



Kresta Holdings Limited
ACN 008 675 803

Half-Year Financial Report

30 June 2017

Contents

Corporate information	1
Directors' report	2
Auditor's Independence Declaration	4
Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of cash flows	7
Consolidated statement of changes in equity	8
Notes to the consolidated financial statements	9
Directors' declaration	18
Independent auditors' report	19

Corporate information

ABN 26 008 675 803

Directors

Xianfeng Lu, Executive Chairman
Sean Shwe, Non-executive Director
Simons Lyons, Non-executive Director

Company Secretary

Neil Perkins

Registered Office and Principal Place of Business

380 Victoria Road
Malaga WA 6090
Australia
Phone: +61 8 9249 0777
Website: www.kresta.com.au

Share Register

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Phone: +61 8 9323 2000

Kresta Holdings Limited shares are listed on the Australian Securities Exchange (ASX).
ASX Code: KRS.

Bankers

Commonwealth Bank of Australia Limited

Auditors

Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000

Solicitors

K&L Gates
Level 32, 44 St Georges Terrace
Perth WA 6000

Directors' report

Your directors of Kresta Holdings Limited submit their report for the half-year ended 30 June 2017.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are:

Xianfeng Lu, Executive Chairman

Richard Taylor, B.Econ., ACA. (Non-executive Director) – Resigned 31 July 2017

Sean Shwe, B. Com., MBA., AFAIM. (Non-executive Director)

Simons Lyons, B.Econ., (Non-executive Director) – Appointed 1 August 2017

The directors were in office from the beginning of the half-year until the date of this report, unless otherwise stated.

Principal activities

The principal activities during the half-year of entities within the consolidated entity were the manufacturing, distribution and retailing of window coverings treatments and components.

There have been no significant changes in the nature of those activities during the year.

Review and results of operations

The business recorded revenue of \$38,518k which was 8.2% lower than the corresponding period last year. Factors contributing to this reduction in revenue include Vista closing stores across Australia that were not generating profits and Curtain Wonderland Ready Made business was relatively subdued for the period as we went through changes in our in store ranging.

The Company recorded a net loss for the period of \$1,886k which compared with a net loss of \$840k for the comparative period last year.

On a Cashflow basis, the Company recorded a cash outflow utilised in operations of \$2,254k reflecting the operating performance of the business. Furthermore, there was \$473k of Capital Expenditure during the period, which was spent primarily on showroom refurbishments and relocations.

During the period the company paid RMB15,148,936 to Suntarget (HongKong) Trading Co., Limited. These payments related to interest due of RMB2,987,390 and principal repayments of RMB12,161,546 on the RMB16,000,000 unsecured loan.

Cash at the end of the period (excluding the intercompany loan) was \$3,960k.

Directors' report (continued)

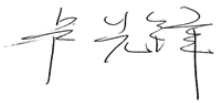
Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$000) under the option available to the Company under ASIC. The Company is an entity to which the Instrument applies.

Auditor's independence declaration

We have obtained an independence declaration from our auditor, Ernst and Young, which is set out on page 4 and forms part of this report.

Signed in accordance with a resolution of the directors.



Xianfeng Lu
Executive Chairman
Perth, 31 August 2017

Auditor's Independence Declaration to the Directors of Kresta Holdings Limited

As lead auditor for the audit of Kresta Holdings Limited for the six months ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kresta Holdings Limited and the entities it controlled during the six months ended 30 June 2017.



Ernst & Young



T G Dachs
Partner
31 August 2017

Consolidated statement of comprehensive income

For the half-year ended 30 June 2017

		Consolidated	
	Note	June 2017 \$000	June 2016 \$000
Sale of goods		38,518	41,970
Revenue		38,518	41,970
Other income	3a	782	1,014
Changes in inventories of finished goods and work in progress		(1,633)	(1,152)
Raw materials and consumables used		(8,859)	(9,674)
Employee benefits expense	3b	(17,808)	(19,571)
Depreciation and amortisation charge	3c	(988)	(1,013)
Other expenses	3d	(12,438)	(12,139)
Results from operating activities		(2,426)	(565)
Finance income		19	22
Finance costs		(278)	(379)
Net finance costs	3e	(259)	(357)
Loss before income tax		(2,685)	(922)
Income tax benefit		799	82
Net loss for the period		(1,886)	(840)
Other comprehensive income / (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net foreign currency translation		(12)	5
Other comprehensive income / (loss) for the period, net of tax		(12)	5
Total comprehensive loss for the period		(1,898)	(835)
Total comprehensive loss attributable to owners of the Company		(1,898)	(835)
Loss per share for loss attributable to the ordinary equity holders of the parent:			
Basic loss per share		(1.26)	(0.56) cents
Diluted loss per share		(1.26)	(0.56) cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2017

