

EMBELTON

2015 ANNUAL REPORT

EMBELTON LIMITED

ACN 004 401 496

Registered Office:

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Directors: G R Embelton, Chairman
J R Baldwin
J J Embelton
M S Crabb

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

Historically low interest rates coupled with growth in property values has buoyed the environment for new construction and building renovation. This has driven increased demand for both Flooring and Engineering Division products, yielding increases of 16% in revenue and 26% in net earnings for the year.

Summary

	<u>2015</u> (\$'000s)	<u>2014</u> (\$'000s)
Sales Revenue	38,870	33,401
Operating Profit	2,191	1,750
Company Tax	<u>652</u>	<u>532</u>
Net Profit after Tax	1,539	1,218
<hr/>		
Earnings per Share	71c	56c
<hr/>		
Net Tangible Assets per Share		
• before declared final dividend	\$5.96	\$5.55
• after declared final dividend	\$5.76	\$5.37

DIVIDEND

A final ordinary dividend of 20 cents per share has been declared which, added to the 14 cents interim dividend, makes a total of 34 cents for the year, equivalent to 48% of net earnings after tax. This compares to an ordinary dividend in the 2014 financial year of 30.5 cents, being 54% of earnings for that period.

OPERATIONS

Flooring

The last year has seen a continuation of the shift in fashion from soft to hard floor coverings in residential environments, providing better opportunities for our business with its product emphasis on timber, bamboo and laminate flooring. For residential apartment construction in particular, demand for engineered timber flooring has improved significantly over the past year. This has been of benefit to the Company, but has been accompanied by greater competitive activity resulting in pressure on margins.

The retail sector of the flooring industry enjoyed a year of better than average growth, offering

improved opportunities for sales of both 'Embelton' and 'home brand' ranges to the major retail groups. The decline in value of the Australian dollar has increased costs for our imported product range including Bamboo flooring which, although continuing to be an important contributor to revenue, is expected to suffer in the period ahead as it becomes a more expensive retail flooring option.

Development of new products remains a principal focus for the Division as it seeks to match the change in consumer preferences with the design and manufacturing innovations which have been a feature of the flooring industry in recent years.

Technical

Growth in building activity, particularly on the eastern seaboard of Australia, underpinned improved demand for the group's technical products and services during the year. Multi dwelling residential living and higher density occupation of commercial premises demand better techniques to reduce unwanted noise and vibration, creating the need for innovative engineering design in many elements of the built environment. The Division's expertise in the isolation of structure borne noise continues to be sought in developing specification, design and installation of bespoke solutions in this field and strengthening of the Company's engineering team during the year has provided the resource to cover more opportunities than has been possible in earlier periods.

Interesting examples of work completed by the Division during the year has been isolation of upper level swimming pools, plant rooms, gymnasiums and similar common areas adjacent to residential living spaces in multistorey buildings.

Manufacturing

Despite the recent decline in the AUD, the rationale for reducing manufacturing operations over the past few years remains valid. While this division operates as a custom manufacturer, particularly in the area of metal fabrication, the capability to support the design and production requirements of the engineering team means that resources will continue to be allocated towards this area in the period ahead. Although not immune from the general decline in domestic manufacturing over recent years, many of the

Division's assets, human and physical, have been redeployed to new areas of activity, including external procurement, warehousing and adaptation of new and existing lines, both for the existing product portfolio and for adjacent market prospects.

Outlook

While general economic conditions remain muted in Australia, evidenced by a low interest rate environment and higher than desired unemployment, the building sector remains buoyant, underpinned by relatively inexpensive capital and a particularly strong property market. This environment has seen a larger than usual amount of investment in new residential and commercial development across Australia, something which is expected to benefit the Group in the period ahead.

The flooring division faces both opportunity and challenge in the near term. Opportunity is represented by continuing residential development requiring hard flooring but the declining currency represents a challenge, in particular a challenge to maintaining margins because much of the flooring range is imported.

Investment in both engineering and sales resources across the Technical division during the past year has contributed to a robust pipeline of work that should be delivered in the next period. Further, this increased capacity should enable the Group to commit more resources to product development and the exploration of new markets where our engineering expertise is expected to be highly valued. The challenge in the coming period will be to ensure that the investment in the division begins to return useful dividends.

Overall, the new financial year is seen as presenting the Group with opportunities to enable delivery of a satisfactory return to shareholders. Revenue growth continues to be a key focus to recover the additional costs which are seen as essential to capitalise on the currently strong environment for building in Australia.

Staffing

As in prior years, our staff have been the most important contributors to the Group's financial performance. Having rationalised employee numbers over each of the three prior years, the demands arising from increased revenue generation and other activity this year have been willingly and effectively shouldered by the

smaller but dedicated team. Again, the Board wishes to recognise their significant contribution with heartfelt thanks.

Reduction of staffing achieved in prior years has mostly come to an end and it is expected that employee numbers will rise modestly during the forthcoming period. Staff are encouraged to uphold the Core Values of the Company, values which assist and guide in selection of suitable candidates wishing to join the firm. To that end, the team remains on the lookout for talented individuals who might be able to make a contribution to the Group.

