

# EMBELTON

2022 ANNUAL REPORT

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## CONTENTS

<b>1</b>	DIRECTORS' REPORT	03
<b>2</b>	FINANCIAL REPORTS	08
<b>3</b>	NOTES	15
<b>4</b>	STATUTORY INFORMATION	39

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## 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 J Embelton, Managing Director

J R Baldwin

M S Crabb

### AUDITORS

Deloitte Touche Tohmatsu

### SECRETARY

E P Galgano

### STOCK EXCHANGE

Embelton Limited shares are quoted on the  
Australian Stock Exchange

# 1

DIRECTORS'  
REPORT



## ONE SYDNEY HARBOUR, SYDNEY

Supply and Installation of Custom Engineered European Oak Floors

## DIRECTORS' REPORT TO SHAREHOLDERS

The challenging conditions experienced during the pandemic continued into the past year with the impact of prolonged lockdowns and project delays affecting all units of our business. In addition to the widespread labour shortages felt throughout the economy, supply chain disruption saw significant increases in shipping and material costs adversely affect operating margins, whilst increased inventories taken on to protect our pre-pandemic contract obligations led to a deterioration in financial ratios. It is only now, as the first quarter of the new year begins, that signs of a tentative recovery in normal construction activity are starting to appear.

Our last Annual Report noted the difficulties which had restricted development initiatives during the lockdown, primarily because of management focus being diverted to the difficult task of maintaining oversight of operations in the constantly shifting pandemic environment. However, as the year progressed, a return to more normal conditions enabled the team to resume personal contact instead of the less effective online communications used during the pandemic lockdowns, although finding an appropriate balance between remote flexible work arrangements and the obvious benefits brought by daily personal engagement remains a challenge.

Emergence from Covid has presented new issues for the building industry which, as in most other sectors of the economy, will need to be navigated carefully in the years ahead. A slowing and competitive construction sector, remote staff working, inflation and continuing supply chain uncertainty, are defining characteristics of the ongoing business environment.

Summary	2022	2021
	(\$'000s)	(\$'000s)
Sales Revenue	65,913	68,117
Operating Profit	1,458	2,111
Company Tax	489	672
Net Profit after Tax	969	1,439
Earnings per Share	45c	67c
<hr/>		
Net Tangible Assets per Share		
before declared final dividend		
	\$8.83	\$8.72
after declared final dividend		
	\$8.63	\$8.52

## DIVIDEND

The final ordinary dividend has been held at 20 cents, making a payout of 35 cents for the year, representing 78% of net earnings after tax.

## OPERATIONS

### Flooring

The Flooring Division's primary activity is directed towards the supply and installation of floor coverings for large commercial builders across Australia. During the reporting period, this sector of the construction industry has experienced more difficult conditions than in prior years with some builders having to bear cost increases which eroded any prospect of profit from projects contracted before the pandemic. This has pushed many into financial hardship, resulting in pressure on subcontractors like us who are now expected to deliver work for lower margins.

With many competitors simply positioning themselves to maintain market share through this period, work has been accepted at lower margins than previously, such that with the high fixed cost structure of the contracting business, profitability underpinned by reasonable margins has been difficult to achieve. This ebb in a typical building cycle is not new to the Company but when conditions settle, prospects for the strongest players can be expected to improve.

After our first two years as a participant in the online retail flooring market, encouraging growth in revenue from direct marketing of flooring products is beginning to yield small gains, replacing the losses experienced while establishing this as a separate enterprise within our overall flooring programme.

### Engineering

As with Flooring, similar challenges have been felt across the Engineering Division as less available work has meant lower revenue and margins, detracting from the steady gains this part of our business has enjoyed in recent years.

Remote working hampered new engineering development during the pandemic period with co-location of team members, so essential to product innovation, being severely restricted. But as staff have returned to the office environment, tangible progress is evident in all aspects of the design process.

Recent activity has included development of a more comprehensive portfolio of acoustic solutions that build on our experience in vibration isolation and extend our involvement within the larger market of airborne acoustics. Working with the same specifiers and consultants across both vibration and airborne noise attenuation, we expect these initiatives to provide growth opportunities as the construction cycle improves.

### Our People

Like so many businesses across Australia, severe labour shortages have encouraged us to adopt new and different means to engage, motivate and retain staff, and to this end, flexibility in working arrangements and remuneration have been two obvious areas subject to special attention. Focus on staff training and other activities has been extended with one specific initiative being the decision to hire recent Engineering and Marketing graduates, introducing them to the Company through an internal training program designed to bolster the personnel and IP assets which underpin so much of our competitive advantage.

With no short-term alleviation of labour shortages in prospect, these efforts will continue to be an important and permanent part of our human resource development activity.

### Outlook

During the reporting period, we began working towards the introduction of a new ERP system which will ultimately place all Divisions on the same IT platform for back office, reporting and administration functions. This has involved a continuing and diligent commitment by key staff to manage the planning process and to develop the protocols necessary to achieve the operational launch date of March 2023. Successful implementation will provide a much more stable and sustainable IT framework than has been available from our existing systems with an improvement in operational efficiencies expected across Group.

The start to the current period has seen mixed financial results, reflected by improving business momentum in some States but not in others. Better outcomes are expected in NSW, WA and QLD while slowing construction in our home state of Victoria is likely to detract from the Group's overall performance.

The Company is holding a satisfactory pipeline of work across both main operating divisions, Engineering and Flooring, with considerable oversight being applied to achievement of budgeted margins despite the lower AUD/USD exchange rate and inflationary pressures in both product and labour costs. And as the year's trading progresses, a continuing focus for management attention will be a targeted improvement in Group financial ratios through appropriate adjustment of the large stock positions consciously built up during the pandemic.

## CORPORATE GOVERNANCE

### Compliance with Corporate Governance Principles and Recommendations

This corporate governance statement is provided by Embelton Limited ("the Company") pursuant to ASX Listing Rule 4.10.3 and measures the Company's governance practices against the recommendations in the 3<sup>rd</sup> edition of the Corporate Governance Principles and Recommendations ("ASX Principles and Recommendations").

The corporate governance statement discloses the extent to which the Company has followed the ASX Principles and Recommendations during the year ended 30 June 2022 and has been approved by the Board of the Directors of the Company ("the Board"). Embelton has prepared an ASX Appendix 4G – Key to Disclosures which together with this corporate governance statement is lodged with the ASX.

This corporate governance statement is effective as of 28 September 2022.

### Principle 1 – Laying Solid Foundations for Management and Oversight

#### Recommendation 1.1 – Role of the Board and Management

The Board of Embelton Limited takes corporate governance seriously, that is, the system by which the Company and its subsidiaries ("the Group") are managed.

The role of the Board is to create sustainable shareholder wealth in a manner consistent with the Company's Constitution, the Board's Charter and all legal and regulatory requirements.

The Board achieves this by:

- charting strategy and setting financial targets for the Group.
- monitoring the implementation and execution of strategy and performance against financial targets.
- setting and overseeing the Company's values and corporate governance framework and ensuring that the Company acts with integrity and in accordance with the highest ethical standards.
- ensuring there is an effective balance between the delegation and responsibility for the day-to-day operation and management to the Managing Director and the role of the Board in monitoring, guiding and providing oversight; in setting, overseeing the Company's direction; and
- ensuring effective communication with shareholders.

The Board has responsibility for the matters specified above and, in addition to those matters reserved to it by law, reserves to itself the following matters and all power and authority in relation to those matters:

- appointing and removing the Managing Director.
- ratifying the appointment and, where appropriate, the removal of the Company Secretary.
- reviewing and overseeing the operation of systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and regulatory compliance.
- approving major capital expenditure, capital management, and acquisitions and divestitures.
- approving and monitoring financial and other reporting.
- input into and final approval of management's development of corporate strategy and performance objectives.
- the overall corporate governance of the Group including the strategic direction, establishing goals for management, and monitoring the achievement of these goals; and oversight of Committees.

To assist in the execution of its responsibilities, the Board has the authority to establish Committees (and delegate powers accordingly) to consider such matters as it may consider appropriate including, by way of example only, audit matters, finance and business risks, remuneration, and nominations, and to establish a framework for the effective and efficient management of the Company and the Group.

### **The Company complies with Recommendation 1.1 of the ASX Principles and Recommendations.**

#### Recommendation 1.2 – Director Checks

The Company has processes in place to ensure the appropriateness of candidates for appointment and election as Directors.

Details of each Director are included in the Annual Report. Where a Director is seeking election, shareholders are given full details.

### **The Company complies with Recommendation 1.2 of the ASX Principles and Recommendations.**

#### Recommendation 1.3 – Written Agreement with Each Director and Senior Executive

The Company has written agreements with each Non-Executive Director.

The Company also had written agreements with the Managing Director.

