



Kresta Holdings Limited

Kresta Holdings Limited
ACN 008 675 803

Annual Financial Report

31 December 2018

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Corporate information

ABN 26 008 675 803

Directors

Xianfeng Lu, Executive Chairman
Mingming Zhang, Executive Director – Appointed 30 August 2018
Li Ding, Non-executive Director – Appointed 30 August 2018
Yongjiu Xu, Non-executive Director – Appointed 30 November 2018

Company Secretary

Tao Li – Appointed 29 July 2019

Registered Office and Principal Place of Business

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

Share Register

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

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

Bankers

Commonwealth Bank of Australia Limited
Level 2
300 Murray Street
Perth WA 6000

Auditors

Mazars Risk & Assurance Pty Limited
Level 12
90 Arthur Street
North Sydney NSW 2060

Solicitors

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

Directors' report

Your directors of Kresta Holdings Limited (Kresta Holdings) present their report together with the financial statements of the consolidated entity, being Kresta Holdings (the Company) and its Controlled Entities (the Group) for the year ended 31 December 2018.

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 Company.

Other current directorships: Chairman of APLUS

Former directorships (last 3 years): None

Mingming Zhang, (Executive Director) – Appointed 30 August 2018

Mr Zhang has been with the Kresta business for 4 years. During this time, he has managed the procurement and distribution business and, more recently, was responsible for the West Coast Kresta and Vista businesses.

Other current directorships: None

Former directorships (last 3 years): None

Ding Li, (Non-executive Director) – Appointed 30 August 2018

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

Other current directorships: None

Former directorships (last 3 years): None

Yongjiu Xu, (Non-executive Director) – Appointed 30 November 2018

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

Other current directorships: None

Former directorships (last 3 years): None

Directors' report (continued)

Sean Shwe, (Former Non-executive Director) – Resigned 7 November 2018

Mr Shwe joined the board of Kresta Holdings Limited in November 2016. Mr Shwe had previously been the Chief Operating Officer, General Manager & Operations and Strategy Manager. During his tenure, Mr Shwe 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, Mr Shwe was nominated a winner in the esteemed 30 Under 30 national competition in Australia. Mr Shwe is the Fellow of Australian Institute of Management.

Other current directorships: None

Former directorships (last 3 years): None

Simon Lyons, (Former Non-executive Director) – Resigned 9 April 2018

Mr Lyons has been involved in the day to day management of financial services businesses for the last 24 years. Prior to that he served as an Army Officer with the Australian Defense Force. He began his business career at Porter Western Limited as a stockbroker in 1994 and was a director and shareholder of Porter Western when the business was sold to Macquarie Bank in 1999. With the business under new ownership, Mr Lyons became the State Manager for Macquarie Bank in Perth where he was promoted to Division Director for Macquarie and transferred to a national role as Head of Broking (Distribution and Development), largely based out of Sydney. In 2005, Mr Lyons became the Head of Macquarie Private Wealth - Asia and spent several years working in Asia and India establishing or acquiring wealth management businesses for Macquarie Bank. Since leaving Macquarie Bank, Mr Lyons has established and managed wealth management businesses to service clients looking for stockbroking or fixed income investments (bonds and term deposits).

Other current directorships: None

Former directorships (last 3 years): CEO of Goldfields Money Ltd

Jin Lan Quan, (Former Non-executive Director) – Appointed 19 April 2018, Resigned 23 August 2018

Ms Quan is an independent financial planner and business consultant based in Sydney, Australia. Ms Quan has significant experience in finance and audit. Previously, she was the senior audit partner with Arthur Anderson in Sydney. Ms Quan is a Fellow of the Association of Chartered Certified Accountants of United Kingdom and a member of the Canadian Institute of Corporate Directors.

Other current directorships: None

Former directorships (last 3 years): None

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

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

Other current directorships: None

Former directorships (last 3 years): None

Directors' report (continued)

Interest in the shares and options of the Company

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

	Number of Ordinary Shares
Xianfeng Lu	126,741,799
Mingming Zhang	933,833
Ding Li	-
Yongjiu Xu	601,093

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

Shares granted to directors of the Company

During the period no shares were granted to directors under the LTI 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.

Company secretary

Neil Perkins, B. Com., CA

Mr Perkins resigned as Company Secretary on 19 January 2018 and is no longer employed by the Company.

Xiaowei Jiang, B. Com., CA

Ms Jiang was appointed Company Secretary on 19 January 2018 and resigned on 3 September 2018 and is no longer employed by the Company. Ms Jiang is a Chartered Accountant and had previously held senior management roles in Audit and Financial Accounting Advisory with Ernst & Young Perth and Shanghai office.

Mingming Zhang, B.Com.

Mr Zhang was appointed Company Secretary on 3 September 2018 and resigned on 29 July 2019. Mr Zhang has been with Kresta in various management positions for over 4 years.

Tao Li, BA (Hons), FCCA, CPA

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

Principal activities

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

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

Directors' report (continued)

Operating and financial review

Group overview

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

The Group operates two manufacturing plants in Western Australia and Queensland. Subsequent to the year end, the plant in Western Australian has been closed but the Group still maintain small manufacturing capability in Queensland. At the same time, the Group also sources finished products from local and overseas contract suppliers at competitive prices and acceptable delivery time to customers

The Group recorded revenue of \$65,319,000 which was a decrease of \$10,412,000 or 14% from the corresponding year ended 31 December 2017. Factors contributing to the reduction in revenue include high staff turnovers with Curtain Wonderland stores and declined business activities in In-home sales division, Kresta is also facing tough trading conditions and competitive local competitors in each state.

The Company recorded a pre-tax loss of \$18,330,000 (December 2017: \$5,311,000). During the year the Company made progress with its cost reduction initiatives, however it continues to experience production inefficiencies while the business was being restructured.

Net loss after tax was \$18,376,000 compared with a prior year loss of \$10,041,000, including the recognition of onerous lease provision of \$3,199,007 and Property, Plant & Equipment impairment of \$412,325.

On a cash flow basis, the Company recorded a cash inflow from operations of \$827,000. This is partly due to the extension of credit term from 6 month to 18 months with its major supplier Ningbo Cathayan Waving MFG Co Ltd and Ningbo Mardo Import and Export Co Ltd, the Company has deferred payment of \$9,289,399 including \$442,352 of interest till 31 December 2018

Cash at the end of the period was \$3,109,000 (up from \$2,646,000 at December 2017).

