Kresta Holdings Limited

Kresta Holdings Limited
ACN 008 675 803

Half-Year Financial Report

30 June 2018

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Corporate information

ABN 26 008 675 803

Directors

Xianfeng Lu, Executive Chairman
MingMing Zhang, Director
Ding Li, Non-executive Director
Yongjiu Xu, Non-executive Director

Company Secretary

MingMing Zhang

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 2018.

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)
Sean Shwe (Non-executive Director) – Resigned 7 November 2018
Simons Lyons (Non-executive Director) – Resigned 9 April 2018
Jin Lan Quan (Non-executive Director) – Appointed 19 April 2018, resigned 23 Aug 2018
MingMing Zhang (Director) – Appointed 30 August 2018
Ding Li (Non-executive Director) – Appointed 30 Aug 2018
Yongjiu Xu (Non-executive Director) – Appointed 30 November 2018

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 $28,216,000 which was 26.75% lower than the corresponding period last year. Factors contributing to this reduction in revenue include market competition in the Kresta business and the Curtain Wonderland readymade business.

The Company recorded a net loss for the period of $14,266,000 which compared with a net loss of $1,886,000 for the comparative period last year.

On a Cashflow basis, the Company recorded a cash outflow utilised in operations of $583,000 reflecting the operating performance of the business. Furthermore, there was $128,000 of Capital Expenditure during the period, which was spent primarily on iPad devices to support new Krestec system.

Cash at the end of the period (excluding the intercompany loan) was $2,267,000.

Events after reporting date

Subsequent to 30 June 2018, the Group has extended the loan facility of RMB 16,000,000 from SunTarget (HongKong) Trading Co., Limited from 31 December 2018 to 31 December 2019 at the applicable market interest rate.

On 22 November 2018, the Group has received a letter of support from Ningbo Xianfeng New Material Co., Ltd ("Aplus") and Suntarget (Hong Kong) Trading Co., Limited.

On 23 November 2018, the Group has entered into a payment deferral agreement with Ningbo Cathayan Weaving MFG Co., Ltd and Ningbo Mardo Import & Export Co., Ltd. The agreement is to defer payment of debt for all invoices dated May 2018 to May 2019 by one year based on current 6 months trading terms. 5% interest per annum is applicable to the debt during the deferred period.

Directors' report (continued)

Events after reporting date (continued)

Other than the matters raised above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative 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, 20 December 2018

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Perth WA 6000 Australia
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Auditor's Independence Declaration to the Directors of Kresta Holdings Limited

As lead auditor for the review of Kresta Holdings Limited for the half-year ended 30 June 2018, 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 review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kresta Holdings Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
20 December 2018

Consolidated statement of comprehensive income

For the half-year ended 30 June 2018

	Note	Consolidated June 2018 $000	June 2017 $000
Sale of goods		28,216	38,518
Revenue		28,216	38,518
Other income	*3a*	60	782
Changes in inventories of finished goods and work in progress		(2,904)	(1,633)
Raw materials and consumables used		(7,258)	(8,859)
Employee benefits expense	*3b*	(14,293)	(17,808)
Depreciation and amortisation charge	*3c*	(980)	(988)
Other expenses	*3d*	(16,829)	(12,438)
Results from operating activities		(13,988)	(2,426)
Finance income		1	19
Finance costs		(279)	(278)
Net finance costs	*3e*	(278)	(259)
Loss before income tax		(14,266)	(2,685)
Income tax benefit		-	799
Net loss for the period		(14,266)	(1,886)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Net foreign currency translation		(6)	(12)
Other comprehensive loss for the period, net of tax		(6)	(12)
Total comprehensive loss for the period		(14,272)	(1,898)
Total comprehensive loss attributable to owners of the Company		(14,272)	(1,898)
Loss per share for loss attributable to the ordinary equity holders of the parent:			
Basic loss per share		(9.50)	(1.26)
Diluted loss per share		(9.50)	(1.26)