### **The Company complies with Recommendation 1.3 of the ASX Principles and Recommendations.**

#### Recommendation 1.4 – Company Secretary

The Company Secretary reports directly to the Board, through the Chairman, on all matters regarding the functioning of the Board.

### **The Company complies with Recommendation 1.4 of the ASX Principles and Recommendations.**

#### Recommendation 1.5 – Diversity

Having regard to the size of the Company and the nature of its activities, a separate formal diversity policy has not been adopted.

The Company does not discriminate based on age, ethnicity, or gender in any employment matters and when a position becomes vacant the Company seeks to employ the best candidates available for the position.

The Company currently has no women in senior executive positions or women on the Board. The Board fully supports the gender diversity concept and is committed to establishing measurable objectives for achieving gender diversity as the business expands.

The Company and its subsidiaries employ less than 100 people and is not a "relevant employer" under the Workplace Gender Equality Act.

### **The Company does not comply with Recommendation 1.5 of the ASX Principles and Recommendations.**

#### Recommendation 1.6 – Board Performance Assessment

The Company has a process for periodically evaluating the performance of its Board and each Director. The performance of all the Directors is reviewed by the Chairman each year. The performance of the Chairman is reviewed and assessed each year by the other Directors.

The Chairman determines the evaluation criteria and process.

### **The Company complies with Recommendation 1.6 of the ASX Principles and Recommendations.**

### **Recommendation 1.7 – Performance Evaluation of Senior Executives**

The Company has a process for periodically evaluating the performance of its Managing Director and other senior executives. The performance of Managing Director and other senior executives is reviewed by the Board each year. In addition, the performance of the Managing Director and other senior executives is constantly reviewed by the Board as part of the ordinary course of meetings of Directors.

**The Company complies with Recommendation 1.7 of the ASX Principles and Recommendations.**

### **Principle 2 – Structure the Board to Add Value**

#### **Recommendation 2.1 – Nomination Committee**

The Board has not formed a Nomination Committee as recommended by Recommendation 2.1 of the ASX Principles and Recommendations.

The Board reviews the composition of the Board and appointment of new Directors, to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

The composition of the Board is currently determined according to the following principles:

- the Board must comprise members with a broad range of experience, expertise, skills, and contacts relevant to the Group and its business.
- the Board must consist of a minimum of 3 Directors and a maximum of 4 Directors.
- the number of Directors may be increased where the Board considers that additional expertise is required in specific areas or when an outstanding candidate is identified.
- at least half of the Board must be Non-Executive Directors.

Having regard to the size, current ownership structure of the Company and the nature of its activities, the Board believes that the current composition of the Board is appropriate as it adds value by ensuring there is a broad range of experience, expertise, skills, qualifications, and contacts which are deemed relevant to the business of the Company.

The Board also considers it appropriate for the selection and appointment of Directors to be managed by the Board itself. When deemed necessary the Board may also engage an external consultant to identify and assess suitable candidates who meet the Board's selection criteria.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of Directors (other than Managing Director) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of a compulsory retirement age and there is no maximum period of service as a director. A Managing Director may be appointed for any period and on any terms the Directors think fit and, subject to the terms of the written agreement entered into, the Board may revoke this appointment according to the terms of this agreement.

As the Group's activities increase in size and scope, the size of the Board will be reviewed periodically to determine if a Nominations Committee is required for the Board to properly perform its responsibilities and functions.

**The Company does not comply with Recommendation 2.1 of the ASX Principles and Recommendations.**

#### **Recommendation 2.2 – Board Skills Matrix**

The Board endeavours to ensure that the Board comprises members with a broad range of experience, expertise, skills and contacts relevant to the Group and its business. Having regard to the size, current ownership structure of the Company and the nature of its activities, the Board considers that it has the necessary balanced mix of skills.

To date the Board does not consider that a specific skills matrix is required. However, the Board will continue to consider whether it would be appropriate for the Company to adopt a board skills matrix as the Company continues to develop and grow.

The profile of each Director containing their skills, experience, expertise, and term of office is set out in the Directors' Report.

**The Company does not comply with Recommendation 2.2 of the ASX Principles and Recommendations.**

#### **Recommendation 2.3 – Directors' Independence**

The Company's Corporate Governance Charter requires:

- the Board to comprise a minimum of 3 Directors.
- at least half of the Board must be Non-Executive Directors; and
- the Chairman must be a Non-Executive Director.

The current Board comprises four Directors with 3 Non-Executive Directors and one Executive Director.

**The Company does not comply with Recommendation 2.3 of the ASX Principles and Recommendations.**

#### **Recommendation 2.4 – Majority of Directors Independent**

The Company does not currently have a majority of the Board who are independent Directors as recommended by Recommendation 2.4 of the ASX Principles and Recommendations.

Having regard to the size, current ownership structure of the Company and the nature of its activities, the Directors believe that the current composition of the Board is appropriate as it adds value by ensuring there is a broad range of experience, expertise, skills, qualifications, and contacts which are deemed relevant to the business of the Company.

The situation will be monitored and changed in line with best practice as and when the Directors feel the Company is of sufficient size.

To ensure that independent judgement is achieved and maintained in respect of its decision-making processes, the Board has adopted several measures which include the following:

- each Director has the right to seek independent legal or other professional advice at the Company's expense; and
- any Director believing that he or she may have a conflict of interest in relation to a particular item of business must declare their interest and excuse themselves from the Board meeting if required by the Board before commencement of discussion on the topic.

**The Company does not comply with Recommendation 2.4 of the ASX Principles and Recommendations.**

#### **Recommendation 2.5 – Independent Chairman & Chief Executive Officer**

The roles of Chairman and Managing Director of the Company are separately held by Mr George Embelton and Mr James Embelton respectively. Although the Company's Chairman is a Non-Executive Director, he is a substantial shareholder and as such is not an independent Director under the definition of the ASX Principles and Recommendations.

The Board considers Mr George Embelton's role as Non-Executive Chairman essential to the success of the Company at this stage of its development.

**The Company does not comply with Recommendation 2.5 of the ASX Principles and Recommendations.**

#### **Recommendation 2.6 – Company Induction and Professional Development of Directors**

The Board considers that its directors are suitably qualified and experienced to fulfil their roles, and that the Board possesses the correct mix of skills for the Board to be able to carry out its function effectively.

Each new Director of the Company is, upon appointment, provided with an induction into the Company's assets and business including policies and procedures. This includes discussions with members of the existing Board, the Company Secretary, and other key executives to familiarise themselves with the Company.

**The Company complies with Recommendation 2.6 of the ASX Principles and Recommendations.**

### **Principle 3 – Act Ethically and Responsibly**

#### **Recommendation 3.1 – Values**

The Company is still working on establishing a formal policy on values.

**The Company does not comply with recommendation 3.1 of the ASX Principles and Recommendations.**

#### **Recommendation 3.2 – Code of Conduct**

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.

**The Company complies with Recommendation 3.2 of the ASX Principles and Recommendations.**

#### **Recommendation 3.3 – Whistleblower Policy**

The Company is establishing of a workable whistleblower policy.

**The Company does not comply with recommendation 3.3 of the ASX Principles and Recommendations.**

#### **Recommendation 3.4 – Anti-bribery and Corruption Policy**

The Company is still reviewing the possible establishment of an anti-bribery and Corruption policy.

**The Company does not comply with recommendation 3.4 of the ASX Principles and Recommendation.**

### **Principle 4 – Safeguarding Integrity in Corporate Reporting**

#### **Recommendation 4.1 – Audit & Risk Management Committees**

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

**The Company does not comply with Recommendation 4.1 of the ASX Principles and Recommendations.**

#### **Recommendation 4.2 – Declarations from the CEO and CFO**

The Managing Director and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

**The Company complies with Recommendation 4.2 of the ASX Principles and Recommendations.**

#### **Recommendation 4.3 – External Auditors**

The Company invites the auditors to attend the AGM. The auditors are available to answer any questions from shareholders relevant to the audit.

**The Company complies with Recommendation 4.3 of the ASX Principles and Recommendations.**

### **Principle 5 – Make Timely and Balanced Disclosure**

#### **Recommendation 5.1 – Disclosure Policy**

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.

**The Company complies with Recommendation 5.1 of the ASX Principles and Recommendations.**

#### **Recommendation 5.2 – Market Announcements**

The Board reviews and approves all market announcements. The Company also circulates all price sensitive information to the Board ahead of the release being made.

**The Company complies with recommendation 5.2 of the ASX Principles and Recommendation.**

#### **Recommendation 5.3 – Presentation Materials**

The Company will disclose any presentations to a substantive investor by releasing a copy of the presentation materials on the ASX.

**The Company complies with recommendation 5.3 of the ASX Principles and Recommendation.**

### **Principle 6 – Respecting the Rights of Shareholders**

#### **Recommendation 6.1 – Information on Website**

Information about the Company is accessible to investors on the Company's website: [www.embelton.com](http://www.embelton.com), which contains all relevant information about the Company. The Company will regularly update the website and its contents therein as deemed necessary.

