EMBELTON

2017 ANNUAL REPORT

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EMBELTON LIMITED

ACN 004 401 496

REGISTERED OFFICE

147-149 Bakers Road, Coburg 3058

Telephone: 03 9353 4811

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DIRECTORS

G R Embelton, Chairman

J J Embelton, Managing Director

J R Baldwin

M S Crabb

AUDITORS

Deloitte Touche Tohmatsu

SECRETARY

E P Galgano

STOCK EXCHANGE

Embelton Limited shares are quoted on the Australian Stock Exchange

1 DIRECTORS' REPORT

PRIMA PEARL, MELBOURNE — GYM ISOLATION

Embelton NRD System, Isolates Impact Noise Generated by Gymnasium Cardio Activity

DIRECTORS' REPORT TO SHAREHOLDERS

With continuing strength in the building sector across Australia, particularly in the Eastern States, both Divisions, Flooring and Engineering, contributed to the record Group result. Revenue growth of 2% was modest, but an improvement in after tax earnings of almost 9% flowed from a better business mix and a supportive Australian currency.

Summary	2017 ($'000s)	2016 ($'000s)
Sales Revenue	44,174	43,521
Operating Profit	3,306	2,911
Company Tax	1,106	886
Net Profit after Tax	2,201	2,025
Earnings per Share	102c	94c
Net Tangible Assets per Share		
before declared final dividend	$6.54	$7.09
after declared final dividend	$6.28	$6.82

DIVIDEND

In addition to the final ordinary dividend of 23 cents per share, a special dividend of 4 cents per share has been declared which, added to the 19 cents interim distribution, makes a total of 46 cents for the year – equivalent to 45% of net earnings after tax. This is an increase of 8% on the 42.5 cent ordinary dividend declared in the 2016 financial year which also represented 45% of earnings for that period.

OPERATIONS

Flooring

With strong residential and commercial construction across Australia, the flooring division enjoyed another good year. And whilst there was some reduction in revenue from domestic flooring products which are distributed through retail channels, this was offset by growth in business from supplying to multi-storey apartment construction. The continuing move in consumer preference from soft to hard floor coverings reinforced the trend where wood flooring and similar products have increased as a proportion of overall flooring sales.

Sales of timber have certainly enjoyed useful growth, but have been met with a corresponding moderation in demand for Bamboo flooring which has declined in popularity, so limiting the potential for improvement in total division revenues. Pleasingly however, other products, including composite waterproof flooring, have emerged as key opportunities in which the Division has invested significantly over the past two years, and these are likely to grow in importance, offsetting to some extent the decline in Bamboo sales.

It is expected that total Divisional revenue will increase during the current year due to the introduction of new domestic flooring ranges directed at the retailer market, coupled with an increase in commercial specifications for multi-storey construction. Contributing to this outlook is our ongoing development of partnerships with contractors whose primary focus is working with the larger developers and builders throughout Australia.

Engineering

As with Flooring, the Engineering Division has enjoyed significant activity in the national construction market, consolidating itself as a leading provider of acoustic engineering solutions. It has been a record year for the Division, which has successfully delivered a number of bespoke projects requiring complex engineering design.

With some slowing of the construction cycle in prospect, we continue to broaden the scope of this Division, both by seeking opportunities in adjacent product areas and by investing in overseas markets where our specialised engineering skills are in demand. The pipeline of offshore work continues to improve with recent successes providing an encouraging platform for development of further activity in the period ahead.

Manufacturing

While the traditional activities of the Manufacturing Division have further declined during the year, its contribution to the overall Group result continues as it bolsters our Engineering team with procurement, manufacture and assembly support for the major components which comprise our range of vibration isolation products.

It is disappointing that much of the high temperature metal fabrication that was central to our manufacturing operations has diminished, but the benefit of having a versatile manufacturing facility in house enables the Group to offer 'just in time' product solutions when our competitors are often unable to do so.

Coburg Property

Faced with aging Head Office premises, and an increased need for office and warehouse space, it was decided to undertake a significant programme of renovation and new construction at the Coburg site. Some of these works were completed in the last period but the majority will take place in the current financial year.

The result will be a more functional office space, 50% larger than previously, and a new 1,000m^2 warehouse, predominantly for the storage of flooring stock, thereby reducing demand for offsite storage. On completion, the project will offer a marked improvement in office and logistics productivity.

Staff

Competitive pressures requiring constant review and upgrade of systems have demanded resourcefulness from staff at all levels. They have delivered all that has been asked of them and the Board is especially grateful for their significant contribution as a team.

As we enter a new period, there is an increased focus on provision of support to facilitate ongoing staff performance at a high level with additional investment in training, role sharing and culture development being given high priority throughout the Company.

Outlook

The continuing low interest rate environment has encouraged increased investment in all property sectors, contributing to strong building activity across the country in recent months. This is expected to continue in the near term as both housing starts and approved commercial building work are at historically high levels.

But while the present environment is robust, a cautionary, more distant view would suggest that current growth rates are unsustainable, emphasising the need for a continued focus on maintaining competitive advantage through the introduction of new products and designs for both Divisions of the Company. In this endeavour, an engaged and productive team remains the single most important factor in driving our future business growth.

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 four Directors, including the Chairman, Managing Director and two non-executive Directors. The Board acknowledges that there is a requirement to monitor 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 and Mr James Embelton has remained the Managing Director.

Mr Ross Baldwin and Mr Martin Crabb 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 Directors' 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 Directors' 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 appropriate 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.