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 2018

		Consolidated	
	Note	**June 2018** $000	**December 2017** $000
ASSETS			
Current assets			
Cash and cash equivalents	*11*	2,267	2,646
Trade and other receivables		-	2,776
Inventories	*4*	7,302	10,851
Prepayments		1,050	1,230
Total current assets		10,619	17,503
Non-current assets			
Trade and other receivables		-	15
Property, plant and equipment	*5*	8,361	11,635
Intangible assets and goodwill	*7*	453	1,668
Total non-current assets		8,814	13,318
TOTAL ASSETS		19,433	30,821
LIABILITIES			
Current liabilities			
Trade and other payables		9,670	8,785
Interest-bearing loans and borrowings	*12*	1,397	10,930
Provisions		3,818	2,407
Total current liabilities		14,885	22,122
Non-current liabilities			
Interest-bearing loans and borrowings	*12*	10,390	301
Provisions		1,035	1,003
Total non-current liabilities		11,425	1,304
TOTAL LIABILITIES		26,310	23,426
NET (LIABILITIES)/ASSETS		(6,877)	7,395
EQUITY			
Contributed equity	*10*	12,892	12,892
Reserves		(89)	(83)
Retained earnings		(19,680)	(5,414)
TOTAL EQUITY		(6,877)	7,395

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 2018

	Note	Consolidated	
		June 2018	**June 2017**
		$000	$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		34,993	41,665
Payments to suppliers and employees (inclusive of GST)		(35,548)	(43,205)
Government grant received		-	3
Interest received	*3e*	1	19
Interest paid	*3e*	(29)	(641)
Income tax paid		-	(95)
Net cash flows utilised in operating activities		(583)	(2,254)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	*5*	198	6
Purchase of property, plant and equipment	*5*	(127)	(473)
Net cash flows from / (used in) investing activities		71	(467)
Cash flows from financing activities			
Proceeds from borrowings		536	477
Repayment of borrowings		(402)	(2,787)
Net cash flows from / (used in) financing activities		134	(2,310)
Net decrease in cash and cash equivalents		(378)	(5,031)
Net foreign exchange differences		(1)	(18)
Cash and cash equivalents at beginning of period		2,646	9,009
Cash and cash equivalents at end of period	*11*	2,267	3,960

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 2018

	Ordinary shares $000	Employee equity benefits reserve $000	Foreign currency translation reserve $000	Retained earnings $000	Total $000
At 1 January 2018	12,892	495	(578)	(5,414)	7,395
Loss for the period	-	-	-	(14,266)	(14,266)
Other comprehensive loss	-	-	(6)	-	(6)
Total comprehensive loss for the period	-	-	(6)	(14,266)	(14,272)
At 30 June 2018	12,892	495	(584)	(19,680)	(6,877)
At 1 January 2017	12,892	495	(550)	4,627	17,464
Loss for the period	-	-	-	(1,886)	(1,886)
Other comprehensive income	-	-	(12)	-	(12)
Total comprehensive income / (loss) for the period	-	-	(12)	(1,886)	(1,898)
At 30 June 2017	12,892	495	(562)	2,741	15,566

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 2018

1. Corporate information

This consolidated half-year report of Kresta Holdings Limited and its subsidiaries (the Group) for the half-year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 20 December 2018.

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 2018 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 2017.

The half-year financial report has been prepared on a historical cost basis, 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 2018, the company incurred a loss after tax of $14,266,000 with a net cash outflow from operations of $583,000. The Group had a working capital deficit of $4,266,000 and net asset deficit of $6,877,000 at 30 June 2018.

In determining that the going concern assumption is an appropriate basis of preparation for the half-year financial report for the six months ended 30 June 2018, the Directors have taken account of the following:

- During the period, the loan agreement for RMB 50,000,000 with Suntarget (Hong Kong) Trading Co. Limited, a related party of the Group, was amended to extend the term of the loan until 31 December 2019 and allow for the deferral of unpaid interest; and
- Subsequent to the 30 June 2018, the Group undertook a strategic review and identified a number of initiatives to improve the future operating performance of the Group, including individual stores and showrooms. The Directors consider that implementation of these initiatives will improve future performance and cash flows of the Group; and
- On 22 November 2018 the Group entered into a Deed of Parent Company Support effective until 31 December 2019 with Ningbo Xianfeng New Material Company and its subsidiary, Suntarget (Hong Kong) Trading Co. Limited, to subordinate all of the debt owed by the Group to them and to provide additional financial support in the form of a subordinated, unsecured, interest free loan of up to $10,000,000, repayable within 18 months of being advanced; and
- On 22 November, the loan agreement for RMB 16,000,000 with Suntarget (Hong Kong) Trading Co. Limited, a related party of the Group, was amended to extend the term of the loan until 31 December 2019; and
- On 23 November 2018, the Group entered into a Payment Deferral Agreement with its major supplier to defer payment for debt of all invoices issued from May 2018 to May 2019, by one year based on the current six months trading term.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

2. Basis of preparation and accounting policies (continued)

(b) Going concern (continued)

Should the Group be unable to improve its performance and/or enforce the terms of the agreements above, 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.

