2015 ANNUAL REPORT

FOR THE YEAR ENDING
31 DECEMBER 2015.

ACN 008 675 803

kresta™

Kresta Holdings Limited

Contents

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Corporate information

ABN 26 008 675 803

Directors
Xianfeng Lu, Executive Chairman
Richard Taylor, Non-executive Director
Sean Shwe, Executive Director
Andrew Tacey, Executive Director

Company Secretary
Brendan Cocks

Registered Office and Principal Place of Business
380 Victoria Road
Malaga WA 6090
Australia
Phone: +61 8 9249 0777
Website: www.kresta.com.au

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

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

Bankers
Commonwealth Bank of Australia Limited

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

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

Directors' report

Your directors of Kresta Holdings Limited submit their report for the year ended 31 December 2015.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

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. Aplus, through its wholly owned subsidiary Suntarget (Hong Kong) Trading Co Limited, is the majority shareholder of Kresta with an 84% shareholding. He is a member of the remuneration committee of the Group.

Richard Taylor, B.Econ., ACA. (Non-executive Director)
Mr Taylor joined the board as a non-executive director in March 2011 and is also a member of the Audit and Risk Committee and the Remuneration Committee. He served as Chairman of the Company from February to December 2014. He is a chartered accountant and was formerly a tax partner for 20 years with Deloitte and its antecedent firms. In this role, he advised on mergers and acquisitions, helping companies IPO and structuring funding arrangements across a broad range of industries. He led their Deloitte Australia Private Equity Team and was a member of their National Tax Executive.

Sean Shwe, B. Com., MBA., AFAIM. (Director & Chief Operating Officer)
Sean Shwe is the current Executive Director and Chief Operating Officer for Kresta Group. Mr Shwe joined Kresta Holdings Limited in 2008 and undertook various senior managerial roles within the Group, including General Manager of Operations & Operations and Strategy Manager. During his tenure as the General Manager, Sean successfully led the turnaround of Mardo operations within the Group. Prior to joining Kresta, Mr Shwe worked in a number of commercial, financial and project roles with companies that include Veolia / BHP Project and Spirac Group. In 2013, Sean Shwe made his mark in Corporate Australia when he was nominated a winner in the esteemed 30 Under 30 national competition.

Andrew Tacey, B.Econ. (Director)
Mr Tacey was appointed as a director of Kresta Holdings Limited in June 2014. He is a member of the family that established the Curtain Wonderland business and has held a management position for 24 years including the last 11 years as General Manager. Mr Tacey has extensive experience in the window coverings industry including procurement, sales, manufacturing and strategy. He has been instrumental in the growth of the Curtain Wonderland business, including the launch of online sales and has overseen the national expansion of that brand.

Directors' report (continued)

Directors (continued)

Interests in the shares and options of the Company

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

	Number of Ordinary Shares
X. Lu	126,741,799
R. Taylor	-
S.Shwe	551,895
A.Tacey	450,000

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

Company Secretary

Brendan Cocks, B. Com., CA

Mr Cocks was appointed Company Secretary and Chief Financial Officer on 27 May 2013. A Chartered Accountant, he has over 20 years experience across a broad range of industries including retail, manufacturing, resources and professional services. Since 2007 he has occupied CFO positions for a number of ASX listed companies and prior to that held senior commercial finance roles with a large ASX listed manufacturer.

Dividends

The Company has not declared a dividend for 31 December 2015 financial year (31 December 2014: Nil).

Principal activities

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

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

Operating and financial review

Group overview

The Group has been a leading manufacturer and retailer of window furnishings for over 40 years. The Group's manufacturing and procurement operations are centred in Western Australia and Queensland, and it markets and sells through a large number of outlets located throughout Australia and also has a presence in New Zealand.

The Group operates two manufacturing plants involving production of roller blinds, curtains, vertical blinds and awnings. The manufacturing operations continue to be a major part of the Group's core activities. At the same time, the Group sources some finished product lines from local and overseas contract suppliers at competitive prices and acceptable delivery time to customers.

Directors' report (continued)

Operating and financial review

Group overview (continued)

The core focus for the group from an operating point of view was to:

- Finalise the implementation of our new and expanded product range across the country.
- Establish an East Coast production facility in Coopers Plains in Queensland.
- Complete the initial roll out of store renovations and targeted showroom relocations across our Kresta network in Australia.
- Commence the expansion of our Retail Brand, Curtain Wonderland, with a focus on completing our Queensland foot print and increasing the store footprint in New South Wales.

The Group recorded revenue of $95,931k which was an increase of $2,224k or 2.4% from the corresponding year ending 31 December 2014. The revenue growth predominantly came through our Kresta brand with Vista, Curtain Wonderland and Mardo brands recording revenues consistent with the prior year. The growth in Kresta was experienced in most states and is a strong indication our program of much needed store refurbishments have had a positive impact.

The company recorded a pre-tax loss of $3,851,000 (December 2014 full year loss $2,389,000)[1]. While revenue grew, the business incurred additional costs in a number of areas. A rising $US had an impact on our Margin during the year, and while a large part of this was recovered in increased market pricing the business made a decision to be competitive in the market during the quieter first half of the year. As we transition our Production from 1 location in WA for blinds, to a second East Coast factory there have been a number of additional costs relating to restructuring and downsizing our West Coast operation, and covering new expenses in Queensland as we bring that facility on line and up to speed. These two areas had a material impact on our cost base for the year.

Net loss after tax was a loss of $2,629k compared with a prior year loss of $1,888k.

On a cash flow basis, the Company recorded a cash outflow utilised in operations of $5,713k. The main driver of the outflow was an increase in inventory of $8,015k, somewhat offset by a net favourable movement in working capital (payables, debtors and prepayments) of $4,371k. Furthermore there was $3,014k of capital expenditure during the year which was spent on show room refurbishments and relocations for our Kresta stores, East Coast expansion of our Curtain Wonderland stores and investment in new manufacturing plant and equipment for our Queensland factory.

New debt facilities were established during the period in the form of loans from our parent Company or associated entities to support the investment and working capital for the business. At the end of the period there had been $15,862k provided in the form of non secured loans with market interest rates from related parties.

Cash at the end of the period was $8,650,000 (up from $1,235,000 at December 2014).

[1] Reconciliation of prior year financial results

All number in 000's	**12 months ended 31 Dec 2015**	**6 months ended 31 Dec 2014**	**6 months ended 30 June 2014(i)**	**12 months ended 31 Dec 2014 (ii)**
Revenue	**95,931**	48,382	45,325	93,707
Pre-tax profit/(loss)	**(3,851)**	164	(2,553)	(2,389)
Post-tax profit/(loss)	**(2,629)**	52	(1,940)	(1,888)

(i) This amount was calculated by subtracting the 6 months ended 31 December 2013 results from the year end 30 June 2014 results.

(ii) This amount was calculated by adding the 6 months ended 30 June 2014, with the 6 months ended 31 December 2014.

The directors believe the 12 month results of 31 December 2015, compared to a full 12 months of 31 December 2014 is more meaningful to the users as it compares results over the same period of time. Results referred to in (i) and (ii) above were taken directly from published financial reports.

Directors' report (continued)

Operating and financial review (continued)

Operating results for the year

The Group recorded a net loss after tax of $2,629,000 for the year ended 31 December 2015.

Shareholder returns

	2015 31 December	2014 31 December	2014 30 June	2013 30 June	2012 30 June
Basic (loss)/earnings per share (cents)	(1.75)	0.03	(0.95)	1.06	0.55
Return on shareholders' funds	(9.7%)	0.2%	(6.7%)	7.2%	4.0%
Closing share price (cents)	18.0	22.0	20.5	15.0	11.0

Capital structure

The Group's net assets decreased from $20,974,000 as at 31 December 2014 to $18,325,000 at 31 December 2015.

