

# EMBELTON

2011 ANNUAL REPORT

# **EMBELTON LIMITED**

ACN 004 401 496

**Registered Office:**

147 - 149 Bakers Road, Coburg 3058

Telephone: 03 9353 4811

Facsimile: 03 9353 4855

**Directors:**

G R Embelton, Chairman

J R Baldwin

J J Embelton

**Auditors:**

Deloitte Touche Tohmatsu

**Share Registry:**

Link Market Services Limited  
Securities Registration Services  
Level 9, 333 Collins Street  
Melbourne 3000

**Secretary:**

Christene Palm

Resigned 2<sup>nd</sup> September 2011

**Stock Exchange:**

Embelton Limited shares are quoted on the  
Australian Stock Exchange.

## DIRECTORS REPORT TO SHAREHOLDERS

Increased revenue of almost 12% translated into pre-tax profit growth of 16.6%, representing the sixth consecutive year of record earnings per share. The result was achieved during a year of transition for the Company which saw the retirement of Mr. G R Embelton from his executive duties as Managing Director.

### Summary

	<u>2011</u> (\$'000s)	<u>2010</u> (\$'000s)
Sales Revenue	33,882	30,285
Operating Profit	2,201	1,887
Company Tax	<u>671</u>	<u>579</u>
Net Profit after Tax	1,530	1,308
Earnings per Share	71c	61c

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Net Tangible Assets per Share

- before declared final dividend  
\$4.77
- after declared final dividend  
\$4.57

### DIVIDEND

To the final ordinary dividend of 15 cents per share will be added a special dividend of 5.5 cents making a total payout of 33 cents for the year; equivalent to 46.5% of net earnings after tax. This represents an increase of 10% compared with the total dividend of 30 cents per share paid in the previous year.

### OPERATIONS

#### Flooring

A decision to broaden the product range was reflected by encouraging growth in demand from flooring retailers which, coupled with other sales and marketing initiatives, saw divisional revenues advance by almost 15% compared with the previous year. A notable trend has been greater consumer awareness of environmental issues and this fed into improved sales of bamboo flooring which made a useful contribution to the overall result.

With new sales staff and a better developed range of products, it is expected that the flooring division will maintain its market position despite headwinds being faced by the retail sector in Australia.

#### Technical

Continued competition in traditional industrial vibration and isolation markets has served to limit Technical Division activity with price pressure from cheaper imported products restricting available margins.

Offsetting some of these pressures has been a continuation of project work directed at delivery of custom solutions developed for specific contracts. Such work included provision of isolation for a large project in the Middle East and design of a complex bearing system to reduce structure borne vibration at the South Australian Health and Medical Research Institute.

A continuation of similar project work is expected to be a focus of this division, but at the same time increased emphasis on control of input costs for the range of catalogue products will enhance competitiveness in our traditional industrial markets.

#### Manufacturing

Despite the continued difficulty being faced by the manufacturing sector in Australia, this division enjoyed a year of growth, driven primarily by the performance of the Metals group. Benefiting from increased demand associated with project work as mentioned above, orders received by the Metals Division ensured a workload in supporting demand from the Technical division.

The wood flooring factory in Taree was challenged by unusually large rainfalls in NSW, which reduced quantities of available timber feedstock thereby forcing intermittent production breaks.

Although manufacture of Cork and Rubber has continued to meet requirements of the flooring and technical divisions, competition from cheaper imports has served to restrict demand for some manufactures, particularly acoustic rubber underlay.

## **Outlook**

Despite ongoing global economic weakness and an uncertain outlook for the retail and manufacturing sectors, we remain cautiously optimistic.

A strong cash position, together with new marketing initiatives and better sourcing of overseas product are expected to contribute to continuation of Group performance into the next period.

## **Staff**

The year was marked by the appointment of Mr James Embelton as Managing Director in November 2010. Formerly a non-executive director, he succeeds his father, George Embelton, who remains as Chairman. James is the third generation of the Embelton family to be represented in senior management of the Company which was founded by his grandfather in 1925.

With this and other staff changes during the year, our committed team have worked successfully through the period of leadership transition.

The Company has adopted a new appraisal system to assess individual and group performance with clear KPI measures set out for each position. Coupled with this, a greater emphasis on staff training has enabled our teams to spend more time collaborating and conceiving strategic plans for their respective areas.

As always, the Company remains focused on identifying excellent people who can make a valuable contribution to the Company.

## **CORPORATE GOVERNANCE**

### **Management and oversight**

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

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

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

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

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

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

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

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

Remuneration for Senior Executives and staff is reviewed annually by the Managing Director, using a formal performance appraisal process. A performance evaluation for senior executives was undertaken during the year in accordance with the above policy.

## **Structure of the Board**

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

Despite this, 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 with the appointment of Mr James Embelton to the role of Managing Director, he resigned from this latter position in November 2010.

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

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

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

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

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

So that the non-Executive Director may be competently advised on any matter in relation to

their responsibilities, he has the right to seek, at the Company's expense, independent professional advice in furtherance of their Director's duties. The prior approval of the Board is required for such expenditure.

## **Ethical decision-making**

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

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

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

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

## **Integrity in financial reporting**

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

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

## **Timely and balanced disclosure**

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

The disclosure management framework provides for

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

### **Respect for shareholder rights**

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

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

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

### **Recognition and management of risk**

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

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

Responsibilities which might ordinarily be exercised by a Risk Management Committee in larger corporations have been accepted by the Board. The Managing Director and Group Commercial Manager report regularly to the

Board on all matters of financial integrity and risk management.