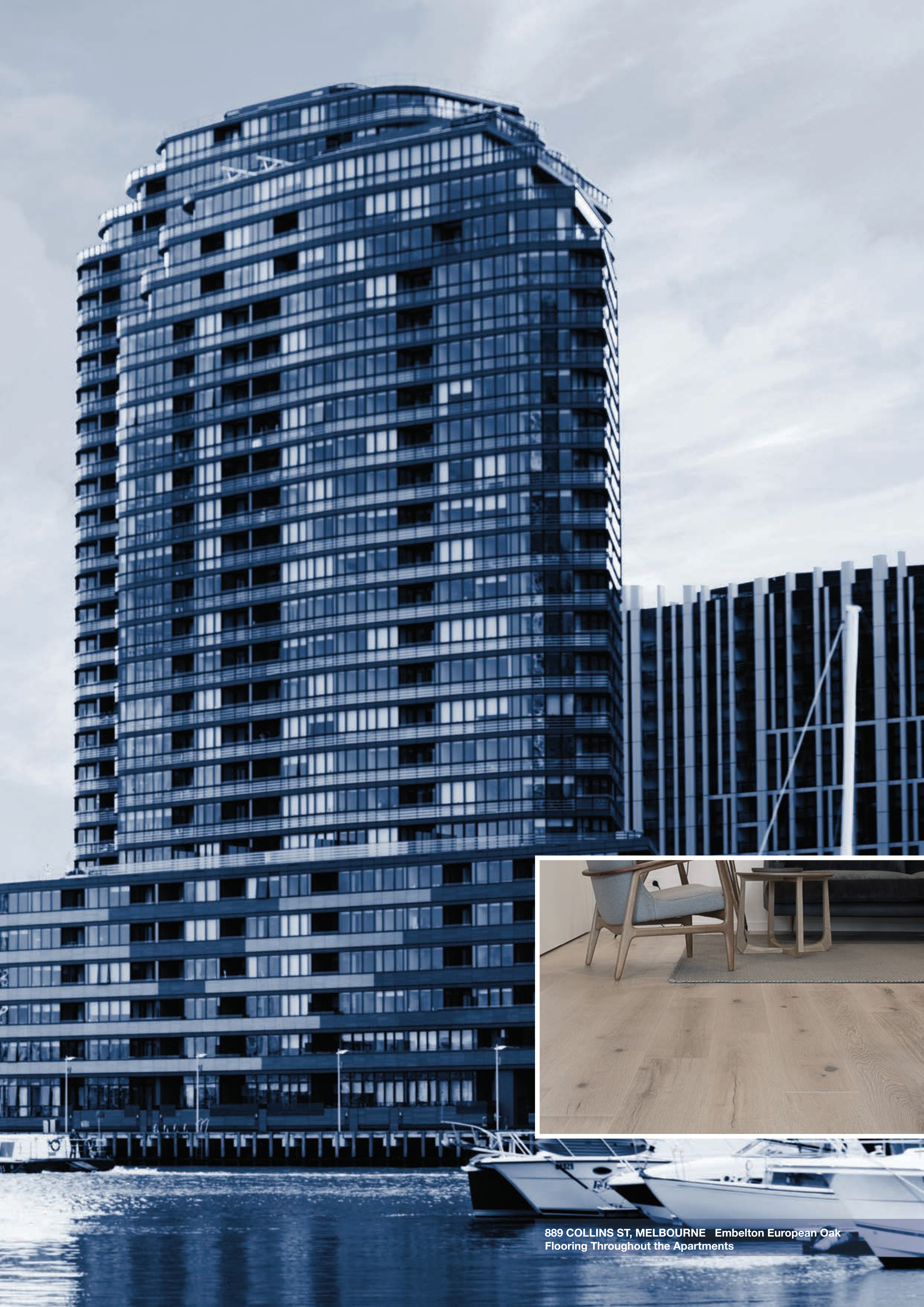
Fair and responsible remuneration

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.

2 FINANCIAL REPORTS



889 COLLINS ST, MELBOURNE **Embelton European Oak Flooring Throughout the Apartments**

EMBELTON LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017	2016
		$	$
Sales Revenue	3	44,173,090	43,520,837
Cost of Sales		(28,978,163)	(30,077,094)
Gross Profit		15,194,927	13,443,743
Other Income	3	669,126	497,428
Less Expenses:			
Manufacturing Expenses		(444,262)	(516,903)
Marketing Expenses		(6,361,720)	(5,408,378)
Storage and Distribution Expenses		(719,214)	(766,700)
Administration and Other Expenses		(5,032,492)	(4,338,664)
Profit before income tax expense	4	3,306,365	2,910,526
Income tax expense	6	(1,105,675)	(885,473)
Profit for the year		2,200,690	2,025,053
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(34,270)	8,048
Total comprehensive income for the year		2,166,420	2,033,101
Profit attributable to:			
Owners of the company		2,200,690	2,025,053
Non-controlling interests		-	-
		2,200,690	2,025,053
Total comprehensive income attributable to:			
Owners of the company		2,166,420	2,033,101
Non-controlling interests		-	-
		2,166,420	2,032,921
Basic earnings per share	9	102 cents	94 cents
Diluted earnings per share	9	102 cents	94 cents

The accompanying notes form part of the financial statements.

EMBELTON LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2017

	Notes	2017 $	2016 $
CURRENT ASSETS			
Cash and cash equivalents	23(i)	**55,926**	529,226
Trade receivables	10	**5,518,215**	5,188,260
Inventories	11	**12,112,560**	9,977,630
Other	12	**86,853**	192,926
TOTAL CURRENT ASSETS		**17,773,554**	15,888,042
NON-CURRENT ASSETS			
Property, plant and equipment	14	**6,416,453**	6,321,940
Deferred tax assets	6	**697,403**	640,461
TOTAL NON-CURRENT ASSETS		**7,113,859**	6,962,401
TOTAL ASSETS		**24,887,413**	22,850,443
CURRENT LIABILITIES			
Trade and other payables	15	**4,991,427**	6,920,076
Borrowings	15	**2,753,787**	-
Current tax liabilities	6	**383,991**	358,910
Provisions	16	**1,311,077**	1,268,736
TOTAL CURRENT LIABILITIES		**9,440,212**	8,547,722
NON-CURRENT LIABILITIES			
Deferred tax liabilities	6	**20,819**	14,469
Provisions	16	**123,339**	159,015
TOTAL NON-CURRENT LIABILITIES		**144,158**	173,484
TOTAL LIABILITIES		**9,584,370**	8,721,206
NET ASSETS		**15,303,043**	14,129,237
EQUITY			
Issued capital	8	**1,155,970**	1,155,970
Reserves	13(ii)	**7,018**	41,288
Retained earnings	13(i)	**14,140,055**	12,931,979
TOTAL EQUITY		**15,303,043**	14,129,237