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 two non-executive Directors. 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 and Mr Martin Crabb, who was appointed on the 15 October 2014, remain as independent Directors 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 non-Executive Directors may be competently advised on any matter in relation to their responsibilities, they have 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.

The 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2015 \$	2014 \$
Sales Revenue	3	38,870,143	33,401,296
Cost of Sales		<u>(26,510,332)</u>	<u>(22,067,574)</u>
Gross Profit		12,351,479	11,333,722
Other Income		332,498	260,737
Less Expenses:			
Manufacturing Expenses		(567,631)	(847,434)
Marketing Expenses		(4,561,738)	(4,437,164)
Storage and Distribution Expenses		(822,480)	(692,591)
Administration and Other Expenses		<u>(4,549,158)</u>	<u>(3,867,237)</u>
Profit before income tax expense	4	2,191,302	1,750,033
Income tax expense	6	<u>(652,087)</u>	<u>(532,169)</u>
Profit for the year		1,539,215	1,217,864
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		<u>33,420</u>	<u>-</u>
Total comprehensive income for the year		<u>1,572,635</u>	<u>1,217,864</u>
Profit attributable to:			
Owners of the company		1,539,215	1,217,864
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>1,539,215</u>	<u>1,217,864</u>
Total comprehensive income attributable to:			
Owners of the company		1,572,635	1,217,864
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>1,572,635</u>	<u>1,217,864</u>
Basic earnings per share	9	71 cents	56 cents
Diluted earnings per share	9	71 cents	56 cents

The accompanying notes form part of the financial statements.

EMBELTON LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

	Notes	2015 \$	2014 \$
CURRENT ASSETS			
Cash and cash equivalents	23(i)	1,301,907	506,685
Trade receivables	10	4,461,408	3,369,042
Inventories	11	8,288,612	8,388,178
Other	12	235,861	244,776
TOTAL CURRENT ASSETS		<u>14,287,788</u>	<u>12,508,681</u>
NON-CURRENT ASSETS			
Property, plant and equipment	14	3,549,559	3,630,754
Deferred tax assets	6	473,946	428,234
TOTAL NON-CURRENT ASSETS		<u>4,023,505</u>	<u>4,058,988</u>
TOTAL ASSETS		<u>18,311,293</u>	<u>16,567,669</u>
CURRENT LIABILITIES			
Trade and other payables	15	4,012,804	3,344,190
Current tax liabilities	6	270,690	136,563
Provisions	16	1,018,383	1,006,424
TOTAL CURRENT LIABILITIES		<u>5,301,877</u>	<u>4,487,177</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	6	12,018	23,464
Provisions	16	135,043	87,583
TOTAL NON-CURRENT LIABILITIES		<u>147,061</u>	<u>111,047</u>
TOTAL LIABILITIES		<u>5,448,938</u>	<u>4,598,224</u>
NET ASSETS		<u>12,862,355</u>	<u>11,969,445</u>
EQUITY			
Issued capital	8	1,155,970	1,155,970
Reserves	13(ii)	33,420	-
Retained earnings	13(i)	11,672,965	10,813,475
TOTAL EQUITY		<u>12,862,355</u>	<u>11,969,445</u>

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 2015

	Notes	2015 \$	2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		41,921,303	38,132,420
Payments to suppliers and employees		(39,601,303)	(36,401,076)
Interest received		5,615	11,986
Finance costs		(6,966)	(17,639)
Income taxes paid		(574,771)	(437,717)
Net cash generated by operating activities	23(ii)	<u>1,743,878</u>	<u>1,287,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		9,000	28,120
Payment for property, plant and equipment		(277,931)	(444,856)
Net cash used in investing activities		<u>(268,931)</u>	<u>(416,736)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(679,725)	(625,778)
Net cash used in financing activities		<u>(679,725)</u>	<u>(625,778)</u>
Net increase in cash and cash equivalents		795,222	245,460
Cash and cash equivalents at the beginning of the financial year		<u>506,685</u>	<u>261,225</u>
Cash and cash equivalents at the end of the financial year	23(i)	<u><u>1,301,907</u></u>	<u><u>506,685</u></u>

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 2015**

	Issued Capital	Foreign Currency Translation Reserve	Retained Earnings	Total
	\$	\$	\$	\$
At 30 June 2013	1,155,970	-	10,221,389	11,377,359
Profit for the period	-	-	1,217,864	1,217,864
Total comprehensive income for the period	-	-	1,217,864	1,217,864
Dividends paid	-	-	(625,778)	(625,778)
At 30 June 2014	1,155,970	-	10,813,475	11,969,445
Profit for the period	-	-	1,539,215	1,539,215
Other comprehensive income for the period	-	33,240	-	33,240
Total comprehensive income for the period	-	33,240	1,539,215	1,572,455
Dividends paid	-	-	(679,725)	(679,725)
At 30 June 2015	1,155,970	33,240	11,672,965	12,862,175

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30th JUNE 2015

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

1.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2014, and therefore relevant for the current year end.