### **Fair and responsible remuneration**

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

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

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

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

# EMBELTON LIMITED AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$	2010 \$
<b>Continuing operations</b>			
Sales Revenue	3	<b>33,881,970</b>	30,285,382
Cost of Sales		<b>(22,127,085)</b>	(19,978,492)
Gross Profit		<b>11,754,885</b>	10,306,890
Other Income		<b>169,759</b>	64,235
<b>Less Expenses:</b>			
Manufacturing Expenses		<b>(1,713,600)</b>	(1,500,042)
Marketing Expenses		<b>(3,678,306)</b>	(3,205,989)
Storage and Distribution Expenses		<b>(575,603)</b>	(520,382)
Administration and Other Expenses		<b>(3,756,453)</b>	(3,257,504)
Profit before income tax expense		<b>2,200,682</b>	1,887,208
Income tax expense	6	<b>(670,489)</b>	(579,058)
Profit for the year		<b>1,530,193</b>	1,308,150
Other comprehensive income for the year		<b>-</b>	-
Total comprehensive income for the year		<b>1,530,193</b>	1,308,150
Profit attributable to:			
Owners of the company		<b>1,530,193</b>	1,308,150
Non-controlling interests		<b>-</b>	-
		<b>1,530,193</b>	1,308,150
Total comprehensive income attributable to:			
Owners of the company		<b>1,530,193</b>	1,308,150
Non-controlling interests		<b>-</b>	-
		<b>1,530,193</b>	1,308,150
Basic earnings per share	9	<b>71 cents</b>	61 cents
Diluted earnings per share	9	<b>71 cents</b>	61 cents

The accompanying notes form part of the financial statements.

# **EMBELTON LIMITED AND ITS SUBSIDIARIES**

## **CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011**

	Notes	2011 \$	2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	23(i)	3,212,339	1,660,096
Trade receivables	10	3,536,666	3,480,729
Inventories	11	5,733,814	5,477,318
Other	12	140,717	167,028
<b>TOTAL CURRENT ASSETS</b>		<b>12,623,536</b>	<b>10,785,171</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	3,539,833	3,648,789
Deferred tax assets	6	552,402	470,148
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,092,235</b>	<b>4,118,937</b>
<b>TOTAL ASSETS</b>		<b>16,715,771</b>	<b>14,904,108</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	4,803,053	4,056,353
Current tax liabilities	6	243,542	136,781
Provisions	16	1,332,026	1,225,583
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,378,621</b>	<b>5,418,717</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	6	12,579	12,049
Provisions	16	21,678	20,917
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>34,257</b>	<b>32,966</b>
<b>TOTAL LIABILITIES</b>		<b>6,412,878</b>	<b>5,451,683</b>
<b>NET ASSETS</b>		<b>10,302,893</b>	<b>9,452,425</b>
<b>EQUITY</b>			
Issued capital	8	1,155,970	1,155,970
Retained earnings	13	9,146,923	8,296,455
<b>TOTAL EQUITY</b>		<b>10,302,893</b>	<b>9,452,425</b>

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 2011**

	Notes	2011 \$	2010 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		33,995,792	29,745,604
Payments to suppliers and employees		(30,867,650)	(27,156,625)
Interest received		77,766	28,048
Finance costs		(95)	(16)
Income taxes paid		<u>(645,452)</u>	<u>(581,891)</u>
<b>Net cash generated by operating activities</b>	23(ii)	<u><b>2,560,361</b></u>	<u>2,035,120</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		43,049	3,500
Payment for property, plant and equipment		<u>(371,442)</u>	<u>(148,323)</u>
<b>Net cash used in investing activities</b>		<u><b>(328,393)</b></u>	<u>(144,823)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		<u>(679,725)</u>	<u>(517,886)</u>
<b>Net cash used in financing activities</b>		<u><b>(679,725)</b></u>	<u>(517,886)</u>
<b>Net increase in cash and cash equivalents</b>		<b>1,552,243</b>	1,372,411
<b>Cash and cash equivalents at the beginning of the financial year</b>		<u><b>1,660,096</b></u>	<u>287,685</u>
<b>Cash and cash equivalents at the end of the financial year</b>	23(i)	<u><b>3,212,339</b></u>	<u>1,660,096</u>

The accompanying notes form part of the financial statements.

# **EMBELTON LIMITED AND ITS SUBSIDIARIES**

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011**

	<b>Issued Capital</b> \$	<b>Retained Earnings</b> \$	<b>Total</b> \$
As at 1 July 2009	<b>1,155,970</b>	<b>7,506,191</b>	<b>8,662,161</b>
Profit for the period	-	1,308,150	1,308,150
Total comprehensive income for the period	-	1,308,150	1,308,150
Dividends paid	-	(517,886)	(517,886)
<b>At 30 June 2010</b>	<b>1,155,970</b>	<b>8,296,455</b>	<b>9,452,425</b>
Profit for the period	-	1,530,193	1,530,193
Total comprehensive income for the period	-	1,530,193	1,530,193
Dividends paid	-	(679,725)	(679,725)
<b>At 30 June 2011</b>	<b>1,155,970</b>	<b>9,146,923</b>	<b>10,302,893</b>

**EMBELTON LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30th JUNE 2011**

**1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS**

**1.1 Standards and Interpretations affecting amounts reported in the current year (and/or prior years)**

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 1.2.

**Standards affecting presentation and disclosure**

Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011)	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
Amendments to AASB 107 'Statement of Cash Flows'	The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

**1.2 Standards and Interpretations adopted with no effect on financial statements**

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.
AASB 2009-8 'Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions'	The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
AASB 2009-10 'Amendments to Australian Accounting Standards - Classification of Rights Issues'	The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.

## 1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS - continued

### 1.2 Standards and Interpretations adopted with no effect on financial statements - continued

AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	<p>The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non- controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non- controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.</p> <p>In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure').</p>
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 7 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.
Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'	This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature.

### 1.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
• AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
• AASB 1053 'Application of Tiers of Australian Accounting Standards' and AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'	1 July 2013	30 June 2014
• AASB 2009-14 'Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012

# 1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS - continued

## 1.3 Standards and Interpretations in issue not yet adopted - continued

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2011	30 June 2012
• AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
• AASB 2010-6 'Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets'	1 July 2011	30 June 2012
• AASB 2010-8 'Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
• AASB 2010-9 'Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters'	1 July 2011	30 June 2012
• AASB 2010-10 'Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters'	1 January 2013	30 June 2014
• AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
• AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
• AASB 12 'Disclosures of Interest in Other Entities'	1 January 2013	30 June 2014
• AASB 13 'Fair Value Measurement'	1 January 2013	30 June 2014
Pronouncements approved by the IASB/IFRIC where an equivalent pronouncement has not been issued by the AASB:		
• Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	1 July 2012	30 June 2013
• IAS 19 'Employee Benefits'	1 January 2013	30 June 2014

## 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.

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 30 September 2011.