**The Company complies with Recommendation 6.1 of the ASX Principles and Recommendations.**

#### **Recommendation 6.2 – Investor Relations Program**

The Board aims to ensure that shareholders are informed of all major developments affecting the Group's state of affairs.

In line with ASX's continuous disclosure requirements, the Company keeps its shareholders informed through reports which include the annual reports, half yearly reports, and specific ASX releases covering material developments and other price-sensitive information. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors attend the annual general meetings and are available to answer shareholders' questions. The Directors believe that the Company's policies comply with the Guidelines in relation to the rights of shareholders.

**The Company complies with Recommendation 6.2 of the ASX Principles and Recommendations.**

### **Recommendation 6.3 – Participation at Meetings of Shareholders**

All shareholders are notified in writing of general meetings and encouraged to participate in person or by proxy to ensure a high level of accountability and understanding of the Group's strategy, activities and financial position and performance.

**The Company complies with Recommendation 6.3 of the ASX Principles and Recommendations.**

### **Recommendation 6.4 – Electronic Communication**

The Company's share registry, Boardroom Pty Ltd, has facilities for shareholders to receive and send communications electronically.

**The Company complies with Recommendation 6.4 of the ASX Principles and Recommendation.**

### **Recommendation 6.5 – Electronic Communications**

Shareholders have the option of electing to receive communications from and sending communications to the Company electronically.

**The Company complies with recommendation 6.5 of the ASX Principles and Recommendation.**

### **Principle 7 – Recognising and Managing Risk**

#### **Recommendation 7.1 – Risk Committee**

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

The Board accepts 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

Other responsibilities which might ordinarily be exercised by a Risk Management Committee in larger corporations have been accepted by the Board. The Managing Director and Chief Financial Officer report regularly to the Board on all matters of financial integrity and risk management.

**The Company does not comply with Recommendation 7.1 of the ASX Principles and Recommendation.**

#### **Recommendation 7.2 – Annual Risk Review**

The Board annually reviews and approves the risk framework of the Company.

The Company undertook a review of the Company's risk management framework during the year ended 30 June 2022.

**The Company complies with Recommendation 7.2 of the ASX Principles and Recommendation.**

### **Recommendation 7.3 – Internal Audit**

Having regard to the size (including a small complement of staff), current ownership structure of the Company and the nature of its activities, the Company does not have an internal audit function. The Board as a whole and its external auditor, discharges the function of evaluating and continually improving the effectiveness of its risk management and control processes.

**The Company does not comply with Recommendation 7.3 of the ASX Principles and Recommendation.**

### **Recommendation 7.4 – Economic, Environmental and Social Sustainability Risks**

The Company's performance is subject to business, financial and operational risks including but not limited to:

- economic risks, such as changes in economic conditions that may adversely impact the Company's business or operations.
- environmental risks due sustainability of resources
- financial risks including access to needed capital on satisfactory terms; and
- social sustainability risks.

The Board is informed about risks of this nature facing the Company. This risk profile is reviewed and updated at least annually.

**The Company complies with Recommendation 7.4 of the ASX Principles and Recommendation.**

### **Principle 8 – Remunerate Fairly and Responsibly**

#### **Recommendation 8.1 – Remuneration Committee**

Having regard to its size, with a small complement of staff and executives, the Company does not currently have a dedicated Remuneration Committee. The task of ensuring that the level of Director and executive remuneration is appropriate and competitive, and that its relationship to performance is clear, and dealt with by the Board.

**The Company does not comply with Recommendation 8.1 of the ASX Principles and Recommendation.**

#### **Recommendation 8.2 – Disclosure of Remuneration Policies and Practices**

The Company's policies and practices regarding the remuneration of Non-Executive Directors and the remuneration of Executive Directors and other senior executives is disclosed in the Remuneration Report which forms part of the Directors' Report.

**The Company complies with Recommendation 8.2 of the ASX Principles and Recommendation.**

#### **Recommendation 8.3 – Policy on Equity Based Remuneration Scheme**

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, seeks to ensure the retention of a high-quality board and executive team. Professional advice is taken when appropriate.

Each director receives a fee for being a Director of the Company but no additional fees for additional work undertaken in Board committees. The Non-executive directors are remunerated by way of cash payments or superannuation contributions. Remuneration does not include any retirement benefits other than contributions to his nominated superannuation fund.

**The Company complies with Recommendation 8.3 of the ASX Principles and Recommendation.**

# 2

## FINANCIAL REPORTS



## ASPIRE - MELBOURNE

Noise Isolation of Pool and Spa structure by C8 Spring System  
Gym Floor suspended by NXS Spring System

## EMBELTON LIMITED AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 \$	2021 \$
Sales Revenue	3	65,913,225	68,116,846
Cost of Sales		(51,818,727)	(52,646,028)
Gross Profit		14,094,498	15,470,818
Other Income	3	108,685	104,779
<b>Less Expenses:</b>			
Manufacturing Expenses		(161,117)	(207,155)
Marketing Expenses		(4,985,299)	(6,203,122)
Storage and Distribution Expenses		(2,257,188)	(2,176,142)
Finance costs	4	(218,677)	(209,199)
Administration and Other Expenses		(5,122,830)	(4,669,114)
Profit before income tax expense	4	1,458,072	2,110,865
Income tax expense	6	(488,674)	(671,548)
Profit for the year		969,398	1,439,317
<b>Other comprehensive income for the year</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		17,617	1,617
Total comprehensive income for the year		987,015	1,440,934
Profit attributable to:			
Owners of the company		969,398	1,439,317
Non-controlling interests		-	-
		969,398	1,439,317
Total comprehensive income attributable to:			
Owners of the company		987,015	1,440,934
Non-controlling interests		-	-
		987,015	1,440,934
Basic earnings per share	9	44.9 cents	66.7 cents
Diluted earnings per share	9	44.9 cents	66.7 cents

The accompanying notes form part of the financial statements.

## EMBELTON LIMITED AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

	Notes	2022 \$	2021 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	24(i)	55,859	86,237
Trade receivables	10	8,763,045	8,855,056
Inventories	11	18,612,799	12,447,571
Current tax assets	6	-	106,742
Other current assets	12	1,081,977	526,248
<b>TOTAL CURRENT ASSETS</b>		<b>28,513,680</b>	<b>22,021,854</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	8,925,277	9,211,151
Right of use assets	14(i)	829,405	433,969
Intangibles	22	330,154	330,154
Deferred tax assets	6	598,986	685,280
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,683,822</b>	<b>10,660,554</b>
<b>TOTAL ASSETS</b>		<b>39,197,502</b>	<b>32,682,408</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	8,656,349	10,405,903
Borrowings	15(i)	3,000,000	-
Lease liabilities	19	389,583	388,792
Current tax liabilities	6	108,405	-
Provisions	16	1,470,409	1,423,460
<b>TOTAL CURRENT LIABILITIES</b>		<b>13,624,746</b>	<b>12,218,155</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	6	90,283	75,384
Borrowings	15(i)	5,500,000	1,000,000
Lease liabilities	19	452,294	59,095
Provisions	16	149,184	180,536
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>6,191,761</b>	<b>1,315,015</b>
<b>TOTAL LIABILITIES</b>		<b>19,816,507</b>	<b>13,533,170</b>
<b>NET ASSETS</b>		<b>19,380,995</b>	<b>19,149,238</b>
<b>EQUITY</b>			
Issued capital	8	1,155,970	1,155,970
Reserves	13(ii)	20,700	3,083
Retained earnings	13(i)	18,204,325	17,990,185
<b>TOTAL EQUITY</b>		<b>19,380,995</b>	<b>19,149,238</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 2022

	Notes	2022 \$	2021 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		72,243,816	79,118,053
Payments to suppliers and employees		(77,895,278)	(71,285,970)
Interest received		166	418
Finance costs		(218,677)	(209,199)
Net income taxes paid		(196,926)	(1,150,975)
<b>Net cash (used in)/provided by operating activities</b>	24(ii)	<b>(6,066,899)</b>	<b>6,472,327</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		22,363	44,650
Payment for property, plant and equipment		(327,725)	(505,138)
<b>Net cash used in investing activities</b>		<b>(305,362)</b>	<b>(460,488)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of lease liability principal		(402,859)	(464,108)
Proceeds from/(Repayment of) borrowings		7,500,000	(4,622,958)
Dividends paid		(755,258)	(863,140)
<b>Net cash provided by/(used in) financing activities</b>		<b>6,341,883</b>	<b>(5,950,206)</b>
<b>Net (Decrease)/Increase in cash and cash equivalents</b>		<b>(30,378)</b>	<b>61,633</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>86,237</b>	<b>24,604</b>
<b>Cash and cash equivalents at the end of the financial year</b>	24(i)	<b>55,859</b>	<b>86,237</b>

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 2022

	Issued Capital	Foreign Currency Translation Reserve	Retained Earnings	Total
	\$	\$	\$	\$
<b>At 30 June 2020</b>	<b>1,155,970</b>	<b>1,466</b>	<b>17,414,008</b>	<b>18,571,444</b>
Profit for the period	-	1,617	1,439,317	1,440,934
Total comprehensive income for the period	-	1,617	1,439,317	1,440,934
Dividends paid	-	-	(863,140)	(863,140)
<b>At 30 June 2021</b>	<b>1,155,970</b>	<b>3,083</b>	<b>17,990,185</b>	<b>19,149,238</b>
Profit for the period	-	17,617	969,398	987,015
Total comprehensive income for the period	-	17,617	969,398	987,015
Dividends paid	-	-	(755,258)	(755,258)
<b>At 30 June 2022</b>	<b>1,155,970</b>	<b>20,700</b>	<b>18,204,325</b>	<b>19,380,995</b>

The accompanying notes form part of the financial statements.