		Consolidated	
	Note	June 2017 \$000	December 2016 \$000
ASSETS			
Current assets			
Cash and cash equivalents	11	3,960	9,009
Trade and other receivables		2,431	1,699
Inventories	4	11,369	12,473
Prepayments		785	1,206
Total current assets		18,545	24,387
Non-current assets			
Trade and other receivables		15	12
Property, plant and equipment	5	12,823	13,227
Deferred tax assets	6	5,528	4,730
Intangible assets and goodwill	7	2,535	2,554
Total non-current assets		20,901	20,523
TOTAL ASSETS		39,446	44,910
LIABILITIES			
Current liabilities			
Trade and other payables		9,258	9,619
Interest-bearing loans and borrowings	12	10,643	13,318
Provisions		2,895	3,319
Income tax payable		9	99
Total current liabilities		22,805	26,355
Non-current liabilities			
Provisions		1,075	1,091
Total non-current liabilities		1,075	1,091
TOTAL LIABILITIES		23,880	27,446
NET ASSETS		15,566	17,464
EQUITY			
Contributed equity	10	12,892	12,892
Reserves		(67)	(55)
Retained earnings		2,741	4,627
TOTAL EQUITY		15,566	17,464

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 30 June 2017

		Consolidated	
	Note	June 2017 \$000	June 2016 \$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		41,665	46,911
Payments to suppliers and employees (inclusive of GST)		(43,205)	(46,127)
Government grant received		3	-
Interest received	3e	19	22
Interest paid	3e	(641)	(64)
Income tax paid		(95)	(146)
Net cash flows from / (utilised in) operating activities		(2,254)	596
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	5	6	-
Purchase of property, plant and equipment	5	(473)	(884)
Purchase of intangibles	7	-	(16)
Net cash flows used in investing activities		(467)	(900)
Cash flows from financing activities			
Proceeds from borrowings		477	481
Repayment of borrowings		(2,787)	(2,595)
Net cash used in financing activities		(2,310)	(2,114)
Net decrease in cash and cash equivalents		(5,031)	(2,418)
Net foreign exchange differences		(18)	2
Cash and cash equivalents at beginning of period		9,009	8,650
Cash and cash equivalents at end of period	11	3,960	6,234

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 30 June 2017

	Ordinary shares	Employee equity benefits reserve	Foreign currency translation reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2017	12,892	495	(550)	4,627	17,464
Loss for the period	-	-	-	(1,886)	(1,886)
Other comprehensive loss	-	-	(12)	-	(12)
Total comprehensive loss for the period	-	-	(12)	(1,886)	(1,898)
Transactions with owners in their capacity as owners	-	-	-	-	-
At 30 June 2017	12,892	495	(562)	2,741	15,566
At 1 January 2016	12,892	495	(546)	5,484	18,325
Loss for the period	-	-	-	(840)	(840)
Other comprehensive income	-	-	5	-	5
Total comprehensive income / (loss) for the period	-	-	5	(840)	(835)
Transactions with owners in their capacity as owners	-	-	-	-	-
At 30 June 2016	12,892	495	(541)	4,644	17,490

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

For the half-year ended 30 June 2017

1. Corporate information

This consolidated half-year report of Kresta Holdings Limited and its subsidiaries (the Group) for the half-year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 31 August 2017.

Kresta Holdings Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. Kresta Holdings Limited is a company domiciled in Australia. The address of the Company's registered office is 380 Victoria Road Malaga WA 6090.

The Group is a for-profit entity and the nature of the operations and principal activities of the Group are described in the directors' report.