Standards affecting presentation and disclosure

AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	<p>The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and simultaneous realisation and settlement'.</p> <p>The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and simultaneous realisation and settlement'.</p>
AASB 2014-1 'Amendments to Australian Accounting Standards' (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)	<p>The Annual Improvements 2010-2012 has made number of amendments to various AASBs, which are summarised below.</p> <ul style="list-style-type: none">• The amendments to AASB 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to AASB 2 are effective for sharebased payment transactions for which the grant date is on or after 1 July 2014.• The amendments to the basis for conclusions of AASB 13 clarify that the issue of AASB 13 and consequential amendments to AASB 139 and AASB 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.• The amendments to AASB 116 and AASB 138 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

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

AASB 2014-1
'Amendments to Australian
Accounting Standards'
(Part A: Annual
Improvements 2010–2012
and 2011–2013 Cycles) (cont'd)

The Annual Improvements 2011-2013 has made number of amendments to various AASBs, which are summarised below.

- The amendments to AASB 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, AASB 139 or AASB 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within AASB 132.

The application of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

AASB 119 'Employee Benefits'
(2011) and AASB 2011-10
'Amendments to Australian
Accounting Standards arising from
AASB 119 (2011)'

In the current year, the Company has applied AASB 119 (as revised in 2011) 'Employee Benefits' and the related consequential amendments for the first time.

AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of AASB 119 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a 'net interest' amount under AASB 119 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, AASB 119 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time applications of AASB 119 (as revised in 2011). The Company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis (see the tables below for the details).

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

1.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the 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	1 January 2017	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135 – Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015

At the date of authorisation of the financial statements, the following IASB Standard and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been used.

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 18 September 2015.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of consolidation (cont'd)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 profit or loss.

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from the functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

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.

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.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income Tax (cont'd)

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 group 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 group 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 profit or loss and other 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. Refer to note 6 for further disclosure on Tax Consolidated Group.

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 profit or loss 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.

g. Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments (cont'd)

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. As the end of the year the Company financial assets are Loan and Receivables.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities

Financial liabilities include borrowings and trade and other payables and are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments (cont'd)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

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 profit or loss 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.

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 (CONT'D)

Employee Benefits (cont'd)

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 net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is not included.

r. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described above, the directors are required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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.

Long service leave

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at reporting date:

- future increases in salaries and wages;
- future on cost rates; and
- experience of employee departures and period of service.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical accounting judgements and key sources of estimation uncertainty (cont'd)

Property, plant and equipment

Judgement is applied in determining the useful lives of property, plant and equipment. Any reassessment of useful lives and residual value in a particular year will affect depreciation and amortisation expense (either increasing or decreasing) from the date of reassessment through to the end of the reassessed useful life for both the current and future years.

Provision for obsolete stock

Management's judgement is applied in determining the provision for inventories obsolescence factors taken into account would include stock turnover, age and cost.

Provision for doubtful debts

Management's judgement is applied in determining the provision for doubtful debts. A specific provision is maintained and management reviews this provision to ensure adequacy at year end.

Impairment - General

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

No impairment has been recognised for the year ended 30 June 2015.

s. Investments in subsidiaries

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

	2015 \$	2014 \$
3. INCOME		
Revenue from the sale of goods	<u>38,870,143</u>	<u>33,401,296</u>
Other Income		
Interest income	5,615	11,986
Net foreign exchange gain – realised	323,711	237,498
Sundry income	3,172	2,921
Profit on disposal of property, plant and equipment	-	8,332
Total other income	<u>332,498</u>	<u>260,737</u>
4. PROFIT BEFORE TAX		
Profit before tax has been determined after:		
Expenses:		
Finance costs	6,966	17,639
Depreciation of non-current assets:		
Buildings	46,164	46,407
Plant and equipment	<u>295,882</u>	<u>239,583</u>
Total depreciation	<u>342,046</u>	<u>285,990</u>
Bad debts written off – trade debtors	7,976	23,275
Operating lease rentals	823,627	670,024
Employee benefits	5,341,659	4,917,543
Payments made to Defined Contribution Plans on behalf of employees	<u>417,017</u>	<u>401,555</u>
Total Employee Benefits	<u>5,758,676</u>	<u>5,319,098</u>
5. AUDITORS' REMUNERATION		
Remuneration of the auditor for:		
Auditing or reviewing the financial report	53,520	50,500
Preparation of the tax return and other services	<u>10,163</u>	<u>11,992</u>
	<u>63,683</u>	<u>62,492</u>
Remuneration of other auditors of subsidiaries for:		
Auditing or reviewing the financial report	<u>2,324</u>	<u>1,211</u>

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

6. TAXATION	2015	2014
	\$	\$
a) Income tax expense recognised in profit		
Tax expense comprises		
- current tax expense	709,245	464,888
- deferred tax expense relating to the origination and reversal of temporary differences	<u>(57,158)</u>	<u>67,281</u>
	<u>652,087</u>	<u>532,169</u>