Operating results for the year

The Group recorded a net loss after tax of \$18,377,000 for the year ended 31 December 2018

Shareholder returns

	2018	2017	2016	2015	2014
Basic (loss)/earnings per share (cents)	(12.23)	(6.68)	(0.57)	(1.75)	0.03
Return on shareholders' funds	(142.50%)	(135.8%)	(4.9%)	(9.7%)	0.2%
Closing share price (cents)	n/a	5.0	16.0	18.0	22.0

Capital structure

The Group's net assets decreased from \$7,395,000 as at 31 December 2017 to a net liability position of \$12,146,000 at 31 December 2018.

Liquidity and funding

At year end, the Group had cash at bank and on hand at 31 December 2018 of \$3,109,000 (31 December 2017: \$2,646,000).

Directors' report (continued)

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

Subsequent events

On 15 March 2019, a corporate restructure was approved by the Board of Ningbo Xianfeng New Material Company (Aplus), this internal restructure has transferred 84.35% of Aplus's indirect interests in the Company to Van Dairy (Hong Kong) Group Limited (Van Dairy), an entity also indirectly controlled by Mr Xianfeng Lu. Aplus used to hold the share interests through its wholly owned subsidiary Suntarget (Hong Kong) Trading Co., Limited ('Suntarget').

On 15 March 2019, Suntarget and Van Dairy entered into an Agreement for Sale and Purchase of Share and agreed that Suntarget transfers 84.35% of the Group's equity to Van Dairy.

On 15 March 2019, Suntarget, the Group and Van Dairy entered into a Loan Contract Supplemental Agreement and agreed that Suntarget transfers its loans of AUD\$0.81 million, AUD\$10.50 million and total interest of AUD\$679,044 from Suntarget to Van Dairy. This agreement has subordinated the debt owed by the Group to Van Dairy in favour of all other creditors of the Group.

In May 2018, the Group's major suppliers Ningbo Cathayan Weaving Co., Ltd and Mardo Import and Export has offered a 12-month credit extension further to its standard 6 month credit terms, the Group has made payments to first batch of invoices due in October 2019. In February 2019, Ningbo Zhexiang Trade Co., Ltd took over the Group's supply chain and agreed a 18-month credit term with the Group.

On 28 October 2019, the board of Van Dairy has approved an internal corporate restructure to transfer its 84.35% direct shares to its associate Dream Curtain Holdings Co., Limited ('DCH'), an entity also controlled by Mr Xianfeng Lu. Subsequently, the Group and DCH entered into a Deed of Parent Company Support ("Deed") and agreed Van Dairy to transfer its loan of AUD\$0.79 million, AUD\$10.31 million and interest of AUD\$666,928 from Van Dairy to DCH. The contract also includes an AUD\$10 million financial support to the Group from DCH.

On 27 November 2019, the Group entered into a term sheet to sale its property at 380 Victoria Road Malaga for AUD\$7 million. The sales was executed and settled on 23rd December 2019.

On 1st December 2019, the Group has entered into a Sales Agreement with a Hong Kong based entity called Champ Profit Industrial Limited ("CPI") to sell its Curtain Wonderland ("CW") business, the sales proceeds is AUD\$1 and CPI will take over all CW's assets and liabilities as of 1 December 2019. The transaction was approved by ASX on 30th December 2019 with no shareholder approval required. The transaction was completed on 31st December after KHL board approval.

The disposal was part of a strategic decision to dispose of a non-performing cash generating unit. The financial effects of this transaction have not been recognised at 31 December 2018. The operations and net assets of the above mentioned entity are reported as part of the single operating segment, which is manufacture and sales of window coverings.

Directors' report (continued)

(i) Disposal consideration and fair value of net liabilities disposed

Disposal of sub

Cash received / receivable

December 2018

1

1

The provisionally determined fair values of the assets and liabilities of Curtain Wonderland Pty Ltd as at disposal date are as follows:

Cash and cash equivalents
Property, plant and equipment
Intangibles
Inventories
Trade and other receivables
Other assets

Trade and other payables
Provisions
Borrowings
Net identifiable liabilities disposed

December 2018

891,592

2,889,649

14,884

8,238,887

329,884

184,066

(6,580,286)

(573,481)

(9,937,074)

(4,541,879)

Likely developments

The Group has been and will continue to focus on its loss-making brand and divisions, and incorporate cross board sales & marketing and human resources strategies to rebuild the business. This will include improving the Group's organisational structure and reducing its retail footprint.

After 2 years of development, the Group's self-developed end to end ERP system have been rolled out nationally in late 2018. This has proven to increase productivities and order accuracy and customers are being serviced in a timely manner. The Group has been continuing developing the product and service delivery functions of the ERP system with a version to be transparent and responsible to its customers.

The Group will still focus on product quality with a vision to deliver best quality in Australia and New Zealand.

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

Dividends

The Company has not declared a dividend for 31 December 2018 financial year (31 December 2017: \$nil).

Directors' report (continued)

Shares under option or issued on exercise of options.

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

Indemnification and insurance of directors and officers

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

(a) A wilful breach of duty.

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

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

Indemnification of auditors

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

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

Directors' meetings

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

	Directors		Meeting of committees			
	Eligible	Attended	Audit and Risk		Remuneration	
			Eligible	Attended	Eligible	Attended
Xianfeng Lu	3	1	-	-	-	-
Mingming Zhang	1	1	1	1	-	-
<i>Appointed 30 August 2018</i>						
Ding Li	1	1	1	1	-	-
<i>Appointed 30 August 2018</i>						
Yongjiu Xu	-	-	-	-	-	-
<i>Appointed 30 November 2018</i>						
Sean Shwe	3	3	3	3	-	-
<i>Resigned 7 November 2018</i>						
Simon Lyons	3	3	1	1	-	-
<i>Resigned 4 April 2018</i>						
Jin Lan Quan	1	1	2	2	-	-
<i>Appointed 19 April 2018</i>						
<i>Resigned 23 August 2018</i>						
Wen Qian	-	-	-	-	-	-
<i>Appointed 25 January 2019</i>						
<i>Resigned 29 July 2019</i>						

Directors' report (continued)

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

Committee membership

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

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

Audit and Risk

Ding Li (Chair)

Mingming Zhang

Yongjiu Xu

Remuneration

Mingming Zhang (Chair)

Yongjiu Xu

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Auditor

The Company's previous auditor, Ernst & Young was removed on 12 April 2019 in the General Meeting. Mazars Risks & Assurances Pty Ltd was appointed in the meeting.