### **Critical accounts, judgement and key issues of estimation uncertainty**

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

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.

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

### **Basis of preparation**

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

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

#### **a. Basis of consolidation**

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

#### **b. Foreign Currency Translation**

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

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

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

### c. Revenue Recognition

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

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

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

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

### d. Income Tax

#### Current Tax

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

#### Deferred Tax

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

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

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

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

#### Current and deferred tax for the period

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

#### Tax consolidation

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

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

### e. Impairment of Assets

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

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

### f. Cash and Cash Equivalents

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

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

### g. Trade Receivables

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

### h. Inventories

Raw Materials, Work in Progress and Finished Goods

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

### i. Property, Plant and Equipment

Land and buildings are measured at cost less accumulated depreciation.

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

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

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

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

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

### j. Leases

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

### k. Trade and Other Payables

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



## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

### l. Provisions

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

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

#### Onerous contracts

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

### m. Employee Benefits

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

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

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

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

### n. Contributed Equity

Ordinary shares are classified as equity.

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

### o. Dividends Payable

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

### p. Earnings Per Share

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

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

### q. Goods and Services Tax (GST)

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

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

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

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

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

### r. Financial Instruments

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

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

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

**Derivative instruments** - Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

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

### s. Investments in subsidiaries

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

	2011 \$	2010 \$
<b>3. INCOME</b>		
Revenue from the sale of goods	<u>33,881,970</u>	<u>30,285,382</u>
Other Income		
Interest income: Bank deposits	77,766	28,048
Net foreign exchange gain	25,691	3,034
Sundry income	46,567	41,474
Profit/(Loss) on disposal of property, plant and equipment	<u>19,735</u>	<u>(8,321)</u>
Total other income	<u>169,759</u>	<u>64,235</u>
<b>4. PROFIT BEFORE TAX</b>		
Profit before tax has been determined after:		
<b>Expenses:</b>		
Finance costs	95	16
Depreciation of non-current assets:		
Buildings	42,070	41,412
Plant and equipment	<u>288,919</u>	<u>302,844</u>
Total depreciation	<u>330,989</u>	<u>344,256</u>
Bad debts written off – trade debtors	30,474	32,469
Operating lease rentals	527,126	428,152
Employee benefits	5,081,006	4,682,667
Payments made to Defined Contribution Plans on behalf of employees	<u>407,937</u>	<u>366,838</u>
	<u>5,488,943</u>	<u>5,049,505</u>
<b>5. AUDITORS' REMUNERATION</b>		
Remuneration of the auditor for:		
Auditing or reviewing the financial report	41,985	40,065
Preparation of the tax return and other services	<u>9,560</u>	<u>6,930</u>
	<u>51,545</u>	<u>46,995</u>
Remuneration of other auditors of subsidiaries for:		
Auditing or reviewing the financial report	<u>752</u>	<u>372</u>

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

<b>6. TAXATION</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>a) Income tax expense recognised in profit</b>		
Tax expense comprises		
- current tax expense	<b>752,213</b>	595,688
- deferred tax expense relating to the origination and reversal of temporary differences	<b>(81,724)</b>	(16,630)
	<b><u>670,489</u></b>	<b><u>579,058</u></b>
The prima facie income tax expense on pre tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit from operations	<b><u>2,200,682</u></b>	<u>1,887,208</u>
Income tax expense calculated at 30%	<b>660,205</b>	566,163
Depreciation on property, plant and equipment not deductible for tax	<b>6,694</b>	9,534
Sundry items	<b>3,582</b>	3,711
Under/(Overprovision) prior year	<b>8</b>	(350)
Income tax expense recognised in profit	<b><u>670,489</u></b>	<b><u>579,058</u></b>
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>b) Current tax liabilities</b>		
<b>Current tax payable</b>		
Income tax attributable to:		
Parent entity	<b>24,841</b>	16,383
Entities in tax consolidated group	<b><u>218,701</u></b>	<u>120,398</u>
	<b><u>243,542</u></b>	<b><u>136,781</u></b>
<b>c) Deferred tax balances</b>		
Deferred tax assets comprise:		
Temporary differences	<b><u>552,402</u></b>	<u>470,148</u>
Deferred tax liabilities comprise:		
Temporary differences	<b><u>12,579</u></b>	<u>12,049</u>
Net deferred tax asset	<b><u>539,823</u></b>	<b><u>458,099</u></b>

**6. TAXATION - Continued**

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

	<b>Opening balance \$</b>	<b>Charged to Income \$</b>	<b>Charged to equity \$</b>	<b>Closing balance \$</b>
<b>As at 30 June 2011</b>				
Gross deferred tax assets				
Receivables	13,500	-	-	<b>13,500</b>
Provisions	390,450	101,845	-	<b>492,295</b>
Property, plant and equipment	66,198	(19,591)	-	<b>46,607</b>
	<u>470,148</u>	<u>82,254</u>	<u>-</u>	<u><b>552,402</b></u>
Gross deferred tax liability				
Property, plant and equipment	(12,049)	(530)	-	<b>(12,579)</b>
	<u>458,099</u>	<u>81,724</u>	<u>-</u>	<u><b>539,823</b></u>

**As at 30 June 2010**

Gross deferred tax assets				
Receivables	18,386	(4,886)	-	13,500
Provisions	376,271	14,179	-	390,450
Property, plant and equipment	58,325	7,873	-	66,198
	<u>452,982</u>	<u>17,166</u>	<u>-</u>	<u>470,148</u>
Gross deferred tax liability				
Property, plant and equipment	(11,513)	(536)	-	(12,049)
	<u>441,469</u>	<u>16,630</u>	<u>-</u>	<u>458,099</u>