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:

Profit from operations	<u>2,191,302</u>	<u>1,750,033</u>
Income tax expense calculated at 30%	657,392	525,010
Depreciation on property, plant and equipment not deductible for tax	6,351	6,352
Sundry items	(11,656)	1,533
Over provision prior year	<u>-</u>	<u>(726)</u>
Income tax expense recognised in profit	<u>652,087</u>	<u>532,169</u>

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

Income tax attributable to:		
Parent entity	16,833	61,044
Entities in tax consolidated group	<u>253,857</u>	<u>75,519</u>
	<u>270,690</u>	<u>136,563</u>

c) Deferred tax balances

Deferred tax assets comprise:

Temporary differences	<u>473,946</u>	<u>428,234</u>
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Deferred tax liabilities comprise:

Temporary differences	<u>12,018</u>	<u>23,464</u>
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6. TAXATION (CONT'D)

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

	Opening balance \$	Charged to Income \$	Charged to equity \$	Closing balance \$
As at 30 June 2015				
Gross deferred tax assets				
Receivables	13,500	-	-	13,500
Provisions	375,670	65,460	-	441,130
Property, plant and equipment	39,064	(19,748)	-	19,316
	<u>428,234</u>	<u>45,712</u>	<u>-</u>	<u>473,946</u>
Gross deferred tax liability				
Property, plant and equipment	(23,464)	11,446	-	(12,018)
	<u>404,770</u>	<u>57,158</u>	<u>-</u>	<u>461,928</u>
As at 30 June 2014				
Gross deferred tax assets				
Receivables	13,500	-	-	13,500
Provisions	452,646	(76,976)	-	375,670
Property, plant and equipment	31,443	7,621	-	39,064
	<u>497,589</u>	<u>(69,355)</u>	<u>-</u>	<u>428,234</u>
Gross deferred tax liability				
Property, plant and equipment	(25,538)	2,074	-	(23,464)
	<u>472,051</u>	<u>(67,281)</u>	<u>-</u>	<u>404,770</u>

6. TAXATION (CONT'D)

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	2015 \$	2014 \$
Dividends paid by the Company are:		
(i) A final fully franked ordinary dividend of 17.5 cents (2013 – 16.0 cents) was declared for the 2014 financial year and was paid on 10 October 2014 (11 October 2013)	377,625	345,257
(ii) An interim fully franked ordinary dividend of 14.0 cents (2014 – 13.0 cents) for the 2014/15 financial year was declared on 16 February 2015 (2014 – 20 February) and paid on 10 April 2015 (2014 – 11 April)	<u>302,100</u>	<u>280,521</u>
	<u>679,725</u>	<u>625,778</u>

UNRECOGNISED AMOUNTS

A fully franked ordinary dividend of 20 cents per share was declared by the Directors on 5 August 2015, but this has not been provided for in the financial statements as at 30 June 2015.

The total estimated dividend to be paid is \$431,571

FRANKING ACCOUNT BALANCE

Franking account balance	<u>4,129,981</u>	<u>3,846,521</u>
Franking account balance after payment of unrecognised dividends	<u>3,923,593</u>	<u>3,684,682</u>

	2015 \$	2014 \$
8. ISSUED CAPITAL		
2,157,857 (2014 - 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

Basic and diluted earnings per share	71 cents	56 cents
Net Profit used in calculation	1,539,215	1,217,864
Weighted average number of ordinary shares	2,157,857	2,157,857

10. TRADE RECEIVABLES

CURRENT

Trade receivables	4,506,408	3,414,042
Less provision of doubtful debts	(45,000)	(45,000)
	4,461,408	3,369,042

Ageing of past due but not impaired:

30 – 60 days	235,081	24,357
Over 60 days	10,559	127,577
	245,640	151,934

The average credit period on sales of goods is 38.5 days (2014 – 37.5 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 (2014 – Nil).

Movement in allowance for doubtful debts

Balance at the beginning of the year	45,000	45,000
Amounts provided for during the year	7,976	23,275
Amounts written off during the year as uncollectable	(7,976)	(23,275)
Balance at the end of the year	45,000	45,000