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## ABOUT EMBELTON GROUP

Since the Company's establishment in 1925, Embelton has maintained a bias towards the building and construction sector - leading to its current product range which comprises a comprehensive collection of flooring materials and accessories, noise and vibration isolation technology and manufacturing facilities for the precision bending and fabrication of specialised metal alloys.

The Group has long been recognised as an engineering and product innovator with a reputation for quality and service.

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## EMBELTON CORE VALUES

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

3

NOTES



17 SPRING ST, MELBOURNE

Supply and Installation of Custom Engineered European Oak  
Basketweave Pattern Floors

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2022

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

#### (i) New and amended Australian Accounting Standards that are effective for the current year

The Group has adopted all of the new and revised Standards and Interpretations issued by the revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2021.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2
- AASB 2021-3 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021

The above mentioned new and revised Standards and amendments did not have a material impact on the Group's financial statements.

#### (ii) New and revised Australian Accounting Standards and Interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standards/Amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2020-3 Amendments to Australian Accounting Standards- Annual Improvements 2018-2020 and Other Amendments	1 January 2022	30 June 2023
AASB 2020-1 Amendments to Australian Accounting Standards- Classification of Liabilities as Current or Non-Current	1 January 2023	30 June 2024
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023	30 June 2024
AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	30 June 2024

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

## 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, Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and comply with other requirements of the law.

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

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 28 September 2022.

### a. Basis of preparation

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

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

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

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

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

### b. Basis of consolidation

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

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

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

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

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

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

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

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

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

#### c. Going Concern

The financial statements have been prepared in accordance with generally accepted accounting standards, which are based on the Company continuing as a going concern.

#### d. Foreign Currencies

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 prevailing on the reporting date. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in the profit or loss.

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

#### e. Revenue Recognition

The Group recognises revenue from the sale of flooring and related products and services to Merchandising and Commercial customers. The majority of sales to Commercial customers are subject to contracts of supply with commercial construction companies. Revenue derived from sales to Merchandising customers is subject to purchase orders or trade showroom sales.

##### Sales of products

The Group sells flooring and other products. Revenue is recognised at a point-in time when the control of the goods has transferred, being when the goods have been either collected by the customer or delivered to the customer's specific location. Following delivery, the customer has full discretion over the manner of use of the flooring and products and bears the risks of loss in relation to the products. The Group recognises a receivable when the goods are collected by or delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

##### Provision of services

The Group provides a service of installation of flooring and other products. Such services are recognised as a performance obligation satisfied over time. Revenue is recognised for these installation services based on the stage of completion of the contract. Stage of completion is determined using the output method.

#### f. Income Tax

The income tax expense represents the sum of the tax currently payable and the deferred 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 liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

##### Current and deferred tax for the period

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

#### Tax consolidation

Embelton Limited and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial year. Embelton Limited is the head entity in the tax consolidated group. The separate taxpayer within a group approach has been used to allocate current income tax expense and deferred tax balances to wholly-owned subsidiaries that form part of the tax consolidated group. Embelton Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial year. Refer to note 6 for further disclosure on Tax Consolidated Group.

#### **g. Impairment of Assets excluding Goodwill**

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

Where an individual asset does not generate cash flows that are independent from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs. Refer to Note v. Goodwill below for policy relating to impairment of Goodwill.

#### **h. 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.

#### **i. Financial Instruments**

The Group classifies its financial assets in the following categories, depending on their nature (i.e. their contractual cash flow characteristics) and how they are managed.

##### *Financial assets*

These financial assets are initially recognised at fair value plus directly attributable costs.

They are classified as subsequently measured at amortised cost if they meet both of the following criteria:

- The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on a specified date.

##### *Impairment of financial assets*

At each reporting date, the Group performs impairments tests using a forward-looking expected credit loss (ECL) model.

The amount of impairment to be recognised as expected credit losses (ECL) at each reporting date as well as the amount of interest revenue to be recorded in future periods are determined through a three-stage impairment model based on whether there has been a significant increase in the credit risk of a financial asset since its initial recognition:

- **Stage 1:** When the credit risk has not increased significantly since initial recognition, the Group accounts expected losses over next 12 months and recognises interest on a gross basis;
- **Stage 2:** When the credit risk has increased significantly since initial recognition and is not considered as low, the Group accounts expected losses over the lifetime of the asset and recognises interest on a gross basis;
- **Stage 3:** In case of a credit deterioration that threatens its recoverability, the Group accounts expected losses over the lifetime of the asset and present interest on a net basis (i.e. on the gross carrying amount less credit allowance).

#### **Financial Liabilities and Equity Instruments**

##### Classification as debt or equity

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and equity instrument.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

##### Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at FVTPL are recognised in profit or loss.

#### j. 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. Work in progress comprises material and labour that have been expended on a project but due to the timing of the progress claim have not yet been claimed.

#### k. Property, Plant and Equipment

Buildings are measured at cost less accumulated depreciation.

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

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

- Buildings	2%
- Plant and Machinery	10% - 17%
- Motor Vehicles	15% - 25%
- Fixtures and Fittings	10% - 33%

#### l. Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The entity recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies AASB 136 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

#### m. 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.

#### n. 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.

#### o. Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service 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.

#### p. 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.

#### q. 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.

#### r. 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.

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

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

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

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

Cash flows are included in the cash flow statement on a 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 not included.

#### t. Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Impact of COVID-19

COVID-19 continues to cause disruption to business and economic activity. The Board and Management have considered the impact of COVID-19 on the consolidated entity's operations and financial performance and have ascertained that no impairment on goodwill is required (2021 - Nil), refer note 22.

Net realisable values of inventories (see Note 11)

Management judgement is applied in estimating the net realisable value of inventories. Factors considered include levels of stock turnover, age and cost.

Carrying value of goodwill and estimation of future performance (see Note 22)

The group is required to annually assess the recoverability of the carrying value of goodwill. This is performed through a value-in-use discounted cash flow model. The value in use calculation includes key assumptions and judgments in the calculation of the recoverable amounts, namely forecast future cash flows, the long term growth rate and discount rate assumptions.

**u. Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB12 Income Taxes and AASB119 Employee Benefits respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

**v. Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note t. above) less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

**w. Government Grants**

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. The benefit of Job Keeper subsidies received during the year, amounting to nil (2021 - \$913,500), have been presented as a reduction in employee benefit expenses.

	2022	2021
	\$	\$
<b>3. INCOME</b>		
Revenue from the sale of goods and provision of services	<u>65,913,225</u>	<u>68,116,846</u>
<b>Other Income</b>		
Interest income	166	418
Sundry income	86,156	59,711
Gain on disposal of property, plant and equipment	<u>22,363</u>	<u>44,650</u>
Total other income	<u>108,685</u>	<u>104,779</u>
<b>Total Income</b>	<u><u>66,021,910</u></u>	<u><u>68,221,625</u></u>
<b>4. PROFIT BEFORE TAX</b>		
Profit before tax has been determined after:		
Expenses:		
Finance costs - bank debt	204,895	180,198
Finance costs - lease liability	<u>13,782</u>	<u>29,001</u>
Total finance cost	<u>218,677</u>	<u>209,199</u>
Depreciation of non-current assets:		
Buildings	119,395	119,160
Plant and equipment	494,204	436,545
Right of use assets	<u>401,413</u>	<u>427,418</u>
Total depreciation	<u>1,015,012</u>	<u>983,123</u>
Bad debts written off – trade debtors	19,389	-
Employee benefits	8,469,688	8,843,950
Payments made to Defined Contribution Plans on behalf of employees	<u>751,977</u>	<u>852,096</u>
Total Employee Benefits	<u><u>9,221,665</u></u>	<u><u>9,696,046</u></u>
<b>5. AUDITORS' REMUNERATION</b>		
Remuneration of the auditor for:		
Auditing or reviewing the financial report	89,302	72,405
Review of the tax return and other services	<u>28,375</u>	<u>24,724</u>
	<u>117,677</u>	<u>97,129</u>
Remuneration of other auditors of subsidiaries for:		
Auditing or reviewing the financial report	<u>2,360</u>	<u>1,950</u>

