



Kresta Holdings Limited

Kresta Holdings Limited  
ACN 008 675 803

Annual Financial Report

31 December 2019

---

## Contents

Corporate information	1
Directors' report	2
Auditor's independence declaration	16
Consolidated statement of comprehensive income	17
Consolidated statement of financial position	18
Consolidated statement of changes in equity	19
Consolidated statement of cash flows	20
Notes to the consolidated financial statements	21
Directors' declaration	69
Independent auditor's report	70
ASX additional information	74

---

## Corporate information

**ABN** 26 008 675 803

### Directors

Xianfeng Lu, Executive Chairman

Mingming Zhang, Executive Director

Ding Li, Non-executive Director

Wen Qian, Executive Director – Appointed 25 January 2019 and resigned on 29 July 2019

Yongjiu Xu, Non-executive Director – Resigned on 22 February 2020

Xueqiang Liu, Non-executive Director – Appointed on 22 February 2020

### Company Secretary

Tao Li – Appointed 29 July 2019

### Registered Office and Principal Place of Business

380 Victoria Road

Malaga WA 6090

Phone: +61 8 9249 0777

Website: [www.kresta.com.au](http://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

Level 2

300 Murray Street

Perth WA 6000

### Auditors

Bentleys Audit & Corporate (WA) Pty Ltd

London House

Level 3, 216 St Georges Tce

Perth WA 6000

### Solicitors

K&L Gates

Level 32, 44 St Georges Terrace

Perth WA 6000

## Directors' report

Your directors of Kresta Holdings Limited (Kresta Holdings) present their report together with the financial statements of the Group, being Kresta Holdings (the Company) and its Controlled Entities (the Group) for the year ended 31 December 2019.

### Directors

The Company's directors in office during the financial year and until the date of this report are named and detailed below. Unless otherwise stated the directors were in office for the entire period.

#### Names, qualifications, experience and special responsibilities

##### **Xianfeng Lu**, (Executive Chairman)

Mr Lu became Chairman of Kresta Holdings Limited in December 2014. He joined Kresta as a Director in February 2014 and has filled the role of Managing Director since March 2014. Mr Lu is Executive Chairman and a significant shareholder of Ningbo Xianfeng New Material Company Co., Ltd ("APLUS"), a company he founded in 2003 manufacturing and selling sun-screening material and products internationally.

Other current directorships: None

Former directorships (last 3 years): None

##### **Mingming Zhang**, (Executive Director)

Mr Zhang has been with Kresta since 2014. During this time, he is managing the procurement and distribution business.

Other current directorships: None

Former directorships (last 3 years): None

##### **Ding Li**, (Non-executive Director)

Ms Li is a Financial Executive based in China with over 14 years' experience in finance, accounting and audit. Ms Li has previously held senior management roles in the Audit and Financial Account Advisory sectors.

Other current directorships: None

Former directorships (last 3 years): None

##### **Wen Qian**, (Executive Director) – Appointed 25 January 2019, Resigned 29 July 2019

Ms Qian commenced as an Executive Assistant to the Managing Director in March 2015. Ms Qian has an MBA from the University of Queensland and had previously held senior project management and operations management positions with General Electric (GE) Healthcare System. Ms Qian was responsible for the overall strategic planning, business management and execution of the Queensland-based subsidiary company Curtain Wonderland.

Other current directorships: None

Former directorships (last 3 years): None

##### **Yongjiu Xu**, (Non-executive Director) – Resigned on 22 February 2020

Mr Xu was previously employed with Kresta Holdings Limited as Chief Information Officer from June 2014 to May 2016, prior to this he was the manager of Global Enterprise Technology Operation at eBay E-Commerce Technology Operation (Shanghai) Co., Ltd for almost ten years. Yongjiu specialises in e-commerce operations and digital marketing.

Other current directorships: None

Former directorships (last 3 years): None

## Directors' report

**Xueqiang Liu** (Non-executive Director) – Appointed on 22 February 2020

Mr Liu has over 20 years executive management experience in both China and Australia in manufacturing and retail industries.

Other current directorships: None

Former directorships (last 3 years): None

### Interest in the shares and options of the Company

As at the date of this report, the interest of the directors in the shares of Kresta Holdings Limited were:

	Number of Ordinary Shares
Xianfeng Lu	126,741,799
Mingming Zhang	933,833
Ding Li	-
Wen Qian	-
Yongjiu Xu	-
Xueqiang Liu	8,530,469

As at the date of this report, no directors have any in-substance options of Kresta Holdings Limited.

### Shares granted to directors of the Company

During the period no shares were granted to directors under the Long Term Incentive scheme.

No shares have been granted since the end of the year.

### Shares issued but held in escrow

As at reporting date, nor any time during the year, were shares issued under the Long Term Incentive scheme held in escrow.

### Company secretary

**Tao Li**, BA (Hons), FCCA, CPA

Ms Li joined the Company in January 2019 and was appointed Company Secretary on 29 July 2019.

### Mingming Zhang, B. Com

Mr Zhang has been with the Company since 2014 in various management positions. He was appointed Company Secretary on 3 September 2018 and resigned on 29 July 2019.

### Principal activities

The principal activities during the year of the entities within the Group was the distribution and retailing of window coverings, treatments and components.

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

## Directors' report

### Operating and financial review

#### Group overview

The Group has been a leading retailer of window furnishings for over 40 years. It markets and sells through a large number of outlets located throughout Australia and also has a presence in New Zealand.

The Group maintain small manufacturing facility in Queensland. At the same time, the Group also sources finished products from local and overseas contract suppliers at competitive prices and acceptable delivery time to customers

The Group recorded revenue of \$44,450,000 which was an increase of \$2,130,000 or 5% from the corresponding year ended 31 December 2018. Factors contributing to the increase in revenue is mainly due to its focus on product delivery including increased efficiency and accuracy via its self-developed customer management software and improving in product lead time in 2019.

The Company recorded a post-tax profit from continuing operations of \$1,513,000 (December 2018 loss: \$8,187,000).

Net loss after tax was \$7,541,000 compared with a prior year loss of \$18,376,000.

On a cash flow basis, the Company recorded a cash inflow from operations of \$2,104,000, compared with a prior year inflow of \$827,000.

Cash at the end of the period was \$2,384,000 (down from \$3,129,000 at December 2018).

#### Shareholder returns

	2019	2018	2017	2016	2015
Basic loss per share (cents)	(5.02)	(12.22)	(6.68)	(0.57)	(1.75)
Return on shareholders' funds	(58.9%)	(142.5%)	(135.8%)	(4.9%)	(9.7%)
Closing share price (cents)	n/a	n/a	5.0	16.0	18.0

#### Capital structure

The Group's net liability position increased from \$12,146,000 at 31 December 2018 to \$16,965,000 at 31 December 2019.

#### Liquidity and funding

At year end, the Group had cash at bank and on hand of \$2,384,000 (31 December 2018: \$3,129,000).

#### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the financial year and up to the date of this report.

#### Subsequent events

In light of COVID-19 the Company has followed the various measures undertaken by the government to prevent the spread of COVID-19 through social isolation and distancing measures. As such, the Company temporarily close all stores from Monday 30 March 2020 with the online business operates as usual. As of reporting date, all stores are re-opened and back to business as per normal including the four stores in New Zealand.

## Directors' report

Other than the above mentioned item no further adjusting or significant non-adjusting events have occurred between the 31 December reporting date and the date of authorisation.

### Likely developments

After the disposal of its continuing loss making brand, Curtain Wonderland. The Group will still focus on product quality with a vision to deliver the best quality in Australia and New Zealand. The Group has refocused on its Kresta and Vista brands in delivering custom made products. It's the group's mission to focus on improving product lead times, product quality and customer services in 2020.

### Environmental regulation and performance

The Group is not subject to significant environmental regulation in respect to its operating activities.

### Dividends

The Company has not declared a dividend for 31 December 2019 financial year (31 December 2018: \$nil).

### Shares under option or issued on exercise of options.

There are no shares under option or have been issued on the exercise of options at the date of this report.

### Indemnification and insurance of directors and officers

During the financial year, the Company paid premiums in respect of a contract insuring all the directors and officers of Kresta Holdings Limited and its controlled entities against legal costs and any other payments arising from liabilities incurred by the officers in defending proceedings for conduct other than:

- (a) A wilful breach of duty.
- (b) A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

Details of the premium are subject to a confidentiality clause under the contract of insurance.

### Indemnification of auditors

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

## Directors' report

### Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the period and the number of meetings attended by each director were as follows:

	Directors		Meeting of committees			
	Eligible	Attended	Audit and Risk		Remuneration	
			Eligible	Attended	Eligible	Attended
Xianfeng Lu	2	1	-	-	-	-
Mingming Zhang	2	2	-	-	-	-
Ding Li	2	2	-	-	-	-
Wen Qian	2	1	-	-	-	-
<i>Appointed 25 January 2019</i>						
<i>Resigned 29 July 2019</i>						
Yongjiu Xu	2	1	-	-	-	-
<i>Appointed 30 November 2018,</i>						
<i>Resigned 29 July 2019</i>						
Xueqiang Liu	-	-	-	-	-	-
<i>Appointed 22 February 2019</i>						

\* The last remuneration meeting was held in December 2014 where remuneration was last set.

### Committee membership

As at the date of this report, the Company had an audit and risk committee and a remuneration committee

Members of these committees of the Board as at the date of this report:

#### Audit and Risk

Ding Li (Chair)  
Mingming Zhang  
Xueqiang Liu

#### Remuneration

Mingming Zhang (Chair)  
Xueqiang Liu

### Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

### Auditor

Bentleys Audit & Corporate (WA) Pty Ltd continues in office in accordance with section 307c of the *Corporations Act 2001*.

### Non-audit services

Bentleys Audit & Corporate (WA) Pty Ltd provided non-audit services for the financial year ended 31 December 2019.



## Directors' report

### Auditor's independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

### Corporate governance

The Group and its board are committed to achieving and demonstrating the highest standards of corporate governance. The Group has revised its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2019 Corporate Governance Statement is dated as at 31 December 2019 and reflects the corporate governance practices in place throughout the 2019 financial year. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at <https://www.kresta.com.au/about-us/shareholders>

### 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 the ASIC Corporation (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the ASIC Instrument applies.

### Remuneration report (audited)

This remuneration report for the period ended 31 December 2019 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited in accordance with section 300A of the Act.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent Company.

### Individual key management personnel disclosures

Details of KMP are set out below.

Xianfeng Lu	Executive Chairman
Mingming Zhang	Director (Executive)
Ding Li	Director (Non-Executive)
Wen Qian	Director (Executive) – Appointed 25 January 2019, resigned 29 July 2019
Yongjiu Xu	Director (Non-Executive) – Resigned 22 February 2019

### Remuneration philosophy

Compensation levels for Directors and Key Management Personnel of the Company are competitively set to attract and retain appropriately qualified and experienced Directors and Executives.

## Directors' report

### Remuneration committee

The remuneration committee of the Board of directors is responsible for determining and reviewing compensation arrangements for the directors and executives. The remuneration committee assesses the appropriateness of the nature and amount of emoluments of such executives on a periodic basis by reference to relevant employment market conditions. Key Management Personnel are given the opportunity to receive their base emolument in cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue additional cost for the Company.