(c) New accounting standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments*. As required by AASB 134, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim consolidated financial statements of the Group.

(i) AASB 15: Revenue from Contracts with Customers

AASB 15 supersedes AASB 118 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 using the modified retrospective method of adoption which requires the Group to recognise in retained earnings at the date of adoption the cumulative effect of the application of AASB 15 to all existing revenue contracts which were not substantially complete as at 1 January 2018. Had the Group applied AASB 15 for the year ended 31 December 2017, revenue of $2,225,000 would have been recognised as a contract liability, with revenue recognition deferred to the current period when the performance obligation was satisfied.

The Group recognises revenue from the sale of window coverings treatments and components in the period that the performance obligations are satisfied. The Group's performance obligations are primarily comprised of the sale of goods. Each good is separately identifiable and represents a distinct performance obligation to which the transaction price is allocation. Performance obligation are satisfied at a point in time once control of the good has been transferred to the customer or the good has been fitted.

In obtaining these contracts, the Group incurs a number of incremental costs, such as commissions paid to sales staff. The Group recognises such incremental costs as a contract asset if it expects to recover those costs from the customer. The contract asset is then amortised on a systematic basis consistent with the transfer to the customer the good or service to which the contract asset relates. Where the amortisation period of these costs, if capitalised, would be less than one year, the Group makes use of the practical expedient in AASB 15.94 and expenses them as they incur.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

2. Basis of preparation and accounting policies (continued)

(c) New accounting standards and interpretations (continued)

(i) AASB 15: Revenue from Contracts with Customers (continued)

The Group has presented disaggregated revenue by business:

	Operating Segment		Total
	Australia $'000	New Zealand $'000	$'000
Kresta Blinds	14,894	1,349	16,243
Curtain Wonderland	11,973	-	11,973
Total Revenue	**26,867**	**1,349**	**28,216**

(ii) AASB 9: Financial Instruments

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied AASB 9 retrospectively, with the initial application date of 1 January 2018

No change to the classification or measurement of financial assets and liabilities has been required. Based on historical losses, the expected credit loss impairment model has an immaterial impact on the Group. In addition, the Group does not have hedging transactions. The Group's changes to accounting policy for trade and other receivables is detailed below:

All receivables (without a significant financing component) are initially measured at fair value. Receivables are measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model with the objective to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the purposes of the assessment whether contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

2. Basis of preparation and accounting policies (continued)

(c) New accounting standards and interpretations (continued)

(ii) AASB 9: Financial Instruments (continued)

For trade receivables measured at amortised cost, the Group has applied the standard's simplified approach and has calculated expected credit loss' based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For other financial assets, the expected credit loss is based on the 12-month expected credit loss. The 12-month expected credit loss is the portion of lifetime expected credit loss' that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

The Group considers an event of default has occurred when a financial asset is more than 120 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

The accounting for the Group's financial liabilities remains largely the same.

There was no significant impact of the adoption of AASB 9 for the Group.

Accounting standards and interpretations issued but not yet adopted

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:

<u>Lessee accounting</u>

- 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.

<u>Lessor accounting</u>

- 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.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

2. Basis of preparation and accounting policies (continued)

(c) New accounting standards and interpretations (continued)

AASB 16: Leases (continued)

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

AASB 16 supersedes:

- AASB 117 *Leases*
- Interpretation 4 Determining whether as Arrangement contains a Lease
- SIC-15 Operating Leases-Incentives
- 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, management has made provision for onerous lease, recoverability of property, plant and equipment and net realisable value of inventory.

<u>Onerous lease provision</u>

The onerous lease provision assessment requires a degree of estimation and judgement. When calculating the onerous lease provision, management applied their judgement in determining the following key assumptions:

- 9 out of 15 stores identified will be subleased from 1 July 2019 until lease expiry; and
- Sublease income recovery is estimated to be between 65% and 70% of the stores annual rent expense.