Mazars Risks & Assurances Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

Non-audit services

Mazars Risk & Assurance did not render non-audit services for the financial year ended 31 December 2018.

Auditor's independence

The Auditor's independence declaration is set out on page 18 and forms part of the directors' report for the financial year ended 31 December 2018.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)) under the option available to the Company under the ASIC Corporation (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the ASIC Instrument applies.

Remuneration report (audited)

This remuneration report for the period ended 31 December 2018 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited in accordance with section 300A of the Act.

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

Directors' report (continued)

Individual key management personnel disclosures

Details of KMP are set out below.

Xianfeng Lu	Executive Chairman
Mingming Zhang	Director (Executive) – Appointed 30 August 2018
Ding Li	Director (Non-Executive) – Appointed 30 August 2018
Yongjiu Xu	Director (Non-Executive) – Appointed 30 November 2018
Sean Shwe	Director (Non-Executive) – Resigned 7 November 2018
Simon Lyons	Director (Non-Executive) – Resigned 9 April 2018
Jin Lan Quan	Director (Non-Executive) – Appointed 19 April 2018, resigned 23 August 2018
Wen Qian	Director (Executive) – Appointed 25 January 2019, resigned 18 August 2019

Remuneration philosophy

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

Remuneration committee

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

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

Remuneration structure

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

Non-executive director remuneration

Objective

The 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.

Structure

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.

Directors' report (continued)

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

Executive remuneration

Objective

The 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 executives.

Remuneration consists of the following key elements:

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

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

The 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 as the Company's strategic plans evolve and the Remuneration Committee considers the most appropriate remuneration and incentive structure.

Fixed remuneration

Objective

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

Fixed remuneration is reviewed annually by the remuneration committee and the process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. No external advice was undertaken during the 2018 year on fixed remuneration.

Directors' report (continued)

Structure

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

Variable remuneration – short term incentive

Objective

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

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 2018 financial year

There was no STI cash bonus paid to executives in 2018 (2017: \$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 2018, there are no LTI grants on offer to executives.

Directors' report (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 2018	Granted as compensation	Net change other	Balance at resignation date	Balance 31 December 2018
Current directors					
Xianfeng Lu ⁽ⁱ⁾	126,741,799	-	-	-	126,741,799
Mingming Zhang	-	-	933,833	-	933,833
Ding Li	-	-	-	-	-
Yongjiu Xu	-	-	601,093	-	601,093
Sean Shwe	551,895	-	-	551,895	-
Simon Lyons	-	-	-	-	-
Jin Lan Quan	-	-	-	-	-
Wen Qian	-	-	41,311	41,311	-
Total	127,293,694		1,576,237	593,206	128,276,725

(i) 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 Chairman Mr Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

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.

	2018 31 December	2017 31 December	2016 31 December	2015 31 December	2014 31 December
Earnings / (loss) before interest and tax (\$000)	(17,772)	(4,792)	(388)	(3,612)	144
Net profit / (loss) after tax (\$000)	(18,376)	(10,041)	(857)	(2,629)	52
Earnings / (loss) per share (cents)	(12.22)	(6.68)	(0.57)	(1.75)	0.03
Increase / (decrease) in share price (cents)	(0)	(11)	(2)	(4)	1.5

Net profit after taxes is considered as one of the financial performance targets in setting the STI. Profit amounts for December 2014 to December 2018 have been calculated in accordance with Australian Accounting Standards.

Directors' report (continued)

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 for the year ended 31 December 2018

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

⁽ⁱ⁾ Jin Lan Quan was appointed on 19 April 2018 and resigned on 23 August 2018.

⁽ⁱⁱ⁾ Sean Shwe resigned on 7 November 2018.

⁽ⁱⁱⁱ⁾ Simon Lyons resigned on 9 April 2018.

^(iv) Ding Li was appointed on 30 August 2018.

^(v) Yongjiu Xu was appointed on 30 November 2018.

^(vi) Mingming Zhang was appointed on 30 August 2018. The carrying value of the Group's interest-bearing liabilities are materially in line with their fair values.

^(vii) Wen Qian was appointed on 25 January 2019 and resigned on 29 July 2019.

Directors' report (continued)

Remuneration for the year ended 31 December 2017

	Salary & fees	Short-term benefits Cash bonus	Non-monetary benefits	Post-employment Superannuation	Share-based payments Share options	Long-term benefits Long service leave	Termination payments ⁽ⁱ⁾	Total	Performance and options related
	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors									
R. Taylor ⁽ⁱ⁾	39,954	-	-	3,796	-	-	-	43,750	-
Sean Shwe	74,904	-	-	7,116	-	-	-	82,020	-
Simon Lyons	28,539	-	-	2,711	-	-	-	31,250	-
	143,397	-	-	13,623	-	-	-	157,020	-
Executive directors									
Xianfeng Lu ⁽ⁱⁱ⁾	173,423	-	-	-	-	-	-	173,423	-
	173,423	-	-	-	-	-	-	173,423	-
	316,820	-	-	13,623	-	-	-	330,443	-

⁽ⁱ⁾ Mr Taylor resigned from the Company on 31 July 2017.

⁽ⁱⁱ⁾ From 1 December 2017, Company incurs \$250k per annum in relation to Mr. Lu.

Other transactions with related parties

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

	Stock sold to related parties		Interest charged by related parties		Amounts owed to related parties	
	December 2018 \$'000	December 2017 \$'000	December 2018 \$'000	December 2017 \$'000	December 2018 \$'000	December 2017 \$'000
SunTarget (HongKong) Trading Co. Limited. (i)	-	-	552	530	11,043	10,545
Zhejiang Suntarget New Material Co. Ltd (ii)	3,281	-	-	-	-	-
	3,281	-	552	530	11,043	10,545

(i) 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 Chairman, Mr Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

(ii) The company sold stock to Zhejiang Suntarget New Material Co.Ltd for \$3,281,000 and \$263,583 of inventory is committed and yet to be shipped to Suntarget by 31 December 2018, \$128,388 of inventory is committed and yet to be shipped to Suntarget by 31 December 2019.