To assist in achieving these objectives, the remuneration committee links the nature and amount of each executive's emolument to the Group's financial and operational performance. All variable remuneration needs to be approved by the remuneration committee.

### Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

### Non-executive director remuneration

#### Objective

The remuneration committee seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to the shareholders.

#### Structure

Each non-executive director receives a fee for being a director of the Company which reflect the demands made on, and the responsibilities of, the directors. No additional fee is paid for membership of Board committees.

The Company's constitution and the ASX listing rules specify that the non-executive directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2010 AGM held on 25 November 2010 when shareholders approved an aggregate fee pool of \$400,000 per year.

### Executive remuneration

#### Objective

The remuneration committee aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- Reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward to the financial and operational performance of the Group; and
- Ensure total remuneration is competitive by market standards.

## Directors' report

### Structure

The remuneration committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the executives.

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable remuneration
  - Short Term Incentive (STI)
  - Long Term Incentive (LTI)

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive by the remuneration committee.

The remuneration committee is always considering the most appropriate structure for variable remuneration based on the Company's strategy and expected performance in the future. At present incentives are rewarded on a discretionary basis, based on performance.

The below section sets out the historic approach to fixed and variable remuneration which is current at the date of this report. The remuneration committee may vary this approach as the Company's strategic plans evolve and the Remuneration Committee considers the most appropriate remuneration and incentive structure.

### Fixed remuneration

#### *Objective*

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the remuneration committee and the process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. No external advice was undertaken during the 2019 year on fixed remuneration.

#### *Structure*

Executives are given the opportunity to receive their fixed (primary) remuneration in cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue additional cost for the Group.

### Variable remuneration – short term incentive

#### *Objective*

The objective of the annual 12 month STI program is to link the achievement of the Group's financial and operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the balanced scorecard financial and operational targets and such that the cost to the Group is reasonable in the circumstances.

## Directors' report

### Structure

Actual STI payments granted to each executive depend on the extent to which specific operating targets set at the beginning of the financial year are met. The targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to earnings before interest and tax and net profit after tax. Others such as customer satisfaction, return on capital invested and earnings per share will be introduced when appropriate. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Group for each KPI is approved by the remuneration committee. The aggregate of annual STI payments available for executives across the Group is subject to the approval of the remuneration committee. Payments made are usually delivered as a cash bonus and at the discretion of the remuneration committee.

### STI bonus for 2019 financial year

There was no STI cash bonus paid to executives in 2019 (2018: \$nil).

### Variable remuneration – long term incentive

#### Objective

The objective of the LTI plan is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth.

#### Structure

As at 31 December 2019, there are no LTI grants on offer to executives.

### 2019 Annual General Meeting

The Company received the first strike on its Remuneration Report at the Annual General Meeting.

### Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Shares	Balance 1 January 2019	Granted as compensation	Net change other	Balance at resignation date	Balance 31 December 2019
<b>Current directors</b>					
Xianfeng Lu <sup>(i)</sup>	126,741,799	-	-	-	126,741,799
Mingming Zhang	933,833	-	-	-	933,833
Ding Li	-	-	-	-	-
Wen Qian <sup>(ii)</sup>	-	-	41,311	(41,311)	-
Yongjiu Xu	601,093	-	-	-	601,093
<b>Total</b>	<b>128,276,725</b>	<b>-</b>	<b>41,311</b>	<b>(41,311)</b>	<b>128,276,725</b>

(i) Mr Xianfeng Lu's shareholding is held through Dream Curtain Holdings Co., Limited.

(ii) Wen Qian resigned 29 July 2019

(iii) Yongjiu Xue resigned on 22 February 2020

## Directors' report

### Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee have regard to the following numbers in respect of the current financial year and in the previous four financial years.

	2019 31 December	2018 31 December	2017 31 December	2016 31 December	2015 31 December
Profit/(loss) before interest and tax (\$000)	2,394	(7,582)	(4,792)	(388)	(3,612)
Net loss after tax (\$000)	(7,542)	(18,376)	(10,041)	(857)	(2,629)
Loss per share (cents)	(5.02)	(12.22)	(6.68)	(0.57)	(1.75)
Decrease in share price (cents)	(0)	(0)	(11)	(2)	(4)

Net profit after taxes is considered as one of the financial performance targets in setting the STI. Profit/(loss) amounts for December 2015 to December 2019 have been calculated in accordance with Australian Accounting Standards.

### Employment contracts

	Position	Base Salary
Xianfeng Lu	Executive Chairman	250,000
Mingming Zhang	Executive Director	150,000
Ding Li	Non-Executive Director	60,000
Wen Qian	Executive Director	50,000
Yongjiu Xu	Non-Executive Director	60,000

Executives are employed under written contracts with varying notice terms of between 1 to 3 months. Under the terms of the present contracts:

- Executives may resign from their positions and thus terminate the contract by giving 1 to 3 months' written notice.
- The Company may terminate the employment agreement by providing 1 to 3 months' written notice or provide payment in lieu of the notice period (based on the total remuneration).
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executives are only entitled to that portion of remuneration, which is fixed, and only up to the date of termination.
- On resignation or termination, if conditions relating to the Long-Term Incentive Scheme (LTIS) are not satisfied the Company may buy back or instruct the employee to sell the in-substance options at the discretion of the Company. If conditions relating to the LTI scheme are satisfied, the Company may make written demand for the repayment of the outstanding amount of the scheme loan.

## Directors' report

### Remuneration for the year ended 31 December 2019

	Salary & fees	Short term benefits Cash bonus	Non-monetary benefits	Post- employment benefits Superannuation	Share-based payments Share options	Long-term benefits Long service leave	Termination payments	Total	Performance and options related
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive directors</b>									
Ding Li <sup>(i)</sup>	60,000	20,435	-	-	-	-	-	80,435	-
Yongjiu Xu <sup>(ii)</sup>	60,000	5,227	-	-	-	-	-	65,227	-
	120,000	25,662	-	-	-	-	-	145,662	-
<b>Executive directors</b>									
Xianfeng Lu	250,000	-	-	-	-	-	-	250,000	-
Mingming Zhang <sup>(iii)</sup>	150,000	-	-	14,250	-	-	-	164,250	-
Wen Qian <sup>(iv)</sup>	46,910	-	-	4,456	-	-	14,193	65,559	-
	446,910	-	-	18,706	-	-	14,193	479,809	-
	566,910	25,662	-	18,706	-	-	14,193	625,471	-

<sup>(i)</sup> Ding Li was appointed on 30 August 2018.

<sup>(ii)</sup> Yongjiu Xu was appointed on 30 November 2018 and resigned on 22 February 2019.

<sup>(iii)</sup> Mingming Zhang was appointed on 30 August 2018.

<sup>(iv)</sup> Wen Qian was appointed on 25 January 2019 and resigned on 29 July 2019.

## Directors' report

### Remuneration for the year ended 31 December 2018

	Salary & fees	Short-term benefits Cash bonus	Non-monetary benefits	Post-employment Superannuation	Share-based payments Share options	Long-term benefits Long service leave	Termination payments <sup>(i)</sup>	Total	Performance and options related
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive directors</b>									
Xianfeng Lu	25,005	-	-	2,376	-	-	-	27,381	-
Sean Shwe <sup>(i)</sup>	64,904	-	-	6,166	-	-	-	71,070	-
Simon Lyons <sup>(ii)</sup>	28,539	-	-	2,711	-	-	-	31,250	-
Ding Li <sup>(iii)</sup>	-	-	-	-	-	-	-	-	-
Yongjiu Xu <sup>(iv)</sup>	-	-	-	-	-	-	-	-	-
	118,448	-	-	11,253	-	-	-	129,701	-
<b>Executive directors</b>									
Xianfeng Lu	243,442	-	-	-	-	-	-	243,442	-
Mingming Zhang <sup>(v)</sup>	150,000	-	3,550	14,250	-	-	-	167,800	-
Wen Qian <sup>(vi)</sup>	100,459	-	-	7,600	-	-	-	108,059	-
	493,901	-	3,550	21,850	-	-	-	519,301	-
	612,349	-	3,550	33,103	-	-	-	649,002	-

<sup>(i)</sup> Sean Shwe resigned on 7 November 2018.

<sup>(ii)</sup> Simon Lyons resigned on 9 April 2018.

<sup>(iii)</sup> Ding Li was appointed on 30 August 2018.

<sup>(iv)</sup> Yongjiu Xu was appointed on 30 November 2018.

<sup>(v)</sup> Mingming Zhang was appointed on 30 August 2018.

<sup>(vi)</sup> Wen Qian was appointed on 25 January 2019 and resigned on 29 July 2019.

## Directors' report

### Other transactions with related parties

The following table provides the total amount of transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

	Stock sold to related parties		Interest charged by related parties		Amounts owed to related parties	
	December 2019	December 2018	December 2019	December 2018	December 2019	December 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
SunTarget (HongKong) Trading Co. Limited. (i)	-	-	122	552	-	11,043
Zhejiang Suntarget New Material Co. Ltd (ii)	-	3,281	-	-	-	-
Dream Curtain Holdings Co., Limited (iii)	-	-	-	-	6,116	-
Ningbo Zhexiang Trade Co., Limited (iv)	-	-	-	-	5,671	-
	-	3,281	122	552	11,787	11,043

(i) SunTarget (HongKong) Trading Co., Limited is a subsidiary of Ningbo Xianfeng New Material Company ("Aplus") the majority shareholder of the Company until 15 March 2019. Their shareholder and Executive Chairman, Mr Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

(ii) The company sold stock to Zhejiang Suntarget New Material Co. Ltd for \$3,281,000. Inventory of \$245,000 is committed and yet to be shipped to Suntarget by 31 December 2019 (31 December 2018: \$264,000).

(iii) Dream Curtain Holdings Co., Limited is controlled by Mr Xianfeng Lu who is their shareholder and Executive Chairman. Mr Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

(iv) Ningbo Zhexiang Trade Co., Limited is a subsidiary of Aplus and is controlled by Mr Xianfeng Lu.

### Terms and conditions of transactions with related parties

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.