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

	2022	2021
	\$	\$
<b>6. TAXATION</b>		
<b>a) Income tax expense recognised in profit</b>		
Tax expense comprises		
- current tax expense	387,481	453,072
- deferred tax expense relating to the origination and reversal of temporary differences	101,193	218,476
	<u>488,674</u>	<u>671,548</u>
The prima facie income tax expense on pre tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit from operations	<u>1,458,072</u>	<u>2,110,865</u>
Income tax expense calculated at 30%	437,422	633,259
Depreciation on property, plant and equipment not deductible for tax	6,523	5,637
Sundry items	3,509	5,557
Under provision prior year tax	<u>41,220</u>	<u>27,095</u>
Income tax expense recognised in profit	<u>488,674</u>	<u>671,548</u>
The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.		
<b>b) Current tax (liabilities)/assets</b>		
Current tax (payable)/receivable		
Income tax attributable to:		
Parent entity	(18,068)	(15,387)
Entities in tax consolidated group	<u>(90,337)</u>	<u>122,129</u>
	<u>(108,405)</u>	<u>106,742</u>
<b>c) Deferred tax balances</b>		
Deferred tax assets comprise:		
Temporary differences	<u>598,986</u>	<u>685,280</u>
Deferred tax liabilities comprise:		
Temporary differences	<u>(90,283)</u>	<u>(75,384)</u>
	<u>508,703</u>	<u>609,896</u>

## 6. TAXATION (CONTINUED)

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

	Opening balance	Charged to Profit & Loss	Closing balance
	\$	\$	\$
<b>As at 30 June 2022</b>			
Gross deferred tax assets			
Receivables	13,500	-	13,500
Provisions and accrued expenses	769,828	(191,095)	578,733
Leases	(98,048)	104,801	6,753
	<u>685,280</u>	<u>(86,294)</u>	<u>598,986</u>
Gross deferred tax liability			
Property, plant and equipment	(75,384)	(14,899)	(90,283)
	<u>(75,384)</u>	<u>(14,899)</u>	<u>(90,283)</u>
	<u>609,896</u>	<u>(101,193)</u>	<u>508,703</u>
<b>As at 30 June 2021</b>			
Gross deferred tax assets			
Receivables	13,500	-	13,500
Provisions and accrued expenses	937,609	(167,781)	769,828
Leases	30,953	(129,001)	(98,048)
	<u>982,062</u>	<u>(296,782)</u>	<u>685,280</u>
Gross deferred tax liability			
Property, plant and equipment	(123,661)	48,277	(75,384)
Customer contracts	(30,029)	30,029	-
	<u>(153,690)</u>	<u>78,306</u>	<u>(75,384)</u>
	<u>828,372</u>	<u>(218,476)</u>	<u>609,896</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 or dates subsequent when new entities have joined the Group. 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.

	2022	2021
	\$	\$

## 7. DIVIDENDS PROVIDED FOR OR PAID

Dividends paid by the Company are:

(i) A final fully franked ordinary dividend of 20.0 cents (2020 – 20.0 cents) was declared for the 2021 financial year and was paid on 14 October 2021 (9 October 2020)	431,570	431,570
(ii) An interim fully franked ordinary dividend of 15.0 cents (2021 – 20.0 cents) for the 2021/22 financial year was declared on 27 January 2022 (2021 – 27 January) and paid on 8 April 2022 (2021 – 9 April)	323,688	431,570
	<u>755,258</u>	<u>863,140</u>

## UNRECOGNISED AMOUNTS

A fully franked ordinary dividend of 20.0 cents per share was declared by the Directors on 10 August 2022, but this has not been provided for in the financial statements as at 30 June 2022.

The total estimated dividend to be paid is \$431,570.

## FRANKING ACCOUNT BALANCE

Franking account balance	<u>7,568,273</u>	<u>7,695,025</u>
Franking account balance after payment of unrecognised dividends	<u>7,383,314</u>	<u>7,510,066</u>

## 8. ISSUED CAPITAL

2,157,857 (2021 – 2,157,857 shares) fully paid ordinary shares	<u>1,155,970</u>	<u>1,155,970</u>
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Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion of the number of shares held.

## 9. EARNINGS PER SHARE

Basic and diluted earnings per share	<u>44.9 cents</u>	<u>66.7 cents</u>
Net Profit used in calculation	<u>969,398</u>	<u>1,439,317</u>
Weighted average number of ordinary shares	<u>2,157,857</u>	<u>2,157,857</u>

	2022	2021
	\$	\$
<b>10. TRADE RECEIVABLES CURRENT</b>		
Trade receivables	8,808,045	8,900,056
Allowance for expected credit losses	(45,000)	(45,000)
	<u>8,763,045</u>	<u>8,855,056</u>
Ageing of past due but not impaired:		
30 – 60 days	784,113	141,326
Over 60 days	66,486	310,103
	<u>850,599</u>	<u>451,429</u>
The average credit period on sales of goods and services provided is 33.5 days (2020 – 41.9 days). No interest is charged on the trade receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods at an amount equal to lifetime expected credit losses, determined by reference to past default experience and economic conditions. Based on past and future expected rates of default there is no reason to suggest the amount listed above will not be recovered in full.		
<b>Movement in allowance for doubtful debts</b>		
Balance at the beginning of the year	45,000	45,000
Amounts provided for during the year	-	-
Amounts written off during the year as uncollectable	-	-
Balance at the end of the year	<u>45,000</u>	<u>45,000</u>
<b>11. INVENTORIES</b>		
<b>CURRENT - At lower of costs or net realisable value</b>		
Raw materials	79,673	50,270
Work in progress	7,648,718	5,761,915
Finished goods	10,884,408	6,635,386
	<u>18,612,799</u>	<u>12,447,571</u>
<b>12. OTHER CURRENT ASSETS</b>		
Prepayments and sundry debtors	<u>1,081,977</u>	<u>526,248</u>
<b>13. (i) RETAINED PROFITS</b>		
Retained profits at beginning of year	17,990,185	17,414,008
Net profit attributable to members of the parent entity	969,398	1,439,317
Dividends paid (Note 7)	(755,258)	(863,140)
Retained profits at the end of the year	<u>18,204,325</u>	<u>17,990,185</u>
<b>(ii) FOREIGN CURRENCY TRANSLATION RESERVE</b>		
Balance at beginning of year	3,083	1,466
Exchange differences arising on translating foreign operations	17,617	1,617
Balance at the end of the year	<u>20,700</u>	<u>3,083</u>

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

	2022	2021
	\$	\$
<b>14. PROPERTY, PLANT AND EQUIPMENT</b>		
LAND - At cost	2,834,082	2,834,082
BUILDINGS – At cost	5,786,423	5,786,423
- Accumulated depreciation	(1,027,371)	(907,976)
	<u>4,759,052</u>	<u>4,878,447</u>
<b>TOTAL LAND AND BUILDINGS</b>	<u>7,593,134</u>	<u>7,712,529</u>
PLANT & MACHINERY – At cost	994,717	1,078,891
- Accumulated depreciation	(844,092)	(884,879)
	<u>150,625</u>	<u>194,012</u>
FIXTURES AND FITTINGS – At cost	3,673,067	3,351,899
- Accumulated depreciation	(2,694,099)	(2,330,066)
	<u>978,968</u>	<u>1,021,833</u>
MOTOR VEHICLES – At cost	525,284	559,624
- Accumulated depreciation	(322,734)	(276,847)
	<u>202,550</u>	<u>282,777</u>
<b>TOTAL – Cost</b>	<b>13,813,573</b>	<b>13,610,919</b>
- Accumulated depreciation	<u>(4,888,296)</u>	<u>(4,399,768)</u>
<b>NET BOOK VALUE</b>	<u><u>8,925,277</u></u>	<u><u>9,211,151</u></u>

**MOVEMENT IN CARRYING AMOUNTS**

	Freehold Land	Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	TOTAL
	\$	\$	\$	\$	\$	\$
<b>2022</b>						
Balance at beginning of year	2,834,082	4,878,447	194,012	1,021,833	282,777	9,211,151
Additions	-	-	21,696	306,029	-	327,725
Disposals	-	-	-	-	-	-
Depreciation expense	-	(119,395)	(65,083)	(348,894)	(80,227)	(613,599)
Carrying amount at end of year	<u>2,834,082</u>	<u>4,759,052</u>	<u>150,625</u>	<u>978,968</u>	<u>202,550</u>	<u>8,925,277</u>
<b>2021</b>						
Balance at beginning of year	2,834,082	4,997,607	248,706	911,352	269,971	9,261,718
Additions	-	-	2,330	401,240	101,568	505,138
Disposals	-	-	-	-	-	-
Depreciation expense	-	(119,160)	(57,024)	(290,759)	(88,762)	(555,705)
Carrying amount at end of year	<u>2,834,082</u>	<u>4,878,447</u>	<u>194,012</u>	<u>1,021,833</u>	<u>282,777</u>	<u>9,211,151</u>