Liquidity and funding

At year end, the Group had credit facilities (inclusive of bank guarantee) totalling $3,620,000 (31 December 2014: $3,516,000) of which unused were $2,613,000 (31 December 2014: $2,581,000). Cash at bank and on hand at 31 December 2015 were $8,650,000 (31 December 2014: $1,235,000).

Significant changes in the state of affairs

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

Significant events after the balance date

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

Environmental regulation and performance

The Group holds licences issued by the relevant environmental protection authorities. These licences specify limits to, and regulate the management of, discharges to the air and water run-off associated with the manufacturing operations.

There have been no significant known breaches of the Group's licence conditions or any environmental regulations to which it must comply.

Likely developments

During the next period the business will continue to progress the roll out and expansion of Curtain Wonderlands stores on the East Coast with a focus in New South Wales. Furthermore the Company expects to complete its East Coast Manufacturing facility with the ability to manufacture the Company's core range of Australian assembled products in our new Brisbane facility.

Directors' report (continued)

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

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

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:

			Meetings of committees			
	Directors		**Audit and Risk**		**Remuneration***	
	Eligible	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
Current directors						
X. Lu	7	7	-	-	-	-
R. Taylor	7	7	3	3	-	-
S. Shwe	7	7	3	3	-	-
A. Tacey	7	7	-	-	-	-

***** The last remuneration meeting was held in December 2014 where remuneration for 2015 was 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

R. Taylor (Committee Chairman)
S. Shwe

Remuneration

R. Taylor (Committee Chairman)
X. Lu

Directors' report (continued)

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable and where noted ($'000)) under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which the Class Order applies.

Shares issued under the Company's LTI scheme

Shares granted to executives of the Company

During the period, no shares were granted to executives 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 LTI scheme held in escrow.

Auditor's independence

The Auditor's independence declaration is set out on page 15 and forms part of the directors'.report for the financial year ended 31 December 2015.

Non-audit services

During the period, Ernst & Young received $25,750 in relation to the provision of non-audit services.

Remuneration report (audited)

This remuneration report for the period ended 31 December 2015 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 as required by section 308(3C) 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.

Current directors

X. Lu	Executive Chairman
R. Taylor	Director (Non-Executive)
S. Shwe	Director
A. Tacey	Director

Executives

B. Cocks	Chief Financial Officer and Company Secretary
A. Xu	Chief Information Officer

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value; and
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

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 with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such executives 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

<u>Objective</u>

The Board 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.

<u>Structure</u>

Each non-executive director receives a fee for being a director of the Company and the fees and payments reflect the demands which are 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.

Directors' report (continued)

Remuneration report (audited) (continued)

Executive remuneration

Objective

The Group 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.

Structure

The remuneration committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Company. 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 Board is currently 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 during the year 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.

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.

Directors' report (continued)

Remuneration report (audited) (continued)

Executive remuneration (continued)

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.

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 2015 financial year

There was no STI cash bonus paid to executives in 2015 (2014: $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 2015, there are no LTI grants on offer to executives.

Directors' report (continued)

Remuneration report (audited) (continued)

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 2015**	**Granted as compensation**	**Net change other [(i)]**	**Balance 31 December 2015**
Current directors				
X. Lu	128,295,941	-	(1,554,142)	126,741,799
R. Taylor	-	-	-	-
S. Shwe	-	-	551,895	551,895
A. Tacey	-	-	450,000	450,000
Executives				
B. Cocks	-	-	204,142	204,142
A. Xu	26,000	-	(11,500)	14,500
Total	128,321,941	-	(359,605)	127,962,336

[(i)] Relates to market transactions

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.

	2015 31 December	**2014 31 December**	**2014 30 June**	**2013 30 June**	**2012 30 June**
Earnings / (loss) before interest and tax ($000)	(3,612)	144	(1,804)	1,849	390
Net profit / (loss) after tax ($000)	(2,629)	52	(1,375)	1,535	791
Earnings / (loss) per share (cents)	(1.75)	0.03	(0.95)	1.06	0.55
Increase / (decrease) in share price (cents)	(4)	1.5	5.5	4.0	(15.0)

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for June 2012 to December 2015 have been calculated in accordance with Australian Accounting Standards.

Employment contracts

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 (see note 14) 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 (continued)

Remuneration report (audited) (continued)

Remuneration of key management personnel of the Company and the Group

Remuneration for the year ended 31 December 2015

	Short-term benefits			Post employment	Share-based payments	Long-term benefits	Termination payments	Total	Performance and options related
	Salary & fees	Cash bonus	Non monetary benefits(i)	Superannuation	Share options	Long service leave			
	$	$	$	$	$	$	$	$	%
Non-executive directors									
R. Taylor	68,493	-	-	6,507	-	-	-	75,000	-
	68,493	-	-	6,507	-	-	-	75,000	-
Executive directors									
X. Lu	350,186	-	-	-	-	-	-	350,186	-
S. Shwe	248,846	-	20,276	23,641	-	-	-	292,763	-
A. Tacey	252,347	-	-	23,125	-	-	-	275,472	-
	851,379	-	20,276	46,766	-	-	-	918,421	-
Other key management personnel									
B. W. Cocks	250,000	-	-	23,750	-	-	-	273,750	-
A. Xu	250,000	-	-	23,750	-	-	-	273,750	-
	500,000	-	-	47,500	-	-	-	547,500	-
	1,419,872	-	20,276	100,773	-	-	-	1,540,921	-

(i) Relates to an allowance for motor vehicle.

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration of key management personnel of the Company and the Group

Remuneration for the six months ended 31 December 2014

	Short-term benefits			Post employment	Share-based payments	Long-term benefits	Termination payments	Total	Performance and options related
	Salary & fees	Cash bonus	Non monetary benefits	Superannuation	Share options [i]	Long service leave			
	$	$	$	$	$	$	$	$	%
Non-executive directors									
R. Taylor	34,247	-	-	3,253	-	-	-	37,500	-
J. Murphy [ii]	8,381	-	-	796	-	-	-	9,177	-
	42,628	-	-	4,049	-	-	-	46,677	-
Executive directors									
X. Lu	190,792	-	-	-	-	-	-	190,792	-
S. Shwe	122,138	-	14,154	12,305	23,456	7,154	-	179,207	13.1
A. Tacey	139,100	-	-	13,497	23,456	11,423	-	187,476	12.5
	452,030	-	14,154	25,802	46,912	18,577	-	557,475	-
Other key management personnel									
B. W. Cocks	128,553	-	-	11,926	-	-	-	140,479	-
A. Xu	137,733	-	-	12,058	-	-	-	149,791	-
	266,286	-	-	23,984	-	-	-	290,270	-
	760,944	-	14,154	53,835	46,912	18,577	-	894,422	-

[i] Relates to in-substance options issued under the LTI's as approved by shareholders at the 2011 Annual General Meeting. Refer to note 14 for further details.

[ii] Mr J. Murphy resigned as Non-Executive Director on 29 August 2014.

Directors' report (continued)

Remuneration report (audited) (continued)

Other transactions and balances with key management personnel and their 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.

	Purchases from related parties		Amounts owed to related parties	
	12 months ended December 2015	**6 months ended December 2014**	**December 2015**	**December 2014**
	$000	$000	$000	$000
Fiesta Design Pty Ltd (i)	N/A	910	-	-
SunTarget (HongKong) Trading Co., Limited. (ii)	-	N/A	13,862	N/A
Lylu Pty Ltd as trustee of the Lylu Trust (iii)	-	N/A	2,000	N/A
Ningbo Xianfeng New Material Co., Ltd(ii)	28	N/A	4	N/A

(i) Fiesta Design Pty Ltd was a significant shareholder in the Company until 25th August 2014 and their shareholder and director Hardjanto Siswandjo served as an alternate director during the year ended 30 June 2014.