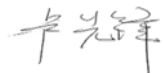
## END OF AUDITED REMUNERATION REPORT

### Auditors independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors:



Xianfeng Lu  
Executive Chairman  
22 May 2020  
Perth



**Bentleys Audit & Corporate  
(WA) Pty Ltd**

London House

Level 3,

216 St Georges Terrace

Perth WA 6000

PO Box 7775

Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500

F +61 8 9226 4300

[bentleys.com.au](http://bentleys.com.au)

To The Board of Directors,

### **Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

As lead audit partner for the audit of the financial statements of Kresta Holdings Limited for the financial year ended 31 December 2019, 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 Faithfully,



**BENTLEYS**  
**Chartered Accountants**



**CHRIS NICOLOFF CA**  
**Partner**

Dated at Perth this 22<sup>nd</sup> day of May 2020

## Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Notes	December 2019 \$000	December 2018 \$000
Revenue from contracts with customers	4a	44,450	42,320
<b>Revenue</b>		<b>44,450</b>	<b>42,320</b>
Other income	4b	11,036	24
Changes in inventories		(1,060)	(1,413)
Finished goods and consumables used		(19,151)	(20,231)
Employee benefits expense	4c	(14,101)	(15,870)
Depreciation and amortisation charge	4d	(3,736)	(1,145)
Other expenses	4e	(15,044)	(11,267)
<b>Results from operating activities</b>		<b>2,394</b>	<b>(7,582)</b>
Finance income		12	13
Finance costs		(905)	(572)
<b>Net finance expense</b>	4f	<b>(893)</b>	<b>(559)</b>
<b>Profit/(loss) before income tax</b>		<b>1,501</b>	<b>(8,141)</b>
Income tax benefit/(expense)	5a	12	(46)
<b>Profit/(loss) for the period from continuing operations</b>		<b>1,513</b>	<b>(8,187)</b>
Loss for the year from discontinued operations	6	(9,054)	(10,189)
<b>Loss for the year</b>		<b>(7,541)</b>	<b>(18,376)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net foreign currency translation		(1)	(12)
<b>Other comprehensive loss for the period, net of tax</b>		<b>(1)</b>	<b>(12)</b>
<b>Total comprehensive loss for the period</b>		<b>(7,542)</b>	<b>(18,388)</b>
<b>Total comprehensive loss attributable to owners of the Company</b>		<b>(7,542)</b>	<b>(18,388)</b>
<b>Earnings/(loss) per share for profit attributable to the ordinary equity holders of the parent:</b>	7		
Basic earnings/(loss) per share from continuing operations		1.01 cents	(5.45 cents)
Basic earnings/(loss) per share from discontinued operations		(6.03 cents)	(6.78 cents)
Diluted loss per share from continuing operations		1.01 cents	(5.45 cents)
Diluted loss per share from discontinued operations		(6.03 cents)	(6.78 cents)

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

## Consolidated statement of financial position

As at 31 December 2019

	Note	December 2019 \$000	December 2018 \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	2,384	3,129
Trade and other receivables	9	321	1,345
Inventories	10	804	10,034
Prepayments		295	1,084
<b>Total current assets</b>		<b>3,804</b>	<b>15,592</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	946	9,627
Intangible assets and goodwill	12	147	302
Right-of-use asset	17	12,899	-
Deferred tax assets	5c	-	33
Other assets	13	950	-
<b>Total non-current assets</b>		<b>14,942</b>	<b>9,962</b>
<b>TOTAL ASSETS</b>		<b>18,746</b>	<b>25,554</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	9,508	17,947
Deferred revenue		-	1,465
Interest-bearing loans and borrowings	15	174	11,278
Provisions	16	1,982	6,089
Lease liabilities	17	2,465	-
Income tax payable		35	50
<b>Total current liabilities</b>		<b>14,164</b>	<b>36,829</b>
<b>Non-current liabilities</b>			
Trade and other payables	14	4,122	-
Interest-bearing loans and borrowings	15	6,116	120
Provisions	16	619	723
Lease liabilities	17	10,690	-
Deferred tax liabilities	5c	-	28
<b>Total non-current liabilities</b>		<b>21,547</b>	<b>871</b>
<b>TOTAL LIABILITIES</b>		<b>35,711</b>	<b>37,700</b>
<b>NET LIABILITIES / (ASSETS)</b>		<b>(16,965)</b>	<b>(12,146)</b>
<b>EQUITY</b>			
Contributed equity	18a	12,892	12,892
Reserves	18c	(96)	(95)
Accumulated losses		(29,761)	(24,943)
<b>TOTAL EQUITY</b>		<b>(16,965)</b>	<b>(12,146)</b>

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

## Consolidated statement of changes in equity

For the year ended 31 December 2019

	Ordinary shares	Employee equity benefits reserve	Foreign currency translation reserve	Accumulated losses	Total
	\$000	\$000	\$000	\$000	\$000
<b>At 1 January 2019</b>	12,892	495	(590)	(24,943)	(12,146)
Adjustment for change in AASB 16				2,723	2,723
1 January 2019 - restated	12,892	495	(590)	(22,220)	(9,423)
Loss for the year	-	-	-	(7,541)	(7,541)
Other comprehensive loss	-	-	(1)	-	(1)
<b>Total comprehensive loss for the period</b>	-	-	(1)	(7,541)	(7,542)
<b>At 31 December 2019</b>	12,892	495	(591)	(29,761)	(16,965)
<b>At 1 January 2018</b>	12,892	495	(578)	(5,414)	7,395
Adjustment for change in AASB 15				(1,153)	(1,153)
1 January 2018 - restated	12,892	495	(578)	(6,567)	6,242
Loss for the year	-	-	-	(18,376)	(18,376)
Other comprehensive loss	-	-	(12)	-	(12)
<b>Total comprehensive loss for the period</b>	-	-	(12)	(18,376)	(18,388)
<b>At 31 December 2018</b>	12,892	495	(590)	(24,943)	(12,146)

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

## Consolidated statement of cash flows

For the year ended 31 December 2019

	<i>Note</i>	<b>December 2019</b> \$000	<b>December 2018</b> \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		68,564	73,747
Payments to suppliers and employees <sup>(i)</sup>		(66,382)	(72,889)
Interest received	4f	12	14
Interest paid	4f	(90)	(17)
Income tax paid		-	(28)
<b>Net cash flows from operating activities</b>	8	2,104	827
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		7,200	198
Purchase of property, plant and equipment	11	(427)	(223)
Proceeds from disposal of subsidiary, net of cash sold	6	(523)	-
<b>Net cash flows from/(used in) investing activities</b>		6,250	(25)
<b>Cash flows from financing activities</b>			
Repayment of related party payable	15	(5,500)	-
Proceeds from borrowings		-	536
Repayment of borrowings	15	(714)	(867)
Repayment of lease liabilities	17	(2,885)	-
<b>Net cash flows used in financing activities</b>		(9,099)	(331)
Net (decrease)/increase in cash and cash equivalents		(745)	471
Net foreign exchange differences		-	12
Cash and cash equivalents at beginning of period		3,129	2,646
<b>Cash and cash equivalents at end of period</b>	8	2,384	3,129

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

(i) Included in the 31 December 2018 payments to suppliers and employees is the repayment of lease liabilities of \$6,162,000.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 1. Corporate Information

The consolidated financial report of Kresta Holdings Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2019 was authorised for issue in accordance with a resolution of the directors on 22 May 2020.

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. Summary of significant accounting policies

#### (a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars, which is the Group's functional and presentation currency. All values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

#### (b) Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss for the period of \$7,541,000 (2018: \$18,376,000) and net operating cash inflow of \$2,104,000 (2018: \$827,000).

As at 31 December 2019, the Company has a working capital deficit of \$10,360,000 (2018: \$21,237,000).

The ability of the Group to continue as a going concern is principally dependent upon the ability of the Group to secure funds by raising capital from equity markets and managing cash flow in line with available funds. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern. In the event the above matters are not achieved, the Company will be required to raise funds for working capital from debt or equity sources.

On 31 December 2019 the Group finalized the disposal of its Curtain Wonderland business. This disposal was part of a strategic direction to dispose of the continued loss making assets of the business. Management believes the remaining Kresta Group will operate more efficiently during the next 12 months.

On 28 October 2019, following an approved internal corporate restructure, Van Dairy (Hong Kong) Co., Ltd.'s ("Van Dairy") transferred its 84.53% shares in the company to Dream Curtin Holding Co., Ltd ('DCH') and DCH have entered into a Deed of Company Support, with terms summarised below;

- Associated with the share transfer, DCH is to take over the loans of \$11.1 million due by 31 December 2021.
- DCH also advanced a loan facility to the Group of \$10,000,000 which is due for repayment 18 months after the date of advance. At the date of this report these facilities have not been drawn down.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

- The parties have entered into a Deed of Company support to formalise the financial support DCH has provided to Kresta and to subordinate the debt owed by Kresta to DCH in favour of all other creditors of Kresta, in order that Kresta can continue trading.

The company is managing creditors and has necessary payment arrangements in place with older creditor balances. At the date of this report there are no statutory demands issued to the Group.

The directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report.

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Group's history of raising capital to date, the directors are confident of the Company's ability to raise additional funds as and when they are required.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

### (c) Compliance with IFRS

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### (d) New accounting standards and interpretations

#### (i) *Standards and Interpretations applicable to 31 December 2019*

The Group has adopted all the Australian Accounting Standards and AASB Interpretations, mandatory for annual periods beginning on or after 1 January 2019, any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The impact of the adoption of the following Standards and Interpretations are as follows:

#### *AASB 16: Leases*

The Group has adopted AASB 16 with effect from 1 January 2019 using the modified retrospective approach and accordingly has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the statement of financial position on 1 January 2019.

AASB 16 introduces a new framework for accounting for leases and replaces AASB 117 leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117. These liabilities were measured at the present value

## Notes to the consolidated financial statements

For the year ended 31 December 2019

of the remaining lease payments, discounted using the lessees' incremental borrowing rate as of 1 January 2019. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

The following table provides a reconciliation of the operating lease commitments disclosed in note 17 to the expected total lease liability to be recognised at 1 January 2019:

	\$000
Operating lease commitments as at 31 December 2018	25,260
Less: Effect of discounting	(903)
Discounted commitments	24,357
Add: Costs of reasonably certain extension options	6,119
Add: Fixed increase	417
Lease liabilities recognised at 1 January 2019	29,862
Split between:	
Current lease liabilities	7,337
Non-current lease liabilities	22,525
	29,862

The recognise right-of-use assets related to the following types of assets:

	31 December 2019 \$000	1 January 2019 \$000
Properties	12,899	29,862

The impact on the Group's continuing consolidated statement of comprehensive income for current and prior financial years:

	31 December 2019 \$000	31 December 2018 \$000
Decrease in operating lease expense	(2,884)	(2,419)
Increase in finance costs	580	-
Increase in right-of-use assets depreciation	2,563	-
Decrease in loss before tax	259	(2,419)

The impact on the Group's segment disclosure is:

	Australia \$000	New Zealand \$000	Total \$000
Segment Assets	29,534	328	29,862
Segment Liabilities	29,534	328	29,862

Segment assets and segment liabilities for December 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities and right-of-use assets are now included in segment assets. Only the above segments were materially affected by the change in policy.



## Notes to the consolidated financial statements

For the year ended 31 December 2019

Loss per share increased by 1.8 cents for the year ended 31 December 2019 as a result of the adoption of AASB 16.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Lease liabilities – increase by \$29,862,000
- Right-of-use assets – increase by \$29,862,000
- Current provisions – decrease by \$2,627,000
- Non-current provisions – decrease by \$96,000
- Accumulated losses – increase by \$2,723,000

### *Practical expedients applied*

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- To measure the right-of-use asset on transition at an amount equal to the lease liability (as adjusted for prepaid or accrued lease payments);
- Not to recognise low-value or short-term leases on the balance sheet. Costs for these lease arrangements will continue to be expensed;
- To use a single discount rate for a portfolio of leases with reasonably similar characteristics;
- To use hindsight in determining the lease term where lease contracts include options to extend or terminate the lease; and
- To reflect the impairment of right-of-use assets on transition by adjusting their carrying amounts for onerous lease provisions recognised on the Group balance sheet as at 31 December 2018.