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 2017

	Notes	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**48,959,029**	47,612,754
Payments to suppliers and employees		**(49,016,304)**	(43,402,124)
Interest received		**3,175**	6,602
Finance costs		**(107,088)**	(24,727)
Income taxes paid		**(1,164,395)**	(959,512)
Net cash (used in)/generated by operating activities	23(ii)	**(1,325,583)**	3,232,993
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**-**	15,729
Payment for property, plant and equipment		**(908,890)**	(3,255,364)
Net cash used in investing activities		**(908,890)**	(3,239,635)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings		**2,753,787**	-
Dividends paid		**(992,614)**	(766,039)
Net cash provided by/(used in) financing activities		**1,761,173**	(766,039)
Net decrease in cash and cash equivalents		**(473,300)**	(772,681)
Cash and cash equivalents at the beginning of the financial year		**529,226**	1,301,907
Cash and cash equivalents at the end of the financial year	23(i)	**55,926**	529,226

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 2017

	Issued Capital	Foreign Currency Translation Reserve	Retained Earnings	Total
	$	$	$	$
At 30 June 2015	**1,155,970**	**33,240**	**11,672,965**	**12,862,175**
Profit for the period	-	8,048	2,025,053	2,033,101
Total comprehensive income for the period	-	8,048	2,025,053	2,033,101
Dividends paid	-	-	(766,039)	(766,039)
At 30 June 2016	**1,155,970**	**41,288**	**12,931,979**	**14,129,237**
Profit for the period	-	(34,270)	2,200,690	2,166,420
Total comprehensive income for the period	-	(34,270)	2,200,690	2,166,420
Dividends paid	-	-	(992,614)	(992,614)
At 30 June 2017	**1,155,970**	**7,018**	**14,140,055**	**15,303,043**

ABOUT EMBELTON GROUP

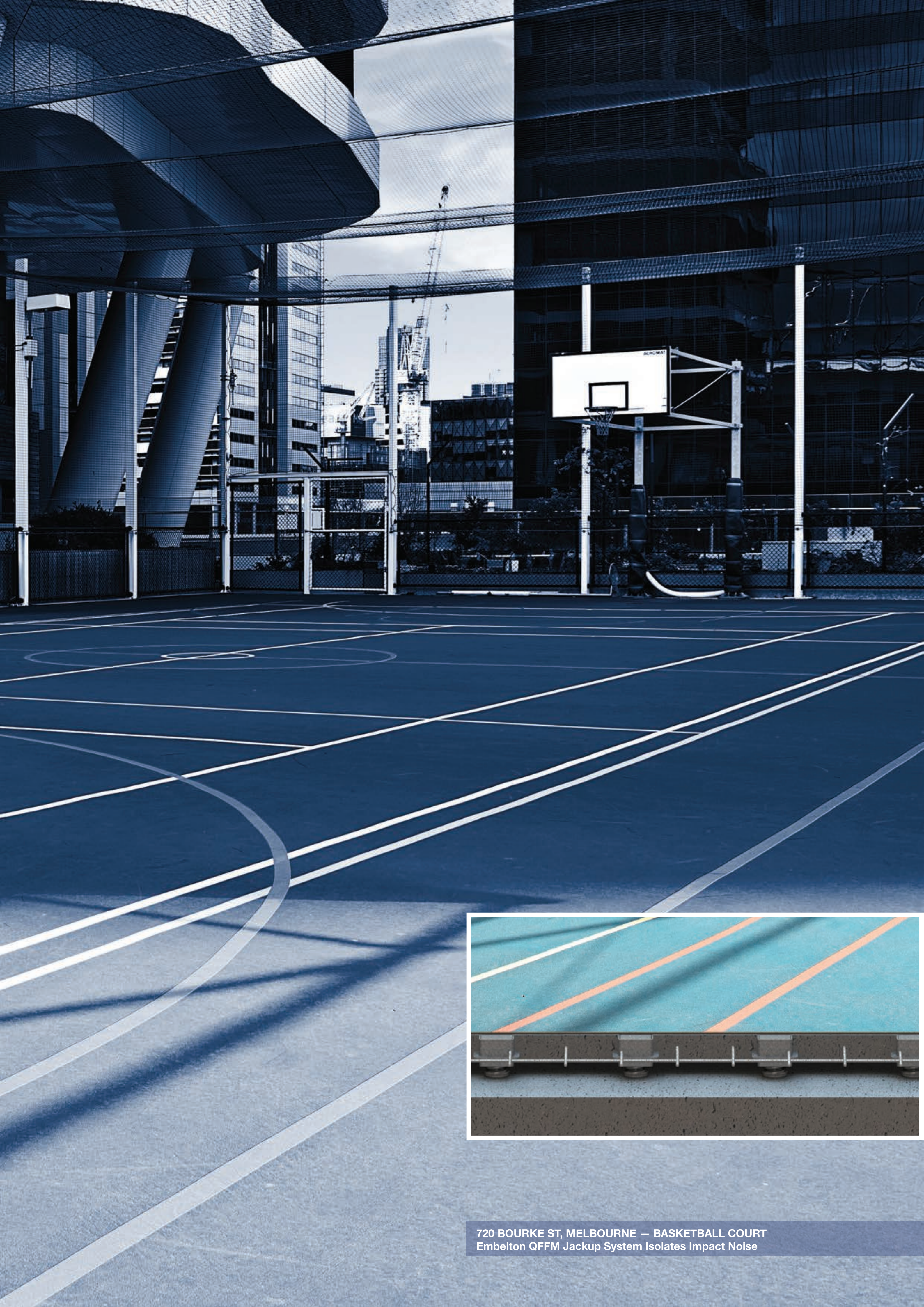
Established in 1925 and listed on the Australian Stock Exchange in 1958, the Embelton product portfolio comprises a comprehensive suite of timber flooring materials, noise and vibration isolation technology and manufacturing facilities for the precision bending and fabrication of specialised metal alloys.