(ii) Suntarget (HongKong) Trading Co., Limited is a subsidiary of Ningbo Xianfeng New Material Company ("Aplus") the majority shareholder of the company. Their shareholder and Executive Chariman Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

(iii) The Lylu Trust provided the company with a $2,000,000 unsecured loan during the year. The loan expires October 2016 and has a fixed interest rate of 6% per annum. A beneficiary of the trust is a relation of Mr X. 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.

Signed in accordance with a resolution of the directors.

Xianfeng Lu
Executive Chairman
Perth, 26 February 2016

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

As lead auditor for the audit of Kresta Holdings Limited for the financial year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
26 February 2016

TD:VH:KRESTA:016

Corporate governance statement

The Board of directors of Kresta Holdings Limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of Kresta Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Kresta Holdings Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

Kresta Holdings Limited's corporate governance practices were in place throughout the year ended 31 December 2015 and were compliant with the Council's best practice recommendations, except for there being no separate nomination committee.

Board responsibilities

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Group is delegated by the Board to the executive team. The Board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The executive team is responsible to the Board for the day to day management of the Company.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of board committees. Specialist board committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit and risk committee
- Remuneration committee

The roles and responsibilities of these committees are discussed throughout this corporate governance statement.

Corporate governance statement (continued)

Board responsibilities (continued)

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- A mix of Executive Directors that have responsibility across different areas of the business for rolling out agreed Board strategy and initiatives; and
- Implementation of budgets by management and monitoring progress against budget — via the establishment and regular reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- Reporting to shareholders.

Structure of the board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the directors' report. Directors of Kresta Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with — or could reasonably be perceived to materially interfere with — the exercise of their unfettered and independent judgement.

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The structure of the Board is determined in accordance with the following policies and guidelines:

- The Chairman of the Audit and Risk Committee and the Chairman of the Remuneration Committee must both be independent;
- The Board should comprise directors with an appropriate range of qualifications and expertise; and
- The Board shall meet at least once every three months.

The directors in office at the date of this statement are:

Name	Position	Term in office	Independent
X. Lu	Executive Chairman	2.1 years	No [(i)]
R. Taylor	Non-Executive Director	5.0 years	Yes
S. Shwe	Director	1.8 years	No
A. Tacey	Director	1.8 years	No

[(i)] Mr Lu is an associate of Suntarget (Hong Kong) Trading Co. Ltd which holds 84.35% shareholding in the Company.

Corporate governance statement (continued)

Audit and risk committee

The Board has established an audit and risk committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated responsibility for the establishment and maintenance of a framework of internal controls and ethical standards for the management of the Group to the audit and risk committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The Chairman of the audit and risk committee is a non-executive director.

The members of the audit and risk committee as at the date of this report:

R. Taylor
S. Shwe

Nomination committee

The Board is responsible for selecting candidates for the position of director. There is no separate nomination committee.

Remuneration committee

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of high quality management to the Company; and
- Performance incentives that allow executives to share in the success of Kresta Holdings Limited

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the directors' report.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, and the executives. The Board has established a remuneration committee, comprising of at least two non-executive directors.

Members of the remuneration committee as at the date of this report:

R. Taylor (Committee Chairman)
X. Lu

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to the directors' report.

Corporate governance statement (continued)

Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so the Board has taken the view that it is crucial for all Board members to be a part of this process. Furthermore, the Board has established an audit and risk committee which also has accountability for assessing the Company's risk profile.

The Board oversees the assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the MD, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management reports to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed. The reporting on risk by management occurs at board meetings in various ways including, through the review of key performance indicators measuring financial and other operational matters.

Through its annual strategic planning process, management is required by the Board to consider all areas of risk.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- A comprehensive annual insurance program; and
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.

For the purposes of assisting investors to understand better the nature of the risks faced by Kresta Holdings Limited, the Board has prepared a list of operational risks. These include the following:

- Fluctuations in exchange rates and demand volumes;
- The occurrence of force majeure events by significant suppliers; and
- Increasing costs of operations, including labour costs.
- Purchase arrangements with different suppliers in order to de-risk reliance on factory.

The Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events.

Corporate governance statement (continued)

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly the Company has developed a diversity policy. This policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. The policy includes the requirement to establish measurable objectives in achieving diversity in the Company's workforce and Board. The measurable objectives will assist management to assess annually both the objectives, and the Company's progress in achieving them in future years.

The table below shows the proportion of female employees of the Group as at 31 December 2015.

Position	Number	Percent %
Board members	-	-
Senior managers	4	29%
Managers	107	89%
Other employees	337	77%
	448	78%

New appointments are based on the applicants' experience and industry expertise. The Group always considers the appointment of suitably qualified females and appointments are not influenced by gender.

The Company has not adopted Recommendation 3.3 of the ASX's Corporate Governance Principles and Recommendations in that it did not set or disclose measureable objectives for achieving gender diversity in accordance with its Diversity Policy.

Trading policy

Under the Company's securities trading policy all KMP, officers and employees must not buy or sell the Company's securities whilst they are in possession of inside information. Inside information is that which is not generally available and if it was generally available, a reasonable person would expect it to have a material effect on the price or value of shares or other securities. Further, all KMP, officers and employees must not disclose any inside information to any other persons unless those persons have a need to know and confirm that they will comply with this policy.

Subject to the general prohibition clause, KMP, officers and employees are not permitted to trade in the Company's securities during the following blackout periods:

- From 30 June until the day after the release of the results for the half year;
- From 31 December until after the day after the release of the results for the full year; and
- Any time frame determined by the Board once market sensitive information is considered, which may reasonably have a market impact.

KMP, officers and employees may be able to trade during black out periods in exceptional circumstances with the approval of the Chairman. In this instance the KMP, officer or employee needs to demonstrate that they don't hold unpublished price sensitive information.

Before commencing to trade, an executive or director must notify the Chairman and the Company Secretary. The Chairman must notify the Chairman of the Audit and Risk Committee and the Company Secretary.

As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

Corporate governance statement (continued)

Managing director and chief financial officer declaration

In accordance with section 295A of the *Corporations Act 2001*, the Executive Chairman and CFO have provided a written statement to the Board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Executive Chairman and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Independence declaration

The *Corporations Act 2001* require external auditors to make an annual independence declaration, addressed to the Board, declaring that the auditors have maintained their independence in accordance with CLERP 9 amendments and the rules of the professional accounting bodies.

Ernst & Young has provided such a declaration to the Board for the financial year ended 31 December 2015.

Shareholder communication policy

Pursuant to Principle 6, Kresta Holdings Limited’s objective is to promote effective communication with its shareholders at all times.

Kresta Holdings Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about the Group’s activities in a balanced and understandable way;
- Complying with continuous disclosure obligations contained in the ASX listing rules and the *Corporations Act 2001* in Australia; and
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Kresta Holdings Limited.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX;
- Through the distribution of the annual report and notices of annual general meeting;
- Through shareholder meetings and investor relations presentations; and
- Through letters and other forms of communications directly to shareholders by posting relevant information on Kresta Holdings Limited’s website: www.kresta.com.au/shareholders

The Company’s website has a dedicated investor relations section for the purpose of publishing all important company information and relevant announcements made to the market.

The external auditors are required to attend the annual general meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report. Shareholders may submit questions for the external auditors to the Company Secretary no later than five business days before an annual general meeting.