Terms and conditions of transactions with related parties

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

END OF AUDITED REMUNERATION REPORT**Auditors independence declaration**

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

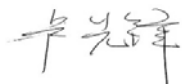
Auditor

The Company's previous auditor, Ernst & Young was removed on 12 April 2019 in the General Meeting. Mazars Risks & Assurances Pty Ltd was appointed in the meeting.

Mazars Risks & Assurances Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors:



Xianfeng Lu
Executive Chairman
07 February 2020
Perth



AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF KRESTA HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief during the year ended 31 December 2018, there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

MAZARS RISK AND ASSURANCE PTY LTD

A handwritten signature in black ink that reads 'P. N. Collins'.

Paul Collins
Director

Sydney, on this 7th day of February 2020

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	December 2018 \$000	December 2017 \$000
Sale of goods		65,319	75,731
Revenue		65,319	75,731
Other income	4a	132	604
Changes in inventories of finished goods and work in progress		(547)	(3,913)
Raw materials and consumables used		(22,019)	(16,402)
Employee benefits expense	4b	(29,517)	(33,860)
Depreciation and amortisation charge	4c	(1,901)	(1,931)
Other expenses	4d	(29,239)	(25,021)
Results from operating activities		(17,772)	(4,792)
Finance income		14	32
Finance costs		(572)	(551)
Net finance expense	4e	(558)	(519)
Loss before income tax		(18,330)	(5,311)
Income tax (expense)/benefit	5	(46)	(4,730)
Loss for the period		(18,376)	(10,041)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net foreign currency translation		(12)	(28)
Other comprehensive loss for the period, net of tax		(12)	(28)
Total comprehensive loss for the period		(18,388)	(10,069)
Total comprehensive loss attributable to owners of the Company		(18,388)	(10,069)
Loss per share for profit attributable to the ordinary equity holders of the parent:			
Basic loss per share	6	(12.22 cents)	(6.68 cents)
Diluted loss per share	6	(12.22 cents)	(6.68 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 2018

	Note	December 2018 \$000	December 2017 \$000
ASSETS			
Current assets			
Cash and cash equivalents	8	3,129	2,646
Trade and other receivables	9	1,345	2,776
Inventories	10	10,034	10,581
Prepayments		1,084	1,230
Total current assets		15,592	17,503
Non-current assets			
Trade and other receivables	9	-	15
Property, plant and equipment	12	9,627	11,635
Deferred tax assets	5	33	-
Intangible assets and goodwill	13	302	1,668
Total non-current assets		9,962	13,318
TOTAL ASSETS		25,554	30,821
LIABILITIES			
Current liabilities			
Trade and other payables	15	17,947	8,785
Deferred revenue		1,465	-
Interest-bearing loans and borrowings	16	11,278	10,930
Provisions	17	6,089	2,407
Income tax payable		50	-
Total current liabilities		36,829	22,122
Non-current liabilities			
Interest-bearing loans and borrowings	16	120	301
Provisions	17	723	1,003
Deferred tax liabilities		28	-
Total non-current liabilities		871	1,304
TOTAL LIABILITIES		37,700	23,426
NET LIABILITIES / (ASSETS)		(12,146)	7,395
EQUITY			
Contributed Equity	18a	12,892	12,892
Reserves	18d	(95)	(83)
Accumulated losses	18c	(24,943)	(5,414)
TOTAL EQUITY		(12,146)	7,395

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

Consolidated statement of cash flows

For the year ended 31 December 2018

	<i>Note</i>	December 2018 \$000	December 2017 \$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		73,747	82,078
Payments to suppliers and employees (inclusive of GST)		(72,889)	(84,930)
Receipt of government grants	19	-	3
Interest received	4e	14	32
Interest paid	4e	(17)	(1,170)
Income tax paid		(28)	(101)
Net cash flows from / (used in) operating activities	8	827	(4,088)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		198	249
Purchase of property, plant and equipment	12	(223)	(518)
Purchase of intangibles	13	-	(10)
Net cash flows used in investing activities		(25)	(279)
Cash flows from financing activities			
Proceeds from borrowings	8	536	1,306
Repayment of borrowings	8	(867)	(3,276)
Net cash flows used in financing activities		(331)	(1,970)
Net (decrease)/increase in cash and cash equivalents		471	(6,337)
Net foreign exchange differences		12	(26)
Cash and cash equivalents at beginning of period		2,646	9,009
Cash and cash equivalents at end of period	8	3,129	2,646

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 2018

	Ordinary shares	Employee equity benefits reserve	Foreign currency translation reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2018	12,892	495	(578)	(5,414)	7,395
Adjustment for change in AASB 15				(1,153)	(1,153)
1 January 2018 - restated	12,892	495	(578)	(6,567)	6,242
Loss for the period	-	-	-	(18,376)	(18,376)
Other comprehensive loss	-	-	(12)	-	(12)
Total comprehensive loss for the period	-	-	(12)	(18,376)	(18,388)
At 31 December 2018	12,892	495	(590)	(24,943)	(12,146)
At 1 January 2017	12,892	495	(550)	4,627	17,464
Loss for the period	-	-	-	(10,041)	(10,041)
Other comprehensive loss	-	-	(28)	-	(28)
Total comprehensive loss for the period	-	-	(28)	(10,041)	(10,069)
At 31 December 2017	12,892	495	(578)	(5,414)	7,395

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 2018

1. Corporate Information

The consolidated financial report of Kresta Holdings Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 07 February 2020.

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

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

(b) Going Concern

During the year the Group incurred a loss after tax of \$18.377 million (2017: loss of \$10.041 mil), with a net cash inflow from operations of \$0.802 million (2017: cash outflow of \$4.09mil). The Group has a net liability of \$12.123 million (2017: net assets of \$7.395 million), inclusive of \$11.043 million relating to related party loans from Suntarget (HongKong) Trading Co., Limited (Suntarget) discussed further in note 16.