An award winning company, Embelton has long been recognised as an engineering and product innovator with a reputation for quality and service.

EMBELTON CORE VALUES

1. Act with integrity and professionalism
2. Promote Initiative
3. Focus on Growth
4. Deliver Quality, Expertise and Value
5. Develop People to Succeed

3 NOTES



720 BOURKE ST, MELBOURNE — BASKETBALL COURT
Embelton QFFM Jackup System Isolates Impact Noise

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

1.1. Amendments to Accounting Standards that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the accounting period that begins on or after 1 July 2016.

New and revised Standards and amendments their of and Interpretations effective for the current year that are relevant to the entity include:

AASB 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The above have not had a material impact to the financial statements.

1.2. Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Group has not yet applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are 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	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers, 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15, 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020
AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2018	30 June 2019
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112	1 January 2017	30 June 2018
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	30 June 2018

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 15 September 2017.

a. 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:

b. 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.

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.

2. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

c. 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.

d. 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.

e. Income Tax

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

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

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

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

f. 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.

g. 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.

h. Financial Instruments

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

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.

2. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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.

i. 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.

j. 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.

k. 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.

l. 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.

m. 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.

n. 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.

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.

o. 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.

p. 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.

q. 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.

r. 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. or 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.

s. 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.

<u>Long service leave</u>
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.

<u>Property, plant and equipment</u>
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.

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

<u>Provision for doubtful debts</u>
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.

<u>Impairment - General</u>
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 2017.

Investments in subsidiaries

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

3. INCOME

	2017 $	2016 $
Revenue from the sale of goods	**44,173,090**	43,520,837
Other Income		
Interest income	**3,175**	6,602
Net foreign exchange gain – realised	**658,879**	480,716
Sundry income	**3,019**	3,019
Profit on disposal of property, plant and equipment	**4,053**	7,091
Total other income	**669,126**	497,428

4. PROFIT BEFORE TAX

Profit before tax has been determined after:

	2017 $	2016 $
Expenses:		
Finance costs	**107,088**	24,727
Depreciation of non-current assets:		
Buildings	**70,457**	54,735
Plant and equipment	**283,372**	278,350
Total depreciation	**353,829**	333,085
Bad debts written off – trade debtors	**9,013**	15,003
Operating lease rentals	**664,206**	809,298
Employee benefits	**6,340,412**	5,923,470
Payments made to Defined Contribution Plans on behalf of employees	**513,029**	456,278
Total Employee Benefits	**6,853,441**	6,379,748

5. AUDITORS' REMUNERATION

	2017 $	2016 $
Remuneration of the auditor for:		
Auditing or reviewing the financial report	**52,300**	57,397
Preparation of the tax return and other services	**18,900**	9,713
	71,200	67,110
Remuneration of other auditors of subsidiaries for:		
Auditing or reviewing the financial report	**3,226**	2,536

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

6. TAXATION

a) Income tax expense recognised in profit

	2017 $	2016 $
Tax expense comprises		
- current tax expense	**1,156,270**	1,049,537
- deferred tax expense relating to the origination and reversal of temporary differences	**(50,595)**	(164,064)
	1,105,675	885,473

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:

	2017 $	2016 $
Profit from operations	**3,306,365**	2,910,526
Income tax expense calculated at 30%	**991,909**	873,158
Depreciation on property, plant and equipment not deductible for tax	**3,824**	6,350
Write down of building not deductible for tax	**113,276**	-
Sundry items	**(3,480)**	(1,048)
Over provision prior year	**1,146**	7,013
Income tax expense recognised in profit	**1,105,675**	885,473

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

	2017 $	2016 $
Current tax payable		
Income tax attributable to:		
Parent entity	**15,300**	18,761
Entities in tax consolidated group	**368,691**	340,149
	383,991	358,910

c) Deferred tax balances

	2017 $	2016 $
Deferred tax assets comprise:		
Temporary differences	**697,406**	640,461
Deferred tax liabilities comprise:		
Temporary differences	**20,819**	14,469

6. TAXATION (CONTINUED)

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

	Opening balance	Charged to Income	Charged to equity	Closing balance
	$	$	$	$
As at 30 June 2017				
Gross deferred tax assets				
Receivables	13,500	-	-	13,500
Provisions	589,170	50,086	-	639,256
Property, plant and equipment	37,791	6,859	-	44,650
	640,461	56,945	-	697,406
Gross deferred tax liability				
Property, plant and equipment	(14,469)	(6,350)	-	(20,819)
	625,992	50,595	-	676,587
As at 30 June 2016				
Gross deferred tax assets				
Receivables	13,500	-	-	13,500
Provisions	441,130	148,040	-	589,170
Property, plant and equipment	19,316	18,475	-	37,791
	473,946	166,515	-	640,461
Gross deferred tax liability				
Property, plant and equipment	(12,018)	(2,451)	-	(14,469)
	461,928	164,064	-	625,992

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.

	2017	2016
	$	$

7. DIVIDENDS PROVIDED FOR OR PAID

Dividends paid by the Company are:

	2017	2016
(i) A final fully franked ordinary dividend of 22.0 cents (2015 – 20.0 cents) and a fully franked special dividend of 5.0 cents (2015 – nil) was declared for the 2016 financial year and was paid on 7 October 2016 (9 October 2015)	**582,621**	431,571
(ii) An interim fully franked ordinary dividend of 19.0 cents (2016 – 15.5 cents) for the 2016/17 financial year was declared on 1 February 2017 (2016 – 3 February) and paid on 7 April 2017 (2016 – 8 April)	**409,993**	334,468
	992,614	766,039

UNRECOGNISED AMOUNTS

A fully franked ordinary dividend of 23.0 cents per share and a special dividend of 4.0 cents was declared by the Directors on 15 August 2017, but this has not been provided for in the financial statements as at 30 June 2017.