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	12 months ended December 2015 $000	6 months ended December 2014 $000
Sale of goods		95,931	48,382
Revenue		95,931	48,382
Other income	*4a*	489	213
Changes in inventories of finished goods and work in progress		7,610	(205)
Raw materials and consumables used		(33,763)	(13,525)
Employee benefits expense	*4b*	(44,673)	(20,362)
Depreciation and amortisation charge	*4c*	(1,867)	(804)
Other expenses	*4d*	(27,339)	(13,555)
Results from operating activities		(3,612)	144
Finance income		5	38
Finance costs		(244)	(18)
Net finance (expense) / income	*4e*	(239)	20
Profit / (loss) before income tax		(3,851)	164
Income tax (expense) / benefit	*5*	1,222	(112)
Net profit / (loss) for the period		(2,629)	52
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net foreign currency translation		(20)	5
Effective portion of changes in fair value of cash flow hedges, net of tax		-	18
Other comprehensive income / (loss) for the period, net of tax		(20)	23
Total comprehensive income / (loss) for the period		(20)	75
Total comprehensive income / (loss) attributable to owners of the Company		(2,649)	75
Earnings / (loss) per share for profit attributable to the ordinary equity holders of the parent:	*6*		
Basic earnings / (loss) per share		(1.75 cents)	0.03 cents
Diluted earnings / (loss) per share		(1.75 cents)	0.03 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 2015

	Note	December 2015 $000	December 2014 $000
ASSETS			
Current assets			
Cash and cash equivalents	8	8,650	1,235
Trade and other receivables	9	3,216	2,377
Inventories	10	17,461	9,446
Deposits		-	550
Prepayments		1,766	2,546
Total current assets		31,093	16,154
Non-current assets			
Trade and other receivables	9	32	28
Property, plant and equipment	12	13,764	12,755
Deferred tax assets	5	4,271	3,051
Intangible assets and goodwill	13	2,586	2,260
Total non-current assets		20,653	18,094
TOTAL ASSETS		51,746	34,248
LIABILITIES			
Current liabilities			
Trade and other payables	15	11,865	7,561
Interest-bearing loans and borrowings	16	16,397	286
Provisions	17	3,780	3,847
Derivative financial instruments	26	-	-
Total current liabilities		32,042	11,694
Non-current liabilities			
Interest-bearing loans and borrowings	16	85	230
Provisions	17	1,294	1,350
Total non-current liabilities		1,379	1,580
TOTAL LIABILITIES		33,421	13,274
NET ASSETS		18,325	20,974
EQUITY			
Issued capital	18	12,892	12,892
Employee reserved shares	18	-	69
Reserves	18	(51)	(31)
Retained earnings	18	5,484	8,044
TOTAL EQUITY		18,325	20,974

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

Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	12 months ended December 2015 $000	6 months ended December 2014 $000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		105,049	54,392
Payments to suppliers and employees (inclusive of GST)		(110,719)	(56,474)
Receipt of government grants	*19*	163	3
Interest received	*4e*	5	38
Interest paid	*4e*	(211)	(18)
Income tax received		-	-
Net cash flows utilised in operating activities	*8*	(5,713)	(2,059)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		157	15
Purchase of property, plant and equipment	*12*	(3,014)	(2,134)
Purchase of intangibles	*13*	(392)	(222)
Deposit refund / (paid)		367	(550)
Net cash flows used in investing activities		(2,882)	(2,891)
Cash flows from financing activities			
Proceeds from issue of shares		-	325
Proceeds from borrowings		17,216	730
Repayment of borrowings		(1,226)	(581)
Payment of finance lease liabilities		-	-
Net cash flows from financing activities		15,990	474
Net (decrease) / increase in cash and cash equivalents		7,395	(4,476)
Net foreign exchange differences		20	9
Cash and cash equivalents at beginning of period		1,235	5,702
Cash and cash equivalents at end of period	*8*	8,650	1,235

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

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Ordinary shares	Employee reserved shares	Employee equity benefits reserve	Cashflow hedge reserve	Foreign currency translation reserve	Retained earnings	Total
	$000	$000	$000	$000	$000	$000	$000
At 1 January 2015	12,892	69	495	-	(526)	8,044	20,974
Loss for the period	-	-	-	-	-	(2,629)	(2,629)
Other comprehensive loss	-	-	-	-	(20)	-	(20)
Total comprehensive loss for the period	-	-	-	-	(20)	(2,629)	(2,649)
Transfers	-	(69)	-	-	-	69	-
Proceeds from issue of shares	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-
At 31 December 2015	12,892	-	495	-	(546)	5,484	18,325
At 1 July 2014	12,892	(256)	427	(18)	(531)	7,992	20,506
Profit for the period	-	-	-	-	-	52	52
Other comprehensive income	-	-	-	18	5	-	23
Total comprehensive loss for the period	-	-	-	18	5	52	75
Proceeds from issue of shares	-	325	-	-	-	-	325
Share-based payments	-	-	68	-	-	-	68
At 31 December 2014	12,892	69	495	-	(526)	8,044	20,974

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

Notes to the consolidated financial statements

For the year ended 31 December 2015

1. Corporate information

The consolidated financial report of Kresta Holdings Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2015 was authorised for issue in accordance with a resolution of the directors on 26 February 2015.

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, except for derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

(b) Going Concern

During the year the Group incurred a loss after tax of $2.63 million, with a net cash outflow from operations of $5.71 million. The Group has a working capital deficiency of $0.95 million, inclusive of $13.86 million relating to related party loans from Suntarget (HongKong) Trading Co., Limited (Suntarget) discussed further in note 16. The financial statements have been prepared on a going concern basis as Suntarget a subsidiary of Ningbo Xianfeng New Material Company (APlus) the majority shareholder, has pledged its continuing support for a minimum of 12 months from the date of issuing these financial statements.

(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

<u>Changes in accounting policy and disclosures</u>

The Group has adopted all the Australian Accounting Standards and AASB Interpretations, mandatory for annual periods beginning on or after 1 January 2015. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations (continued)

Changes in accounting policy and disclosures

Annual improvements to IFRS 2010-2012 Cycle of Annual Improvements to IFRS 2011-2013 cycle. Annual Improvements to IFRS's 2010 – 2012 Cycle addresses the following items:

- AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
- AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.
- AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.
- AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.
- AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

Accounting standards and interpretations issued but not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 31 December 2015. These are outlined below:

(i) *AASB 9 Financial Instruments*

Application date of standard – 1 January 2018. Application date for Group – 1 January 2018.
Impact: not yet been assessed.

AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Amendments to AASB 9 (December 2009 & 2010 editions)(AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations (continued)

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

(i) *AASB 9 Financial Instruments (continued)*

AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes are described below.

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
    - The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
    - The remaining change is presented in profit or loss

AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.

(ii) *AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)*

Application date of standard – 1 January 2016. Application date for Group – 1 January 2016.
Impact: there is no impact.

AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations (continued)

(iii) *AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*

Application date of standard – 1 January 2016. Application date for Group – 1 January 2016.

Impact: there is no impact.

The subjects of the principal amendments to the Standards are set out below:

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*:

- Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.

AASB 7 *Financial Instruments: Disclosures:*

- Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.
- Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.

AASB 119 *Employee Benefits:*

- Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

AASB 134 *Interim Financial Reporting*:

- Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

(iv) *AASB 2015-1 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

Application date of standard – 1 January 2016. Application date for Group – 1 January 2016.

Impact: there is no impact.

The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations (continued)

(v) *AASB 15: Revenue from Contracts with Customers*

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

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

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services). The AASB issued AASB 15 in late December 2014.

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

(a) Step 1: Identify the contract(s) with a customer

(b) Step 2: Identify the performance obligations in the contract

(c) Step 3: Determine the transaction price

(d) Step 4: Allocate the transaction price to the performance obligations in the contract

(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(e) Basis of consolidation (continued)

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

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

(f) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured and subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of AASB 139, it is measured in accordance with the appropriate AASB.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(g) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time when the goods become available for delivery under a binding sales agreement.

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.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(h) Government grants – refer note 19

Government grants are recognised in the statement of financial position as a liability when the grant is received.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to deferred income and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

(i) Leases – refer note 16

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(i) Leases – refer note 16 (continued)

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.

(j) Cash and cash equivalents – refer note 8

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.

(k) Trade and other receivables – refer note 9

Trade receivables, which generally have 30-60 day terms, are recognised at original invoice amount less an allowance for impairment.