In determining that the going concern assumption is an appropriate basis of preparation for the year end financial report for the year ended 31 December 2018, the Directors have taken account of the following:

- On 15 March 2019, Suntarget (Hong Kong) Trading Co Limited ("Suntarget") and Van Dairy (Hong Kong) Ltd entered into an Agreement for Sales and Purchase of Share and agreed that Suntarget transfers 84.35% of the Company's equity to Van Dairy.
- On 15 March 2019, Suntarget, the Group and Van Dairy entered into a Loan Contract Supplemental Agreement, and agreed that Suntarget transfers AUD\$0.81 million, AUD\$10.50 million and total interest of AUD\$679,044 from Suntarget to Van Dairy.
- Following the sale of Suntarget's 84.3% shares in the Company to Van Dairy (Hong Kong) Co. Ltd ("Van Dairy") under an internal restructure, the Group and Van Dairy had entered into a Deed of Parent Company Support, with terms summarised per below:
 - Van Dairy has extended total of \$11.31 million loan's term to 31 December 2020;
 - Van Dairy is also advancing a loan to the Group, in the amount of AUD \$10 million, which is due for repayment 18 month after the date of the advance;

Notes to the consolidated financial statements

For the year ended 31 December 2018

- On 28 October 2019, following in an internal restructure, Van Dairy has transferred its 84.35% shares to Dream Curtain Holdings Co., Ltd (“DCH”), \$11.12 million loan due by 31 December 2020 has also transferred to DCH. On 28 October 2019, the Group and DCH entered into a Deed of Parent Company Support those arrangements.
- On 27 November 2019, the Group entered into a Sale of Land agreement to sale its property at 380 Victoria Road Malaga for AUD\$7 million, this transaction was settled on 26th December 2019.

On 1st December 2019, the Group has entered into a Sales Agreement with a Hong Kong based entity called Champ Profit Industrial Limited (“CPI”) to sell its Curtain Wonderland (“CW”) business, the sales proceeds is AUD\$1 and CPI will take over all CW’s assets and liabilities as of 1 December 2019. The transaction was approved by ASX on 30th December 2019 with no shareholder approval required. The transaction was completed on 31st December after KHL board approval.

The disposal was part of a strategic decision to dispose of a non-performing cash generating unit. The financial effects of this transaction have not been recognised at 31 December 2018. The operations and net assets of the above mentioned entity are reported as part of the single operating segment, which is manufacture and sales of window coverings.

(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

Changes in accounting policy and disclosures

The Group has adopted all the Australian Accounting Standards and AASB Interpretations, mandatory for annual periods beginning on or after 1 January 2018, any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The impact of the adoption of the following Standards and Interpretations are as follows:

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

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

AASB 15 Revenue from Contracts with Customers replaces AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers and Interpretation 131 Revenue—Barter Transactions Involving Advertising Services).

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

Impact: The Group has adopted AASB 15 from 1 January 2018. The adoption of the new standards resulted in the change of the revenue recognition policy to align to AASB 15. Under the new standards, revenue from sale of goods and provision of installation services should be recognised at a point in time when the customers pick up the order or when the installation service is completed, reflecting the point at which control is passed to the customer and the company has satisfied its performance obligations.

As a result, revenue was previously recognised earlier than accepted under AASB 15. The Group has assessed the revenue and cost of sales which has been booked in the system and not yet installed or picked up at balance date and reversed the revenue at balance date.

Impact on the Consolidated Statement of Profit or Loss

	Accounts prepared under AASB15 \$000	Current period adjustments under AASB15 \$000	Accounts prepared under previous AASB118 \$000
Revenue	65,319	(1,465)	66,784
Expenses	(83,091)	652	(83,743)
Finance Costs	(558)	-	(558)
Net Profit/(Loss)	(18,330)	813	(17,517)

Impact on the Consolidated Statement of Financial Position

	Accounts prepared under AASB15 \$000	Current period adjustments under AASB15 \$000	Accounts prepared under previous AASB118 \$000
Current assets	15,592	652	16,244
Non-current assets	9,962	-	9,962
Current liabilities	(36,829)	(1,465)	(38,294)
Non-current liabilities	(871)	-	(871)
Net Assets	(12,146)	(813)	(12,959)

(ii) AASB 9 Financial Instruments

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

AASB 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.

Under the new model, expected credit losses are calculated by:

- identifying scenarios in which a loan or receivable defaults;
- estimating the cash shortfall that would be incurred in each scenario if a default were to happen;
- multiplying that loss by the probability of the default happening; and
- summing the results of all such possible default events.

Notes to the consolidated financial statements

For the year ended 31 December 2018

AASB 9 provides a simplified approach that must be applied to trade receivables.

Impact: The Group adopted the new standard from 1 January 2018. The material impact of the adoption of AASB 9 is the accounting policy change in the impairment of trade receivables which now uses the expected credit loss model. Management has assessed the impact of adoption of AASB 9 and found that there is no material impact to the financial.

(iii) *AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration*

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

AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency, is effective 1 January 2018.

Impact: Management had assessed the impact of adoption of this policy has no effect on the financial position and performance of the Group.

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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 previous 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) Revenue recognition

Revenue is recognised when the Group has satisfied its performance obligations, which occurs when control of the goods or services are transferred to the customer. When the performance obligation has been satisfied, the Group will recognise as revenue the amount of the transaction price that is allocated to the performance obligation, after excluding any estimates of variable consideration where applicable.

Sale of goods

The Groups sells window coverings and provide installation services of the window coverings sold. Revenue from sale of goods is recognised when control of the products has transferred, being when the window coverings are picked up by customer and for installation sales, control of products has transferred once installation is complete. On this basis, revenue is recognised at a point in time.

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.

(g) Government grants

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.

(h) Leases

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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

Group as a lessee

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

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

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

(i) Cash and cash equivalents

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

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

(j) Trade and other receivables

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

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

(k) Inventories

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

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

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

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

For the year ended 31 December 2018

(l) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Translation of Group Companies' functional currency to presentation currency

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

(m) Income tax and other taxes

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

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

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

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

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Notes to the consolidated financial statements

For the year ended 31 December 2018

- When the deductible temporary difference is associated with investments in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Other taxes

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

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

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

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

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

(n) Property, plant and equipment

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

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

Derecognition

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

(o) **Goodwill and intangibles**

Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial

Notes to the consolidated financial statements

For the year ended 31 December 2018

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.

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

Software

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

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

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

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

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

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

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For the year ended 31 December 2018

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.