2. Basis of preparation and accounting policies

(a) Basis of preparation

This half-year financial report for the half-year ended 30 June 2017 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year report does not include all the information and disclosures required in the annual financial report and should be read in conjunction with the Group's Annual Report for the period ended 31 December 2016.

The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The half-year report is presented in Australian Dollars and all values are rounded to the nearest \$'000 except where otherwise indicated.

(b) Going concern

During the half-year ended 30 June 2017, the company incurred a loss after tax of \$1.89 million with a net cash outflow from operations of \$2.25 million. The Group has a working capital deficiency of \$4.26 million, inclusive of \$10.30 million relating to related party loans from SunTarget (HongKong) Trading Co., Limited (SunTarget), discussed further in note 12. The financial statements have been prepared on a going concern basis as SunTarget, a subsidiary of Ningbo Xianfeng New Material Company ("APlus"), the majority shareholder, has confirmed that they will provide the following financial support for at least 18 months from 4 August 2017:

- Not seek repayment of any monies due to it from the Group; and
- Will assist in meeting the Group's Liabilities as and when they fall due, up to a maximum of RMB50,000,000, but only to the extent that money is not otherwise available to meet such liabilities.

Should the matters set out above change, there is material uncertainty as to whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments to assets and liabilities that may be necessary if the Group is unable to continue as a going concern.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

2. Basis of preparation and accounting policies (continued)

(c) New accounting standards and interpretations

The accounting policies adopted in the preparation of the half-year report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the period ended 31 December 2016.

Accounting standards and interpretations issued but not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the half-year period ending 30 June 2017. These are outlined below:

(i) AASB 15: Revenue from Contracts with Customers

Application date of standard – 1 January 2018; Application date for Group – 1 January 2018

Impact: The Company is in the final stages of evaluating the impact of the new standard, at this stage the impact is expected to be immaterial.

IFRS 15 Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services).

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- (a) Step 1: Identify the contract(s) with a customer
- (b) Step 2: Identify the performance obligations in the contract
- (c) Step 3: Determine the transaction price
- (d) Step 4: Allocate the transaction price to the performance obligations in the contract
- (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

(ii) AASB 16: Leases

Application date of standard – 1 January 2019; Application date for Group – 1 January 2019

Impact: The Company is currently evaluating the impact of the new standard

The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- Assets and liabilities arising from the lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

2. Basis of preparation and accounting policies (continued)

(c) New accounting standards and interpretations (continued)

Accounting standards and interpretations issued but not yet adopted (continued)

(ii) AASB 16: Leases (continued)

Lessor accounting

- AASB 16 substantially carries forward the lessor accounting requirements in AASB117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those types of leases differently.

AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

AASB 16 supersedes:

- (a) AASB 117 Leases
- (b) Interpretation 4 Determining whether an Arrangement contains a Lease
- (c) SIC-15 Operating Leases-Incentives
- (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

(d) Significant accounting judgments and estimates

The preparation of half-year report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In preparing the half-year, the significant judgements made by management in applying the Group's accounting policies, and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the period ended 31 December 2016.

3. Revenue, Income and expenses

		Consolidated	
		June 2017	June 2016
		\$000	\$000
(a) Other income			
Government grants		3	19
Foreign Exchange gains		344	326
Net unrealised gain on related party loan		348	544
Other		87	125
		782	1,014
(b) Employee benefits expense			
Wages and salaries		11,410	12,721
Superannuation expense		994	1,108
Subcontractors fees and related expenses		4,411	4,531
Other employee benefits expense		993	1,211
		17,808	19,571

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

3. Revenue, income and expenses (continued)

	Consolidated	
	June 2017	June 2016
	\$000	\$000
(c) Depreciation and amortisation charge		
Depreciation	969	993
Amortisation of IT software	19	20
	988	1,013
(d) Other expenses		
Advertising	3,837	2,587
Property rent	4,183	4,104
Property outgoings	1,872	1,977
Communication expenses	754	896
Banking and transaction expenses	255	264
Impairment loss – receivables	-	1
Net loss from disposal of property, plant & equipment	-	291
Foreign exchange losses	-	38
Freight	754	829
Other expenses	783	1,152
	12,438	12,139
(e) Net finance costs		
Finance income	19	22
Finance charges payable under finance leases and hire purchase contracts	(3)	(7)
Other borrowing costs	(275)	(372)
Finance costs	(278)	(379)
Net finance costs	(259)	(357)

4. Inventories

During the six months ended 30 June 2017, the Group did not write down inventory to net realisable value (December 2016: \$125,793). For the six months ended 30 June 2017, there was a write back totalling \$528,692 of the previously provided amount due to the realisation of the inventory and review of the provision (December 2016: \$Nil).