<u>Recoverability of property, plant & equipment</u>

The recoverability of property, plant and equipment requires a degree of estimation and judgement. The following key assumptions were applied by management in determining the recoverability of the property, plant and equipment:

- economic performance of the leasehold improvements & other identified tangible assets attached to the underperforming stores is not expected to improve in the forecast periods; and
- leasehold improvements & other identified tangible assets attached to the underperforming stores have a $nil recoverable amount; and
- identified items of machinery can be sold within the group, or through local channels.

<u>Inventory net realisable value</u>

The Group accounts for inventory at the lower of cost and net realisable value. Net realisable value assessments necessitate management's best estimate as to the ability and likelihood of individual inventory items to be sold above cost.

Other 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 30 June 2018.

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

3. Revenue, Income and expenses

	Consolidated	
	June 2018 $000	**June 2017** $000
(a) Other income		
Government grants	-	3
Foreign Exchange gains	-	344
Net unrealised gain on related party loan	-	348
Other	60	87
	60	782
(b) Employee benefits expense		
Wages and salaries	8,867	11,410
Superannuation expense	796	994
Subcontractors fees and related expenses	3,681	4,411
Other employee benefits expense	949	993
	14,293	17,808
(c) Depreciation and amortisation charge		
Depreciation	829	969
Amortisation of IT software	151	19
	980	988
(d) Other expenses		
Advertising	2,579	3,837
Property rent	4,155	4,183
Onerous lease provision expense	1,754	-
Property outgoings	1,845	1,872
Communication expenses	667	754
Banking and transaction expenses	178	255
Impairment loss – receivables	610	-
Impairment of property, plant and equipment	2,352	-
Net (gain) from disposal of property, plant and equipment	(26)	
Net unrealised loss on related party loan	423	-
Foreign exchange losses	61	-
Freight	102	754
Impairment of Goodwill	1,064	-
Other expenses	1,065	783
	16,829	12,438
(e) Finance costs		
Finance income	1	19
Finance charges payable under finance leases and hire purchase contracts	(8)	(3)
Other borrowing costs	(271)	(275)
Finance costs	(279)	(278)
Net finance costs	(278)	(259)

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

4. Inventories

During the six months ended 30 June 2018, the Group increased the obsolete stock provision to $3,394,000. (December 2017: $640,000). For the six months ended 30 June 2018, there was no write back of the previously provided amount due to the realisation of the inventory and review of the provision (December 2017: $2,283,000).

5. Property, plant and equipment

During the six months ended 30 June 2018, the Group acquired property, plant and equipment with a cost of $127,000 (December 2017: $622,000). Assets with a net book value of $2,352,000 were impaired by the Group during the six months ended 30 June 2018 (December 2017: $Nil).

6. Deferred Tax assets

As at 30 June 2018, the Group has accumulated tax losses of $30,630,000 (December 2017: $16,364,000) of which nil (December 2017: $Nil) is recognised as a deferred tax asset. The non-recognition of the net deferred tax asset is based upon the Company's ability to utilise tax losses against future forecasted taxable profits and the probability of taxable income.

7. Intangibles assets and goodwill

During the six months ended 30 June 2018, the Group did not acquire any intangibles assets (December 2017: $10,000). Goodwill with a net book value of $1,064,000 was written off by the group during the six months ended 30 June 2018 (December 2017: $Nil).

Impairment tests for goodwill

<u>Kresta Holdings Limited cash generating unit</u>

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 5.0% per annum. (December 2017: 2.5%)

The pre-tax discount rate applied to cash flow projections is 13.3% per annum (December 2017: 12.14%). The projected value in use did not exceed the carrying amount of the assets within the cash generating unit. As a result, management has recognised an impairment charge of $1,064,000 in the current period against goodwill with a carrying amount of $1,064,000 as at 30 June 2018. The impairment charge is recorded within other expenses (noted 3d).

Key assumptions

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

<u>Gross margins</u>

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.

<u>Raw materials price inflation</u>

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.

<u>Discount rate</u>

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 2018

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.