## 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.

<b>7. DIVIDENDS PROVIDED FOR OR PAID</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Dividends paid by the Company are:		
(i) A final fully franked ordinary dividend of 14.0 cents (2008/09 – 13.0 cents) and a special dividend of 5.0 cents (2008/09 – Nil) was declared for the 2010 financial year and was paid on 14 October 2010 (9 October 2009)	<b>409,993</b>	280,522
(ii) An interim fully franked ordinary dividend of 12.5 cents (2010 – 11.0 cents) for the 2010/11 financial year was declared on 4 February 2011 (2010 – 8 February) and paid on 15 April 2011 (2010 – 16 April)	<b>269,732</b>	237,364
	<b>679,725</b>	<b>517,886</b>

A fully franked ordinary dividend of 15.0 cents per share and a special dividend of 5.5 cents per share was declared by the Directors on 25 August 2011, but not provided for in the financial statements.

The total estimated dividend to be paid is \$442,361.

### FRANKING ACCOUNT BALANCE

Franking account balance	<b>3,097,944</b>	2,743,803
Reduction in Franking Account balance which will occur in the current period due to dividends declared on 25 August 2011 but not recognised in these financial statements at 30 June 2011	<b>132,708</b>	122,998

	2011 \$	2010 \$
<b>8. ISSUED CAPITAL</b>		
2,157,857 (2010 - 2,157,857) fully paid ordinary shares	<u><b>1,155,970</b></u>	<u>1,155,970</u>

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	<u><b>71 cents</b></u>	61 cents
Net Profit used in calculation	<u><b>\$ 1,530,193</b></u>	<u>\$ 1,308,150</u>
Weighted average number of ordinary shares	<u><b>2,157,857</b></u>	<u>2,157,857</u>

**10. TRADE RECEIVABLES**

**CURRENT**

Trade receivables	<b>3,581,666</b>	3,525,729
Less provision of doubtful debts	<u><b>(45,000)</b></u>	<u>(45,000)</u>
	<u><b>3,536,666</b></u>	<u>3,480,729</u>

Ageing of past due but not impaired:

30 – 60 days	<b>62,008</b>	380,876
Over 60 days	<u><b>34,891</b></u>	<u>18,834</u>
	<u><b>96,899</b></u>	<u>399,710</u>

The average credit period on sales of goods is 35 days (2010 – 37 days). No interest is charged on the trade receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and economic conditions. There has been no movement in the provision account in the current year (2010 – Nil).

**Movement in allowance for doubtful debts**

Balance at the beginning of the year	<b>45,000</b>	45,000
Amounts provided for during the year	<b>30,474</b>	32,469
Amounts written off during the year as uncollectable	<u><b>(30,474)</b></u>	<u>(32,469)</u>
Balance at the end of the year	<u><b>45,000</b></u>	<u>45,000</u>

	2011 \$	2010 \$
<b>11. INVENTORIES</b>		
<b>CURRENT</b>		
Raw materials - at cost	578,116	660,147
Work in progress - at cost	194,995	167,126
Finished goods - at cost	4,960,703	4,650,045
	<u>5,733,814</u>	<u>5,477,318</u>
<b>12. OTHER CURRENT ASSETS</b>		
Prepayments and sundry debtors	<u>140,717</u>	<u>167,028</u>
<b>13. RETAINED PROFITS</b>		
Retained profits at beginning of year	8,296,455	7,506,191
Net profit attributable to members of the parent entity	1,530,193	1,308,150
Dividends paid (Note 7)	(679,725)	(517,886)
Retained profits at the end of the year	<u>9,146,923</u>	<u>8,296,455</u>
<b>14. PROPERTY, PLANT AND EQUIPMENT</b>		
<b>LAND</b> - At cost	1,489,822	1,489,822
<b>BUILDINGS</b> – At cost	1,766,911	1,766,911
- Accumulated depreciation	(491,821)	(449,751)
	<u>1,275,090</u>	<u>1,317,160</u>
<b>TOTAL LAND AND BUILDINGS</b>	<u>2,764,912</u>	<u>2,806,982</u>
<b>PLANT &amp; MACHINERY</b> – At cost	2,191,998	2,800,927
- Accumulated depreciation	(1,915,212)	(2,391,496)
	<u>276,786</u>	<u>409,431</u>
<b>FIXTURES AND FITTINGS</b> – At cost	1,139,550	1,240,230
- Accumulated depreciation	(854,075)	(1,003,773)
	<u>285,475</u>	<u>236,457</u>
<b>MOTOR VEHICLES</b> – At cost	593,768	552,188
- Accumulated depreciation	(381,108)	(356,269)
	<u>212,660</u>	<u>195,919</u>
<b>TOTAL – Cost</b>	7,182,049	7,850,078
- Accumulated depreciation	<u>(3,642,216)</u>	<u>(4,201,289)</u>
<b>NET BOOK VALUE</b>	<u>3,539,833</u>	<u>3,648,789</u>



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

**2011**

	Freehold Land	Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	TOTAL
	\$	\$	\$	\$	\$	\$
Balance at beginning of year	1,489,822	1,317,160	409,431	236,457	195,919	3,648,789
Additions	-	-	77,738	149,006	144,698	371,442
Scrapped	-	-	(122,003)	-	-	(122,003)
Disposals	-	-	(1,344)	(4,023)	(22,039)	(27,406)
Depreciation expense	-	(42,070)	87,036	(95,965)	(105,918)	(330,989)
Carrying amount at end of year	1,489,822	1,275,090	276,786	285,475	212,660	3,539,833

**2010**

	Freehold Land	Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	TOTAL
	\$	\$	\$	\$	\$	\$
<b>Consolidated</b>						
Balance at beginning of year	1,489,822	1,331,749	470,336	253,742	310,894	3,856,543
Additions	-	26,823	25,814	95,686	-	148,323
Disposals	-	-	-	(11,821)	-	(11,821)
Depreciation expense	-	(41,412)	(86,719)	(101,150)	(114,975)	(344,256)
Carrying amount at end of year	1,489,822	1,317,160	409,431	236,457	195,919	3,648,789

Assets pledged as security

The bank facilities of \$750,000 are secured by a registered mortgage over property situated at 147-149 Bakers Road, Coburg. Whilst these facilities are so secured the Group may not pledge these assets as security for other borrowings or sell them to another entity.