# 14(i) RIGHT OF USE ASSETS

	2022	2021
	\$	\$
<b>BUILDINGS – At cost</b>	<b>1,782,332</b>	985,483
- Accumulated amortisation	(976,339)	(646,458)
	<b>805,993</b>	339,025
<b>MOTOR VEHICLES – At cost</b>	<b>406,247</b>	406,247
- Accumulated amortisation	(382,835)	(311,303)
	<b>23,412</b>	94,944
<b>Total</b>	<b>829,405</b>	433,969

## MOVEMENT IN CARRYING AMOUNTS

	Buildings	Motor Vehicles	TOTAL
	\$	\$	\$
<b>Costs</b>			
Balance at beginning of year	985,483	406,247	1,391,730
Additions	796,849	-	796,849
At 30 June 2022	1,782,332	406,247	2,188,579
<b>Accumulated amortisation</b>			
Balance at beginning of year	646,458	311,303	957,761
Amortisation for the year	329,881	71,532	401,413
At 30 June 2022	976,339	382,835	1,359,174
Carrying amount at 30 June 2022	805,993	23,412	829,405

# 15. TRADE AND OTHER PAYABLES

## CURRENT

Trade Payables	5,312,263	4,262,179
Sundry Payables and accrued expenses	3,344,086	6,143,724
	<b>8,656,349</b>	<b>10,405,903</b>

The average credit period on purchases of goods is 35 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 time frame.

# 15(i) BORROWINGS

## CURRENT

<b>Bank Loans (secured)</b>	<b>3,000,000</b>	-
<b>NON CURRENT</b>		
<b>Bank Loans (secured)*</b>	<b>5,500,000*</b>	1,000,000
<b>Total Borrowings</b>	<b>8,500,000</b>	1,000,000

\*Cash of \$1,500,000 has been offset against the \$7,000,000 non-current bank loans balance owing under the multi-option facility at 30 June 2022.

Refer Note 24(iii) for details of financing arrangements.

## 16. PROVISIONS

	2022	2021
	\$	\$
CURRENT		
Employee benefits	<u>1,470,409</u>	<u>1,423,460</u>
NON-CURRENT		
Employee benefits	<u>149,184</u>	<u>180,536</u>
Aggregate liability for employee entitlements	<u>1,619,593</u>	<u>1,603,996</u>

## 17. SUBSIDIARIES

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

	Notes	Ownership Interest	
		2022	2021
		%	%
EMBELTON LIMITED			
CONTROLLED ENTITIES			
G. P. Embelton & Co. Pty. Ltd.	a	100	100
Windolite (Australia) Pty. Ltd.	a	100	100
Wood Flooring Wholesale Pty. Ltd. as trustee for Wood Flooring Unit Trust	a	100	100
Embelton Contracting Pty. Ltd.	a	100	100
Embelton Engineering Pty. Ltd.	a	100	100
Modern Commercial Projects Pty. Ltd.	a	100	100
Embelton Singapore Pte. Ltd.	a	100	100
Embelton Timber Services Pty. Ltd.	a	100	100
Embelton (Shanghai) Trading Co. Ltd.	a	100	100
Embelton UK Ltd.	a	100	100
Flooring Pty. Ltd	a	100	100

- a. With respect to controlled entities, the only class of share issued is ordinary. All controlled entities are incorporated in Australia and operate in Australia, with the exception of Embelton Singapore Pte Ltd, Embelton (Shanghai) Trading Co. Ltd and Embelton UK Ltd, which are incorporated in Singapore, China and United Kingdom respectively. All controlled entities are included in the tax consolidated group referred to in Notes 2d and 6, with the exception of Embelton Singapore Pte Ltd, Embelton (Shanghai) Trading Co. Ltd and Embelton UK Ltd.

## 18. KEY MANAGEMENT PERSONNEL COMPENSATION

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

G R Embelton	Chairman
J J Embelton	Managing Director
J R Baldwin	Non-executive Director
M S Crabb	Non-executive Director
E P Galgano	Company Secretary

## 18. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

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

	2022	2021
	\$	\$
Short term employment benefits	785,691	786,970
Post-employment benefits	49,301	48,047
	<u>834,992</u>	<u>835,017</u>

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

## 19. LEASE LIABILITY

CURRENT - Lease liability	<u>389,583</u>	<u>388,792</u>
NON CURRENT - Lease liability	<u>452,294</u>	<u>59,095</u>
Total Lease Liability	<u>841,877</u>	<u>447,887</u>

## 20. RELATED PARTIES

### KEY MANAGEMENT PERSONNEL

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

No Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interest existing at year end.

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

### Related party transactions

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

### Loans to and from related parties

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

## 21. SEGMENTAL INFORMATION

### Identification of reportable segments

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

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

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

The reportable segments identified have not changed from those identified previously.

### Reportable segments

#### Merchandising

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

#### Commercial/Contracting

Comprises the sale and installation of flooring and flooring accessory products on commercial projects.

#### Manufacturing

Manufacturing operations supply to both market segments.

21. SEGMENTAL INFORMATION (CONTINUED)

Business Segments

	Merchandising	Contracting and Commercial	Manufacturing	Consolidated
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>(i) 2022</b>				
<b>Revenue</b>				
Sale of Goods and Services	22,989	42,661	5,654	71,304
Elimination on Consolidation	-	(160)	(5,231)	(5,391)
<b>Total Segment Revenue</b>	<b>22,989</b>	<b>42,501</b>	<b>423</b>	<b>65,913</b>
<b>Results</b>				
Segment results	1,353	250	108	1,711
Unallocated expenses				(253)
Total Operating Profit before income tax				1,458
Income tax expense				489
<b>Total Operating Profit after income tax</b>				<b>969</b>
<b>Assets</b>				
Segment assets	15,301	20,970	2,327	38,598
Unallocated assets				599
<b>Total Assets</b>				<b>39,197</b>
<b>Liabilities</b>				
Segment Liabilities	4,549	13,839	1,312	19,700
Unallocated Liabilities				117
<b>Total Liabilities</b>				<b>19,817</b>
<b>Other</b>				
Acquisition of non-current assets	98	203	27	328
Depreciation of non-current assets	167	433	14	614
<b>(ii) 2021</b>				
<b>Revenue</b>				
Sale of Goods and Services	24,647	44,311	5,978	74,936
Elimination on Consolidation	-	(1,094)	(5,725)	(6,819)
<b>Total Segment Revenue</b>	<b>24,647</b>	<b>43,217</b>	<b>253</b>	<b>68,117</b>
<b>Results</b>				
Segment results	162	2,316	(168)	2,310
Unallocated expenses				(199)
Total Operating Profit before income tax				2,111
Income tax expense				672
<b>Total Operating Profit after income tax</b>				<b>1,439</b>
<b>Assets</b>				
Segment assets	11,065	18,804	2,221	32,090
Unallocated assets				592
<b>Total Assets</b>				<b>32,682</b>
<b>Liabilities</b>				
Segment Liabilities	1,977	10,488	598	13,063
Unallocated Liabilities				470
<b>Total Liabilities</b>				<b>13,533</b>
<b>Other</b>				
Acquisition of non-current assets	170	326	9	505
Depreciation of non-current assets	149	395	13	557

## 22. INTANGIBLES

	2022 \$	2021 \$
<b>(i) GOODWILL</b>		
Cost	<u>330,154</u>	<u>330,154</u>
<b>Cost</b>		
Balance at beginning of year	330,154	330,154
Impairment expense for the year	-	-
<b>Balance at end of year</b>	<u>330,154</u>	<u>330,154</u>

### Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the Modern Commercial Flooring cash-generating unit defined as a business operation representing the lowest level within the entity at which the goodwill is monitored for internal management purposes and not a reportable segment.

Before recognition of impairment losses, the carrying amount of goodwill was;

<b>Modern Commercial Flooring</b>	<u>330,154</u>	<u>330,154</u>
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The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a post tax discount rate of 12.5% per annum (2021- 13.5%).

Cash flow projections during the budget period reflect compounding annual revenue growth of 2.0% per annum and the same expected gross margins and expense price inflation throughout the budget period. The cash flows beyond that five-year period have been extrapolated using a steady 2.0% per annum (2021 - 2.0%) growth rate which is the projected long-term average growth rate for the construction market. The directors have considered sensitivities associated with the key assumptions disclosed above, and recognised that changes in these key assumptions could potentially result in the remaining carrying amount of goodwill being impaired.