The Group's leasing activities and how these are accounted for:

- The Group leases various commercial properties and office equipment. Until the 2018 financial year, leases of commercial properties and office equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.
- From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the lease term on a straight-line basis.
- Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
  - Fixed payments (including in-substance fixed payments), less any lease incentives receivable
  - Variable lease payments that are based on an index or a rate
- Right-of-use assets are measured at cost comprising the following:
  - The amount of the initial measurement of the lease liability net of any previously recognised onerous lease provisions; and
  - Any restoration costs applicable to the lease.
- Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise of office equipment.

### *(v) Standards and interpretations in issue not yet adopted*

The Directors have reviewed all the new and revised standards and interpretations in issue not yet adopted for the year ended 31 December 2019. As a result of this review the Directors have determined there is no material

## Notes to the consolidated financial statements

For the year ended 31 December 2019

impact of the new and revised standards and interpretations on the company and therefore no material change to Group accounting policies.

### (e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

### *Profit or loss from discontinued operations*

A discontinued operation is a component of the group that either has been disposed of or is classified as held for sale. Profit or loss from discontinued operations comprise the post-tax profit or loss of discontinued operations and

## Notes to the consolidated financial statements

For the year ended 31 December 2019

the post-gain or loss on the measurement to fair value less costs to sell or on the disposal on the disposed group(s) constituting the discontinued operations.

### (f) Revenue recognition

#### Sale of goods

Revenue is recognised when the Group has satisfied its performance obligations at a point in time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. When the performance obligation has been satisfied, the Group will recognise as revenue the amount of the transaction price that is allocated to the performance obligation, after excluding any estimates of variable consideration where applicable.

The Groups sells window coverings and provide installation services of the window coverings sold. Revenue from sale of goods is recognised when the window coverings are picked up by customer and for installation sales once installation is complete.

#### Interest income

Income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### (h) Leases (for comparative period)

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

#### Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the profit or loss on a straight-line basis over the lease term. Operating lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (i) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

### (j) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost by less any allowance for expected credit losses. Trade receivables are generally due immediately after products are received by customer.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised based on the simplified credit loss model. The amount of the impairment loss is the carrying amount of the impaired receivables.

### (k) Inventories

Inventories including raw materials and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

*Raw materials* — purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials.

*Finished goods* — cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of actual cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### (l) Foreign currency translation

#### Functional and presentation currency

Both the functional and presentation currency of Kresta Holdings Limited and its Australian subsidiaries is Australian dollars (\$). The New Zealand operation's functional currency is New Zealand Dollars which are translated to the presentation currency (see below for consolidated reporting).

#### Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### Translation of Group Companies' functional currency to presentation currency

The result of the New Zealand operation is translated into Australian Dollars (presentation currency) as at the monthly average rate. Assets and liabilities are translated at exchange rates prevailing at reporting date. Exchange variations resulting from the translation are recognised in other comprehensive income and carried in the foreign currency translation reserve in equity.

### **(m) Income tax and other taxes**

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (n) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. The existing cost of the parts which were replaced are derecognised. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Land and buildings are measured at cost less accumulated depreciation on buildings and any accumulated impairment losses.

If renewal option is reasonably assured, the renewal option period will be included in the depreciation period for leased equipment. Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- Land — not depreciated
- Buildings — over 40 years
- Plant and equipment — over 5 to 15 years
- Leased equipment/leasehold improvement — the lease term
- Motor vehicles — over 4 to 8 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on derecognition are determined by comparing proceeds with the carrying amount. There are included in profit or loss.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (o) Goodwill and intangibles

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred and the amount recognised for non-controlling interest and any previous interest held over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the Group re-assesses whether it has correctly identified all the assets acquired and all of the liabilities assumed and reviews the procedures to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or Groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or Groups of units. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with AASB 8. The cash-generating units is Kresta Holdings Limited.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates.

When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

#### Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the depreciation and amortisation charge category.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

A summary of policies applied to the Group's intangible assets is as follows:

### Software

IT software is carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight-line method over a period of 4 years. The amortisation has been recognised in the income statement in the line item 'depreciation and amortisation charge'. If an impairment indication arises, the recoverable amount is estimated, and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Trademark has been acquired through business combination and is carried at cost. The Group has determined that there is no foreseeable limit to the period over which the trademark is expected to generate net cash flows for the Group. Thus, the trademark has an indefinite useful life. The trademark has a legal life of ten years and is renewable every 10 years at little cost. The Group intends to renew the trademark continuously and no factors have been identified indicating any limit to the period the trademark would contribute to net cash inflows. The trademark is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognised.

### **(p) Impairment of non-financial assets other than goodwill and indefinite life intangibles**

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount 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 purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.



## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (q) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition according to supplier terms except for the following.

The Group has extended its payment terms with Ningbo Cathayan Weaving Co. Ltd and Mardo Import & Export Co. Ltd from standard 6 month to 18 months. The Group also entered into Purchase agreement with Ningbo Zhexiang Trade Co. Ltd for a standard payment terms of 18 month.

### (r) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### Employee leave benefits

##### *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when these liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### Make good

The Group is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### Warranty

Provisions for warranty-related costs are recognised when the product is sold. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

Provision for warranty-related costs only applicable for Kresta brands.

### Onerous contract (prior year)

Under AASB 137, a provision must be recognised for unavoidable costs associated with a contract where the costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it – an onerous contract.

Management has assessed the performance of all stores under lease contracts using the incremental costs approach under AASB 137. The incremental costs approach compares all direct cash costs associated with the lease to determine if the lease contract is onerous. Management prepared an analysis of each store, setting out actual revenue and EBITDA for 2017 and 2018 and forecast revenue and EBITDA for 2019. To sensitise the forecast, revenue was then adjusted down by 30%, with a direct adjustment to EBITDA based on 2018 actual gross margin.

Based on analysis performed by management, 17 stores have been identified that require a provision.

Management has estimated a provision that is the lower of:

- a) The cost to remain in the lease; or
- b) The cost to exit the lease and sublease.

Cost to remain in the lease includes lease commitments and employment costs etc. Cost to exit the lease is a one-off exit fee agreed with landlord, normally is a % of remaining lease commitments plus de fit cost. Sublease rate used is 70% in the estimation.

### **(s) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (t) Share-based payment transactions

#### Equity settled transactions

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

Benefits were provided under the Group's LTIs to eligible employees subscribed for fully paid ordinary shares which were financed via a limited recourse loan provided by the Group. The LTIs is accounted for as an 'in-substance' option plan due to the combined commercial result of an employee acquiring shares using a limited recourse loan. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Binomial Option Pricing model or as deemed appropriate.

The cost of equity-settled transactions is recognised in profit or loss, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share. Shares in the Group held under the LTIs are classified and disclosed as employee reserved shares and deducted from equity.

### (u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (v) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

### (w) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (x) Financial instruments

#### (i) Financial assets

##### Initial recognition and measurement

The Group has adopted AASB 9 Financial Instruments from 1 January 2018. AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: Classification and measurement, impairment and hedge accounting. The accounting for the Group's financial assets and financial liabilities remains largely the same as under AASB 139, with the main changes falling under the category of impairment. A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified on the contract expire or are discharged or cancelled.

AASB 9 contains three principal classification categories: Measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). This is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognised in profit or loss as they arise (FVPL), unless restrictive criteria are met for classifying and measuring the asset at either

## Notes to the consolidated financial statements

For the year ended 31 December 2019

amortised cost or FVOCI. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### Subsequent measurement

#### *Loans and receivables*

Loans and receivables including loan notes are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### (ii) **Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts.
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 3. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements have been made as well as the following key estimates and assumptions made that have the most significant impact on the financial statements. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

#### Significant accounting estimates and assumptions

##### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next five years together with future tax planning strategies.

##### *Valuation of Inventory*

The key assumptions, which require the use of management judgement in relation to the net realisable value of inventory, are the variables associated with slow moving inventory, inventory identified as obsolete or slow moving and inventory shrinkage. Management reviews and classifies inventory into the relevant categories listed based on their knowledge of current market trends and the products themselves.

These key assumptions are reviewed at least annually.

##### *Impairment of Trade Receivables*

Under AASB 9, the expected credit loss model must be used for the recognition and measurement of impairment in trade receivables. Under the expected credit loss model, losses are calculated by:

- (a) Identifying scenarios in which a loan or receivable defaults;
- (b) Estimating the cash shortfall that would be incurred in each scenario if a default were to happen;
- (c) Multiplying that loss by the probability of the default happening; and
- (d) Summing the results of all such possible default events.

In estimating its expected credit loss as at balance date, the Group has:

## Notes to the consolidated financial statements

For the year ended 31 December 2019

- (a) Completed an unbiased evaluation of a range of possible outcomes and their probabilities of occurrence;
- (b) Discounted for the time value of money; and
- (c) Obtained reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The average expected credit loss has been estimated over the entire trade receivables balance given the majority of trade receivables are from sale of window coverings and associated installation services.

### *Onerous Lease (prior year)*

Under AASB 137, a provision must be recognised for unavoidable costs associated with a contract where the costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it – an onerous contract.

Management has assessed the performance of all stores under lease contracts using the incremental costs approach under AASB 137. The incremental costs approach compares all direct cash costs associated with the lease to determine if the lease contract is onerous. Management prepared an analysis of each store, setting out actual revenue and EBITDA for 2017 and 2018 and forecast revenue and EBITDA for 2019. To sensitise the forecast, revenue was then adjusted down by 30%, with a direct adjustment to EBITDA based on 2018 actual gross margin.

Based on analysis performed by management, 17 stores have been identified that require a provision. Management has estimated a provision that is the lower of:

- a) The cost to remain in the lease; or
- b) The cost to exit the lease and sublease.

Cost to remain in the lease includes lease commitments and employment costs etc. Cost to exit the lease is a one-off exit fee agreed with landlord, normally is a % of remaining lease commitments plus de fit cost. Sublease rate used is 70% in the estimation.

Refer to note 16 for further detail on the provision balance recognised as at 31 December 2018.

### *Impairment of Fixed Assets*

The Group tests property, plant and equipment for impairment at least annually. In determining whether or not an item of property, plant and equipment is impaired, management has considered assets that remain idle after closing down the factory in Western Australia, as well as all assets within the 17 stores identified as being under onerous contracts.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

The property, plant and equipment impairment provision assessment require a degree of estimation and judgement. The following key assumptions were applied by management in determining the appropriate PP&E impairment provision. 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.

Refer to note 11 for further detail on the balance written off as at 31 December 2019.

### *Useful lives of assets*

Useful lives and residual value of property, plant and equipment are reviewed annually. Judgement is applied in determining the useful lives of property, plant and equipment. These judgements are supported by consultation with management and other legal sources. Any reassessment of useful lives and residual value in a particular year will affect depreciation and amortisation expense (either increasing or decreasing) from the date of reassessment through to the end of the reassessed useful life for both the current and future years. Useful lives of intangible assets with finite lives are reviewed annually. Any reassessment of useful lives in a particular year will affect the amortisation expense (either increasing or decreasing) through to the end of the reassessed useful life for both the current and future years.

Refer to note 11 for further detail as at 31 December 2019.

### *Long service leave provision*

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in salaries and wages;
- Future on-cost rates; and
- Experience of employee departures and period of service.