**2011**  
\$

**2010**  
\$

**15. TRADE AND OTHER PAYABLES**

**CURRENT**

Trade Payables	<b>2,821,229</b>	2,728,683
Sundry Payables and accrued expenses	<b>1,981,824</b>	1,327,670
	<b><u>4,803,053</u></b>	<b><u>4,056,353</u></b>

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

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

	2011 \$	2010 \$
<b>16. PROVISIONS</b>		
CURRENT		
Employee benefits	<u>1,332,026</u>	<u>1,225,583</u>
NON-CURRENT		
Employee benefits	<u>21,678</u>	<u>20,917</u>
Aggregate liability for employee entitlements	<u>1,353,704</u>	<u>1,246,500</u>

**17. SUBSIDIARIES**

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

	Notes	Ownership Interest		Carrying Amount of Investment in Company	
		2011 %	2010 %	2011 \$	2010 \$
EMBELTON LIMITED					
CONTROLLED ENTITIES					
G. P. Embelton & Co. Pty. Ltd.	a	100	100	654,768	654,768
Windolite (Australia) Pty. Ltd.	a,b	100	100	199,732	-
Wood Flooring Wholesale Pty. Ltd. as trustee					
for Wood Flooring Unit Trust	a	100	100	100	100
Embelton Manufacturing Co. Pty. Ltd.	a	100	100	963,295	963,295
Embelton Industries Pty. Ltd.	a	100	100	18,750	18,750
Wood Flooring Pty. Ltd.	a	100	100	1	1
Embelton Singapore Pte. Ltd.	a,c	100	100	10,288	10,288
Embelton (Malaysia) Sdn. Bhd.	a,c	100	100	1	1
Embelton Timber Services Pty. Ltd.	a	100	100	2	2
Embelton-Grail Inc.	a,c,d	54.5	54.5	-	-
				<u>1,846,937</u>	<u>1,647,205</u>

- With respect to controlled entities, the only class of share issued is ordinary. All controlled entities are incorporated in Australia and operate in Australia, with the exception of Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd and Embelton-Grail Inc, which are incorporated in Singapore, Malaysia and USA respectively. All controlled entities are included in the tax consolidated group referred to in Note 2d, with the exception of Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd and Embelton-Grail Inc.
- On 31 May 2011, Embelton Limited acquired 100% of the issued capital in Windolite (Australia) Pty Ltd from G P Embelton & Co Pty Ltd (a controlled entity).
- Embelton Singapore Pte Ltd, Embelton (Malaysia) Sdn Bhd and Embelton-Grail Inc are not audited by Deloitte Touche Tohmatsu.
- 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 the amounts due by Embelton-Grail Inc. to be repaid.

## 18. KEY MANAGEMENT PERSONNEL COMPENSATION

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

G R Embelton	Chairman (Executive)
J J Embelton	Managing Director
J R Baldwin	Non-executive Director
E P Galgano	Group Commercial Manager

J J Embelton resigned his position as Non-executive Director and was appointed Managing Director in November 2010.

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

	2011	2010
	\$	\$
Short term employment benefits	590,065	482,640
Post-employment benefits	98,303	72,459
	<u>688,368</u>	<u>555,099</u>

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

## 19. COMMITMENTS AND CONTINGENCIES

### OPERATING LEASE RENTAL COMMITMENTS

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

Lease commitments due

Not later than one year

Later than one but not later than five years

485,236	497,002
970,974	727,113
<u>1,456,210</u>	<u>1,224,115</u>

Operating leases relate to properties used by the Group and motor vehicle leases with lease terms between 1 to 5 years, with some building leases having further options. Some building 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.

### SUPERANNUATION COMMITMENTS

Controlled entities contribute to several employee superannuation funds. Employee contributions are based on a percentage of their gross salaries.

The Company and other controlled entities are under no legal obligation to make up any shortfall in the assets of any superannuation fund to meet payments due to employees.

## 20. RELATED PARTIES

### KEY MANAGEMENT PERSONNEL

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

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

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

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

#### Fully paid ordinary shares of Embelton Limited

	Balance at 30.06.09	Received as Compensation	Other Changes	Balance at 30.06.10	Received as Compensation	Other Changes	Balance at 30.06.11
Directors							
G R Embelton	929,326	-	-	929,326	-	13,000	942,326
J R Baldwin	500	-	6,035	6,535	-	-	6,535
J J Embelton	10,338	-	5,539	15,877	-	16,000	31,877
Executives							
E P Galgano	-	-	-	-	-	-	-

### CONTROLLED ENTITIES

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

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

## 21. SEGMENTAL INFORMATION

### Identification of reportable segments

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

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

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

The reportable segments identified are unchanged from those identified previously.

### Reportable segments

#### Technical Products

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

#### Flooring Products

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

#### Manufacturing

Manufacturing operations supply to both market segments.