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 2018, the Group had the same classes of financial instruments measured at fair value as disclosed in the 31 December 2017 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 2018, 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 2018 $000	June 2017 $000
(a) Recognised amounts		
Declared and paid during the six month period		
Dividends on ordinary shares:		
Final franked dividend for 2018: nil (2017: nil)	-	-
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Interim franked dividend for 2018: nil (2017: nil)	-	-

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

10. Contributed equity

Ordinary Shares

	June 2018	December 2017
	$000	$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 2018	150,259	12,892
Shares issued during the period	-	-
At 30 June 2018	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 2018	June 2017
	$000	$000
Cash at Bank	2,267	3,960
Cash at bank and on hand	2,267	3,960

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

12. Interest-bearing loans and borrowings

	Consolidated	
	June 2018	**December 2017**
	$000	$000
Current		
Insurance finance loan	429	205
Software licence finance loan	180	180
Related Party Loan	788	10,545
	1,397	10,930
Non-current		
Software licence finance loan	211	301
Related Party Loan	10,179	-
	10,390	301

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 RMB 16,000,000, during the period, the Group has repaid RMB 12,162,000. 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 and subsequently being extended to 31 December 2019 on 22 November 2018.

The second loan for RMB 49,764,000, the term of the loan has been extended to 31 December 2019 and allow for the capitalisation of unpaid interest. 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. Commitments

Capital commitments

There are no capital commitments as at 30 June 2018 (December 2017: $Nil).

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

14. 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 $5,961 which were repaid during the period.
- Kresta Holdings has paid invoices amounting to $1,272 during the period on behalf of Van Milk Pty Ltd, a company ultimately owned by Mr Xianfeng Lu which were repaid during the period.
- Zhejiang Suntarget New Material Co.,Ltd ("Zhejiang Suntarget") is ultimately owned by Mr Xianfeng Lu. During the period Kresta Holdings Limited (on behalf of Mardo Australia Pty Ltd) sold inventory amounting to $3,658,639 to Zhejiang Suntarget, which was paid for in full during the period. Of the total inventory sold, $3,002,971 worth was delivered during the period to Zhejiang Suntarget, with the outstanding amount of $655,668 to be delivered later.

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

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 2018 $000	**June 2017** $000
Revenues (Australia)	26,867	37,422
Revenues (New Zealand)	1,349	1,096
	28,216	38,518

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

Notes to the consolidated financial statements (continued)

For the half-year ended 30 June 2018

16. Events occurring after the reporting date

Subsequent to 30 June 2018, the Group has extended the loan facility of RMB 16,000,000 from SunTarget (HongKong) Trading Co., Limited from 31 December 2018 to 31 December 2019 at the applicable market interest rate.

On 22 November 2018, the Group has received a letter of support from Ningbo Xianfeng New Material Co., Ltd ("Aplus") and Suntarget (Hong Kong) Trading Co., Limited.

On 23 November 2018, the Group has entered into a payment deferral agreement with Ningbo Cathayan Weaving MFG Co., Ltd and Ningbo Mardo Import & Export Co., Ltd. The agreement is to defer payment of debt for all invoices dated May 2018 to May 2019 by one year based on current 6 months trading terms. 5% interest per annum is applicable to the debt during the deferred period.

Other than the matters raised above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect significantly the operations of the Group, the results of those operations, 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 2018 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 2018 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, 20 December 2018

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Independent auditor's review report to the members of Kresta Holdings Limited

Disclaimer of conclusion

We have reviewed the accompanying half-year financial report of Kresta Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Because of the significance of the matters described in the Basis for Disclaimer of Conclusion paragraphs, we do not express a conclusion on the financial report for the half-year ended 30 June 2018.

Basis for disclaimer of conclusion

As outlined in note 2(b), subsequent to 30 June 2018 the Group undertook a strategic review of its operations which identified initiatives to improve the future performance of the Group, including individual stores and showrooms. The Directors' assessment of the provision for onerous leases and the recoverable amount of assets as at 30 June 2018 is based upon their expectations of improved performance and resulting cash flows. The implementation of these initiatives is ongoing and the extrapolation and sustainability of improvements in performance to date is uncertain. Consequently, it has not practicable for us to obtain sufficient evidence to conclude on the accuracy or sustainability of the improved performance assumptions supporting these judgemental accounting positions.

In the conduct of our review, it came to our attention that during the six months ended 30 June 2018, there were inaccuracies in the recording of inventory and stock counts were not performed as at 30 June 2018. We were unable to conduct sufficient alternative procedures in relation to the existence and valuation of the inventory balance, amounting to $7.302 million, at 30 June 2018.

Emphasis of matter – Material uncertainty related to going concern

We draw attention to Note 2(b) in the half-year financial report which describes the principal conditions that raised doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
20 December 2018