Refer to note 16 for further detail on the balance as at 31 December 2019.



## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 4. Revenue, income and expenses

	December 2019 \$000	December 2018 \$000
<b>(a) Revenue from contracts with customers</b>		
The disaggregation of the Group's revenue from contracts with customers		
Installation of windows coverings, treatments and components	44,450	42,320
	<u>44,450</u>	<u>42,320</u>
No reconciling items between revenue from contracts with customers and segments and segments disclosure		
<b>(b) Other income</b>		
Gain on sale of assets	1,884	-
Sub-lease income	514	-
Shared services income – continuing operations	5,383	-
Shared services income – discontinued operations	3,024	-
Other income	231	24
	<u>11,036</u>	<u>24</u>
<b>(c) Employee benefits expense</b>		
Wages and salaries	10,106	13,847
Superannuation expense	883	886
Subcontractors	1,742	31
Other employee benefits expense	1,370	1,106
	<u>14,101</u>	<u>15,870</u>
<b>(d) Depreciation and amortisation charge</b>		
Depreciation	738	844
Right-of-use asset depreciation	2,562	-
Amortisation of IT software	436	301
	<u>3,736</u>	<u>1,145</u>
<b>(e) Other expenses</b>		
Advertising	5,427	4,601
Property rent	600	2,419
Onerous lease utilised	(435)	-
Property outgoings	1,273	2,419
Communication expenses	519	555
Banking and transaction expenses	163	90
Impairment loss – receivables	846	14
Reversal of allowance for doubtful debts	(219)	-
Net loss from disposal of property, plant & equipment	-	1,039
Foreign exchange losses	760	622
Shared services expense	5,383	-
Other expenses	727	488
	<u>15,044</u>	<u>11,267</u>

## Notes to the consolidated financial statements

For the year ended 31 December 2019

**(f) Net finance expense**

Finance income	12	14
Finance charges	(579)	(17)
Other borrowing costs	(326)	(556)
Finance costs	(905)	(572)
<b>Net finance expense</b>	<b>(893)</b>	<b>(559)</b>

**(g) Write back of inventory to net realisable value included within the cost of inventory recognised as an expense**

1,215	(150)
<b>1,215</b>	<b>(150)</b>

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 5. Income tax

#### (a) Income tax expense

The major components of income tax expense are:

	December 2019	December 2018
	\$000	\$000
Current income tax	(645)	5,911
Under provision for prior year	(103)	(4,966)
Deferred income tax	760	(991)
Income tax benefit/(expense) reported in the statement of comprehensive income	12	(46)

#### (b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax	1,501	(8,141)
At the Group's statutory income tax rate of 30% (December 2018: 30%)	(450)	2,442
Adjustments in respect of current and deferred income tax of previous years	(103)	448
Expenditure not allowable for income tax	(4)	(15)
Expenditure allowable for income tax, but not deducted for accounting purposes	-	6
Unrecognised deferred tax assets	50	(6,703)
Other	172	758
Deferred tax in relation to discontinued operations	350	3,018
Impact of different tax rates in different jurisdictions	(3)	-
Income tax benefit/(expense)	12	(46)

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (c) Recognised deferred tax assets and liabilities

Deferred income tax at 31 December relates to the following:

	Statement of financial position	
	December 2019	December 2018
	\$000	\$000
<i>Deferred tax assets</i>		
Allowance for doubtful debts	15	274
Provision for obsolete stock	-	510
Accruals	142	108
Provision for warranty	124	8
Provision for onerous leases	15	1,182
Provision for make good	116	889
Employee entitlements	476	165
Property, plant and equipment	-	187
Intangibles	177	177
Unrealised loss on related party loan	-	152
Tax losses (current & prior)	10,413	8,496
Cash lease incentive	4	-
Right-of-use assets	96	-
Other	116	-
	12,194	12,148
<i>Deferred tax liabilities</i>		
Prepayment	35	164
Property, plant and equipment	17	30
Provision for FBT	-	4
Inventory	-	288
Other	4	-
	56	486
Net deferred tax assets	12,138	11,662
Less: unrecognised deferred tax assets	(12,138)	(11,629)
Net deferred tax assets	-	33
Deferred tax benefit/(expense)	-	-

As at 31 December 2019, the Group has accumulated tax losses of \$34,710,000 (December 2018: \$26,559,000).

### (d) Tax consolidation legislation

Kresta Holdings Limited and its wholly owned Australian subsidiaries have formed a tax consolidated Group as of 1 July 2002. The head entity, Kresta Holdings Limited and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated Group.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

In addition to its own current and deferred tax amounts, Kresta Holdings Limited also recognises the current tax liabilities (or assets) from controlled entities in the tax consolidated Group.

Assets or liabilities arising under the tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

A tax funding arrangement is in place to reimburse the parent entity for any liabilities of the subsidiaries it assumes and conversely, for the parent entity to reimburse the subsidiaries for any recognised tax losses it acquires.

**(e) Members of the tax consolidated Group and the tax sharing arrangement**

Members of the tax consolidated Group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a systematic basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. All of the subsidiaries, except for Kresta Blinds International Pty Ltd, are part of the tax consolidated Group (refer to note 24).

**(f) Nature of the tax funding agreement**

Members of the Group have entered into a tax funding agreement. Under the funding agreement the allocation of tax within the Group is based on a Group allocation. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call.

The allocation of taxes under the tax funding agreement is recognised as an increase or decrease in the subsidiaries' intercompany accounts with the tax consolidated Group head company, Kresta Holdings Limited. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practical after the end of each financial year.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 6. Discontinued operations

On 1 December 2019, the Group entered into a Sales Agreement with a Hong Kong based entity, Champ Profit Industrial Limited ("CPI") to sell its Curtain Wonderland ("CW") business. The sales proceed was AUD\$1 and CPI are to take over all CW's assets and liabilities. The transaction was approved by ASX on 31 December 2019 with no shareholder approval required. The transaction was completed on 31 December after KRS board approval. The disposal was part of a strategic decision to dispose of a non-performing cash generating unit. The operations and net assets of the above mentioned entity were reported as part of the single operating segment, which is the sale of window coverings.

Operating profit of Curtain Wonderland until the date of disposal and the profit or loss from disposal of assets and liabilities classified as held for sale are summarised as follows:

	December 2019 \$000	December 2018 \$000
Revenue from contracts with customers	23,093	22,617
Other income	204	222
Changes in inventories	(2,810)	866
Raw materials and consumables used <sup>(i)</sup>	(9,567)	(10,224)
Employee benefits expense	(9,480)	(9,314)
Depreciation and amortisation charge	(5,989)	(750)
Shared services	(3,024)	-
Other expenses <sup>(ii)</sup>	(4,715)	(13,607)
<b>Results from operating activities</b>	<b>(12,288)</b>	<b>(10,190)</b>
Net finance expense	(946)	1
Loss from discontinued operations before income tax	(13,234)	(10,189)
Tax expense	-	-
<b>Loss for the year from discontinued operations</b>	<b>(13,234)</b>	<b>(10,189)</b>

(i) Includes inventory written off of \$1,822,000 (2018: \$nil)

(ii) Includes reversal of prior year expected credit loss of \$671,000, current year debtors written-off of \$775,000. (31 December 2018: Provision for onerous lease of \$3,199,000)

## Notes to the consolidated financial statements

For the year ended 31 December 2019

The carrying amounts of assets and liabilities as at the date of sales (31 December 2019) were:

	<b>December 2019</b>
	\$000
Cash and cash equivalents	523
Trade and other receivables	57
Inventories	5,360
Prepayments	252
Property, plant & equipment	2,345
Right-of-use asset	11,963
Intangible assets	42
Other assets	53
<b>Total assets</b>	<b>20,595</b>
Trade and other payables	11,348
Provisions	960
Lease liabilities	12,467
<b>Total liabilities</b>	<b>24,775</b>
<b>Net liabilities</b>	<b>(4,180)</b>
Loss from discontinued operations	(13,234)
Gain from sale of net liabilities	4,180
<b>Net loss from discontinued operations</b>	<b>(9,054)</b>
Consideration transferred settled in cash	-
Cash and cash equivalents disposed of	(523)
<b>Net cash outflow on acquisition</b>	<b>(523)</b>

Cash flows of Curtain Wonderland until the date of disposal are summarised as follows:

	<b>December 2019</b>	<b>December 2018</b>
	\$000	\$000
Net cash provided by/(used in) operating activities	7,289	(787)
Net cash used in investing activities	(182)	(18)
Net cash used in financing activities	(7,427)	-

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 7. Loss per share

The following reflects the loss used in the basic and diluted loss per share computations:

	December 2019	December 2018
<b>Loss used in calculating loss per share</b>	\$000	\$000
Profit/(loss) from continuing operations	1,513	(8,187)
Loss from discontinued operations	(9,054)	(10,189)
Net loss attributable to ordinary equity holders of Kresta Holdings Limited	(7,541)	(18,376)
<b>Weighted average number of shares</b>		
Issued ordinary shares at 1 January	150,258,518	150,258,518
Effect of shares issued during the year	-	-
Weighted average number of ordinary shares (basic)	150,258,518	150,258,518
Weighted average number of ordinary shares (diluted) at 31 December	150,258,518	150,258,518
Basic earnings / (loss) per share from continuing earnings	1.01 cents	(5.45 cents)
Basic loss per share from discontinued operations	(6.03 cents)	(6.78 cents)
Diluted earnings / (loss) per share from continuing earnings	1.01 cents	(5.45 cents)
Diluted loss per share from discontinued operations	(6.03 cents)	(6.78 cents)



## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 8. Cash and cash equivalents

	December 2019 \$000	December 2018 \$000
Cash at bank and on hand	2,384	3,129
Total cash and cash equivalents	2,384	3,129

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of cash and cash equivalents approximate fair value. Details regarding credit risk is disclosed in Note 22.

### Reconciliation of net loss after tax to net cash flows from operations

	December 2019 \$000	December 2018 \$000
Net loss	(7,541)	(18,376)
<i>Adjustments for:</i>		
Depreciation	9,288	1,599
Amortisation	436	302
Net gain/(loss) on disposal of property, plant and equipment	(1,884)	1,039
Gain on sale of discontinued operations	(4,180)	
Net unrealised gain	380	508
Onerous lease	-	3,199
PP&E Impairment	-	412
Bad debts	(219)	540
Write-off of stock	3,097	-
<i>Changes in assets and liabilities</i>		
Decrease in trade and other receivables	1,186	1,426
Decrease in inventories	773	1,547
Decrease/(increase) in deferred tax assets	5	(33)
Decrease in prepayments	432	146
Increase in other assets	950	-
Increase in trade and other payables	6,032	5,734
Decrease in lease liabilities	(4,207)	-
(Decrease)/increase in tax receivables/payable	(16)	50
(Increase)/decrease in provisions	(528)	2,734
Net cash from operating activities	2,104	827

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 9. Trade and other receivables

	December 2019 \$000	December 2018 \$000
Trade receivables	285	1,800
Allowance for expected credit losses <sup>(a)</sup>	(15)	(912)
	270	888
Other receivables <sup>(b)</sup>	51	457
	321	1,345

#### (a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally recognised immediately after installation. An allowance for expected credit losses is recognised based on the “simplified credit loss approach” model. An impairment allowance of \$15,000 (December 2018: \$912,000) has been recognised by the Group during the year. The amount has been included in the other expense item. No individual amount within the impairment allowance is material.