### Business Segments

	Merchandising			
	Technical Products \$'000	Flooring Products \$'000	Manufacturing \$'000	Consolidated \$'000
(i) 2011				
<b>Revenue</b>				
Sale of Goods and Commission Received	6,970	24,900	6,348	38,218
Elimination on Consolidation	-	-	(4,336)	(4,336)
<b>Total Segment Revenue</b>	<b>6,970</b>	<b>24,900</b>	<b>2,012</b>	<b>33,882</b>
<b>Results</b>				
Segment results	796	926	566	2,288
Unallocated expenses				(87)
Total Operating Profit before income tax				2,201
Income tax expense				671
<b>Total Operating Profit after income tax</b>				<b>1,530</b>
<b>Assets</b>				
Segment assets	3,666	9,972	2,976	16,614
Unallocated assets				102
<b>Total Assets</b>				<b>16,716</b>
<b>Liabilities</b>				
Segment Liabilities	1,998	3,678	704	6,380
Unallocated Liabilities				33
<b>Total Liabilities</b>				<b>6,413</b>
<b>Other</b>				
Acquisition of Segment Assets	82	151	138	371
Depreciation of Segment Assets	84	154	93	331

**SEGMENTAL INFORMATION continued**  
**Business Segments**

	<b>Merchandising</b>			
	<b>Technical Products \$'000</b>	<b>Flooring Products \$'000</b>	<b>Manufacturing \$'000</b>	<b>Consolidated \$'000</b>
(ii) <b>2010</b>				
<b>Revenue</b>				
Sale of Goods and Commission Received	7,496	20,861	6,445	34,802
Elimination on Consolidation	-	-	(4,517)	(4,517)
Total Segment Revenue	<u>7,496</u>	<u>20,861</u>	<u>1,928</u>	<u>30,285</u>
<b>Results</b>				
Segment results	838	690	493	2,021
Unallocated expenses				(134)
Total Operating Profit before income tax				1,887
Income tax expense				579
Total Operating Profit after income tax				<u>1,308</u>
<b>Assets</b>				
Segment assets	3,372	7,885	3,532	14,789
Unallocated assets				115
<b>Total Assets</b>				<u>14,904</u>
<b>Liabilities</b>				
Segment Liabilities	1,638	3,014	771	5,423
Unallocated Liabilities				29
<b>Total Liabilities</b>				<u>5,452</u>
<b>Other</b>				
Acquisition of Segment Assets	42	77	29	148
Depreciation of Segment Assets	89	164	91	<u>344</u>

**Geographical Segments**

The Consolidated Entity predominately operates in Australia.

**22. FINANCIAL INSTRUMENTS**

**Capital Risk Management**

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

The Group's overall strategy remains unchanged from 2010.

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 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**

	<b>2011</b>	2010
	<b>\$'000</b>	\$'000
<b>Financial Assets</b>		
Cash and cash equivalents	<b>3,212</b>	1,660
Trade receivables	<b>3,537</b>	3,481
Other receivables	<b>141</b>	167
<b>Financial Liabilities</b>		
Trade and sundry payables	<b>4,803</b>	4,056

(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 \$3,535 (2010: \$1,402).

(e) **Currency risk**

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

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

	USD Impact		Euro Impact	
	<b>2011</b>	2010	<b>2011</b>	2010
	\$	\$	\$	\$
Profit would vary by	<b>29,270</b>	13,359	-	1,648

(f) **Fair values**

There is no material difference between the carrying amounts 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 was cash flow positive during the year with cash inflows exceeding outflows.

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.

<b><u>CONSOLIDATED</u></b>	<b>Weighted Average Interest Rate %</b>	<b>Less than 1 year \$'000</b>	<b>1-5 Years \$'000</b>	<b>5+ years \$'000</b>
<b><u>2011</u></b>				
<b>Assets</b>				
Non interest bearing assets		4,036	-	-
Interest bearing assets	5.5	2,854	-	-
<b>Liabilities</b>				
Non interest bearing liabilities		4,803	-	-
<b><u>2010</u></b>				
<b>Assets</b>				
Non interest bearing assets		3,803	-	-
Interest bearing	5.0	1,505	-	-
<b>Liabilities</b>				
Non interest bearing liabilities		4,056	-	-



## 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:

	2011 \$	2010 \$
Cash and cash equivalent	<u>3,212,339</u>	<u>1,660,096</u>

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

Profit for the period	1,530,193	1,308,150
Depreciation	330,989	344,256
(Profit)/Loss on sale of property, plant and equipment	(19,735)	8,321
Net bad debts written off	<u>30,474</u>	<u>32,469</u>
<b>Net Cash Provided by Operating Activities before change in Assets and Liabilities</b>	<b>1,871,921</b>	<b>1,693,196</b>
Change in Assets and Liabilities during the financial year:		
(Increase)/Decrease in assets:		
Trade receivables	(55,937)	(604,013)
Inventory	(256,496)	312,205
Other current assets	26,311	(13,782)
Deferred tax asset	(82,254)	(17,166)
Increase/(Decrease) in liabilities:		
Income taxes payable	106,761	13,797
Trade payables	92,546	365,740
Sundry payables	654,154	324,811
Provisions	<u>202,825</u>	<u>(40,204)</u>
Deferred tax liability	<u>530</u>	<u>536</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>2,560,361</u></b>	<b><u>2,035,120</u></b>

### (iii) FINANCING ARRANGEMENTS

The consolidated entity has access to bank overdraft, trade and bill facilities to a maximum of \$750,000 (2010 - \$750,000) which, after allowing for outstanding trade L/Cs and Bank Guarantees, left an unused facility of \$574,613 (2010 - \$430,788). The bank overdraft is payable on demand and is subject to annual review. The bank facilities are secured by a registered mortgage over property situated at 147-149 Bakers Road, Coburg, Victoria.

## 24. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

Refer note 2 for a summary of the significant accounting policies relating to the group.

<b>Financial position</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Current assets	<b>12,770</b>	26,262
Non-current assets	<b>10,355,770</b>	9,604,942
Total assets	<b>10,368,540</b>	9,631,204
<b>Liabilities</b>		
Current liabilities	<b>523,967</b>	2,773,259
Non-current liabilities	<b>12,579</b>	12,049
Total Liabilities	<b>536,546</b>	2,785,308
<b>Equity</b>		
Issued capital	<b>1,155,970</b>	1,155,970
Retained earnings	<b>8,676,024</b>	5,689,926
Total equity	<b>9,831,994</b>	6,845,896
<b>Financial performance</b>		
Profit for the year	<b>3,665,823</b>	149,340
Other comprehensive income	-	-
Total comprehensive income	<b>3,665,823</b>	149,340
<b>Contingent liabilities of the parent entity</b>	-	-
<b>Commitments for the acquisition of property, plant and equipment by the parent entity</b>		
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 2011 or the results for the period ended on that date.