5. Property, plant and equipment

During the six months ended 30 June 2017, the Group acquired property, plant and equipment with a cost of \$568,126 (December 2016: \$1,898,462). Assets with a net book value of \$1,531 were disposed of by the Group during the six months ended 30 June 2017 (December 2016: \$487,465) resulting in a net loss on disposal of \$2,193 (December 2016: loss \$340,878).

6. Deferred Tax assets

As at 30 June 2017, the Group has accumulated tax losses of \$12,370,406 (December 2016: \$9,477,441) of which \$3,711,122, (December 2016: \$2,843,232) is recognised as a deferred tax asset. The recognition of the net deferred tax asset is based upon the Company's ability to utilise tax losses against future forecasted taxable profits.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

7. Intangibles assets and goodwill

During the six months ended 30 June 2017, the Group did not acquire any intangibles assets (December 2016: \$21,358). No Intangible assets were disposed of by the Group during the six months ended 30 June 2017 (December 2016: Disposal \$12,612; resulting in a net loss on disposal of \$12,612).

Impairment tests for goodwill

Goodwill acquired through business combinations has been allocated to cash generating units ("CGUs") for impairment testing as follows:

- the Kresta Holdings Limited CGU; and
- the Curtain Wonderland Pty Limited group of CGUs

Kresta Holdings Limited unit

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on managements' current forecasts covering a five year period. The anticipated sales growth over the five years is estimated to average 3% per annum. (December 2016: 2.69%)

The pre-tax discount rate applied to cash flow projections is 11.98% per annum (December 2016: 12.80%). The projected value in use exceeds the carrying amount of the assets within the cash generating unit and therefore no impairment has been noted.

The carrying amount of goodwill allocated to the Kresta Holdings Limited unit is \$1,064,000 (December 2016: \$1,064,000).

Curtain Wonderland Pty Limited unit

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on managements' current forecast covering a five year period. The anticipated sales growth over the next 5 years is estimated to average 6.25%. (December 2016: 3.47%).

The pre-tax discount rate applied to cash flow projections is 11.61% per annum (December 2016: 15.61%). The projected value in use exceeds the carrying amount of the assets within the cash generating unit and therefore no impairment has been noted.

The carrying amount of goodwill allocated to the Curtain Wonderland Pty Limited unit is \$856,000 (December 2016: \$856,000).

Key assumptions

The following describes the key assumptions on which management has based its cash flow projections.

Gross margins

The basis used to determine the value assigned to the forecasted gross margins is the average gross margins achieved in current year. These are reflective of past experience.

Raw materials price inflation

The basis used to determine the value assigned to raw material price inflation is the forecast price index during the year for Australia and for China, being where raw materials are sourced. Values assigned to this key assumption are consistent with external sources of information.

Discount rate

Discount rate reflects management's estimate of the time value of money and the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital, then adjusted for risks specific to each business/CGU where applicable.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

7. Intangibles assets and goodwill (continued)

Key assumptions (continued)

Sales growth

Management expect to see top and bottom line growth consistent with the 5 years forecast due to national synergies, investment in our sales capability, business restructuring to achieve efficiencies, continued focus on purchasing efficiencies and merchandising.