Movements in the provision for expected credit losses were as follows:

	December 2019 \$000	December 2018 \$000
At 1 January	912	372
Charge for the year	-	-
Utilised	(7)	-
Discontinued	(671)	540
Reversed	(219)	-
	15	912

At 31 December, the ageing analysis of trade and other receivables is as follows:

	Total	0-30 days \$000	31-60 days \$000	61-90 days \$000	90 days+ \$000
December 2019	285	143	16	56	70
December 2018	1,800	644	224	78	854

(b) Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

#### (c) Fair value and credit risk

The carrying value of trade and other receivables approximates their fair value. The maximum exposure to credit risk is the carrying value of receivables. Detail regarding credit risk is disclosed in note 21.

#### (d) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 21.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 10. Inventories

	December 2019 \$000	December 2018 \$000
<b>At lower of cost and net realisable value:</b>		
Raw materials – at cost	-	1,795
Finished goods – at realisable value	804	8,239
Total inventories	804	10,034

During 2019, the Group purchased \$18,000 (2018: \$3,114,000) from Ningbo Cathayan Weaving MFG Co., Ltd, \$1,730,000 (2018: \$9,342,000) from Ningbo Mardo Import and Export and \$13,868,000 (2018: \$nil) from Ningbo Zhexiang Trade Co. Ltd.

As at balance date \$245,000 (2018: \$264,000) was committed and yet to be shipped.

During 2018, the Group sold \$3,281,000 of inventory to Zhexiang Suntarget New Material Co. Ltd. No inter-group sales were recorded in 2019.

Inventory write-downs charged to finished goods and consumables totalled \$1,215,000 (2018: \$1,836,000).

## Notes to the consolidated financial statements

For the year ended 31 December 2019

## 11. Property, plant and equipment

	Freehold land and building \$000	Plant and equipment \$000	Motor vehicles \$000	Total \$000
<b>Cost</b>				
Balance at 1 January 2019	6,888	24,492	2,204	33,584
Additions	8	271	150	429
Disposals	(6,571)	(929)	(139)	(7,639)
Transfer	-	775	(775)	-
Discontinued operations	-	(9,882)	(303)	(10,185)
Effect of movements in exchange rates	-	3	-	3
Balance at 31 December 2019	325	14,730	1,137	16,192
Balance at 1 January 2018	6,888	25,162	2,217	34,267
Additions	-	194	28	222
Disposals	-	(430)	(43)	(473)
Impairment	-	(412)	-	(412)
Effect of movements in exchange rates	-	(22)	2	(20)
Balance at 31 December 2018	6,888	24,492	2,204	33,584
<b>Depreciation</b>				
Balance at 1 January 2019	1,658	20,666	1,633	23,957
Depreciation charge for the year	127	527	84	738
Disposals	(1,469)	(39)	(106)	(1,614)
Transfer	-	772	(772)	-
Discontinued operations	-	(7,794)	(45)	(7,839)
Effect of movements in exchange rates	-	4	-	4
Balance at 31 December 2019	316	14,136	794	15,246
Balance at 1 January 2018	1,531	19,583	1,518	22,632
Depreciation charge for the year	127	1,315	158	1,600
Disposals	-	(210)	(43)	(253)
Effect of movements in exchange rates	-	(22)	-	(22)
Balance at 31 December 2018	1,658	20,666	1,633	23,957
<b>Carrying amounts</b>				
At 31 December 2019	9	594	343	946
At 31 December 2018	5,230	3,826	571	9,627

## Notes to the consolidated financial statements

For the year ended 31 December 2019

## 12. Intangible assets and goodwill

	IT software \$000	Trademark \$000	Goodwill \$000	Total \$000
<b>Cost</b>				
Balance at 1 January 2019	2,580	589	-	3,169
Additions	451	-	-	451
Discontinued operations	(350)	-	-	(350)
Balance at 31 December 2019	2,681	589	-	3,270
Balance at 1 January 2018	2,580	589	2,212	5,381
Additions	-	-	-	-
Impairment (i)	-	-	(2,212)	(2,212)
Balance at 31 December 2018	2,580	589	-	3,169
<b>Amortisation and impairment</b>				
Balance at 1 January 2019	2,278	589	-	2,867
Amortisation charge for the year	436	-	-	436
Discontinued operations	(180)	-	-	(180)
Balance at 31 December 2019	2,534	589	-	3,123
Balance at 1 January 2018	1,976	589	1,148	3,713
Amortisation charge for the year	302	-	-	302
Impairment (i)	-	-	(1,148)	(1,148)
Balance at 31 December 2018	2,278	589	-	2,867
<b>Carrying amounts</b>				
At 31 December 2019	147	-	-	147
At 31 December 2018	302	-	-	302

## 13. Other assets

	December 2019 \$000	December 2018 \$000
Bank guarantees and security deposits	950	-
	950	-

Refer to note 23 for details of bank guarantees and security deposits.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 14. Trade and other payables

	December 2019	December 2018
	\$000	\$000
<b>Current</b>		
Trade payables <sup>(a)</sup>	7,209	11,563
Other payables <sup>(b)</sup>	1,329	6,384
Customer deposits	645	-
Goods and services tax	325	-
	<b>9,508</b>	<b>17,947</b>
<b>Non-current</b>		
Trade payables <sup>(a)</sup>	4,122	-
	<b>4,122</b>	<b>-</b>

- (a) Trade payables are non-interest bearing and are normally settled on 30-day terms. Other than the invoices under Credit Deferral of 12 month with Ningbo Cathayan Waving Co. Ltd and Ningbo Mardo Import & Export Co. Ltd, in which 5% interest applies. Purchases from Ningbo Zhexiang Trade Co are made on 18 month credit terms.
- (b) Other payables are non-trade payables, are non-interest bearing and are normally settled on 30-day terms.
- (c) **Fair value**  
Due to the short term nature of these payables, their carrying value approximates their fair value.
- (d) **Foreign exchange and interest rate risk**  
Detail regarding foreign exchange and interest rates exposure is disclosed in Note 22.

### 15. Interest-bearing loans and borrowings

	December 2019	December 2018
	\$000	\$000
<b>Current</b>		
Insurance finance loan	53	54
Software licence finance loan	121	181
Related party loan	-	11,043
	<b>174</b>	<b>11,278</b>
<b>Non-current</b>		
Software licence finance loan	-	120
Related party loan	6,116	-
	<b>6,116</b>	<b>120</b>

#### Fair value disclosures

The carrying value of the Group's interest-bearing liabilities are materially in line with their fair values.

#### Insurance finance loan

Insurance finance loan is an unsecured loan that has a fixed rate of 1.52% (2018: 1.30%) and which is payable by January 2020.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### Software licence finance loan

Software licence finance loan is an unsecured loan that a nominal interest rate of 3.1% (2018: 9.7%) and which is payable by August 2020.

### Related party loan

On 15 March 2019, upon board approval, Suntarget (Hong Kong) Trading Co Limited ("Suntarget") and Van Dairy (Hong Kong) Ltd entered into an Agreement for Sales and Purchase of Share and agreed that Suntarget transfers 84.35% of the Company's equity to Van Dairy. The Group and Van Dairy entered into a Loan Contract Supplemental Agreement, and agreed that Suntarget transfers AUD\$0.81 million, AUD\$10.50 million and total interest of AUD\$0.67 million from Suntarget to Van Dairy.

On 19 June 2019, upon Suntarget's shareholder approval, the Group and Van Dairy entered into a Deed of Parent Company, to formalise the loan of AUD\$0.81 million, AUD\$10.50 million and total interest of AUD\$0.67 million, loan term to 31 December 2021. The loan was unsecured and bore interest until 15 March 2019. From 16 March 2019 the loans' interest is waived. Van Dairy also provided another \$10 million loan facility to the Group with 18-month repayment from the drawn down date.

On 28 October 2019, following in an internal restructure, Van Dairy has transferred its 84.35% shares to Dream Curtain Holdings Co., Ltd ("DCH"), \$11.1 million loan due by 31 December 2021 has also transferred to DCH. On 28 October 2019, the Group and DCH entered into a Deed of Parent Company Support those arrangements, and DCH has also honoured the \$10 million loan facility with 18-month repayment after the date of advance term in this Deed. The Group hasn't drawn down any advance from this facility at the date of this report. The loan remains unsecured and interest free.

	Opening Balance	Cash flow	Interest	Foreign Exchange	Prepayment	Closing Balance
	\$000	\$000	\$000		\$000	\$000
Insurance finance loan	54	(534)	-	-	533	53
Software licence finance loan	301	(180)	-	-	-	121
Related party loans <sup>(i)</sup>	11,043	(5,500)	615	(42)	-	6,116
	11,398	(6,214)	615	(42)	533	6,290

<sup>(i)</sup>Interest accrued in the 2019 financial year includes interest of \$493,000 that was previously in sundry accruals.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 16. Provisions

	Onerous leases	Warranty	Employee benefits	Make good	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2019	3,199	390	2,225	998	6,812
Arising during the year	-	215	892	-	1,107
AASB 16 adjustment	(2,723)	-	-	-	(2,723)
Utilised	(476)	(150)	(695)	-	(1,321)
Unused amounts reversed	-	-	-	(253)	(253)
Discontinued operations	-	-	(697)	(324)	(1,021)
At 31 December 2019	-	455	1,725	421	2,601
Current December 2019	-	455	1,416	111	1,982
Non-current December 2019	-	-	309	310	619
	-	455	1,725	421	2,601
At 1 January 2018	7	164	2,464	775	3,410
Arising during the year	3,199	425	1,090	244	4,958
Utilised	(7)	(171)	(1,232)	(21)	(1,431)
Unused amounts reversed	-	(28)	(97)	-	(125)
At 31 December 2018	3,199	390	2,225	998	6,812
Current December 2018	3,103	390	1,980	616	6,089
Non-current December 2018	96	-	245	382	723
	3,199	390	2,225	998	6,812

The time value of money attributed to the non-current components of provisions is immaterial, therefore, no interest expenses were recognised.

#### (a) Onerous leases

The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable.

#### (b) Warranty

A provision is recognised for expected warranty claims on products sold, based on past experience of the level of repairs and returns. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the two-year warranty period for the products sold.

#### (c) Employee benefits

The provision for employee benefits represents annual leave and long service leave entitlements accrued and non-monetary benefits provided to eligible employees. The long service leave is discounted to determine its present value. The discount rate is the yield at the reporting date of corporate bonds.



## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (d) Make good

The Group is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets, being between 1 and 6 years.