	2015 \$	2014 \$
11. INVENTORIES		
CURRENT		
Raw materials - at cost	68,031	71,458
Work in progress - at cost	110,388	110,121
Finished goods - at WDV	8,110,193	8,206,599
	<u>8,288,612</u>	<u>8,388,178</u>
12. OTHER CURRENT ASSETS		
Prepayments and sundry debtors	<u>235,861</u>	<u>244,776</u>
13. (i) RETAINED PROFITS		
Retained profits at beginning of year	10,813,475	10,221,389
Net profit attributable to members of the parent entity	1,539,215	1,217,864
Dividends paid (Note 7)	(679,725)	(625,778)
Retained profits at the end of the year	<u>11,672,965</u>	<u>10,813,475</u>
(ii) FOREIGN CURRENCY TRANSLATION RESERVE		
Balance at beginning of year	-	-
Exchange differences arising on translating foreign operations	33,420	-
Balance at the end of the year	<u>33,420</u>	<u>-</u>
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	(677,830)	(631,666)
	<u>1,211,099</u>	<u>1,257,263</u>
TOTAL LAND AND BUILDINGS	<u>2,700,921</u>	<u>2,747,085</u>
PLANT & MACHINERY – At cost	1,607,666	1,597,874
- Accumulated depreciation	(1,472,735)	(1,456,099)
	<u>134,931</u>	<u>141,775</u>
FIXTURES AND FITTINGS – At cost	1,591,464	1,487,568
- Accumulated depreciation	(1,145,867)	(937,060)
	<u>445,597</u>	<u>550,508</u>
MOTOR VEHICLES – At cost	374,843	374,843
- Accumulated depreciation	(238,197)	(183,457)
	<u>136,646</u>	<u>191,386</u>
ASSETS IN PROGRESS – At cost	<u>131,464</u>	<u>-</u>
TOTAL – Cost	7,084,188	6,839,036
- Accumulated depreciation	(3,534,629)	(3,208,282)
NET BOOK VALUE	<u>3,549,559</u>	<u>3,630,754</u>

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

MOVEMENT IN CARRYING AMOUNTS

2015

	Freehold Land	Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	Assets in Progress	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Balance at beginning of year	1,489,822	1,257,263	141,775	550,508	191,386	-	3,630,754
Additions	-	-	16,791	129,676	-	131,464	277,931
Disposals/Transfers	-	-	-	(17,080)	-	-	(17,080)
Depreciation expense	-	(46,164)	(23,635)	(217,507)	(54,740)	-	(342,046)
Carrying amount at end of year	1,489,822	1,211,099	134,931	445,597	136,646	131,464	3,549,559

2014

	Freehold Land	Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	Assets in Progress	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Consolidated							
Balance at beginning of year	1,489,822	1,303,670	161,610	360,308	182,243	-	3,497,653
Additions	-	-	20,233	338,580	86,043	-	444,856
Disposals	-	-	(6,391)	(2,436)	(16,938)	-	(25,765)
Depreciation expense	-	(46,407)	(33,677)	(145,944)	(59,962)	-	(285,990)
Carrying amount at end of year	1,489,822	1,257,263	141,775	550,508	191,386	-	3,630,754

2015
\$

2014
\$

15. TRADE AND OTHER PAYABLES

CURRENT

Trade Payables	2,180,136	1,873,408
Sundry Payables and accrued expenses	1,832,668	1,470,782
	<u>4,012,804</u>	<u>3,344,190</u>

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.

2015
\$

2014
\$

16. PROVISIONS

CURRENT

Employee benefits	<u>1,018,383</u>	<u>1,006,424</u>
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NON-CURRENT

Employee benefits	<u>135,043</u>	<u>87,583</u>
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Aggregate liability for employee entitlements	<u>1,153,426</u>	<u>1,094,007</u>
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17. SUBSIDIARIES

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

	Notes	Ownership Interest	
		2015	2014
		%	%
EMBELTON LIMITED			
CONTROLLED ENTITIES			
G. P. Embelton & Co. Pty. Ltd.	a	100	100
Windolite (Australia) Pty. Ltd.	a	100	100
Wood Flooring Wholesale Pty. Ltd. as trustee			
for Wood Flooring Unit Trust	a	100	100
Embelton Manufacturing Co. Pty. Ltd.	a	100	100
Embelton Engineering Pty. Ltd.	a	100	100
Wood Flooring Pty. Ltd.	a	100	100
Embelton Singapore Pte. Ltd.	a,b	100	100
Embelton (Malaysia) Sdn. Bhd.	a,b	100	100
Embelton Timber Services Pty. Ltd.	a	100	100
Embelton (Shanghai) Trading Co. Ltd	a,b	100	100
Embelton-Grail Inc.	a,b,c	54.5	54.5

- 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, Embelton (Shanghai) Trading Co. Ltd and Embelton-Grail Inc, which are incorporated in Singapore, Malaysia, China and USA respectively. All controlled entities are included in the tax consolidated group referred to in Notes 2d and 6, with the exception of Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd, Embelton (Shanghai) Trading Co. Ltd and Embelton-Grail Inc.
- b. Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd, Embelton (Shanghai) Trading Co. Ltd 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. Non-controlling interest is not disclosed as the company is dormant.

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
M S Crabb	Non-executive Director (Appointed 15 October 2014)
E P Galgano	Company Secretary

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

	2015	2014
	\$	\$
Short term employment benefits	757,612	621,871
Post-employment benefits	<u>70,005</u>	<u>92,097</u>
	<u><u>827,617</u></u>	<u><u>713,968</u></u>

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	716,019	665,056
Later than one but not later than five years	<u>507,822</u>	<u>1,060,836</u>
	<u><u>1,223,841</u></u>	<u><u>1,725,892</u></u>

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, J J Embelton and M S Crabb

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.