Sensitivity to changes in assumptions

With regard to the assessments of the value in use of Curtain Wonderland and Kresta Holdings Limited, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

8. Other financial assets and financial liabilities

Fair Values

The directors have concluded that the fair value of the financial assets and liabilities are not materially different to, and approximate their carrying values. At 30 June 2017, the Group had the same classes of financial instruments measured at fair value as disclosed in the 31 December 2016 annual report.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

During the six month period ended 30 June 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

9. Dividends paid and proposed

	June 2017 \$000	June 2016 \$000
(a) Recognised amounts		
Declared and paid during the six month period		
Dividends on ordinary shares:		
Final franked dividend for 2017: nil (2016: nil)	-	-
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Interim franked dividend for 2017: nil (2016: nil)	-	-

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

10. Contributed equity

Ordinary Shares

	June 2017 \$000	December 2016 \$000
Issued capital - ordinary shares	12,892	12,892

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Movement in ordinary shares on issue

	No. of shares Thousands	\$000
At 1 January 2017	150,259	12,892
Shares issued during the period	-	-
At 30 June 2017	150,259	12,892

11. Notes to the cash flow statement

For the purpose of the half-year cash flows, cash and cash equivalent are comprised of the following:

	Consolidated	
	June 2017 \$000	June 2016 \$000
Cash at Bank	3,960	6,234
Cash at bank and on hand	3,960	6,234

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

12. Interest-bearing loans and borrowings

	Consolidated	
	June 2017 \$000	December 2016 \$000
Current		
Insurance finance loan	334	155
Software licence finance loan	12	85
Related Party Loan	10,297	13,078
	<u>10,643</u>	<u>13,318</u>

Related Party Loan

At reporting date, the company has two unsecured loans from Suntarget (HongKong) Trading Co., Limited, a subsidiary of Ningbo Xianfeng New Material Company ("Aplus"). The initial loan received in March 2015, was for RMB16,000,000, during the period, the Group has repaid RMB12,161,546. The remaining balance of the unsecured loan has been extended with a fixed interest rate of 5% per annum and an expiry date of 31 December 2018.

The second loan for RMB49,763,940 expires on 30 June 2018. The interest rate on this loan is fixed at 5% per annum. Both loan contracts require both parties to agree to any extensions of the loan term.

Software licence finance loan

Software licence finance loan has a zero interest rate.

Insurance finance loan

Insurance finance loan has a fixed rate of 1.30%.

13. Related party transactions

During the half year the following transactions and total outstanding balances have been entered into with related parties:

- Moon Lake Investments Pty Ltd ("Moon Lake Investments") is ultimately owned by Mr Xianfeng Lu. During the period Kresta Holdings Limited paid invoices on behalf of Moon Lake Investments amounting to \$617,127 which were repaid during the period.
- Kresta Holdings has paid invoices amounting to \$42,325 during the period on behalf of Van Milk Pty Ltd, a company ultimately owned by Mr Xianfeng Lu. As at 30 June 2017, \$20,216 was outstanding, which has been subsequently paid.

The purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees received for any related party payables.

14. Commitments

Capital commitments

There are no capital commitments as at 30 June 2017 (December 2016: \$Nil).

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2017

15. Operating Segments

The Group has identified its operating segment based on the management reports that are reviewed and used by the executive management team (chief operating decisions makers) in assessing performance and in determining the allocation of resources. Management has identified a single operating segment, which is manufacture and sales of window coverings and no segment report has therefore been included in the financial statements.

Geographical areas

The Group has revenues from external customers attributed to:

- Australia (the Group's country of domicile) and
- New Zealand

	June 2017 \$000	June 2016 \$000
Revenues (Australia)	37,422	40,287
Revenues (New Zealand)	1,096	1,683
	<u>38,518</u>	<u>41,970</u>

Revenue is attributed to geographic location based on the location of the customers.

16. Events occurring after the reporting date

There has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of the Group, or the state of affairs of the Group, in future financial years

Directors' declaration

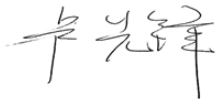
In accordance with a resolution of the directors of Kresta Holdings Limited, I state that:

In the opinion of the directors:

- (a) The financial statements and notes of Kresta Holdings Limited for the half-year ended 30 June 2017 are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
 - (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001
- (b) There are reasonable grounds to believe that Kresta Holdings Limited will be able to pay its debts as and when they become due and payable subject to the matters detailed in Note 2(b).

This declaration is made in accordance with a resolution of the directors.