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 when there is objective evidence that the Group will not be able to collect the receivable. Failure to collect debts after debt collection procedures and enforcements are considered objective evidence of impairment. The amount of the impairment loss is the carrying amount of the impaired receivables.

(l) Inventories – refer note 10

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. Volume discounts and rebates are taken into account in determining the cost of purchase.

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 weighted average costs.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(m) Derivative financial instruments and hedging – refer note 26

The Group uses derivative financial instruments (including forward currency contracts and interest rate swaps) to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates. The valuations incorporate various inputs including credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges that meet the strict criteria for hedge accounting are accounted for as follows:
The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in finance costs.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast purchase occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction or firm commitment is met.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(n) 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.

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.

(o) Income tax and other taxes – refer note 5

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(o) Income tax and other taxes – refer note 5 (continued)

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.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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.

<u>Other taxes</u>

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(p) Property, plant and equipment – refer note 12

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. 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.

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 — 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. These are included in profit or loss.

(q) Goodwill and intangibles – refer note 13

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(q) Goodwill and intangibles – refer note 13 (continued)

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 are:

- Kresta Holdings Limited cash-generating unit; and
- Curtain Wonderland Pty Limited cash-generating unit

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.

<u>Intangibles</u>

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(q) Goodwill and intangibles – refer note 13 (continued)

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

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 derecognized.

(r) 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.

(s) Trade and other payables – refer note 15

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(t) Provisions and employee benefits – refer note 17

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.

<u>Employee leave benefits</u>

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.

<u>Make good</u>

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.

<u>Warranty</u>

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.

<u>Onerous contract</u>

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(u) Interest-bearing loans and borrowings – refer note 16

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.

(v) Share-based payment transactions – refer note 14

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 this year as 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(w) Contributed equity – refer note 18

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.

(x) Operating segments – refer note 25

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.

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”.

(y) Earnings per share – refer note 6

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(z) Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and trade and other payables and derivative financial instruments.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

2. Summary of significant accounting policies (continued)

(z) Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(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.

(aa) Change of financial year

During 2014 the financial year of the Company was changed from 30 June to 31 December to align the Company's financial year end with that of its Chinese parent company. Accordingly, comparative figures for the financial statements cover the six month period from 1 July 2014 to 31 December 2014. The results for the comparative period are therefore not directly comparable with the results for the year ended 31 December 2015.

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.

<u>Significant judgements made in applying accounting policies</u>

Lease classification

Where the Group enters into a lease arrangement the risks and rewards of ownership are assessed. Where they are deemed to pass to the Group the lease is classified as a finance lease. Where the risk and rewards of ownership are deemed to remain with the lessor, the lease is classified as an operating lease.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

3. Significant accounting judgements, estimates and assumptions (continued)

Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The cash flows are derived from the budget and forecast for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the expected future gross margins. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives including a sensitivity analysis are discussed in note 13.

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 two years together with future tax planning strategies.

Inventory net realisable value

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

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

4. Other income and expenses

		12 months ended December 2015 $000	6 months ended December 2014 $000
(a)	**Other income**		
	Government grants	87	3
	Foreign exchange gains	70	-
	Other	332	210
		489	213
(b)	**Employee benefits expense**		
	Wages and salaries	28,349	12,852
	Superannuation expense	2,450	1,116
	Employee share-based payment	-	68
	Subcontractors	10,939	5,019
	Other employee benefits expense	2,935	1,307
		44,673	20,362
(c)	**Depreciation and amortisation charge**		
	Depreciation	1,815	768
	Amortisation of IT software	52	36
		1,867	804
(d)	**Other expenses**		
	Advertising	7,185	4,590
	Property rent	7,961	3,600
	Property outgoings	3,757	1,697
	Communication expenses	2,044	980
	Banking and transaction expenses	608	302
	Impairment loss – receivables	285	45
	Net loss from disposal of property, plant & equipment	122	21
	Foreign exchange losses	315	118
	Freight	2,251	903
	Other expenses	2,811	1,299
		27,339	13,555
(e)	**Net finance (expense) / income**		
	Finance income	5	38
	Finance charges payable under finance leases and hire purchase contracts	(14)	(7)
	Other borrowing costs	(230)	(11)
	Finance costs	(244)	(18)
	Net finance (expense) / income	(239)	20

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

4. Other income and expenses (continued)

		12 months ended December 2015 $000	6 months ended December 2014 $000
(f)	Cost of inventories recognised as an expense	26,153	13,731
(g)	Write (back) / down of inventory to net realisable value included within the cost of inventory recognised as an expense	7	(730)
(h)	Minimum lease payments – operating leases	57	54

5. Income tax

		12 months ended December 2015 $000	6 months ended December 2014 $000
(a)	**Income tax expense**		
	The major components of income tax expense are:		
	Income statement		
	Current income tax		
	Adjustments in respect of current income tax of previous years	26	29
	Deferred income tax		
	Current income tax benefit	(1,009)	
	Relating to origination and reversal of temporary differences	(239)	(413)
	Adjustments in respect of deferred income tax of previous years	-	(36)
	Income tax expense / (benefit) reported in the statement of comprehensive income	(1,222)	112
(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 profit / (loss) before tax	(3,851)	164
	At the Group's statutory income tax rate of 30% (December 2014: 30%)	(1,155)	49
	Adjustments in respect of current and deferred income tax of previous years	26	28
	Expenditure not allowable for income tax	17	39
	Expenditure allowable for income tax, but not deducted for accounting purposes	(15)	(1)
	Profit relating to international subsidiary	(95)	(3)
	Income tax expense / (benefit)	(1,222)	112

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

5. Income tax (continued)

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 31 December relates to the following:

	Statement of financial position		Statement of comprehensive income	
	December 2015	December 2014	December 2015	December 2014
	$000	$000	$000	$000
Deferred tax assets				
Allowance for doubtful debts	146	72	(74)	(2)
Inventory	581	402	(179)	221
Accruals	99	86	(13)	(19)
Provision for FBT	10	7	(3)	1
Provision for warranty	40	40	-	45
Provision for onerous leases	38	55	17	16
Provision for make good	126	117	(9)	(4)
Employee entitlements	1,206	1,252	46	(70)
Property, plant and equipment	140	225	85	(8)
Intangibles	177	177	-	-
Grants received	-	-	-	-
Tax losses	1,931	850	(1,081)	(198)
Other	20	12	(12)	8
	4,514	3,295	(1,223)	(10)
Deferred tax liabilities				
Prepayment	189	109	(80)	108
Property, plant and equipment	54	133	79	14
Interest receivable	-	2	2	-
	243	244	1	122
Net deferred tax assets	4,271	3,051		
Deferred tax (benefit) / expense			(1,222)	112

The Group has accumulated tax losses of $3,791,000 (December 2014: $2,833,000) for the period of which $958,000 (December 2014: $850,000) was recognised as a deferred tax asset. The recognition of the net deferred tax asset is based upon the Company's forecast of taxable profits.

(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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

5. Income tax (continued)

(d) Tax consolidation legislation (continued)

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.

(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.

6. Earnings / (loss) per share

The following reflects the income used in the basic and diluted earnings / (loss) per share computations:

	12 months ended December 2015	6 months ended December 2014
Earnings used in calculating earnings / (loss) per share	$000	$000
Net profit / (loss) attributable to ordinary equity holders of Kresta Holdings Limited	(2,629)	52

Weighted average number of shares	**December 2015** Thousands	**December 2014** Thousands
Issued ordinary shares at 1 January	150,259	148,158
Effect of shares issued during the year	-	1,454
Weighted average number of ordinary shares (basic)	150,259	149,612
Effect of dilution:		
In-substance options (100% fully vested and exercised) (Dec 14: 100%)	-	-

Weighted average number of ordinary shares (diluted) at 31 December	150,259	149,612

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

7. Dividends paid and proposed

		12 months ended December 2015 $000	6 months ended December 2014 $000
(a)	**Recognised amounts**		
	Declared and paid during the year		
	Dividends on ordinary shares:		
	Final franked dividend for 2015: nil (2014: nil)	-	-
	Interim franked dividend for 2015: nil (2014: nil)	-	-
		-	-
(b)	**Unrecognised amounts**		
	Dividends on ordinary shares:		
	Final franked dividend for 2015: nil (2014: nil)	-	-
(c)	**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% (2014: 30%)	1,033	1,033
	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	-	-
		1,033	1,033

(d) Tax rates

The tax rate at which paid dividends have been franked is 30% (December 2014: 30%). Dividends proposed will be franked at the rate of 30% (December 2014: 30%).