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

	Balance at 30.06.13	Received as Compensation	Other Changes	Balance at 30.06.14	Received as Compensation	Other Changes	Balance at 30.06.15
Directors							
G R Embelton	938,326	-	-	938,326	-	-	938,326
J R Baldwin	6,535	-	-	500	-	-	500
J J Embelton	31,877	-	-	31,877	-	-	31,877
M S Crabb	-	-	-	-	-	1,935	1,935
Executives							
E P Galgano	-	-	-	-	-	-	-

Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Loans to and from related parties

No loans have been received or provided to key management personnel.

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 geographical segmentation. 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 have changed from those identified previously.

Reportable segments

Merchandising – Victoria, Tasmania and South Australia

Comprises the sale of flooring and accessory products, various vibration control devices, building materials, industrial cork, rubber products and metal fabrications in the states of Victoria, Tasmania and South Australia.

Merchandising – Rest of Australia and Overseas

Comprises the sale of flooring and accessory products, various vibration control devices, building materials, industrial cork, rubber products and metal fabrications in the rest of Australia and overseas.

Manufacturing

Manufacturing operations supply to both market segments.

Business Segments

	Merchandising		Manufacturing	Consolidated
	Victoria, Tas & SA	Rest of Aust & Overseas		
	\$'000	\$'000	\$'000	\$'000
(i) 2015				
Revenue				
Sale of Goods and Commission Received	18,658	19,225	4,234	42,117
Elimination on Consolidation	-	-	(3,247)	(3,247)
Total Segment Revenue	18,658	19,225	987	38,870
Results				
Segment results	1,185	799	375	2,359
Unallocated expenses				(168)
Total Operating Profit before income tax				2,191
Income tax expense				652
Total Operating Profit after income tax				1,539
Assets				
Segment assets	7,968	8,276	2,056	18,300
Unallocated assets				11
Total Assets				18,311
Liabilities				
Segment Liabilities	2,497	2,557	361	5,415
Unallocated Liabilities				34
Total Liabilities				5,449
Other				
Acquisition of non-current assets	127	133	18	278
Depreciation of non-current assets	146	154	42	342

21. SEGMENTAL INFORMATION (CONT'D)

Business Segments

	Merchandising		Manufacturing \$'000	Consolidated \$'000
	Victoria, Tas & SA \$'000	Rest of Aust & Overseas \$'000		
(ii) 2014				
Revenue				
Sale of Goods and Commission Received	16,985	15,347	4,703	37,035
Elimination on Consolidation	-	-	(3,634)	(3,634)
Total Segment Revenue	16,985	15,347	1,069	33,401
Results				
Segment results	781	711	440	1,932
Unallocated expenses				(182)
Total Operating Profit before income tax				1,750
Income tax expense				532
Total Operating Profit after income tax				1,218
Assets				
Segment assets	7,874	6,681	1,990	16,545
Unallocated assets				22
Total Assets				16,567
Liabilities				
Segment Liabilities	2,235	1,995	345	4,575
Unallocated Liabilities				23
Total Liabilities				4,598
Other				
Acquisition of Segment Assets	194	177	74	445
Depreciation of Segment Assets	127	110	49	286

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 2014.

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.

22. FINANCIAL INSTRUMENTS (CONT'D)

Capital Risk Management (cont'd)

(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

	2015	2014
	\$'000	\$'000
Financial Assets at amortised cost		
Cash and cash equivalents	1,302	507
Trade receivables	4,461	3,369
Other receivables	235	245
Financial Liabilities at amortised cost		
Trade and sundry payables	4,013	3,344

(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 (2014: \$Nil).

(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	
	2015	2014	2015	2014
	\$	\$	\$	\$
Profit would vary by	22,877	42,822	2,512	2,492

22. FINANCIAL INSTRUMENTS (CONT'D)

Capital Risk Management (cont'd)

(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.

<u>CONSOLIDATED</u>	Weighted Average Interest Rate %	Less than 1 year \$'000	1-5 Years \$'000	5+ years \$'000
<u>2015</u>				
Assets				
Non interest bearing		4,997	-	-
Interest bearing	3.2%	1,001	-	-
Liabilities				
Non interest bearing		4,013	-	-
<u>2014</u>				
Assets				
Non interest bearing assets		4,121	-	-
Interest bearing		-	-	-
Liabilities				
Non interest bearing liabilities		3,344	-	-

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:

	2015 \$	2014 \$
Cash and cash equivalent	4,190	4,705
Cash at Bank	248,533	501,980
Term Deposit	<u>1,000,612</u>	<u>-</u>
	<u><u>1,301,907</u></u>	<u><u>506,685</u></u>