On behalf of the board



Xianfeng Lu
Executive Chairman

Perth, 31 August 2017

Independence auditors report to the members of Kresta Holdings Limited

Report on the audit of the financial report

Opinion

We have audited the half-year financial report of Kresta Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for six months ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Material uncertainty related to going concern

Without qualifying our conclusion, we draw attention to Note 2(b) in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the half-year financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Provision for inventories obsolescence

Why significant

The Group manufactures and sells window coverings and is subject to changing consumer demands.

At 30 June 2017, the Group carried \$11.369 million of inventories as disclosed in Note 4 to the financial report.

We focused on this area because the provision for inventories obsolescence is an area that requires significant estimates and judgment about the determination of the net realisable value of stock on hand. In addition, inventories accounts for 29% of total assets

How our audit addressed the key audit matters

We evaluated the basis for the inventories obsolescence provision including the consistency of provisioning in accordance with the accounting policies of the Group and Australian Accounting Standards.

We assessed the calculation of the provision for obsolescence, which included quantitative analysis by product of gross margin, turnover, stock aging and qualitative criteria, including runouts and discontinued stock.

We tested a sample of stock items on hand and tested whether these items were valued at the lower of cost or net realisable value.

Recoverability of goodwill

Why significant

At 30 June 2017, the Group carried goodwill and other intangible assets of \$2.535 million as disclosed in Note 7 to the financial report.

Goodwill pertains to Kresta Holdings Limited and Curtain Wonderland Pty Ltd, which are treated as separate cash-generating units ("CGUs").

The Group assesses goodwill for impairment annually as at 31 December, or more frequently when an indicator of impairment exists.

The impairment test requires the Group to exercise judgment to calculate the recoverable amount of the CGU. The Group considers prospective financial information and external market data.

Key assumptions and judgments are disclosed in Note 7 of the financial report.

How our audit addressed the key audit matters

Our procedures included the evaluation and assessment of the assumptions and methodologies used by the Group in calculating the recoverable amount of the CGUs.

We involved our valuation specialists to evaluate the key assumptions and methodologies used by the Group.

We compared the Group's assumptions to our own assessments and externally derived data for key inputs such as cost inflation and discount rates.

We assessed the procedures of the Group as to the preparation of prospective financial information, which was approved by the Board of Directors of the Group.

We evaluated the historical reliability of prior period cash flow forecasts including assessing this against the actual financial performance of the Group for the six months to 30 June 2017.

We compared the projected discounted cash flows to the carrying amount of the assets allocated to the CGUs.

We performed a sensitivity analysis to assess the headroom of the Group's estimate of the recoverable amount of the CGUs against their carrying amount and to evaluate the implication of uncertainty around future performance.

We assessed the adequacy of the disclosures related to testing goodwill for impairment, as described in Note 7 to the financial report.

Recoverability of deferred tax assets

Why significant

At 30 June 2017, the Group carried deferred tax assets attributed to carry-forward tax losses of \$5.528 million. The Group assessed the deferred tax assets as recoverable for the reasons set out in Note 6 of the financial report. The recoverability of deferred tax assets is significant as the existence of unused tax losses is an indicator that future taxable profits may not be available against which unused tax losses may be utilised.

How our audit addressed the key audit matters

Our procedures included the evaluation and assessment of the assumptions and methodologies used by the Group in calculating future taxable income.

We assessed the procedures of the Group as to the preparation of prospective financial information.

We compared the Group's assumptions to our own assessments and externally derived data for key inputs such as cost inflation and growth rates.

We evaluated the historical reliability of prior period cash flow forecasts including assessing this against the actual financial performance of the Group for the six months to 30 June 2017.

We performed a sensitivity analysis to assess the headroom of the Group's estimate of future taxable income against deferred tax assets recognised and to evaluate the implication of uncertainty around future performance.

We assessed the adequacy of the disclosures related to deferred tax assets, as described in Note 6 to the financial report.

Information other than the half-year financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 half-year financial report, but does not include the half-year financial report and our auditor's report thereon.

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

In connection with our audit of the half-year financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the half-year 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 half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the half-year financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 half-year financial report

Our objectives are to obtain reasonable assurance about whether the half-year 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 half-year financial report.

A further description of our responsibilities for the audit of the half-year financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.



Ernst & Young



T G Dachs
Partner
Perth
31 August 2017