(q) Trade and other payables

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

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

(r) Provisions and employee benefits

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

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

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

Employee leave benefits

Wages, salaries, annual leave and sick leave

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

Long service leave

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

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.

Warranty

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

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

Onerous contract

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

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

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

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

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

(s) Interest-bearing loans and borrowings

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

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

Borrowing costs

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

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(t) Share-based payment transactions

Equity settled transactions

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

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

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

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

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

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

(u) Contributed equity

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

(v) Operating segments

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

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

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

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

(w) Earnings per share

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

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

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

(x) Financial instruments

(i) Financial assets

Initial recognition and measurement

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

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

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For the year ended 31 December 2018

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

Subsequent measurement

Loans and receivables

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

Derecognition

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

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

(ii) **Impairment of financial assets**

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

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

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

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For the year ended 31 December 2018

(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.

(y) New Accounting Standards and Interpretations not yet mandatory or early adopted

The AASB has issued a number of new and amended Accounting Standards that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The directors have decided not to early-adopt any of the new and amended pronouncements. The following sets out management's assessment of the pronouncements that are relevant to the Group but applicable in future reporting period.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019)

The Group has chosen not to early adopt AASB 16. However, the Group has conducted a preliminary assessment of the impact of this new Standard, as follows:

A core change resulting from applying AASB 16 is that most leases will be recognised on the balance sheet by lessees as the standard no longer differentiates between operating and financing leases. An asset and a financial liability are recognised in accordance to this new Standard. There are, however, two exceptions allowed: short-term and low-value leases. The accounting for the Group's operating leases will be primarily affected by this new standard.

AASB 16 will be applied by the Group from its mandatory adoption date of 1 January 2019. The comparative amounts for the year prior to first adoption will not be restated, as the Group has chosen to apply AASB 16 retrospectively with cumulative effect. All right-of-use assets will be measured on the amount of the lease liability on adoption.

As allowed by the standard, the Group has elected:

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

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For the year ended 31 December 2018

During 2018, the Group has performed a detailed impact assessment of AASB 16. In summary, the impact of AASB 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

Assets	\$'000
Right-of-use asset	25,189
Make good asset	764
Total	25,953
 Liabilities	
Lease liabilities	29,862
 Net Impact on equity	 (3,909)

The onerous lease provision at 31 December 2018 totalling \$3,103,000 will be released to opening retained earnings on 1 January 2019. As a result of the onerous lease provision present at 31 December 2018, the directors expect a material impairment charge over the right of use asset on adoption of AASB 16. The impairment assessment will be performed at the Cash Generating Unit (CGU) in accordance with AASB 136 Impairment of Assets.

AASB 2017-4: Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments (applicable to annual reporting periods commencing on or after 1 January 2019).

AASB 2017-4 amends AASB 1 to clarify that a first-time adopter whose date of transition to Australian Accounting Standards is before 1 July 2017 may elect not to reflect the application of AASB Interpretation 23, as identified in AASB 1048 Interpretation of Standards, in comparative information in its first financial statements prepared in accordance with Australian Accounting Standards.

The Directors anticipate that the adoption of AASB 2017-4 will not have a material impact on the Group's presentation of its financial statements.

Other standards not yet applicable

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

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For the year ended 31 December 2018

Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Significant judgements made in applying accounting policies

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.

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 five years together with future tax planning strategies.

Valuation of Inventory

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

These key assumptions are reviewed at least annually.

Impairment of Trade Receivables

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

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

In estimating its expected credit loss as at 31 December 2018, the Group has:

- (a) Completed an unbiased evaluation of a range of possible outcomes and their probabilities of occurrence;
- (b) Discounted for the time value of money; and

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For the year ended 31 December 2018

- (c) Obtained reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

Onerous Lease

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

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

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

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

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

Refer to note 17 for further detail on the provision balance recognised as at 31 December 2018.

Impairment of Fixed Assets

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

The PP&E impairment provision assessment requires a degree of estimation and judgement. The following key assumptions were applied by management in determining the appropriate PP&E impairment provision. Economic performance of the leasehold improvements & other identified tangible assets attached to the underperforming stores is not expected to improve in the forecast periods; and leasehold improvements & other identified tangible assets attached to the underperforming stores have a \$nil recoverable amount; and identified items of machinery can be sold within the group, or through local channels.

Refer to note 12 for further detail on the balance written off as at 31 December 2018.

Notes to the consolidated financial statements

For the year ended 31 December 2018

Useful lives of assets

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

Refer to note 12 for further detail as at 31 December 2018.

Long service leave provision

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

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

Refer to note 17 for further detail on the balance as at 31 December 2018.

Notes to the consolidated financial statements

For the year ended 31 December 2018

4. Other income and expenses

	December 2018 \$000	December 2017 \$000
(a) Other income		
Government grants	-	3
Foreign exchange gains	-	357
Net unrealised gain on related party loan	-	97
Other	132	147
	132	604
(b) Employee benefits expense		
Wages and salaries	18,141	21,412
Superannuation expense	1,772	1,891
Subcontractors	7,962	8,730
Other employee benefits expense	1,642	1,827
	29,517	33,860
(c) Depreciation and amortisation charge		
Depreciation	1,600	1,891
Amortisation of IT software	301	40
	1,901	1,931
(d) Other expenses		
Advertising	5,107	7,271
Property rent	8,581	8,234
Property outgoings	3,604	3,633
Onerous lease expense	3,199	-
Communication expenses	1,368	1,466
Banking and transaction expenses	334	473
Impairment loss – receivables	14	3
Impairment loss – goodwill	1,148	856
Impairment loss – tangibles	412	-
Net loss from disposal of property, plant & equipment	1,039	66
Net unrealised losses on related party loan	508	-
Foreign exchange losses	70	-
Freight	854	1,438
Other expenses	625	580
Doubtful debts	540	372
Obsolete stocks	1,836	629
	29,239	25,021
(e) Net finance expense		
Finance income	14	32
Finance charges payable under hire purchase contracts	(17)	(12)
Other borrowing costs	(555)	(539)
Finance costs	(572)	(551)
Net finance expense	(558)	(519)

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For the year ended 31 December 2018

(f) Cost of inventories recognised as an expense	22,566	20,309
	22,566	20,309
(g) Write (back) / down of inventory to net realisable value included within the cost of inventory recognised as an expense	(150)	(2,285)
	(150)	(2,285)