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

Profit for the period	1,539,215	1,217,864
Depreciation	342,046	285,990
Profit on sale of property, plant and equipment	-	(8,332)
Net bad debts written off	<u>7,976</u>	<u>23,275</u>
Net Cash Provided by Operating Activities before change in Assets and Liabilities	1,889,237	1,518,797
Change in Assets and Liabilities during the financial year:		
(Increase)/Decrease in assets:		
Trade receivables	(1,092,366)	279,454
Inventory	99,566	(318,168)
Other current assets	8,915	78,497
Deferred tax asset	(45,712)	69,355
Increase / (Decrease) in liabilities:		
Income taxes payable	134,127	26,748
Trade payables	306,728	(246,201)
Sundry payables	361,886	(21,194)
Provisions	92,943	(97,240)
Deferred tax liability	<u>(11,446)</u>	<u>(2,074)</u>
Net Cash Provided by Operating Activities	<u><u>1,743,878</u></u>	<u><u>1,287,974</u></u>

(iii) FINANCING ARRANGEMENTS

The consolidated entity has access to bank overdraft, trade and bill facilities to a maximum of \$1,960,000 (2014 - \$1,960,000) which, after allowing for outstanding trade L/Cs and Bank Guarantees, resulted in an unused facility of \$1,900,334 (2014 - \$1,900,334) 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. Freehold land and buildings with a carrying amount of \$1,334,836 (30 June 2014: \$1,365,409) have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

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	2015	2014
	\$	\$
Assets		
Current assets	11,467	13,117
Non-current assets	7,932,362	8,390,225
Total assets	<u>7,943,829</u>	<u>8,403,342</u>
Liabilities		
Current liabilities	290,964	159,009
Non-current liabilities	3,439	3,383
Total Liabilities	<u>294,403</u>	<u>162,392</u>
Equity		
Issued capital	1,155,970	1,155,970
Retained earnings	6,493,456	7,084,980
Total equity	<u>7,649,426</u>	<u>8,240,950</u>

The working capital deficiency will be addressed through the ordinary course of business including collection of long term receivables.

Financial performance

Profit for the year	88,201	134,793
Other comprehensive income	-	-
Total comprehensive income	<u>88,201</u>	<u>134,793</u>

Contingent liabilities of the parent entity

-	-
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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	-	-
	<u>-</u>	<u>-</u>

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 2015 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
25th September 2015

STATUTORY DIRECTOR'S REPORT

Your Directors present their report on the Company and its subsidiaries for the financial year ended 30 June 2015.

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
Mr M S Crabb (Appointed 15 October 2014)

COMPANY SECRETARY

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

Mr E P Galgano

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 \$1,539,215 (2014: \$1, 217,864).

DIVIDENDS

2015	2014
\$	\$

Dividends paid or declared for payment in respect of the financial year are as follows:

An interim fully franked ordinary dividend of 14.0 cents per share (2014 – 13.0 cents) was paid on 10 April 2014	302,100	280,521
A final fully franked ordinary dividend of 20.0 cents per share (2014 – 17.5 cents) has been declared by the Directors	<u>431,571</u>	<u>377,625</u>
	<u>733,671</u>	<u>625,778</u>

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.

Martin Crabb, BA

Appointed Non-Executive Director in October 2014

Martin is currently a director of and Head of Research at Shaw and Partners. Martin provides advisers and clients with research insights into global macroeconomics, asset allocation and equity strategy. Prior to Shaw and Partners, Martin was with Macquarie Group Limited where he was an Executive Director in charge of Dealer Services within the Banking and Financial Services Group. Martin spent over 20 years at Macquarie in various roles across Wealth Management and Institutional Stockbroking.

Mr Crabb 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
M S Crabb	5	5

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".

Directors' and executives' relevant shareholdings

	Balance at 30.06.13	Received as Compensation	Other Changes	Balance at 30.06.14	Received as Compensation	Other Changes	Balance at 30.06.15
Directors							
G R Embelton	938,326	-	-	938,326	-	-	938,326
J R Baldwin	6,535	-	-	500	-	-	500
J J Embelton	31,877	-	-	31,877	-	-	31,877
M S Crabb	-	-	-	-	-	1,935	1,935
Executives							
E P Galgano	-	-	-	-	-	-	-

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.

Executive Directors and Senior Executives (cont'd)

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 Directors receive 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 2015. 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 and takes into consideration some of the indicators below.

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.

Year ended:	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015
	\$	\$	\$	\$	\$
Revenue	34,051,729	36,756,742	32,694,878	33,662,033	39,202,641
Net profit before tax	2,200,682	2,001,229	1,512,960	1,750,034	2,191,302
Net profit after tax	1,530,193	1,374,912	1,048,214	1,217,865	1,539,215

Year ended:	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015
Share price at start of year	\$ 4.60	\$ 6.00	\$ 7.60	\$ 6.51	\$ 7.35
Share price at end of year	\$ 6.00	\$ 7.60	\$ 6.51	\$ 7.35	\$ 7.30
Interim Dividend ¹	12.5 cents	13.0 cents	13.0 cents	13.0 cents	14.0 cents
Special Dividend ¹	5.5 cents	-	-	-	-
Final Dividend ¹	15.0 cents	16.0 cents	16.0 cents	17.5 cents	20.0 cents
Basic earnings per share	71 cents	64 cents	49 cents	56 cents	71 cents
Diluted earnings per share	71 cents	64 cents	49 cents	56 cents	71 cents
Total Dividends declared	33 cents	29 cents	29 cents	30.5 cents	34.0 cents