8. Cash and cash equivalents

	December 2015 $000	December 2014 $000
Cash at bank and on hand	8,650	1,235
Total cash and cash equivalents	8,650	1,235

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

8. Cash and cash equivalents (continued)

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.

Reconciliation of net profit after tax to net cash flows from operations

	12 months ended December 2015 $000	6 months ended December 2014 $000
Net profit / (loss)	(2,629)	52
Adjustments for:		
Depreciation	1,815	768
Amortisation	53	36
Net loss on disposal of property, plant and equipment	122	21
Net unrealised (gain) / loss	(24)	-
Share-based payment expense	-	68
Changes in assets and liabilities		
(Increase) / decrease in trade and other receivables	(713)	(34)
(Increase) / decrease in inventories	(8,015)	(521)
(Increase) / decrease in deferred tax assets	(1,222)	112
Decrease / (increase) in prepayments	780	(1,145)
Increase / (decrease) in trade and other payables	4,304	(1,356)
(Decrease) / increase in government grants	-	-
Increase in tax receivables/payable	-	-
Decrease in provisions	(184)	(60)
Net cash from operating activities	(5,713)	(2,059)

9. Trade and other receivables

	December 2015 $000	December 2014 $000
Current		
Trade receivables	2,978	2,523
Allowance for impairment loss [(a)]	(509)	(261)
	2,469	2,262
Short term deposits [(b)]	31	37
Other receivables [(c)]	716	78
	3,216	2,377
Non-current		
Short term deposits [(b)]	32	28

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

9. Trade and other receivables (continued)

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment allowance of $285,000 (December 2014: $45,000) 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 impairment loss were as follows:

	December 2015 $000	**December 2014** $000
At 1 January	261	255
Charge for the year	285	45
Utilised	(37)	(39)
At 31 December	509	261

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

	Total	**0-30 days** $000	**31-60 days** $000	**61-90 days PDNI [i]** $000	**61-90 days CI [ii]** $000	**+91 days PDNI [i]** $000	**+91 days CI [ii]** $000
December 2015	2,978	1,081	461	265	-	662	509
December 2014	2,523	1,280	350	238	-	394	261

[i] Past due not impaired (PDNI)
[ii] Considered impaired (CI)

Receivables past due but not considered impaired are: $927,000 (December 2014: $632,000). Payment terms on these amounts have not been renegotiated. These receivables primarily relate to commercial customers, management has completed a detail review of these balances and is satisfied the impairment is adequate. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Deposits are in respect of security deposits for premises leased.

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

(d) 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. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(e) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 20.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

10. Inventories

	December 2015 $000	December 2014 $000
Raw materials (at the lower of cost and net realisable value)	6,950	2,679
Finished goods (at the lower of cost and net realisable value)	10,511	6,767
Total inventories at the lower of cost and net realisable value	17,461	9,446

11. Parent entity information

	December 2015 $000	December 2014 $000
Current assets	8,820	1,495
Total assets	13,826	5,608
Current liabilities	16,879	692
Total liabilities	19,328	7,540
Issued capital	12,892	12,892
Accumulated losses	(18,889)	(15,388)
Reserves	495	495
Employee reserved shares	-	69
Total shareholder's equity	(5,498)	(1,932)
Loss of the parent entity	(3,570)	(1,977)
Total comprehensive loss of the parent entity	(3,570)	(1,977)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

12. Property, plant and equipment

	Freehold land and building	Plant and equipment	Motor vehicles	Total
	$000	$000	$000	$000
Cost				
Balance at 1 January 2015	6,850	23,221	1,975	32,046
Other additions	34	2,697	275	3,006
Disposals	-	(820)	(30)	(850)
Effect of movements in exchange rates	-	(8)	-	(8)
Balance at 31 December 2015	6,884	25,090	2,220	34,194
Balance at 1 July 2014	6,835	21,590	1,765	30,190
Other additions	15	1,917	277	2,209
Disposals	-	(336)	(67)	(403)
Effect of movements in exchange rates	-	50	-	50
Balance at 31 December 2014	6,850	23,221	1,975	32,046
Depreciation				
Balance at 1 January 2015	1,150	17,017	1,124	19,291
Depreciation charge for the year	127	1,486	202	1815
Disposals	-	(657)	(26)	(683)
Effect of movements in exchange rates	-	7	-	7
Balance at 31 December 2015	1,277	17,853	1,300	20,430
Balance at 1 July 2014	1,086	16,666	1,086	18,838
Depreciation charge for the year	64	614	90	768
Disposals	-	(315)	(52)	(367)
Effect of movements in exchange rates	-	52	-	52
Balance at 31 December 2014	1,150	17,017	1,124	19,291
Carrying amounts				
At 31 December 2015	5,607	7,237	920	13,764
At 31 December 2014	5,700	6,204	851	12,755

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

12. Property, plant and equipment (continued)

Land and buildings with a carrying amount of $5,607,000 (December 2014: $5,700,000) are subject to a first charge over available finance facilities (see note 16).

Plant and equipment and motor vehicles with a carrying amount of $8,157,000 (December 2014: $7,055,000) is pledged as securities for current and non-current liabilities as disclosed in note 16.

13. Intangible assets and goodwill

	IT software	Trademark	Goodwill	Total
	$000	$000	$000	$000
Cost				
Balance at 1 January 2015	2,184	589	2,212	4,985
Other additions	378	-	-	378
Balance at 31 December 2015	2,562	589	2,212	5,363
Balance at 1 July 2014	1,962	589	2,212	4,763
Other additions	222	-	-	222
Balance at 31 December 2014	2,184	589	2,212	4,985
Amortisation and impairment				
Balance at 1 January 2015	1,844	589	292	2,725
Amortisation charge for the year	52	-	-	52
Balance at 31 December 2015	1,896	589	292	2,777
Balance at 1 July 2014	1,808	589	292	2,689
Amortisation charge for the year	36	-	-	36
Balance at 31 December 2014	1,844	589	292	2,725
Carrying amounts				
At 31 December 2015	666	-	1,920	2,586
At 31 December 2014	340	-	1,920	2,260

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

13. Intangible assets and goodwill (continued)

Impairment tests for goodwill

Goodwill acquired through business combinations has been allocated to two individual cash generating units for impairment testing as follows:

- Kresta Holdings Limited cash-generating unit; and
- Curtain Wonderland Pty Limited cash-generating unit

Market capitalisation of the Group as at the reporting date was $27,047,000 (December 2014: $33,057,000).

Kresta Holdings Limited unit

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period. The anticipated sales growth over the five years is estimated to average 2.00% per annum (December 2014: 2.00%).

The pre-tax discount rate applied to cash flow projections is 13.88% per annum (December 2014: 13.88%). The projected value in use exceeds the carrying amount of the assets within the cash generating unit and therefore no impairment has been noted.

The carrying amount of goodwill allocated to the Kresta Holdings Limited unit is $1,064,000 (December 2014: $1,064,000).

Curtain Wonderland Pty Limited unit

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period. The anticipated sales growth over the five years is estimated to average 3.47% per annum (December 2014: 2.98%).

The pre-tax discount rate applied to cash flow projections is 13.88% per annum (December 2014: 13.88%). The projected value in use exceeds the carrying amount of the assets within the cash generating unit and therefore no impairment has been noted.