The total estimated dividend to be paid is $582,621

FRANKING ACCOUNT BALANCE

Franking account balance	**5,500,180**	4,761,192
Franking account balance after payment of unrecognised dividends	**5,325,394**	4,586,406

8. ISSUED CAPITAL

2,157,857 (2016 - 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	**102 cents**	94 cents
Net Profit used in calculation	**2,200,690**	2,025,053
Weighted average number of ordinary shares	**2,157,857**	2,157,857

	2017 $	2016 $
10. TRADE RECEIVABLES CURRENT		
Trade receivables	**5,563,215**	5,233,260
Less provision for doubtful debts	**(45,000)**	(45,000)
	5,518,215	5,188,260
Ageing of past due but not impaired:		
30 – 60 days	**111,564**	102,945
Over 60 days	**106,079**	1,069
	217,643	104,014

The average credit period on sales of goods is 38.6 days (2016 – 38.5 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 (2016 – Nil).

	2017 $	2016 $
Movement in allowance for doubtful debts		
Balance at the beginning of the year	**45,000**	45,000
Amounts provided for during the year	**9,013**	15,003
Amounts written off during the year as uncollectable	**(9,013)**	(15,003)
Balance at the end of the year	**45,000**	45,000
11. INVENTORIES		
CURRENT		
Raw materials - at cost	**423,443**	225,826
Work in progress - at cost	**60,085**	100,102
Finished goods - at WDV	**12,107,677**	9,954,655
	12,591,205	10,280,583
Less provision for stock write down	**(478,645)**	**(302,953)**
	12,112,560	**9,977,630**
12. OTHER CURRENT ASSETS		
Prepayments and sundry debtors	**86,853**	192,926
13. (i) RETAINED PROFITS		
Retained profits at beginning of year	**12,931,979**	11,672,965
Net profit attributable to members of the parent entity	**2,200,690**	2,025,053
Dividends paid (Note 7)	**(992,614)**	(766,039)
Retained profits at the end of the year	**14,140,055**	12,931,979
(ii) FOREIGN CURRENCY TRANSLATION RESERVE		
Balance at beginning of year	**41,288**	33,420
Exchange differences arising on translating foreign operations	**(34,270)**	7,868
Balance at the end of the year	**7,018**	41,288

The reserve arises out of the translation of foreign operations functional currencies into the consolidated entity presentation currency of AUD$

14. PROPERTY, PLANT AND EQUIPMENT

	2017	2016
	$	$
LAND - At cost	**2,834,082**	2,834,082
BUILDINGS – At cost	**3,579,786**	3,603,484
- Accumulated depreciation	**(454,482)**	(732,565)
	3,125,304	2,870,919
TOTAL LAND AND BUILDINGS	**5,959,386**	5,705,001
PLANT & MACHINERY – At cost	**846,764**	884,363
- Accumulated depreciation	**(800,890)**	(815,457)
	45,874	68,906
FIXTURES AND FITTINGS – At cost	**1,646,654**	1,619,313
- Accumulated depreciation	**(1,314,887)**	(1,135,838)
	331,767	483,475
MOTOR VEHICLES – At cost	**302,123**	225,886
- Accumulated depreciation	**(222,697)**	(161,328)
	79,426	64,558
TOTAL – Cost	**9,209,409**	9,167,128
- Accumulated depreciation	**(2,792,956)**	(2,845,188)
NET BOOK VALUE	**6,416,453**	6,321,940

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

MOVEMENT IN CARRYING AMOUNTS

2017

	Freehold Land	Buildings	Plant & Machinery	Fixtures, Equipment	Motor Vehicles	Assets in Progress	TOTAL
	$	$	$	$	$	$	$
Balance at beginning of year	2,834,082	2,870,919	47,840	503,622	64,558	-	6,321,021
Additions	-	782,060	22,680	65,815	33,335	-	908,890
Disposals	-	(457,218)	(2,411)	-	-	-	(459,629)
Transfer	-	-	622	(21,220)	20,598	-	-
Depreciation expense	-	(70,457)	(22,857)	(216,450)	(44,065)	-	(353,829)
Carrying amount at end of year	2,834,082	3,125,304	45,874	331,767	79,426	-	6,417,453

2016

	Freehold Land	Buildings	Plant & Machinery	Fixtures, Equipment	Motor Vehicles	Assets in Progress	TOTAL
Balance at beginning of year	1,489,822	1,211,099	134,931	445,597	136,646	131,464	3,549,559
Additions	1,344,260	1,714,555	453	196,096	-	-	3,255,364
Disposals	-	(36,854)	(69,066)	(36,259)	(8,638)	-	(150,817)
Transfer	-	36,854	-	121,088	(26,470)	(131,464)	-
Depreciation expense	-	(54,735)	(18,478)	(222,892)	(36,980)	-	(333,085)
Carrying amount at end of year	2,834,082	2,870,919	47,840	503,622	64,558	-	6,321,021

15. TRADE AND OTHER PAYABLES

	2017	2016
	$	$
CURRENT		
Trade Payables	**2,651,748**	3,280,792
Sundry Payables and accrued expenses	**2,339,679**	3,639,284
	4,991,427	6,920,076

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.

BORROWINGS		
Bank Overdraft	**753,787**	-
Bank Loans	**2,000,000**	-
	2,753,787	-

Refer Note 23 for details of financing arrangements.

16. PROVISIONS

CURRENT		
Employee benefits	**1,311,007**	**1,268,736**
NON-CURRENT		
Employee benefits	**123,339**	**159,015**
Aggregate liability for employee entitlements	**1,434,346**	**1,427,751**

17. SUBSIDIARIES

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

	Notes	Ownership Interest	
		2017	2016
		%	%
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 Contracting 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 UK 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, Embelton UK Ltd. and Embelton-Grail Inc, which are incorporated in Singapore, Malaysia, China, United Kingdom, 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, Embelton UK Ltd. and Embelton-Grail Inc.

b. Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd, Embelton (Shanghai) Trading Co. Ltd, Embelton UK 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
E P Galgano	Company Secretary

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

	2017	2016
	$	$
Short term employment benefits	**744,053**	722,691
Post-employment benefits	**43,224**	46,985
	787,277	769,676

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

	2017	2016
	$	$
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	**314,590**	433,933
Later than one but not later than five years	**86,633**	128,247
	401,223	562,180

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 Directors' 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 interests of each key management person and their related parties in the share capital of the Company during the year are set out in the remuneration report.