## **DIRECTOR'S DECLARATION**

The Directors declare that:

- a) in the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) In the Director's opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;
- c) in the Director's opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors



G R Embelton  
Chairman  
30 September 2011

## STATUTORY DIRECTOR'S REPORT

Your Directors present their report on the Company and its subsidiaries for the financial year ended 30 June 2011.

### DIRECTORS

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

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

### COMPANY SECRETARY

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

Mrs C H Palm  
Appointed July 2000  
Resigned September 2011

### PRINCIPAL ACTIVITIES

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

### OPERATING RESULTS

The consolidated profit of the consolidated entity after providing for income tax and eliminating outside equity interests amounted to \$1,530,193 (2010: \$1,308,150).

#### DIVIDENDS

	2011	2010
	\$	\$

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

An interim fully franked ordinary dividend of 12.5 cents per share (2010 – 11.0 cents) was paid on 15 April 2011	269,732	237,364
A final fully franked ordinary dividend of 15.0 cents per share (2010 – 14.0 cents) has been declared by the Directors	323,679	302,100
A special fully franked dividend of 5.5 cents per share (2010 – 5c) has been declared by the Directors	118,682	107,893
	<u>712,093</u>	<u>647,357</u>

### CHANGE IN STATE OF AFFAIRS

During the financial year, there was no significant change in the state of affairs of the consolidated entity other than that 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.

## **FUTURE DEVELOPMENTS**

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## **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.

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, 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 an independent director.

## MEETINGS OF DIRECTORS

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

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

## DIRECTORS' AND EXECUTIVES' RELEVANT SHAREHOLDINGS

	Balance at 30.06.09	Received as Compensation	Other Changes	Balance at 30.06.10	Received as Compensation	Other Changes	Balance at 30.06.11
Directors							
G R Embelton	929,326	-	-	929,326	-	13,000	942,326
J R Baldwin	500	-	6,035	6,535	-	-	6,535
J J Embelton	10,338	-	5,539	15,877	-	16,000	31,877
Executives							
E P Galgano	-	-	-	-	-	-	-

## REMUNERATION REPORT

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

### Remuneration Policy

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

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

### Remuneration Committee

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

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

### Remuneration Structure

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

### Executive Directors and Senior Executives

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

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

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

Fixed Remuneration comprises payroll salary, superannuation and other benefits. Some individuals, however, have 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 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.

The remuneration structure is in two parts:

- Fixed remuneration; and
- Variable 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.

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

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

### **Employment Contracts of Directors and Senior Executives**

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

### **Relationship Between the Remuneration Policy and Company Performance**

The tables below set out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the five years to June 2011. As stated above the Group aims to reward executives with a remuneration package commensurate with their position and responsibilities within the Group. Remuneration should embrace reward for achievement of pre-determined key performance indicators (such as EBT) linked to strategic goals whilst ensuring that the total remuneration remains competitive.

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

Year ended:	30 June 2007	30 June 2008	30 June 2009	30 June 2010	30 June 2011
	\$	\$	\$	\$	\$
Revenue	21,480,363	24,653,296	27,193,671	30,351,938	34,051,729
Net profit before tax	1,163,793	1,441,450	1,506,395	1,887,208	2,200,682
Net profit after tax	801,158	986,791	1,046,574	1,308,150	1,530,193

Year ended:	30 June 2007	30 June 2008	30 June 2009	30 June 2010	30 June 2011
Share price at start of year	\$ 4.10	\$ 4.76	\$ 4.50	\$ 3.40	\$ 4.60
Share price at end of year	\$ 4.76	\$ 4.50	\$ 3.40	\$ 4.60	\$ 6.00
Interim Dividend <sup>1</sup>	8.5 cents	9.5 cents	10.0 cents	11.0 cents	12.5 cents
Special Dividend <sup>1</sup>		5.0 cents		5.0 cents	5.5 cents
Final Dividend <sup>1</sup>	10.5 cents	11.5 cents	13.0 cents	14.0 cents	15.0 cents
Basic earnings per share	37 cents	46 cents	49 cents	61 cents	71 cents
Diluted earnings per share	37 cents	46 cents	49 cents	61 cents	71 cents

<sup>1</sup>Franked to 100% at 30% corporate tax rate.

### Compensation of Key Management Personnel

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

#### Company Directors:

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

#### Executives:

Mr E P Galgano	Group Commercial Manager
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### Consolidated Entity and Company

	Short Term Employee Benefits				Post Employment Superannuation Benefits	Total	Proportion of Remuneration Performance Related
	Salary & Directors Fees	LSL	Incentive Accrued for Current Period	Non-monetary Benefit			
	\$	\$	\$	\$	\$	\$	
<b>Company Non-Executive Directors' Remuneration</b>							
<b>Year ending 30 June 2011</b>							
Mr J R Baldwin	-	-	-	-	20,000	20,000	
	-	-	-	-	20,000	20,000	
<b>Year ending 30 June 2010</b>							
Mr J R Baldwin	-	-	-	-	20,000	20,000	
Mr J J Embelton	20,000	-	-	-	-	20,000	
	20,000	-	-	-	20,000	40,000	
<b>Company Executive Directors and Specified Executives' Remuneration</b>							
<b>Year ending 30 June 2011</b>							
Mr G R Embelton	106,164	25,026	38,367	13,330	49,885	232,772	17%
Mr J J Embelton	139,934	-	81,095	7,889	9,603	238,521	34%
Mr E P Galgano	124,380	3,006	42,768	8,106	18,815	197,075	22%
	370,478	28,032	162,230	29,325	78,303	668,368	24%
<b>Year ending 30 June 2010</b>							
Mr G R Embelton	150,485	23,342	50,000	19,102	33,000	275,929	18%
Mr E P Galgano	145,136	3,114	63,355	8,106	19,459	239,170	26%
	295,621	26,456	113,355	27,208	52,459	515,099	22%

For the year under review, bonuses of \$81,095, \$38,367 and \$42,768 have been provided for Mr J J Embelton, Mr G R Embelton, and Mr E P Galgano respectively (2010 – Nil, \$50,000 and \$63,355 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

### Compensation Options

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

### Shares Issued on Exercise of Compensation Options

The Company has not issued any remuneration options.