## 23. 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 controlling debt.

The Group's overall strategy remains unchanged from 2021.

Operating cash flows are used to maintain and expand the Group's operations as well as to manage the routine outflows of tax and dividends. The Group's principal financial instruments comprise cash, deposits at call, receivables, other financial assets, external debt and payables.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market price risk (currency risk and interest rate risk).

#### a. Market risk

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

#### b. Credit risk

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

Credit risk in trade receivables is minimised by:

- having 30 day payment terms,
- close monitoring of all overdue balances by senior management, and
- providing credit insurance for all active 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

	2022	2021
	\$'000	\$'000
<b>Financial Assets at amortised cost</b>		
Cash and cash equivalents	56	86
Trade receivables	8,763	8,855
Other receivables	1,082	526
<b>Financial Liabilities at amortised cost</b>		
Trade and sundry payables	8,656	10,405
Borrowings	8,500	1,000
Lease liability	842	448

#### 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 \$14,900 (2021 - \$6,250).

#### 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 imports certain inventory items from overseas in transactions dominated in foreign currency. Exchange rate exposure is managed utilising forward foreign exchange contracts. The value of the groups foreign currency denominated monetary liabilities at the reporting date are US\$ 451,318 (2021 - US\$ 1,417,087) and Euro 12,703 (2021 - Nil) at the reporting date the group has foreign currency of forward contracts outstanding for this amount at an average exchange rate of \$0.7425 (2021 - \$0.7474) and \$0.6575 respectively.

## 23. FINANCIAL INSTRUMENTS (CONTINUED)

### Foreign Currency Sensitivity

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

	USD Impact		Euro Impact	
	2022	2021	2022	2021
	\$	\$	\$	\$
Profit would vary by	15,546	14,759	418	-

### f. Fair values

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

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

### g. Liquidity risk

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

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

## CONSOLIDATED

	Weighted Average Interest Rate	Less than 1 year	1-5 Years	5+ years
	%	\$'000	\$'000	\$'000
<b>2022</b>				
<b>Assets</b>				
Trade and other receivables	-	9,845	-	-
<b>Liabilities</b>				
Trade and other payables	-	8,656	-	-
Borrowings	1.5%	3,000	5,500	-
Lease liability	3.5%	390	452	-
<b>2021</b>				
<b>Assets</b>				
Trade and other receivables	-	9,488	-	-
<b>Liabilities</b>				
Trade and other payables	-	10,406	-	-
Borrowings	1.2%	-	1,000	-
Lease liability	3.1%	389	59	-

## 24. 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:

	2022	2021
	\$	\$
Cash and cash equivalent	8,138	8,104
Cash at Bank	47,721	78,133
	<u>55,859</u>	<u>86,237</u>

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

Profit for the period	969,398	1,439,317
Depreciation and Amortisation	1,015,012	983,123
Profit on sale of property, plant and equipment	(22,363)	(44,650)
Net bad debts written off	19,389	-
Net Cash Provided by Operating Activities before changes in Assets and Liabilities	1,981,436	2,377,790
Change in Assets and Liabilities during the financial year:		
<b>(Increase)/Decrease in assets:</b>		
Trade receivables	(364,504)	3,748,528
Inventory	(6,165,228)	(375,383)
Income tax receivable	106,742	(106,742)
Other current assets	(99,214)	(369,994)
Deferred tax asset	86,294	296,782
<b>Increase/(Decrease) in liabilities:</b>		
Income taxes payable	108,405	(583,603)
Trade payables	1,050,084	(1,548,322)
Sundry payables	(2,799,638)	3,240,935
Provisions	13,825	(137,358)
Deferred tax liability	14,899	(70,306)
Net Cash (used in)/provided by Operating Activities	<u>(6,066,899)</u>	<u>6,472,327</u>

### (iii) FINANCING ARRANGEMENTS

The group has access to a multi option facility to cater for its Overdraft, Loans and Bank Guarantees to a maximum of \$15,000,000 (2021 - \$11,000,000) which, after allowing for outstanding Overdraft, Bank Guarantees and Loans, left an unused facility of \$3,648,091 (2021 - \$4,006,916) at year end. The bank overdraft is part of our facility and is subject to annual review. The bank facilities are secured by a registered mortgage over properties situated at 147-149 Bakers Road, Coburg, Victoria, and 50 Newton Road, Wetherill Park, NSW, together with a floating charge on receivables and inventory. Freehold land and buildings with a carrying amount of \$6,796,500 (30 June 2021: \$4,010,909) have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. This facility expires in May 2024 and there is no reason to believe that this facility will not be rolled over. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. The Group was in compliance with all bank covenants at 30 June 2022.

## 25. PARENT ENTITY INFORMATION

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

Financial position	2022	2021
	\$	\$
<b>Assets</b>		
Current assets	-	107,121
Non-current assets	9,243,141	9,659,111
Total assets	9,243,141	9,766,232
<b>Liabilities</b>		
Current liabilities	132,958	25,000
Non-current liabilities	-	-
Total Liabilities	132,958	25,000
<b>Equity</b>		
Issued capital	1,155,970	1,155,970
Retained earnings	7,954,213	8,585,263
Total equity	9,110,183	9,741,233
<b>Financial performance</b>		
Profit for the year	124,200	122,483
Other comprehensive income	-	-
Total comprehensive income	124,200	122,483
<b>Contingent liabilities of the parent entity</b>	-	-

## 26. SUBSEQUENT EVENTS

No significant events, apart from the following, have occurred since the balance date which would impact on the financial position of the Group at 30 June 2022 or the results for the period ended on that date.

A final fully franked ordinary dividend of 20.0 cents per share was declared by Directors on the 10 August 2022.

# 4

STATUTORY  
INFORMATION



ULTIMO PUBLIC SCHOOL, SYDNEY

Isolated Outdoor Concrete Floor by Supershearflex Pad system

## DIRECTORS' DECLARATION

The Directors declare that:

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

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

On behalf of the Directors



G R Embelton

Chairman

28 September 2022

## STATUTORY DIRECTORS' REPORT

Your Directors present their report on the Company and its subsidiaries for the financial year ended 30 June 2022.

### DIRECTORS

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

Mr G R Embelton  
Mr J J Embelton  
Mr J R Baldwin  
Mr M S Crabb

### COMPANY SECRETARY

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

Mr E P Galgano

### PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year comprised the manufacture, distribution and installation of flooring products and services, 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 \$969,398 (2021: \$1,439,317).

### DIVIDENDS

	2022	2021
	\$	\$
Dividends paid or declared for payment in respect of the financial year are as follows:		
An interim fully franked ordinary dividend of 15.0 cents per share (2021 – 20.0 cents) was paid on 8 April 2022	323,688	431,570
A final fully franked ordinary dividend of 20.0 cents per share (2022 – 20.0 cents) was declared by Directors on the 10 August 2022	431,570	431,570
	<u>755,258</u>	<u>863,140</u>

### CHANGE IN STATE OF AFFAIRS

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

### EVENTS AFTER BALANCE DATE

No significant events, apart from the dividend referred to above, have occurred since the balance date which would impact on the financial position of the Group at 30 June 2022 or the results for the period ended on that date.

### ENVIRONMENTAL ISSUES

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

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

## DIRECTORS

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

### George Embelton, BE, 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, past Chairman and principal of Flagstaff Consulting Group and a director of Flagstaff PCM. He is also a former Managing Director of John Holland Asia, former Director of the Overseas Projects Corporation of Victoria and the Mayfair Hanoi Joint Venture.

Mr Baldwin is considered an independent director.

### Martin Crabb, BA

Appointed Non-Executive Director in October 2014

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

Mr Crabb is considered an independent director.

## MEETINGS OF DIRECTORS

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

### Directors' Meetings

	Meetings attended	Meetings eligible to attend
G R Embelton	6	6
J J Embelton	6	6
J R Baldwin	6	6
M S Crabb	5	6

**REMUNERATION REPORT (AUDITED)**

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

**Directors' and executives' relevant shareholdings**

	Balance at 30.06.20	Received as Compensation	Other Changes	Balance at 30.06.21	Received as Compensation	Other Changes	Balance at 30.06.22
<b>Directors</b>							
G R Embelton	1,004,433	-	-	1,004,433	-	-	1,004,433
J J Embelton	31,877	-	-	31,877	-	-	31,877
J R Baldwin	6,535	-	-	6,535	-	-	6,535
M S Crabb	7,694	-	-	7,694	-	-	7,694
<b>Executives</b>							
E P Galgano	-	-	-	-	-	-	-

**Remuneration Policy**

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

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

**Remuneration Committee**

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

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

**Remuneration Structure**

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

### Executive Directors and Senior Executives

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

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

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

The remuneration structure is in two parts:

- Fixed remuneration; and
- Variable remuneration.