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

<u>Merchandising – Victoria, Tasmania and South Australia</u>
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.

<u>Merchandising – Rest of Australia and Overseas</u>
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.

<u>Manufacturing</u>
Manufacturing operations supply to both market segments.

Business Segments

	Merchandising			
	Victoria, Tas & SA	Rest of Aust & Overseas	Manufacturing	Consolidated
	($'000)	($'000)	($'000)	($'000)
(i) 2017				
Revenue				
Sale of Goods and Commission Received	21,323	21,942	5,760	49,025
Elimination on Consolidation	-	-	(4,852)	(4,852)
Total Segment Revenue	21,323	21,942	908	44,173
Results				
Segment results	1,981	1,673	505	4,159
Unallocated expenses				(842)
Total Operating Profit before income tax				3,317
Income tax expense				1,105
Total Operating Profit after income tax				2,212
Assets				
Segment assets	10,887	11,601	2,374	24,862
Unallocated assets				25
Total Assets				24,887
Liabilities				
Segment Liabilities	4,577	4,711	253	9,541
Unallocated Liabilities				43
Total Liabilities				9,584
Other				
Acquisition of non-current assets	433	448	23	904
Depreciation of non-current assets	155	162	37	354

21. SEGMENTAL INFORMATION (CONTINUED)

	Merchandising			
	Victoria, Tas & SA	Rest of Aust & Overseas	Manufacturing	Consolidated
	($'000)	($'000)	($'000)	($'000)
(ii) 2016				
Revenue				
Sale of Goods and Commission Received	20,370	22,351	5,420	48,141
Elimination on Consolidation	-	-	(4,620)	(4,620)
Total Segment Revenue	20,370	22,351	800	43,521
Results				
Segment results	1,357	1,461	286	3,104
Unallocated expenses				(193)
Total Operating Profit before income tax				2,911
Income tax expense				886
Total Operating Profit after income tax				2,025
Assets				
Segment assets	9,634	10,849	2,356	22,839
Unallocated assets				11
Total Assets				22,850
Liabilities				
Segment Liabilities	3,938	4,367	379	8,684
Unallocated Liabilities				37
Total Liabilities				8,721
Other				
Acquisition of Segment Assets	1,527	1,695	3	3,225
Depreciation of Segment Assets	140	157	36	333

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 2016.
Operating cash flows are used to maintain and expand the Group's operations as well as to manage the routine outflows of tax and dividends. The Group's principal financial instruments comprise cash, deposits at call, receivables, other financial assets, external debt and payables.
The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market price risk (currency risk and interest rate risk).

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

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

Credit risk in trade receivables is minimised by:
- having 30 day payment terms,
- close monitoring of all overdue balances by senior management, and
- providing credit insurance for all accounts over $5,000.

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

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

c. Categories of financial instruments

	2017	2016
	$'000	$'000
Financial Assets at amortised cost		
Cash and cash equivalents	**56**	529
Trade receivables	**5,518**	5,188
Other receivables	**87**	193
Financial Liabilities at amortised cost		
Trade and sundry payables	**4,991**	6,920

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 $6,884 (2016: $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.

22. FINANCIAL INSTRUMENTS (CONTINUED)

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	
	2017	2016	**2017**	2016
	$	$	**$**	$
Profit would vary by	**21,443**	22,702	**497**	3,285

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

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

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

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

CONSOLIDATED

	Weighted Average Interest Rate	**Less than 1 year**	**1-5 Years**	**5+ years**
	%	$'000	$'000	$'000
2017				
Assets				
Non interest bearing		5,661	-	-
Liabilities				
Non interest bearing		4,991	-	-
Interest bearing	**3.5%**	**2,754**	-	-
2016				
Assets				
Non interest bearing assets		5,760	-	-
Interest bearing	2.3%	150	-	-
Liabilities				
Non interest bearing liabilities		6,920	-	-

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:

	Notes	2017	2016
		$	$
Cash and cash equivalent		**4,400**	4,190
Cash at Bank		**51,526**	374,184
Commercial Bills	(iii)	**-**	(1,250,000)
Term Deposit		**-**	1,400,642
		55,926	529,226

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

	2017	2016
Profit for the period	**2,200,690**	2,025,053
Depreciation	**353,829**	333,085
Profit on sale of property, plant and equipment	**(4,053)**	(7,091)
Net bad debts written off	**9,013**	15,003
Net Cash Provided by Operating Activities before change in Assets and Liabilities	**2,559,479**	2,366,050
Change in Assets and Liabilities during the financial year:		
(Increase)/Decrease in assets:		
Trade receivables	**(329,955)**	(726,852)
Inventory	**(2,134,930)**	(1,689,018)
Other current assets	**106,073**	42,935
Deferred tax asset	**(56,945)**	(166515)
Increase / (Decrease) in liabilities:		
Income taxes payable	**25,081**	88,220
Trade payables	**(629,044)**	1,100,656
Sundry payables	**(1,299,605)**	1,806,616
Provisions	**427,913**	408,450
Deferred tax liability	**6,350**	2,451
Net Cash (used in)/provided by Operating Activities	**(1,325,583)**	3,232,993

(iii) FINANCING ARRANGEMENTS

The group has access to bank overdraft, trade and bill facilities to a maximum of $4,140,000 (2016 - $4,460,000) which, after allowing for outstanding Overdraft, Bank Guarantees and Loans, left an unused facility of $936,213 (2016 - $2,210,000) 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 $828,553 (30 June 2016: $1,304,263) 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. The group has the legal and enforceable right to offset commercial bills against other banking facilities.