### 17. Right-of-use assets and lease liabilities

	December 2019 \$000	December 2018 \$000
<b>Right-of-Use Assets</b>		
Non-current	12,899	-
<b>Lease Liabilities</b>		
Current	2,465	-
Non-current	10,690	-
	<u>13,155</u>	<u>-</u>

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

	No of Right-of-Use assets Leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of variable leases with payments linked to an index	No of leases with termination options
Showroom	28	0-5 years	2 years	6	-	19	-
Warehouse and related facilities	2	8-10 years	9 years	2	-	2	-

	Opening Balance \$000	AASB 16 Adjustment \$000	Depreciation \$000	Discontinued Operations \$000	Closing Balance \$000
Right-of-use assets	-	29,862	(2,562)	14,401	12,899
	-	29,862	(2,562)	14,401	12,899

## Notes to the consolidated financial statements

For the year ended 31 December 2019

The lease liabilities are secured by the related underlying assets. Future minimum lease payments as at 31 December 2019 were as follows

	Within 1 year	1-5 years	5+ years	Total
	\$000	\$000	\$000	\$000
<b>31 December 2019</b>				
Lease payments	3,066	9,609	2,797	15,472
Finance charges	(601)	(1,543)	(173)	(2,317)
Net present values	2,465	8,066	2,624	13,155

	Opening Balance	AASB 16 Adjustment	Interest	Repayments	Discontinued Operations	Closing Balance
	\$000	\$000	\$000	\$000	\$000	\$000
Lease liabilities		29,862	579	(2,885)	14,401	13,155
	-	29,862	579	(2,885)	14,401	13,155

### 18. Contributed equity and reserves

#### (a) Contributed Equity

	December 2019	December 2018
	\$000	\$000
Issued capital - ordinary shares	12,892	12,892
	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	\$000
At 1 January	150,258,518	12,892
At 31 December	150,258,518	12,892

#### (b) Capital management

For the purpose of the Group's capital management, capital includes contributed equity and all other equity reserves attributable to the equity holders of the parent. The Group's objective when managing capital is to safeguard the ability to continue as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Group is not subject to any externally imposed capital requirements.

The Group regularly reviews the capital structure and seeks to take advantage of available opportunities to improve outcomes for the Group and its shareholders.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### (c) Reserves

#### Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees, including key management personnel, as part of their remuneration. Refer to note 19 for further details of these plans.

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

### 19. Share-based payment plans

The LTI scheme was approved by shareholders at the 2011 Annual General Meeting. Under the plan, eligible employees are invited to subscribe for fully paid ordinary shares in the Company, funded by a limited-recourse loan from the Group, where the interest rate on the loan will equal to the dividend rate.

Under the plan, shares are allotted at the weighted average market price of Kresta Holdings Limited shares for the 5 days prior to the offer. The shares are not subject to any specific vesting conditions, other than continuous employment; the shares are being held in escrow with half of the shares to be released between 1.5 to 2.0 years of continuous employment and the other half to be released between 2.5 to 3.0 years of continuous employment from the date of issue.

The eligible employee's obligation for repayment of the loans is limited to the dividends declared and capital returns by the Company and, in the event the employee ceases employment, the market price achieved on the sale of the shares held as security by the Company for the loans.

The plan is accounted for as an in-substance option plan, with the contractual life of each option equivalent to the loan life, being 7 years. Repayment of the loan constitutes exercise of the option, with the exercise price being the remaining loan balance per share. Loans are repaid from dividends declared, capital returns and cash repayments. Once the loan is repaid in full the employee reserved shares are converted to unrestricted ordinary shares.

During the year no LTI Shares were granted to executives (2018: nil).

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 20. Dividends paid and proposed

#### Franking credit balance

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at end of the financial year at 30% (2018: 30%)

The amount of franking credits available for future reporting periods:

Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period

December 2019	December 2018
\$000	\$000
1,033	1,033
-	-
1,033	1,033

### 21. Parent entity information

	December 2019	December 2018
	\$000	\$000
Current assets	1,706	531
Non-current assets	7,991	346
Total assets	9,697	877
Current liabilities	1,177	12,199
Non-current liabilities	22,231	9,828
Total liabilities	23,408	22,027
Contributed equity	12,898	12,892
Accumulated losses	(27,167)	(34,537)
Reserves	564	495
Total shareholder's equity	(13,711)	(21,150)
Profit/(Loss) of the parent entity	7,370	(4,664)
Other comprehensive income	-	-
Total comprehensive loss of the parent entity	7,370	(4,664)

#### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

No deeds of cross guarantee have been entered into (2018: nil).

#### Contingent liabilities of the parent entity

As at 31 December 2019, Kresta Holdings Limited has no contingent liabilities (2018: \$nil).

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 22. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

#### Risk exposures and responses

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

Senior management, in conjunction with the Board, reviews and agrees policies for managing each of these risks and they are summarised below.

#### Interest rate risk

At balance date, the Group had the following mix of financial assets exposed to Australian variable interest rate risk:

	December 2019 \$000	December 2018 \$000
<b>Financial assets</b>		
Cash and cash equivalents	2,384	3,129
Bank guarantee	950	
<b>Financial liabilities</b>		
Trade payables	3,705	-
Related party loans	6,116	11,043
Other loans	174	353

Currently the Group does not have any debts that may be affected from changes in interest rates.

At 31 December 2019, if interest rates had moved, with all other variables held constant, post tax loss/profit would have been affected as follows:

#### Judgements of reasonably possible movements

	Post tax loss December 2019 \$000	(higher) / lower December 2018 \$000
+1.0% (100 basis points) (2018: +1.0%)	(60)	(79)
-0.5% (50 basis points) (2018: -0.5%)	30	40

The movements in profit/loss are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates and management's judgement of future trends. The analysis was performed on the same basis for December 2018.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### Foreign currency risk

As a result of large purchases of inventory denominated in United States Dollars and Chinese Yuan, the Group's statement of financial position can be affected significantly by movements in the USD / AUD and CNY / AUD exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the functional currency.

6.6% (December 2018: 4.2%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale. Approximately 90% (December 2018: 90%) of the Group's inventory purchases are denominated in currencies other than the functional currency of the operating unit making the purchase.

At 31 December 2019, the Group had the following exposure to USD and CNY foreign currency:

	<b>Currency</b>	<b>December 2019</b> \$000	<b>December 2018</b> \$000
<b>Financial Assets</b>			
Cash and cash equivalents	<b>USD</b>	6	5
Cash and cash equivalents	<b>CNY</b>	16	17
<b>Financial Liabilities</b>			
Trade and other payables	<b>USD</b>	608	-
Trade and other payables	<b>CNY</b>	(9,365)	-
Related party loan	<b>CNY</b>	(6,116)	(11,043)

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 31 December 2019, had the Australian Dollar moved, with all other variables held constant, post-tax loss would have been affected as follows:

### *Judgements of reasonably possible movements*

	<b>Post tax profit</b> <b>December 2019</b> \$000	<b>Higher / (lower)</b> <b>December 2018</b> \$000
<b>Financial assets</b>		
AUD / USD +10%	-	-
AUD / USD -5%	-	-
AUD / CNY +10% (December 2018: +10%)	-	-
AUD / CNY -5% (December 2018: -5%)	-	-
<b>Financial liabilities</b>		
AUD / USD +10% (December 2018: +10%)	55 decrease	-
AUD / USD -5% (December 2018: -5%)	(32) increase	-

## Notes to the consolidated financial statements

For the year ended 31 December 2019

AUD / CNY +10% (December 2018: +10%)	1,407 decrease	1,103
AUD / CNY -5% (December 2018: -5%)	(815) increase	(552)

In both the current and prior year, the sensitivity rates are based on reasonably possible changes, over a financial year, using the observed range of actual historical rates and management's judgement of future trends.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

### Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets.

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

Receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

At balance date, there are two customers that make up 42% of the total debt with no provision provided for.

### Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bill facilities, finance leases and hire purchase contracts where required.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

The following are the remaining contractual maturities at the end of the reporting period of undiscounted financial assets and liabilities.

	December 2019			
	Within 1 year	1-5 years	Thereafter	Total
	\$000	\$000	\$000	\$000
<b>Financial assets</b>				
Cash and cash equivalents	2,384	-	-	2,384
Trade and other receivables	321	-	-	321
<b>Financial liabilities</b>				
Trade and other payables	(9,508)	(4,122)	-	(13,630)
Related party loans	-	(6,116)	-	(6,116)
Other loans	(174)	-	-	(174)

	Within 1 year	1-5 years	Thereafter	Total
	\$000	\$000	\$000	\$000
<b>Financial assets</b>				
Cash and cash equivalents	3,129	-	-	3,129
Trade and other receivables	1,345	-	-	1,345
<b>Financial liabilities</b>				
Trade and other payables	(17,947)	-	-	(17,947)
Related party loans	(11,043)	-	-	(11,043)
Other loans	-	(354)	-	(354)

### Fair values

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.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include forward exchange contracts and interest rate swaps.

Fair values of other financial assets and liabilities approximate their carrying values. There were no transfers between Level 1 and Level 2 during the year.



## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 23. Commitments

#### Operating lease commitments

The Group has entered into commercial leases on buildings and IT equipment. The commercial leases on buildings have an average life of between 1 and 6 years with renewal options included in some of the contracts, while the IT equipment has an average life of between 1 and 2 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	December 2019 \$000	December 2018 \$000
Within one year	-	8,813
After one year but not more than five years	-	16,447
More than five years	-	-
Total minimum lease payments	-	25,260

#### Bank guarantee and security deposits

The Group has following bank guarantees for store leases and New Zealand customs.

Bank guarantee no.	Amount (AUD)	Starting date	Expiry date	Purpose
200234	\$10,588	03/09/2004	-	Store lease
277970	\$48,057	30/05/2007	-	Store lease
613004	\$38,271	25/10/2018	26/02/2024	Store lease
514409	\$20,000	08/07/2015	-	Store lease
472	\$216,231	21/12/2006	-	NZ Customs
641362	\$14,200	15/10/2019	30/06/2024	Store lease
647475	\$562,653	20/12/2019	31/07/2030	Office lease
N/A	<u>\$40,000</u>	N/A	N/A	Credit card
	<u>\$950,000</u>			

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 24. Related parties

The following table provides the total amount of transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

	Stock sold to related parties		Interest charged by related parties		Amounts owed to related parties	
	12 months ended Dec 2019	12 months ended Dec 2018	Dec 2019	Dec 2018	Dec 2019	Dec 2018
	\$000	\$000	\$000	\$000	\$000	\$000
SunTarget (HongKong) Trading Co. Limited. <sup>(i)</sup>	-	-	122	552	-	11,043
Zhejiang Suntarget New Material Co. Ltd. <sup>(ii)</sup>	-	3,281	-	-	-	-
Dream Curtain Holdings Co., Limited <sup>(iii)</sup>	-	-	-	-	6,116	-
Ningbo Zhexiang Trade Co., Limited	-	-	-	-	5,671	-

<sup>(i)</sup> Suntarget (HongKong) Trading Co. Limited is a subsidiary of Ningbo Xianfeng New Material Company ("Aplus") the majority shareholder of the Company until 15 March 2019. Their shareholder and Executive Chairman, Mr Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

<sup>(ii)</sup> The company sold stock to Zhejiang Suntarget New Material Co. Ltd for \$3,281,000. Inventory of \$245,000 is committed and yet to be shipped to Suntarget by 31 December 2019 (31 December 2018: \$264,000).

<sup>(iii)</sup> Dream Curtain Holdings Co., Limited is controlled by Mr Xianfeng Lu who is their shareholder and Executive Chairman. Mr Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

<sup>(vi)</sup> Ningbo Zhexiang Trade Co., Limited is a wholly owned subsidiary of Aplus, and is controlled by Mr Xianfeng Lu

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.