Notes to the consolidated financial statements

For the year ended 31 December 2018

5. Income tax

	December 2018	December 2017
(a) Income tax expense		
The major components of income tax expense are:	\$000	\$000
<i>Income statement</i>		
<i>Current income tax</i>		
Current income tax charge	50	-
Adjustments in respect of current income tax of previous years	-	3
<i>Deferred income tax</i>		
Current income tax benefit	(5,961)	(2,045)
Relating to origination and reversal of temporary differences	991	675
Adjustments in respect of deferred income tax of previous years	6,703	6,097
Income tax expense/(benefit) reported in the statement of comprehensive income	46	4,730
(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before tax	(18,330)	(5,311)
At the Group's statutory income tax rate of 30% (December 2017: 30%)	(5,460)	(1,591)
Adjustments in respect of current and deferred income tax of previous years	(540)	49
Expenditure not allowable for income tax	15	274
Expenditure allowable for income tax, but not deducted for accounting purposes	(6)	(8)
Unrecognised deferred tax assets	6,703	6,051
Other	(758)	(45)
Income tax expense/(benefit)	(46)	4,730

Notes to the consolidated financial statements

For the year ended 31 December 2018

(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 2018	December 2017	December 2018	December 2017
	\$000	\$000	\$000	\$000
<i>Deferred tax assets</i>				
Allowance for doubtful debts	274	111	(162)	16
Inventory	510	207	(303)	324
Accruals	112	119	7	8
Provision for FBT	(4)	2	5	4
Provision for warranty	8	48	40	1
Provision for onerous leases	1,182	2	(1,180)	18
Provision for make good	889	132	(757)	1
Employee entitlements	165	732	567	307
Property, plant and equipment	187	172	(16)	(16)
Intangibles	177	177	-	-
Tax losses	4,389	4,928	(1,503)	(2,085)
Unrealised loss on related party loan	152	-	(152)	-
Current year loss	4,107	2,042	(2,063)	
Other	-	6	6	5
	12,148	6,636	(5,511)	(1,417)
<i>Deferred tax liabilities</i>				
Prepayment	164	124	43	(65)
Property, plant and equipment	30	43	(12)	(16)
Interest receivable	-	-	-	-
Unrealised gain on related party loan	-	29	(29)	(212)
Provision for FBT	4	-	4	-
Inventory	288	389	(101)	389
	486	585	(95)	96
Net deferred tax assets	11,662	6,051		
Less: unrecognised deferred tax assets	(11,629)	(6,051)	5,657	6,051
Net deferred tax assets	33	-	-	-
Deferred tax expense/(benefit)	-	-	(5,606)	4,730

As at 31 December 2018, the Group has accumulated tax losses of \$14,570,495 (December 2017: \$9,620,621) of which \$5,606,000 (December 2017: \$nil) was recognised as a deferred tax asset. The accumulated losses are gross, not net of tax.

Notes to the consolidated financial statements

For the year ended 31 December 2018

(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.

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

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

(e) Members of the tax consolidated group and the tax sharing arrangement

Members of the tax consolidated group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a systematic basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. All of the subsidiaries, except for Kresta Blinds International Pty Ltd, are part of the tax consolidated group (refer to note 21).

(f) Nature of the tax funding agreement

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

6. Earnings / (loss) per share

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

	December 2018	December 2017
	\$000	\$000
Earnings used in calculating earnings / (loss) per share		
Net loss attributable to ordinary equity holders of Kresta Holdings Limited	(18,376)	(10,041)
Weighted average number of shares	December 2018	December 2017
	Thousands	Thousands
Issued ordinary shares at 1 January	150,259	150,259
Effect of shares issued during the year	-	-
Weighted average number of ordinary shares (basic)	150,259	150,259
Weighted average number of ordinary shares (diluted) at 31 December	150,259	150,259
Earnings / (loss) per share	(12.22 cents)	(6.68 cents)
Diluted earnings per share	(12.22 cents)	(6.68 cents)

Notes to the consolidated financial statements

For the year ended 31 December 2018

7. Dividends paid and proposed

(a) 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%
(2017: 30%)

The amount of franking credits available for future reporting periods:

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

December 2018	December 2017
\$000	\$000
1,033	1,033
-	-
1,033	1,033

(b) Tax rates

The tax rate at which paid dividends have been franked is 30% (December 2017: 30%).

Dividends proposed will be franked at the rate of 30% (December 2017: 30%).

Notes to the consolidated financial statements

For the year ended 31 December 2018

8. Cash and cash equivalents

	December 2018 \$000	December 2017 \$000
Cash at bank and on hand	3,109	2,646
Security Deposit	20	-
Total cash and cash equivalents	3,129	2,646

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 loss after tax to net cash flows from operations

	December 2018 \$000	December 2017 \$000
Net loss	(18,376)	(10,041)
<i>Adjustments for:</i>		
Depreciation	1,599	1,891
Amortisation	302	40
Impairment of goodwill	-	856
Net loss on disposal of property, plant and equipment	1,039	66
Net unrealised gain	508	(116)
Onerous lease	3,199	-
PP&E Impairment	412	-
Bad debts	540	-
<i>Changes in assets and liabilities</i>		
(Increase) / decrease in trade and other receivables	1,426	(1,079)
(Increase) / decrease in inventories	1,547	1,622
Increase in deferred tax assets	(33)	4,730
Decrease in prepayments	146	(24)
Increase / (decrease) in trade and other payables	5,734	(834)
Increase in tax receivables/payable	50	(101)
Decrease in provisions	2,734	(1,098)
Net cash from / (used in) operating activities	827	(4,088)

Notes to the consolidated financial statements

For the year ended 31 December 2018

9. Financial assets: Trade and other receivables

	December 2018 \$000	December 2017 \$000
Financial assets at amortised cost:		
Current		
Trade receivables	1,800	2,185
Allowance for impairment loss ^(a)	(912)	(372)
	888	1,813
Short term deposits ^(b)	-	15
Other receivables ^(c)	457	948
	1,345	2,776
Non-current		
Short term deposits ^(b)	-	15

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally recognised immediately after installation. An allowance for doubtful debts is recognised based on the “simplified credit loss approach” model. An impairment allowance of \$912,000 (December 2017: \$372,000) 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 2018 \$000	December 2017 \$000
At 1 January	372	424
Charge for the year	540	(52)
Utilised	-	-
At 31 December	912	372

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

	Total	0-30 days \$000	31-60 days \$000	61-90 days \$000	90 days+ \$000
December 2018	1,800	644	224	78	854
December 2017	3,133	893	687	358	1,195

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

(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 19.