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	2017	2016
	$	$
Assets		
Current assets	-	11,167
Non-current assets	10,420,570	11,304,601
Total assets	10,420,570	11,315,768
Liabilities		
Current liabilities	391,610	379,326
Non-current liabilities	-	7,482
Total Liabilities	391,610	386,808
Equity		
Issued capital	1,155,970	1,155,970
Retained earnings	8,872,990	9,772,990
Total equity	10,028,960	10,928,960

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	92,614	4,045,572
Other comprehensive income	-	-
Total comprehensive income	92,614	4,045,572
Contingent liabilities of the parent entity	-	-

Commitments for the acquisition of property, plant and equipment by the parent entity		
Not longer than one year	-	-
Longer than one but no later than 5 years	-	-
Longer than 5 years	-	-
	-	-

25. SUBSEQUENT EVENTS

No significant events have occurred since the balance date which would impact on the financial position of the Group at 30 June 2017 or the results for the period ended on that date.

4 STATUTORY INFORMATION

COCKBURN AQUATIC AND RECREATION CENTRE, PERTH
Embelton Project-Plus Flooring

DIRECTORS' DECLARATION

The Directors declare that:

a. in the Directors' 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;

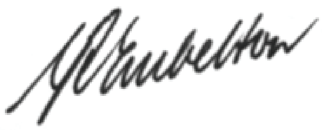
b. In the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;

c. in the Directors' 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

22 September 2017

STATUTORY DIRECTORS' REPORT

Your Directors present their report on the Company and its subsidiaries for the financial year ended 30 June 2017.

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 J Embelton
Mr J R Baldwin
Mr M S Crabb

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 $2,200,690 (2016: $2,025,053).

DIVIDENDS

	2017	2016
	$	$
Dividends paid or declared for payment in respect of the financial year are as follows:		
An interim fully franked ordinary dividend of 19.0 cents per share (2016 – 15.5 cents) was paid on 7 April 2017	**409,993**	334,468
A final fully franked ordinary dividend of 23.0 cents per share (2016 – 22.0 cents) has been declared by the Directors	**496,307**	474,729
A final fully franked special dividend of 4.0 cents per share (2016 – 5.0 cents) has been declared by the Directors	**86,314**	107,893
	992,614	917,090

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

Mr Crabb is currently a director of and Head of Research at Shaw and Partners. Mr Crabb provides advisers and clients with research insights into global macroeconomics, asset allocation and equity strategy. Prior to Shaw and Partners, Mr Crabb was with Macquarie Group Limited where he was an Executive Director in charge of Dealer Services within the Banking and Financial Services Group. Mr Crabb 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 J Embelton	6	6
J R Baldwin	6	6
M S Crabb	6	6

REMUNERATION REPORT (AUDITED)

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 30.06.15	Received as Compensation	Other Changes	Balance at 30.06.16	Received as Compensation	Other Changes	Balance at 30.06.17
Directors							
G R Embelton	938,326	-	-	938,326	-	-	938,326
J J Embelton	31,877	-	-	31,877	-	-	31,877
J R Baldwin	500	-	6,035	6,535	-	-	6,535
M S Crabb	1,935	-	5,759	7,694	-	-	7,694
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 Directors of the Company and is responsible for determining and reviewing compensation arrangements for the Directors, Managing Director and Senior Executives.

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

Remuneration Structure

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

Executive Directors and Senior Executives

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

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

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

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

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

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

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

Non-Executive Directors

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

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

The Non-Executive 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

Year ended:	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
	$	$	$	$	$
Revenue	32,694,878	33,662,033	39,202,641	44,018,265	44,842,216
Net profit before tax	1,512,960	1,750,034	2,191,302	2,910,526	3,306,365
Net profit after tax	1,048,214	1,217,865	1,539,215	2,025,053	2,200,690

Year ended:	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Share price at start of year	$ 7.60	$ 6.51	$ 7.35	$ 7.30	$8.04
Share price at end of year	$ 6.51	$ 7.35	$ 7.30	$ 8.04	$12.00
Interim Dividend[1]	13.0 cents	13.0 cents	14.0 cents	15.5 cents	19.0 cents
Special Dividend[1]	-	-	-	5.0 cents	4.0 cents
Final Dividend[1]	16.0 cents	17.5 cents	20.0 cents	22.0 cents	23.0 cents
Basic earnings per share	49 cents	56 cents	71 cents	94 cents	102 cents
Diluted earnings per share	49 cents	56 cents	71 cents	94 cents	102 cents
Total Dividends declared	29 cents	30.5 cents	34.0 cents	42.5 cents	46.0 cents

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

Compensation of Key Management Personnel

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

Company Directors:

Mr G R Embelton	Chairman – appointed Chairman 1984
Mr J J Embelton	Director – appointed Managing Director 2010
Mr J R Baldwin	Director – Non-executive – appointed Director 2002
Mr M S Crabb	Director – Non-executive – appointed Director 2014

Executives:

Mr E P Galgano	Company Secretary - appointed September 2011

Consolidated Entity and Company

	Short Term Employee Benefits						
	Salary & Directors Fees	LSL	Incentive Accrued for Current Period	Non-monetary Benefit	Post Employment Superannuation Benefits	Total	Proportion of Remuneration Performance Related
	$	$	$	$	$	$	
Company Non-Executive Directors' Remuneration Year ending 30 June 2017							
Mr J R Baldwin	-	-	-	-	22,000	22,000	-
Mr M S Crabb	22,000	-	-	-	-	22,000	-
	22,000	-	-	-	22,000	44,000	-
Year ending 30 June 2016							
Mr J R Baldwin	-	-	-	-	22,000	22,000	-
Mr M S Crabb	22,000	-	-	-	-	22,000	-
	22,000	-	-	-	22,000	44,000	-
Company Executive Directors and Specified Executives' Remuneration Year ending 30 June 2017							
Mr G R Embelton	90,000	1,500	0	4,090	8,550	104,140	0%
Mr J J Embelton	328,445	5,445	100,000	0	19,308	453,198	22%
Mr E P Galgano	171,838	2,735	40,000	0	15,366	229,939	17%
	590,283	9,860	140,000	4,090	43,224	787,277	18%
Year ending 30 June 2016							
Mr G R Embelton	90,000	1,500	-	6,061	8,550	106,111	0%
Mr J J Embelton	309,444	7,363	115,000	-	19,308	451,115	25%
Mr E P Galgano	161,335	2,194	41,635	4,794	19,127	229,085	18%
	560,779	11,057	156,635	10,855	46,985	786,311	20%