**Options and Rights Holdings**

No directors or executives hold any options or rights over ordinary shares of Embelton Limited.

**INDEMNIFYING OFFICERS OR AUDITORS**

During or since the end of the financial year the Company has paid premiums to insure all Directors and officers of the Company against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of officer of the Company, other than conduct involving a willful breach of duty in relation to the Company. The amount of the premium was \$14,613 (2010 - \$13,835).

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 2011:

Taxation services - preparation of income tax returns	\$ 8,000
Professional advice	<u>\$ 1,560</u>
Total	<u>\$ 9,560</u>

## **AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 41.

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

On behalf of the Directors

A handwritten signature in dark ink, appearing to read 'G R Embelton', written in a cursive style.

G R Embelton

Chairman

30 September 2011

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

30 September 2011

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 2011, 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



**C M J Bryan**  
Partner  
Chartered Accountants

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Member of Deloitte Touche Tohmatsu Limited

## **Independent Auditor's Report to the Members of Embelton Limited**

We have audited the accompanying financial report of Embelton Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 5 to 33.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

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

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

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

## *Auditor's Independence Declaration*

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

## *Opinion*

In our opinion:

- (a) the financial report of Embelton Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 36 to 39 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion the Remuneration Report of Embelton Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



C M J Bryan  
Partner  
Chartered Accountants  
Melbourne, 30 September 2011

## ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 22 AUGUST 2011

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

- a. The number of holders of fifty cent fully paid ordinary shares as at 22 August 2011 was 122 of which 2 held less than a marketable parcel.
- b. Distribution of Shareholding

<u>Range</u>	<u>No of Holders of Ordinary Shares</u>	<u>No of Shares</u>
1 – 1,000 shares	47	22,448
1,001 – 5,000 shares	44	115,363
5,001 – 10,000 shares	4	26,288
10,001 – 100,000 shares	23	420,011
100,001 and over	<u>4</u>	<u>1,573,747</u>
	122	2,157,857

- c. Percentage total holdings by or on behalf of the twenty largest shareholders is 88.50%.

<u>Shareholder</u>	<u>No of shares</u>	<u>% of total</u>
GRE Nominees Pty Ltd	567,940	26.32
Mrs Elizabeth M Montgomery & Mrs Bridget E Tomkins (Elizabeth Montgomery S/F A/C)	467,981	21.69
George Robert Embelton	341,886	15.84
Mr Ian Peter Alexander	195,940	9.08
Ms Carolyn Louise Hill	32,307	1.50
Mr James John Embelton	31,877	1.48
Puvamo Investments Pty Ltd	26,200	1.21
GRE Nominees Pty Ltd (G R Embelton S/F A/c)	32,500	1.51
Mrs Jennifer Mary Shepherd	22,395	1.04
Neville Victor Cruse & Bronwyn Maree Cruse (Neville & Bron Cruse Superannuation A/c)	21,105	0.98
Mr Geoffrey Weston Cruse	21,105	0.98
Mr Adrian Eaglie White	18,000	0.83
Ms Sallie Christina Hill	17,913	0.83
Aviation Fuel Associates (Aust) Pty Ltd (The Fraser Super Fund A/c)	16,838	0.78
Mr Amos Andrew Weigall & Mr Andrew Thomas Weeks (Amos Weigall A/c)	16,198	.075
Mr Amos Andrew Weigall & Mr Philip Robert Hunter (Cook Palmer A/c)	16,198	0.75
Ms Bridget Elizabeth Montgomery	16,107	0.75
Mrs Maxine Charlotte Stewart	16,000	0.74
Mr David Anthony Embelton	15,875	0.74
Mr Glyn Arthur Moore & Mrs Elizabeth Moore (Moore Superannuation A/c)	15,085	0.70

The following holdings are those stated in the register of substantial shareholdings GRE Nominees Pty Ltd 567,940, Elizabeth Montgomery Super Fund A/c 467,981, George R Embelton 341,886, Ian Peter Alexander 195,940.

- d. No options over issued shares of interests in the Company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.
- e. Voting rights: Voting rights as governed by the Constitution of the Company provide that each ordinary shareholder present in person or by proxy at a meeting shall have:
  - (a) on a show of hands – one vote only;
  - (b) on a poll, one vote for every fully paid ordinary share held.

## The Companies and Products

EMBELTON LIMITED  
147 - 149 Bakers Road  
COBURG VIC 3058 AUSTRALIA

### DISTRIBUTION AND MERCHANDISING

#### G P EMBELTON & CO PTY LTD

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

Melbourne 147-149 Bakers Road  
Coburg 3058

1/72 Fenton Street  
Huntingdale 3166

Sydney 20 Fariola Street  
Silverwater 2128

Brisbane 44 Millway Street  
Kedron 4031

Perth 37 Sundercombe Street  
Osborne Park 6017

#### Flooring and Consumer Products:

- Wooden parquetry flooring
- Prefinished and natural strip flooring
- Cork tiles
- 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
- Antivibration mountings - spring and rubber
- Seismic restraints for resiliently mounted equipment
- Recycled and natural rubber sheets
- Spandex cork jointing
- Other jointing media
- Tube and Pipe bending

### MANUFACTURING

#### EMBELTON INDUSTRIES PTY LTD

Manufacture of metal products

Factory Irene Street  
Coburg Vic 3058

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

#### SKINNER BENDING

A Division of Embelton Industries Pty Ltd

Factory Irene Street  
Coburg Vic 3058

- Tube and pipe bending and rolling

#### EMBELTON MANUFACTURING CO PTY LTD

Manufacture of construction and industrial materials

Factory Irene Street  
Coburg Vic 3058

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

#### EMBELTON TIMBER SERVICES PTY LTD

Manufacture of timber flooring

Factory 27 Kanangra Drive  
Taree NSW 2430

- Parquetry flooring products
- Strip timber flooring