The carrying amount of goodwill allocated to the Curtain Wonderland Pty Limited unit is $856,000 (December 2014: $856,000).

Key assumptions

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

Gross margins

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

Raw materials price inflation

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

13. Intangible assets and goodwill (continued)

Key assumptions (continued)

Discount rate

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

Sales growth

Management expect to see top and bottom line growth of at least 3% over the next 5 years due to national synergies, investment in our sales capability, business restructuring to achieve efficiencies, continued focus on purchasing efficiencies and capital investment in our sales footprint.

Sensitivity to changes in assumptions

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

14. 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 (2014: nil)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

15. Trade and other payables

	December 2015 $000	December 2014 $000
Current		
Trade payables [(a)]	6,786	1,662
Other payables [(b)]	1,955	2,181
Customer deposits	2,826	3,300
Goods and services tax	298	418
	11,865	7,561

(a) Trade payables are non-interest bearing and are normally settled on 30-day 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.

16. Interest-bearing loans and borrowings

	December 2015 $000	December 2014 $000
Current		
Insurance finance loan	390	141
Software licence finance loan	145	145
Related Party loan	15,862	-
	16,397	286
Non-current		
Software licence finance loan	85	230
	85	230

Fair value disclosures

The carrying value of the Group's interest bearing liabilities approximate their fair value.

Insurance finance loan

Insurance finance loan has a fixed rate of 1.45%.

Software licence finance loan

Software licence finance loan has a zero interest rate attached.

Related party loan

During the year, the company obtained two unsecured loans from Suntarget (HongKong) Trading Co., Limited, a subsidiary of Ningbo Xianfeng New Material Company (“Aplus”). The initial loan in March 2015, was for RMB16,000,000, has a fixed interest rate of 6% per annum and expires on 30 June 2016. In December 2015, a RMB50,000,000 loan was obtained, which expires December 2016. The interest rate on this loan is fixed at 5% per annum. Both loan contracts require both parties to agree to any extensions of the loan term.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

16. Interest-bearing loans and borrowings (continued)

Trade finance facility

The Group has a multi-option facility of $3,000,000 available from Commonwealth Bank of Australia Limited who has a fixed and floating charge over the assets of Kresta Holdings Limited and its related entities.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	December 2015 $000	**December 2014** $000
Total facilities		
Bank overdraft	2,578	2,083
Bank guarantee	422	742
Trade	-	175
Other finance loan	620	366
	3,620	3,516
Facilities used at reporting date		
Bank overdraft	-	-
Bank guarantee	387	414
Trade	-	-
Other finance loan	620	366
	1,007	935
Facilities unused at reporting date		
Bank overdraft	2,578	2,083
Bank guarantee	35	328
Trade	-	175
Other finance loan	-	-
	2,613	2,581
Total facilities	3,620	3,516
Facilities used at reporting date	1,007	935
Facilities unused at reporting date	2,613	2,581

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

16. Interest-bearing loans and borrowings (continued)

Assets pledged as security

The carrying amount of assets pledged as security during the year ended 31 December 2015:

	Note	December 2015 $000	December 2014 $000
Current			
Floating charge			
Cash and cash equivalents	*8*	8,650	1,235
Receivables	*9*	3,185	2,377
Inventories	*10*	17,461	9,446
Total current assets pledged as security		29,296	13,058
Non-current			
First mortgage			
Freehold land and buildings	*12*	5,607	5,700
Floating charge			
Plant and equipment and motor vehicles	*12*	8,157	7,055
Total non-current assets pledged as security		13,764	12,755
Total assets pledged as security		43,060	25,813

17. Provisions

	Onerous leases $000	Warranty $000	Employee benefits $000	Make good $000	Total $000
At 1 January 2015	185	165	4,242	605	5,197
Arising during the year	-	-	1,880	100	1,980
Utilised	(59)	(1)	(1,860)	(35)	(1,955)
Unused amounts reversed	-	-	(148)	-	(148)
At 31 December 2015	126	164	4,114	670	5,074
Current December 2015	59	66	3,464	191	3,780
Non-current December 2015	67	98	650	479	1,294
	126	164	4,114	670	5,074

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

17. Provisions (continued)

	Onerous leases	Warranty	Employee benefits	Make good	Total
	$000	$000	$000	$000	$000
At 1 July 2014	272	313	4,011	585	5,181
Arising during the year	-	-	925	85	1,010
Utilised	(85)	(9)	(681)	(65)	(840)
Unused amounts reversed	(2)	(139)	(13)	-	(154)
At 31 December 2014	185	165	4,242	605	5,197
Current December 2014	57	66	3,526	198	3,847
Non-current December 2014	128	99	716	407	1,350
	185	165	4,242	605	5,197

(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. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The unexpired term of the lease is 37 months.

(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.

(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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

18. Contributed equity and reserves

(a) Contributed Equity

	December 2015 $000	December 2014 $000
Issued capital - ordinary shares	12,892	12,892
Employee reserved shares	-	69
	12,892	12,961

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.

Shares issued to employees under the share loan plan referred to in note 14 are fully issued via a limited recourse loan to employees, and as such the arrangement is accounted for as in-substance options. 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.

Movement in ordinary shares on issue

	No. of shares Thousands	$000
At 1 January	150,258	12,892
At 31 December	150,258	12,892

Movement in employee reserved shares on issue

	No. of shares Thousands	$000
At 1 January	-	(69)
At 31 December	-	-

(b) Capital management

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 (continued)

For the year ended 31 December 2015

18. Contributed equity and reserves (continued)

(b) Capital management (continued)

During the year additional funds required for working capital and capital expenditure were sourced from related party loans provided by Suntarget refer to note 16.

(c) Retained earnings

Movement in retained earnings

	December 2015 $000	December 2014 $000
Balance as at 1 January	8,044	7,992
Net profit / (loss) for the year	(2,629)	52
Transfer from Employee shares reserve	69	-
Dividends	-	-
Balance as at 31 December	5,484	8,044

(d) Reserves

Movement in reserves

	Employee equity benefits $000	Foreign currency translation $000	Total $000
At 1 January 2015	495	(526)	(31)
Foreign currency translation differences	-	(20)	(20)
Effective portion of changes in fair value of cash flow hedges	-	-	-
At 31 December 2015	495	(546)	(51)

Share-based payment 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 14 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 subsidiaries.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

19. Government grants

Movement in government grants

	December 2015 $000	December 2014 $000
At 1 January	-	-
Received during the period	163	3
Recognised as income	(163)	(3)
At 31 December	-	-

During the period the Group received $163,000 (December 2014: $3,000) government grants. The government grants received were in relation to training programs which were implemented across the business. The accounting policy adopted by the Group is disclosed in note 2 (g).

20. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases and hire purchase contracts, 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.

The Group enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts. During 2015, the group did not enter into any derivative transactions.

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

<u>Interest rate risk</u>

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

	December 2015 $000	December 2014 $000
Financial assets		
Cash and cash equivalents	8,650	1,235
Net exposure	8,650	1,235

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Interest rate risk (continued)

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

At 31 December 2015, 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 (higher) / lower	
	December 2015 $000	December 2014 $000
+1.0% (100 basis points) (2014: +1.0%)	60	8
-0.5% (50 basis points) (2014: -0.5%)	(30)	(4)

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 2014.

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.

Less than 4.0% (December 2014: 3.6%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale. Approximately 60% (December 2014: 60%) of the Group's inventory purchases are denominated in currencies other than the functional currency of the operating unit making the purchase.

The Group uses forward currency contracts to manage foreign currency exposures. It is the Group's policy not to enter into forward currency contracts until a firm commitment is in place and to negotiate the terms of the hedge derivatives to exactly match the terms of the hedged item to maximise hedge effectiveness.