For the year under review, bonuses of $100,000 and $40,000 have been provided for Mr. J J Embelton and Mr. E P Galgano respectively (2016 – $115,000 and $41,635 respectively) following the Group's achievement of specified profit targets and 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 $7,110 (2016 - $7, 110).

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 2017:

Taxation services - preparation of income tax returns	$ 8,925
Compliance and consulting services	$ 9,975
Total	$ 18,900

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 53.

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

On behalf of the Directors

G R Embelton

Chairman

22 September 2017

Deloitte.

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22 September 2017

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

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 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alison Brown

Alison Brown
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Report to the members of Embelton Limited

Report on the Audit of the Financial Report

Opinion

We have audited the consolidated financial report of Embelton Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be on the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
Recoverable amount of inventory As at 30 June 2017 the Group has recognised provisions against the cost of inventory of $478,645 as disclosed in note 11. Estimation of net realisable value requires the directors to make certain judgements and estimates based on the age and condition of product lines and historic sales outcomes.	Our procedures included, but were not limited to: • Assessing management's processes and judgements applied in estimating the net realisable value of inventory, • Testing on a sample basis, the ageing and cost of products at year-end as key inputs into management's calculation of the write down provisions, and • Evaluating management's judgements in estimating net realisable value by: o comparing the carrying value of products to post year-end sales, and o comparing units on hand and cost to historical sales data. We have also assessed the appropriateness of the disclosures in Note 11 to the financial statements.

Other Information

The directors are responsible for other information disclosed. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 45 to 49 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Embelton Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

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Responsibilities

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alison Brown

Alison Brown
Partner
Chartered Accountants
Melbourne, 22 September 2017.

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 30 AUGUST 2017

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 2017 was 151 of which 43 held less than a marketable parcel.

b. Distribution of Shareholding

Range	No of Holders of Ordinary Shares	No of Shares
1 – 1,000 shares	65	25,536
1,001 – 5,000 shares	53	126,588
5,001 – 10,000 shares	8	58,011
10,001 – 100,000shares	21	361,475
100,001 and over	4	1,586,247
	151	2,157,857

c. Percentage total holdings by or on behalf of the twenty largest shareholders is 87.601%.

Holder Name	Balance as at 28-08-2017	% of total
G R E Nominees Pty Ltd	574,440	26.621%
Mrs Elizabeth Margaretha Montgomery & Mrs Bridget Elizabeth Tomkins (Elizabeth Montgomery S/F A/C)	467,981	21.687%
George Robert Embelton	347,886	16.122%
Mr Ian Peter Alexander	195,940	9.080%
Ms Carolyn Louise Hill	32,307	1.497%
Mr James John Embelton	31,877	1.477%
Gelleka Pty Ltd (Moore Superannuation A/C)	22,682	1.051%
Jennifer Mary Shepherd	22,395	1.038%
Geoffrey Weston Cruse	21,105	0.978%
Mr Daniel Lawrence Hall	19,707	0.913%
Ms Sallie Christina Hill	17,913	0.830%
Aviation Fuel Associates (Aust) Pty Ltd (The Fraser Super Fund A/C)	16,838	0.780%
Mr Amos Andrew Weigall & Mr Andrew Thomas Weeks (Amos Weigall A/C)	16,198	0.751%
Mr Amos Andrew Weigall & Ms Lucy Elisabeth Weigall (Cook Palmer A/C)	16,198	0.751%
Miss Bridget Elizabeth Montgomery	16,107	0.746%
Mrs Maxine Charlotte Stewart	16,000	0.741%
Mr David Anthony Embelton	15,875	0.736%
Torquinet Pty Ltd (Sallie Super Fund A/C)	14,395	0.667%
Mrs Pamela Mcqueen	13,512	0.626%
Mr Robert Nicol Fraser	12,838	0.595%
	1,892,194	87.689%
Total of Securities	**2,157,857**	

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.

THE COMPANIES AND PRODUCTS

EMBELTON LIMITED

147 - 149 Bakers Road

DISTRIBUTION AND MERCHANDISING

G P EMBELTON & CO PTY LTD

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

Flooring and Consumer Products:

- Wooden parquetry flooring
- Prefinished and natural strip flooring
- Timber, Bamboo, Laminate, and WPC 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 - springs and rubber
- Seismic restraints for resiliently mounted equipment
- Recycled and natural rubber sheets
- Spandex cork jointing
- Other jointing media
- Tube and Pipe bending

Melbourne
147-149 Bakers Road
Coburg 3058

Trade Store
1/72 Fenton Street
Huntingdale 3166

Sydney
50 Newton Road
Wetherill Park 2164

Brisbane
46 Millway Street
Kedron 4031

Perth
21 Pearson Way
Osborne Park 6017

United Kingdom
Unit 1B, Saddleworth
Business Centre
Huddersfield Road
Delph
Saddleworth OL3
5DF

MANUFACTURING

EMBELTON ENGINEERING PTY LTD

Manufacture of metal products

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

Factory Irene Street
Coburg VIC 3058

SKINNER BENDING

A Division of Embelton Engineering Pty Ltd

- Tube and pipe bending and rolling

Factory Irene Street
Coburg VIC 3058

EMBELTON TIMBER SERVICES PTY LTD

Manufacture of timber flooring

- Parquetry flooring products

Factory 27 Kanangra Drive
Taree NSW 2430

OVERSEAS

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