¹Franked 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
Mr M S Crabb	Director – Non-executive – appointed Director 2014

Executives:

Mr E P Galgano	Company Secretary - appointed September 2011
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Consolidated Entity and Company

	Short Term Employee Benefits				Post Employment Superannuation Benefits	Total	Proportion of Remuneration Performance Related
	Salary & Directors Fees	LSL	Incentive Accrued for Current Period	Non-monetary Benefit			
	\$	\$	\$	\$	\$	\$	
Company Non-Executive Directors' Remuneration							
Year ending 30 June 2015							
Mr J R Baldwin	-	-	-	-	22,000	22,000	-
Mr M S Crabb	15,610	-	-	-	-	15,610	-
	<u>15,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,000</u>	<u>37,610</u>	<u>-</u>
Year ending 30 June 2014							
Mr J R Baldwin	-	-	-	-	22,000	22,000	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>
Company Executive Directors and Specified Executives' Remuneration							
Year ending 30 June 2015							
Mr G R Embelton	90,000	1,500	50,000	6,871	8,550	156,921	32%
Mr J J Embelton	301,884	5,392	100,000	-	18,783	426,059	23%
Mr E P Galgano	137,593	2,363	39,360	7,039	20,672	207,027	19%
	<u>529,477</u>	<u>9,255</u>	<u>189,360</u>	<u>13,910</u>	<u>48,005</u>	<u>790,007</u>	<u>24%</u>
Year ending 30 June 2014							
Mr G R Embelton	63,500	1,500	-	7,764	34,825	107,589	-
Mr J J Embelton	278,419	6,656	75,000	7,464	17,775	385,314	19%
Mr E P Galgano	137,500	2,293	34,000	7,775	17,497	199,095	17%
	<u>479,419</u>	<u>10,449</u>	<u>109,000</u>	<u>23,003</u>	<u>70,097</u>	<u>691,968</u>	<u>16%</u>

Consolidated Entity and Company (cont'd)

For the year under review, bonuses of \$100,000, \$50,000 and \$39,360 have been provided for Mr. J J Embelton, Mr. G R Embelton and Mr. E P Galgano respectively (2014 – \$75,000, nil and \$34,000 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.

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 wilful breach of duty in relation to the Company. The amount of the premium was \$7,351 (2014 - \$7, 351).

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 2015:

Taxation services - preparation of income tax returns	\$ 8,663
Compliance and consulting services	<u>\$ 1,500</u>
Total	<u>\$ 10,163</u>

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2015 has been received and can be found on page 44.

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

On behalf of the Directors



G R Embelton
Chairman
25th September 2015

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

25 September 2015

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 2015, 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



Alison Brown
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Embelton Limited

We have audited the accompanying financial report of Embelton Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated 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 48.

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.

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 consolidated entity's financial position as at 30 June 2015 and of its 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 39 to 42 of the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Alison Brown

A M Brown
Partner
Chartered Accountants
Melbourne, 25 September 2015

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 28 AUGUST 2015

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 28 August 2015 was 141 of which 38 held less than a marketable parcel.
- b. Distribution of Shareholding

<u>Range</u>	<u>No of Holders of Ordinary Shares</u>	<u>No of Shares</u>
1 – 1,000 shares	56	24,933
1,001 – 5,000 shares	53	135,773
5,001 – 10,000 shares	6	20,035
10,001 – 100,000shares	22	397,369
100,001 and over	4	1,579,747
	141	2,157,857

- c. Percentage total holdings by or on behalf of the twenty largest shareholders is 87.6%.

<u>Shareholder to be updated</u>	<u>No of shares</u>	<u>% of total</u>
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
Albany Braithwaite Holdings Limited	21,659	1.00
Geoffrey Weston Cruse	21,105	0.98
Mr Glenn Arthur Moore & Mrs Elizabeth Moore (Moore Superannuation A/C)	18,653	0.86
G R E Nominees Pty Ltd (G R Embelton Superannuation Fund)	18,500	0.86
Ms Sallie Christina Hill	17,913	0.83
Aviation Fuel Associates (Aust) Pty Ltd (The Fraser Super Fund A/C)	16,838	0.78
Mr Amos Andrew Weigall & Mr Andrew Thomas Weeks (Amos Weigall A/C)	16,198	0.75
Mr Amos Andrew Weigall & Ms Lucy Elisabeth Weigall (Cook Palmer 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
Mr Daniel Lawrence Hall	14,976	0.69
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 Margaretha Montgomery & Bridget Elizabeth Tomkins (Elizabeth Montgomery S/F 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 ENGINEERING 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 Engineering Pty Ltd

Factory Irene Street
Coburg Vic 3058

- Tube and pipe bending and rolling

EMBELTON TIMBER SERVICES PTY LTD

Manufacture of timber flooring

Factory 27 Kanangra Drive
Taree NSW 2430

- Parquetry flooring products