At 31 December 2015, the Group had the following exposure to USD and CNY foreign currency:

	Currency	December 2015 $000	December 2014 $000
Trade and other payables	***USD***	(2,864)	(55)
Trade and other payables	***CNY***	(1,662)	-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Foreign currency risk (continued)

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 31 December 2015, 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

	Post tax profit higher / (lower)	
	December 2015 $000	**December 2014** $000
AUD / USD +10% (December 2014: +10%)	200	4
AUD / USD -5% (December 2014: -5%)	(100)	(2)
AUD / CNY +10% (December 2014: Nil	116	-
AUD / CNY -5% (December 2014: Nil)	(58)	-

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 no significant concentrations of credit risk within the Group other than cash and cash equivalents.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

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.

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

	December 2015				
	< 6 months	**6-12 months**	**1-2 years**	**> 2 years**	**Total**
	$000	$000	$000	$000	$000
Financial assets					
Cash and cash equivalents	8,650	-	-	-	8,650
Trade and other receivables	2,816	400	-	32	3,248
	11,466	400	-	32	11,898
Financial liabilities					
Trade and other payables	(11,865)	-	-	-	(11,865)
Related party loans	(3,373)	(12,489)			(15,862)
Other loans	(463)	(72)	(85)	-	(620)
	(15,701)	(12,561)	(85)	-	(28,347)
Net outflow	(4,235)	(12,161)	(85)	32	(16,449)

	December 2014				
	< 6 months	**6-12 months**	**1-2 years**	**> 2 years**	**Total**
	$000	$000	$000	$000	$000
Financial assets					
Cash and cash equivalents	1,235	-	-	-	1,235
Trade and other receivables	2,187	184	7	27	2,405
	3,422	184	7	27	3,640
Financial liabilities					
Trade and other payables	(6,704)	-	-	-	(6,704)
Other loans	(213)	(73)	(145)	(85)	(516)
	(6,917)	(73)	(145)	(85)	(7,220)
Net outflow	(3,495)	111	(138)	(58)	(3,580)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

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.

21. 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 2015	**December 2014**
	$000	$000
Within one year	6,216	8,198
After one year but not more than five years	12,811	11,629
More than five years	1,629	1,233
Total minimum lease payments	20,656	21,060

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

22. 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.

	Purchases from related parties		Amounts owed to related parties	
	12 months ended December 2015	**6 months ended December 2014**	**December 2015**	**December 2014**
	$000	$000	$000	$000
Fiesta Design Pty Ltd (i)	N/A	910	-	-
SunTarget (HongKong) Trading Co., Limited. (ii)	-	N/A	13,862	N/A
Lylu Pty Ltd as trustee of the Lylu Trust (iii)	-	N/A	2,000	N/A
Ningbo Xianfeng New Material Co., Ltd(ii)	28	N/A	4	N/A

(i) Fiesta Design Pty Ltd was a significant shareholder in the Company until 25th August 2014 and their shareholder and director Hardjanto Siswandjo served as an alternate director during the year ended 30 June 2014.

(ii) Suntarget (HongKong) Trading Co., Limited is a subsidiary of Ningbo Xianfeng New Material Company ("Aplus") the majority shareholder of the company. Their shareholder and Executive Chariman Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

(iii) The Lylu Trust provided the company with a $2,000,000 unsecured loan during the year. The loan expires October 2016 and has a fixed interest rate of 6% per annum. A beneficiary of the trust is a relation of Mr x. 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 (continued)

For the year ended 31 December 2015

22. Related parties (continued)

Subsidiaries

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

		% Equity interest	
	Country of Incorporation	**December 2015**	**December 2014**
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
Twighlight Sun Pty Ltd	Australia	100	100
Mardo International Pty Ltd	Australia	100	100
Sandelle Pty Ltd	Australia	100	100
Curtain Wonderland Pty Ltd	Australia	100	100

Entities subject to class order relief

Pursuant to Class Order 98/1418, 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.

As a condition of the Class Order, the above companies (the Closed Group) entered into a Deed of Cross Guarantee on 22 February 2010. The effect of the Deed is that Kresta Holdings Limited has guaranteed to pay any deficiency in the event of winding up of either controlled entity or if they do not meet their obligations under the terms of the overdrafts, loans, leases or other liabilities subject to the Guarantee. The controlled entities have also given a similar guarantee in the event that Kresta Holdings Limited is wound up or it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the Guarantee.

The statement of financial position and statement of comprehensive income for the closed group is not materially different to the Group's statement of financial position and statement of comprehensive income.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

22. Related parties (continued)

Compensation of key management personnel

	12 months ended December 2015 $	6 months ended December 2014 $
Short-term employee benefits	1,440,148	775,098
Post-employment benefits	100,773	53,835
Other long-term benefits	-	18,577
Termination benefits	-	-
Share-based payment	-	46,912
Total compensation	1,540,921	894,422

23. Events after the balance sheet date

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

24. Auditors' remuneration

The auditor of Kresta Holdings Limited is Ernst & Young.

	12 months ended December 2015 $	6 months ended December 2014 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group	111,966	60,000
Other services in relation to the entity and any other entity in the consolidated group		
Other assurance services	25,750	-
	137,716	60,000

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2015

25. 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.

Geographical areas

The Group has revenues from external customers attributed to:

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

	12 months ended December 2015 $000	6 months ended December 2014 $000
Revenues (Australia)	92,138	46,658
Revenues (New Zealand)	3,793	1,724
	95,931	48,382

	December 2015 $000	December 2014 $000
Non-current assets (Australia)	15,996	14,961
Non-current assets (New Zealand)	54	54
	16,350	15,015

Non current assets include tangible and intangible assets, but exclude financial instruments and deferred tax assets.

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

Major customers

The Group's customers consist of over six 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 consolidated entity are in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the financial position as at 31 December 2015 and its performance for the year ended on that date of the consolidated entity; 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 2015.

As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 22 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Xianfeng Lu
Executive Chairman
Perth, 26 February 2016

Building a better
working world

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

We have audited the accompanying financial report of Kresta Holdings Limited, which comprises the consolidated statement of financial position as at 31 December 2015, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor’s Independence Declaration, a copy of which is included in the directors’ report.

TD:VH:KRESTA:017

Opinion

In our opinion:

a. the financial report of Kresta Holdings Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Kresta Holdings Limited for the year ended 31 December 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

T G Dachs
Partner
Perth
26 February 2016

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 31 March 2016.

(a) Distribution of equity securities

(i) Ordinary share capital

150,258,518 fully paid ordinary shares are held by 670 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	160
1,001 – 5,000	242
5,001 – 10,000	108
10,001 – 100,000	127
100,001 and over	33
	670
Holding less than marketable parcel	331

(b) Substantial shareholders

	Fully paid	
Ordinary shareholders	**Number**	**Percentage**
SUNTARGET (HONGKONG) TRADING CO LIMITED	126,741,799	84.35
TIAN YUAN(MEL) PTY LTD	8,530,469	5.68
	135,272,268	90.03

ASX additional information (continued)

(c) Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid Number	Fully paid Percentage
SUNTARGET (HONGKONG) TRADING CO LIMITED	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
MR ANDREW MICHAEL HARCOURT	810,000	0.54
MR ANDREW EDWARD BENNS	710,250	0.47
DEBUSCEY PTY LTD	500,000	0.33
WHEELMAR DISTRIBUTORS PTY LTD	487,500	0.32
MR ANDREW MALCOLM JAMES TACEY	450,000	0.30
MR ANTHONY MALCOLM GEORGE TACEY	400,000	0.27
SIESTA INVESTMENT GROUP PTY LTD <SIESTA INVESTMENT FUND A/C>	369,000	0.25
CAIRNGLEN INVESTMENTS PTY LTD <WOODFORD SUPERANNUATION A/C>	303,083	0.20
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
MR BRENDAN WILLIAMS COCKS	204,142	0.14
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
GROZIER PTY LTD <LR FARKASH SUPER FUND A/C>	200,000	0.13
	142,927,994	95.13

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