328	7,775	20,521	193,621	15%
	468,030	15,028	90,329	29,745	61,239	664,370	15%
Year ending 30 June 2012							
Mr G R Embelton	67,000	1,671	-	11,141	46,500	126,312	-
Mr J J Embelton	240,516	-	75,000	10,985	16,262	342,763	22%
Mr E P Galgano	157,560	2,230	38,954	4,767	22,885	226,396	17%
	465,076	3,901	113,954	26,893	85,647	695,471	16%

For the year under review, bonuses of $62,000 and $28,329 have been provided for Mr. J J Embelton and Mr. E P Galgano respectively (2012 – $75,000 and $38,954 respectively) following the Group's achievement of specified profit targets. The amount paid may be any amount up to a maximum amount or nil if targets are not achieved. The specified profit target was chosen as a means of aligning executive remuneration with the creation of shareholder value.

Compensation Options

No options have been granted as remuneration during the financial year. There are no options over ordinary shares outstanding.

Shares Issued on Exercise of Compensation Options

The Company has not issued any remuneration options.

Options and Rights Holdings
No directors or executives hold any options or rights over ordinary shares of Embelton Limited.

INDEMNIFYING OFFICERS OR AUDITORS

During or since the end of the financial year the Company has paid premiums to insure all Directors and officers of the Company against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of officer of the Company, other than conduct involving a willful breach of duty in relation to the Company. The amount of the premium was $7,169 (2012 - $7,723).

The Company has not, during or since the end of the financial year, in respect of any person who is or has been the auditor of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an auditor, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an auditor for the costs or expenses to defend legal proceedings; with the exception of the matters mentioned above.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditors independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the relevant professional and ethical standards.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2013:

Taxation services - preparation of income tax returns	$ 7,875
Tax compliance and consulting services	$ 19,019
Total	$ 26,894

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 40.

Signed in accordance with a resolution of the Board of Directors.

On behalf of the Directors

G R Embelton
Chairman
27 September 2013

Deloitte.

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The Board of Directors
Embelton Limited
147-149 Bakers Road
COBURG VIC 3058

27 September 2013

Dear Board Members

Embelton Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Embelton Limited.

As lead audit partner for the audit of the financial statements of Embelton Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

C M J Bryan
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Embelton Limited

We have audited the accompanying financial report of Embelton Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on page 6 to 39.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Embelton Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Deloitte.

Opinion

In our opinion:

(a) the financial report of Embelton Limited is 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 2013 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages xx to xx of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Embelton Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

C M J Bryan
Partner
Chartered Accountants
Melbourne, 27 September 2013

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 02 SEPTEMBER 2013

In accordance with the listing requirements of the Australian Associated Stock Exchange, the Directors state:

a. The number of holders of fully paid ordinary shares as at 2 September 2013 was 148 of which 8 held less than a marketable parcel.

b. Distribution of Shareholding

Range	No of Holders of Ordinary Shares	No of Shares
1 – 1,000 shares	62	26,979
1,001 – 5,000 shares	55	131,936
5,001 – 10,000 shares	4	25,721
10,001 – 100,000shares	23	393,474
100,001 and over	4	1,579,747
	148	2,157,857

c. Percentage total holdings by or on behalf of the twenty largest shareholders is 87.50%.

Shareholder to be updated	No of shares	% of total
GRE Nominees Pty Ltd	567,940	26.32
Mrs Elizabeth M Montgomery & Mrs Bridget E Tomkins (Elizabeth Montgomery S/F A/C)	467,981	21.69
George Robert Embelton	347,886	16.12
Mr Ian Peter Alexander	195,940	9.08
Ms Carolyn Louise Hill	32,307	1.50
Mr James John Embelton	31,877	1.48
Jennifer Mary Shepherd	22,395	1.04
Geoffrey Weston Cruse	21,105	0.98
G R E Nominees Pty Ltd (G R Embelton Superannuation Fund)	18,500	0.86
Mr Adrian Eaglie White	18,000	0.83
Ms Sallie Christina Hill	17,913	0.83
Mr Glenn Arthur Moore & Mrs Elizabeth Moore (Moore Superannuation A/C)	17,653	0.82
Albany Braithwaite Holdings Limited	16,964	0.79
Aviation Fuel Associates (Aust) Pty Ltd (The Fraser Super Fund A/C)	16,838	0.78
Mr Amos Andrew Weigall & Ms Lucy Elisabeth Weigall (Cook Palmer A/C)	16,198	0.75
Mr Amos Andrew Weigall & Mr Andrew Thomas Weeks (Amos Weigall A/C)	16,198	0.75
Ms Bridget Elizabeth Montgomery	16,107	0.75
Mrs Maxine Charlotte Stewart	16,000	0.74
Mr David Anthony Embelton	15,875	0.74
Torquinet Pty Ltd (Sallie Super Fund A/C)	14,395	0.67

The following holdings are those stated in the register of substantial shareholdings GRE Nominees Pty Ltd 567,940, Elizabeth Montgomery Super Fund A/c 467,981, George R Embelton 347,886, Ian Peter Alexander 195,940.

d. No options over issued shares of interests in the Company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

e. Voting rights: Voting rights as governed by the Constitution of the Company provide that each ordinary shareholder present in person or by proxy at a meeting shall have:
   (a) on a show of hands – one vote only;
   (b) on a poll, one vote for every fully paid ordinary share held.

The Companies and Products

EMBELTON LIMITED
147 - 149 Bakers Road
COBURG VIC 3058 AUSTRALIA

DISTRIBUTION AND MERCHANDISING

G P EMBELTON & CO PTY LTD

Distribution of flooring, noise control equipment and industrial products and materials

Melbourne
147-149 Bakers Road
Coburg 3058

1/72 Fenton Street
Huntingdale 3166

Sydney
20 Fariola Street
Silverwater 2128

Brisbane
46 Millway Street
Kedron 4031

Perth
21 Pearson Way
Osborne Park 6017

Flooring and Consumer Products:

- Wooden parquetry flooring
- Prefinished and natural strip flooring
- Bamboo and Laminate Flooring
- Rubber and sports flooring
- Adhesives and finishes
- Other flooring accessories
- Compressed cork sheets, blocks and rolls

Industrial and Construction Products:

- Structural noise and vibration isolation systems
- Anti-vibration mountings - spring and rubber
- Seismic restraints for resiliently mounted equipment
- Recycled and natural rubber sheets
- Spandex cork jointing
- Other jointing media
- Tube and Pipe bending

MANUFACTURING

EMBELTON INDUSTRIES PTY LTD

Manufacture of metal products

Factory
Irene Street
Coburg Vic 3058

- Custom fabricators in steel, stainless steel, copper, aluminum and nickel alloys for high temperature and general industrial use
- Vibration control devices

SKINNER BENDING
A Division of Embelton Industries Pty Ltd

Factory
Irene Street
Coburg Vic 3058

- Tube and pipe bending and rolling

EMBELTON MANUFACTURING CO PTY LTD

Manufacture of construction and industrial materials

Factory
Irene Street
Coburg Vic 3058

- ImpactaMat recycled rubber sheeting
- Spandex jointing
- Specialised cork and rubber components

EMBELTON TIMBER SERVICES PTY LTD

Manufacture of timber flooring

Factory
27 Kanangra Drive
Taree NSW 2430

- Parquetry flooring products
- Strip timber flooring