#### Ultimate parent

Kresta Holdings Limited is the ultimate parent company.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### Subsidiaries

The financial statements include the financial statements of Kresta Holdings Limited and the subsidiaries listed in the following table:

	Country of Incorporation	% Equity interest	
		December 2019	December 2018
Finmar Pty Ltd	Australia	100	100
Kresta Blinds (Holdings) Pty Ltd	Australia	100	100
Kresta Blinds Ltd	Australia	100	100
Kresta Blinds International Pty Ltd	Australia	100	100
Kedena Holdings Pty Ltd	Australia	100	100
Sharatan Pty Ltd	Australia	100	100
Blind Wholesalers, Distributors and Manufacturers Pty Ltd	Australia	100	100
Mardo Australia Pty Ltd	Australia	100	100
Twilight Sun Pty Ltd	Australia	100	100
Mardo International Pty Ltd	Australia	100	100
Sandelle Pty Ltd	Australia	100	100
Curtain Wonderland Pty Ltd (note 22)	Australia	-	100

### Losing control over a subsidiary during the reporting period

On 31 December 2019, the Group disposed of its 100% equity interest in Curtain Wonderland Pty Ltd, refer to note 6.

### Entities subject to class order relief

Pursuant to ASIC Corporations (Wholly-owned Companies) 2016/785, relief has been granted to these controlled entities of Kresta Holdings Limited from the *Corporations Act* requirements for preparation, audit and lodgement of their financial reports.

### Compensation of Key Management Personnel of the Group

	December 2018	December 2018
	\$000	\$000
Short-term employee benefits	592,572	615,899
Post-employment benefits	18,706	33,103
Termination benefits	14,198	-
Total compensation	625,471	649,002

### Other transactions with Key Management Personnel

No other transaction with Key Management Personnel during the year (2018: \$nil).

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### 25. Subsequent events

In light of COVID-19 the Company has followed the various measures undertaken by the government to prevent the spread of COVID-19 through social isolation and distancing measures. As such, the Company temporarily close all stores from Monday 30 March 2020 with the online business operates as usual. As of reporting date, all stores are re-opened and back to business as per normal including the four stores in New Zealand.

Other than the above mentioned item no further adjusting or significant non-adjusting events have occurred between the 31 December reporting date and the date of authorisation.

### 26. Auditors' remuneration

The auditors of Kresta Holdings Limited are Bentleys Audit & Corporate (WA).

	December 2019	December 2018
	\$	\$
Amounts received or due and receivable by the auditors for:		
An audit or review of the financial report of the entity and any other entity in the consolidated Group – Ernst & Young	-	208,855
An audit or review of the financial report of the entity and any other entity in the consolidated Group – Mazars Risk & Assurance	135,892	165,000
An audit or review of the financial report of the entity and any other entity in the consolidated Group – Bentleys Audit & Corporate (WA)	180,000	-
Other services in relation to the entity and any other entity in the consolidated Group – Bentleys Audit & Corporate (WA)		
Other services	24,000	-
	<b>339,892</b>	<b>373,855</b>

### 27. 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.

The performance of the operating segment is evaluated based on profit before tax and net finance costs (profit before tax and interest) and is measured in accordance with the Group's accounting policies. The Group's financing requirements, finance income, finance costs and taxes are managed on a Group basis.

## Notes to the consolidated financial statements

For the year ended 31 December 2019

### Geographical areas

The Group has revenues from external customers attributed to:

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

	December 2018 \$000	December 2018 \$000
Revenues (Australia)	41,503	39,763
Revenues (New Zealand)	2,947	2,557
	<b>44,450</b>	<b>42,320</b>
	December 2018 \$000	December 2018 \$000
Total assets (Australia)	17,696	24,412
Total assets (New Zealand)	1,050	1,142
	<b>18,746</b>	<b>25,554</b>
Total liabilities (Australia)	35,248	37,283
Total liabilities (New Zealand)	463	417
	<b>35,711</b>	<b>37,700</b>

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

### Major customers

The Group's customers consist of over eighty thousand individual customers to which it provides products and services. There is no one external customer that generates 10% or more of the Group's revenues.

## Directors' declaration

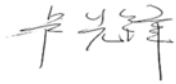
In accordance with a resolution of the Directors of Kresta Holdings Limited, I state that:

In the opinion of the Directors:

- (a) The financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the financial position as at 31 December 2019 and its performance for the year ended on that date of the Group; and
  - (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(c).
- (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2019.

On behalf of the Board



Xianfeng Lu  
Executive Chairman  
Perth, 22 May 2020

## Independent Auditor's Report

### To the Members of Kresta Holdings Limited

### Report on the Audit of the Financial Report

#### Qualified Opinion

We have audited the financial report of Kresta Holdings Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of 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:

- a. except for the effects of the matter described in the Basis for Qualified Opinion section of our report, 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 31 December 2019 and of its financial performance for the year then ended; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

#### Basis for Qualified Opinion

As disclosed in the audit report for the year ended 31 December 2018, as at the date of the report, the previous auditors were unable to obtain sufficient appropriate audit evidence in relation to inventory, provision for onerous leases and property, plant and equipment impairment. As a result, the previous auditors were unable to form an opinion on the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidation statement of cash flows for the year then ended.

As the statement of financial position as at 31 December 2018 provides the basis for the determination of the performance, cash flows and changes in equity for the year ended 31 December 2019, we are unable to determine the impacts, if any, on the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2019.

Bentleys Audit & Corporate  
(WA) Pty Ltd

London House

Level 3,

216 St Georges Terrace

Perth WA 6000

PO Box 7775

Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500

F +61 8 9226 4300

bentleys.com.au

# Independent Auditor's Report

To the Members of Kresta Holdings Limited (Continued)



The audit opinion on the financial report for the year ended 31 December 2018 was modified accordingly. Our opinion on the current year's financial report is also modified because of the possible effect of this matter on the current period and corresponding period's figures.

We were not appointed as auditor of the Company until after 31 December 2019 and thus did not observe the counting of physical inventories at the end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31 December 2019, which are included in the statement of financial position at \$804,000, by using other audit procedures. Consequently we were unable to determine whether any adjustments to this amount were necessary.

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

We draw attention to Note 2(b) in the financial report, which indicates that the Group incurred a net loss of \$7,541,000 for the year ended 31 December 2019. As stated in Note 2(b), these events or conditions, along with other matters as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## 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 of 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.

Key Audit Matter	How our audit addressed the key audit matter
<b>Revenue from contracts with customers</b> The recognition of revenue is considered to be a key audit matter given the size of revenue to the overall financial statement.	Our procedures included amongst others: <ul style="list-style-type: none"><li>➤ Assessment of the Group's accounting policy for revenue as set out in note 1(f), for compliance with the revenue recognition requirements of Australian Accounting Standards.</li><li>➤ Evaluation of the design and operating effectiveness of controls over the capture and measurement of revenue transactions.</li></ul>



# Independent Auditor's Report

To the Members of Kresta Holdings Limited (Continued)



Key Audit Matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"><li>➤ Undertook audit procedures on a sample basis to verify the completeness and accuracy of amounts recorded.</li><li>➤ On a sample basis verified revenue was recorded in the correct accounting period.</li><li>➤ Assessed the appropriateness of the related disclosures in Note 4(a) of the financial report.</li></ul>
<p><b>Disposal of Curtain Wonderland Pty Ltd</b></p> <p>On 31 December the Group disposed of Curtain Wonderland Pty Ltd.</p> <p>Given the significance of the disposal, we consider this to be a key audit matter.</p>	<p>Our procedures included amongst others:</p> <ul style="list-style-type: none"><li>➤ Reading and critical assessment of the Agreement of sale.</li><li>➤ Verified the consideration paid was in accordance with the Agreement.</li><li>➤ Assessment of the principles applied in the derecognition of the net liabilities.</li><li>➤ Undertook audit procedures on a sample basis to verify the completeness and accuracy of amounts recorded in relation to the disposal.</li><li>➤ Assessed the appropriateness of the related disclosures in Note 6 of the financial report.</li></ul>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2019, 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 accordingly 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 Note 1(c), the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

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 has no realistic alternative but to do so.

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

Our responsibility is to express an opinion on the financial report based on our audit. 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 directors' 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.

# Independent Auditor's Report

To the Members of Kresta Holdings Limited (Continued)



- 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.

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

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

From the matters communicated with the 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

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2019. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

## Auditor's Opinion

In our opinion, the Remuneration Report of Kresta Holdings Limited, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

**BENTLEYS**  
Chartered Accountants

Dated at Perth this 22<sup>nd</sup> day of May 2020

**CHRIS NICOLOFF CA**  
Partner

## ASX additional information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 22 May 2020.

### (a) Distribution of equity securities

#### (i) Ordinary share capital

150,258,518 fully paid ordinary shares are held by 625 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

#### (ii) Options

There are no options on issue.

Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class are:

	Fully paid ordinary share
1 – 1,000	158
1,001 – 5,000	223
5,001 – 10,000	99
10,001 – 100,000	114
100,001 and over	31
	<u>625</u>
Holding less than marketable parcel	500

### (b) Substantial shareholders

Ordinary shareholders	Fully paid	
	Number	Percentage
DREAM CURTAIN HOLDINGS CO LTD	126,741,799	84.35
TIAN YUAN(MEL) PTY LTD	8,530,469	5.68
	<u>135,272,268</u>	<u>90.03</u>

## (c) Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid	
	Number	Percentage
DREAM CURTAIN HOLDINGS CO LTD	126,741,799	84.35
TIAN YUAN(MEL) PTY LTD	8,530,469	5.68
L P O INVESTMENTS PTY LTD	1,500,000	1.00
MRS XUEJUN CAI	850,000	0.57
MR ANDREW MICHAEL HARCOURT	810,000	0.54
MR ANDREW EDWARD BENNS	710,250	0.47
MR YONGJIU XU	601,093	0.40
MR DAVID ARITI	511,231	0.34
DEBUSCEY PTY LTD	500,000	0.33
WHEELMAR DISTRIBUTORS PTY LTD	487,500	0.32
SIESTA INVESTMENT GROUP PTY LTD <SIESTA INVESTMENT FUND A/C>	369,000	0.25
MR RONALD LEONARD FREDERICK LAMBERT + MRS MURIEL LAMBERT	289,120	0.19
MS KYOUNG SOOK PHIPPS	284,631	0.19
NALMOR PTY LTD <J CHAPPELL SUPER FUND A/C>	250,000	0.17
NUPCONE PTY LTD <THE COOPER SUPER FUND A/C>	250,000	0.17
MR JURGEN HERMANN ROHWEDDER + MS MARIA ELIZABETH ROHWEDDER <J ROHWEDDER SUPER FUND A/C>	248,000	0.17
BFA SUPER PTY LTD <GDN SUPER FUND A/C>	200,000	0.13
CAROJON PTY LTD <IMBRUGLIA S/F A/C>	200,000	0.13
E & M GREENFIELD PTY LTD <EXECUTIVE SUPER FUND A/C>	200,000	0.13
DR DONALD PLATT + MS MARIA ROBERTS <DON PLATT SUPER FUND A/C>	190,000	0.13
	<u>143,723,093</u>	<u>95.65</u>

This Page has been left blank intentionally