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

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

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

### Non-Executive Directors

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

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

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

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

## Employment Contracts of Directors and Senior Executives

Year ended:	30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022
	\$	\$	\$	\$	\$
Total Revenue	59,353,660	58,055,771	72,445,025	68,221,625	66,021,910
Net profit before tax	4,026,390	1,832,207	3,179,505	2,110,865	1,485,072
Net profit after tax	2,802,109	1,271,504	2,156,598	1,439,317	969,398
Share price at start of year	\$12.00	\$13.98	\$10.50	\$10.00	\$12.10
Share price at end of year	\$13.98	\$10.50	\$10.00	\$12.10	\$10.00
Interim Dividend*	20 cents	20 cents	20 cents	20 cents	15 cents
Final Dividend*	30 cents	20 cents	20 cents	20 cents	20 cents
Basic earnings per share	130 cents	59 cents	100 cents	67 cents	45 cents
Diluted earnings per share	130 cents	59 cents	100 cents	67 cents	45 cents
Total Dividends declared	50 cents	40 cents	40 cents	40 cents	35 cents

\*Franked to 100% at 30% corporate tax rate

## Compensation of Key Management Personnel

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

### Company Directors:

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

### Executives:

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

	Short Term Employee Benefits					Total	Proportion of Remuneration Performance Related
	Salary & Directors Fees	LSL	Incentive Accrued for Current Period	Non-monetary Benefit	Post Employment Superannuation Benefits		
	\$	\$	\$	\$	\$	\$	
<b>Company Non-Executive Directors' Remuneration Year ending 30 June 2022</b>							
Mr J R Baldwin	25,000	-	-	-	-	25,000	-
Mr M S Crabb	25,000	-	-	-	-	25,000	-
	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
<b>Year ending 30 June 2021</b>							
Mr J R Baldwin	25,000	-	-	-	-	25,000	-
Mr M S Crabb	25,000	-	-	-	-	25,000	-
	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
<b>Company Executive Directors and Specified Executives' Remuneration Year ending 30 June 2022</b>							
Mr G R Embelton	67,500	1,500	-	11,629	6,750	87,379	-
Mr J J Embelton	346,480	5,775	80,000	2816	23,568	458,639	17%
Mr E P Galgano	189,828	3,163	27,000	-	18,983	238,974	11%
	<u>603,808</u>	<u>10,438</u>	<u>107,000</u>	<u>14,445</u>	<u>49,301</u>	<u>784,992</u>	<u>14%</u>
<b>Year ending 30 June 2021</b>							
Mr G R Embelton	90,000	1,500	-	4,990	8,550	105,040	-
Mr J J Embelton	348,354	5,806	62,030 *	7,892	21,694	445,776	14%
Mr E P Galgano	187,400	3,123	25,875 *	-	17,803	234,201	11%
	<u>625,754</u>	<u>10,429</u>	<u>87,905</u>	<u>12,882</u>	<u>48,047</u>	<u>785,017</u>	<u>11%</u>

For the year under review, bonuses of \$80,000 and \$27,000 have been provided for Mr. J J Embelton and Mr. E P Galgano respectively (2021 – \$62,030 and \$25,785 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.

\*These are the actual amounts paid compared to what was initially accrued at 30 June 2021 being \$65,000 and \$27,360 for Mr J J Embelton and E P Galgano respectively.

End of audited remuneration report.

## INDEMNIFYING OFFICERS OR AUDITORS

During or since the end of the financial year the Company has paid premiums to insure all Directors and officers of the Company against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The amount of the premium was \$35,907 (2021 - \$28,225).

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 2022:

Taxation services - preparation of income tax returns	\$15,750
Compliance and consulting services	<u>\$12,625</u>
Total	<u><u>\$28,375</u></u>

# **AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration for the year ended 30 June 2022 has been received and can be found on page 50.

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

On behalf of the Directors



G R Embelton

Chairman

28 September 2022



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28 September 2022

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

Dear Board Members

#### **Auditor's Independence Declaration to 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 report of Embelton Limited for the financial year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours sincerely

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that appears to be "Craig Bryan".

Craig Bryan  
Partner  
Chartered Accountants

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Member of Deloitte Asia Pacific Limited and the Deloitte organisation.



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## Independent Auditor's Report to the members of Embelton Limited

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the consolidated financial report of Embelton Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

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

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

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

#### *Key Audit Matters*

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

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Recoverability of commercial inventory</i></p> <p>At 30 June 2022 the group has recognised gross commercial inventory at a cost of \$5,354,196 against which there is a provision of \$181,385. Estimation of net realisable value requires the directors to make certain judgements and estimates based on the age and condition of product lines, historical sales outcomes and forecast contract pipeline.</p> <p>The estimation uncertainty increased at the end of the year as a result of the impact of COVID-19 on macroeconomic factors underlying the commercial segment pipeline of work and delays to commencement of contracted works.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>Assessing management's processes and judgements applied in estimating the net realisable value of commercial inventory,</li> <li>Testing on a sample basis, the ageing and cost of products at year end as key inputs into management's calculation of the write down provisions; and</li> <li>Evaluating management's judgements in estimating net realisable value by: <ul style="list-style-type: none"> <li>comparing the carrying value of products to contracts for post year-end sales, and</li> <li>comparing the value of aged inventory on hand to management's write down provision, and</li> <li>obtaining an understanding of the contract pipeline and likely impact of any delays in projects on project specific inventory.</li> </ul> </li> </ul> <p>We have also assessed the appropriateness of the disclosures in Note 11 to the financial statements.</p>

### Other Information

The directors are responsible for other information disclosed. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Report

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

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



### *Auditor's Responsibilities for the Audit of the Financial Report*

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 44 to 47 of the Directors' Report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Embelton Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized, handwritten signature of the firm Deloitte Touche Tohmatsu, written in a dark grey or black ink.

DELOITTE TOUCHE TOHMATSU

A stylized, handwritten signature of Craig Bryan, written in a dark grey or black ink.

Craig Bryan  
Partner  
Chartered Accountants  
Melbourne, 28 September 2022

**ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2022**

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

- a. The number of holders of fully paid ordinary shares as at 31 August 2022 was 161 of which 60 held less than a marketable parcel (the marketable parcel is 499 and under).
- b. Distribution of Shareholding

<u>Range</u>	<u>No of Holders of Ordinary Shares</u>	<u>No of Shares</u>
1 – 1,000 shares	82	26,025
1,001 – 5,000 shares	49	119,804
5,001 – 10,000 shares	5	31,797
10,001 – 100,000 shares	21	391,858
100,001 and over	4	1,588,373
	<u>161</u>	<u>2,157,857</u>

- c. Percentage total holdings by or on behalf of the twenty largest shareholders is 89.203%.

<u>Holder Name</u>	<u>Balance as at 31-08-2022</u>	<u>% of total</u>
G R E Nominees Pty Ltd	574,440	26.621%
George Robert Embelton	413,993	19.185%
Mrs Elizabeth Margaretha Montgomery & Mrs Bridget Elizabeth Tomkins	404,000	18.722%
Mr Ian Peter Alexander	195,940	9.080%
Treasure Island Hire Boat	36,873	1.709%
Ms Carolyn Louise Hill	32,307	1.497%
Mr James John Embelton	31,877	1.477%
Mr Norman John Levi & Ms Jillian Michele Levi	28,032	1.299%
Jennifer Mary Shepherd	22,395	1.038%
HSBC Custody Nominees	21,841	1.012%
Geoffrey Weston Cruse	21,105	0.978%
Mr Daniel Lawrence Hall	20,005	0.927%
Aviation Fuel Associates (Aust) Pty Ltd (The Fraser Super Fund A/C)	16,838	0.780%
Torquinet Pty Ltd (Sallie Super Fund A/C)	16,395	0.760%
Miss Bridget Elizabeth Montgomery	16,107	0.746%
Mrs Maxine Charlotte Stewart	16,000	0.741%
Ms Sallie Christina Hill	15,913	0.737%
Mr David Anthony Embelton	15,875	0.736%
Mr Robert Nicol Fraser	12,838	0.595%
Gotterdamering Pty Ltd	12,104	0.561%
	<u>1,924,878</u>	<u>89.203%</u>
<b>Total of Securities</b>	<u><b>2,157,857</b></u>	

The following holdings are those stated in the register of substantial shareholdings GRE Nominees Pty Ltd 574,440, George Robert Embelton 413,993, Mrs Elizabeth Margaretha Montgomery & Mrs Bridget Elizabeth Tomkins (Elizabeth Montgomery S/F A/C) 404,000, Mr Ian Peter Alexander 195,940.

## EMBELTON GROUP PRODUCTS

Supply and installation of flooring, noise control systems, and industrial materials

### Flooring and Consumer Products:

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

### Industrial and Construction Products:

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

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