Notes to the consolidated financial statements

For the year ended 31 December 2018

10. Inventories

	December 2018	December 2017
	\$000	\$000
At lower of cost and net realisable value:		
Raw materials	1,795	3,423
Finished goods	8,239	7,428
Total inventories	10,034	10,851

During 2018, the Group sold \$3,281,000 of stock to Zhejiang Suntarget New Material Co.Ltd, and \$263,583 stock is committed and yet to be shipped by 31 December 2018.

Notes to the consolidated financial statements

For the year ended 31 December 2018

11. Parent entity information

	December 2018	December 2017
	\$000	\$000
Current assets	531	721
Total assets	877	1,406
Current liabilities	12,199	11,291
Total liabilities	22,027	17,892
Issued capital	12,892	12,892
Accumulated losses	(34,537)	(29,873)
Reserves	495	495
Employee reserved shares	-	-
Total shareholder's equity	(21,150)	(16,486)
Loss of the parent entity	(4,664)	(8,001)
Total comprehensive loss of the parent entity	(4,664)	(8,001)

Notes to the consolidated financial statements

For the year ended 31 December 2018

12. Property, plant and equipment

	Freehold land and building	Plant and equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000
Cost				
Balance at 1 January 2018	6,888	25,162	2,217	34,267
Additions	-	194	28	223
Disposals	-	(430)	(43)	(474)
Impairment	-	(412)	-	(412)
Effect of movements in exchange rates	-	(22)	2	(20)
Balance at 31 December 2018	6,888	24,492	2,204	33,584
Balance at 1 January 2017	6,884	25,099	2,233	34,216
Additions	4	618	-	622
Disposals	-	(562)	(14)	(576)
Effect of movements in exchange rates	-	7	(2)	5
Balance at 31 December 2017	6,888	25,162	2,217	34,267
Depreciation				
Balance at 1 January 2018	1,531	19,583	1,518	22,632
Depreciation charge for the year	127	1,315	158	1,600
Disposals	-	(210)	(43)	(253)
Impairment	-	-	-	-
Effect of movements in exchange rates	-	(22)	-	(22)
Balance at 31 December 2018	1,658	20,666	1,633	23,957
Balance at 1 January 2017	1,404	18,226	1,359	20,989
Depreciation charge for the year	127	1,590	174	1,891
Disposals	-	(247)	(14)	(261)
Effect of movements in exchange rates	-	14	(1)	13
Balance at 31 December 2017	1,531	19,583	1,518	22,632
Carrying amounts				
At 31 December 2018	5,230	3,826	571	9,627
At 31 December 2017	5,357	5,579	699	11,635

Land and buildings with a carrying amount of \$5,230,000 (December 2017: \$5,357,000) are subject to a first charge over available finance facilities (see note 16).

Plant and equipment and motor vehicles with a carrying amount of \$4,397,000 (December 2017: \$6,278,000) is not pledged as securities for current and non-current liabilities.

Notes to the consolidated financial statements

For the year ended 31 December 2018

13. Intangible assets and goodwill

	IT software \$000	Trademark \$000	Goodwill \$000	Total \$000
Cost				
Balance at 1 January 2018	2,580	589	2,212	5,381
Other additions	-	-	-	-
Disposal	-	-	(2,212)	(2,212)
Balance at 31 December 2018	2,580	589	-	3,169
Balance at 1 January 2017	2,570	589	2,212	5,371
Other additions	10	-	-	10
Disposals	-	-	-	-
Balance at 31 December 2017	2,580	589	2,212	5,381
Amortisation and impairment				
Balance at 1 January 2018	1,976	589	1,148	3,713
Amortisation charge for the year	302	-	-	302
Impairment	-	-	(1,148)	(1,148)
Balance at 31 December 2018	2,278	589	-	2,867
Balance at 1 January 2017	1,936	589	292	2,817
Amortisation charge for the year	40	-	-	40
Impairment	-	-	856	856
Balance at 31 December 2017	1,976	589	1,148	3,713
Carrying amounts				
At 31 December 2018	302	-	-	302
At 31 December 2017	604	-	1,064	1,668

Notes to the consolidated financial statements

For the year ended 31 December 2018

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 (2017: nil)

Notes to the consolidated financial statements

For the year ended 31 December 2018

15. Trade and other payables

	December 2018	December 2017
	\$000	\$000
Current		
Trade payables ^(a)	11,563	3,034
Other payables ^(b)	6,384	1,921
Customer deposit	-	3,675
Deferred revenue	1,465	-
Goods and services tax	-	155
	19,412	8,785

(a) Trade payables are non-interest bearing and are normally settled on 30-day terms. Other than the invoices under Credit Deferral of 12 month with Ningbo Cathayan Waving Co. Ltd and Ningbo Mardo Import & Export Co. Ltd, in which 5% interest applies.

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

16. Financial liabilities: Interest-bearing loans and borrowings

	December 2018 \$000	December 2017 \$000
Current		
Insurance finance loan	54	205
Software licence finance loan	181	180
Related party loan	11,043	10,545
	11,278	10,930
Non-current		
Software licence finance loan	120	301
	120	301

Fair value disclosures

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

Insurance finance loan

Insurance finance loan has a fixed rate of 1.2% (2017: 1.3%).

Software licence finance loan

Software licence finance loan has a fixed rate of 5.00% (2017: 5.064%).

Related party loan

The Company has 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 5% per annum and expires on 31 December 2018. The second loan in December 2015, was for RMB50,000,000 which expires 30 June 2018. The interest rate on this loan is fixed at 5% per annum. Both loan contracts require both parties to agree to any extensions of the loan term.

Subsequent to year end, the Group has extended the loan of RMB50,000,000 from SunTarget (HongKong) Trading Co., Limited from 30 June 2018 to 31 December 2019 at the applicable market interest rate.

On 15 March 2019, Suntarget (Hong Kong) Trading Co Limited ("Suntarget") and Van Dairy (Hong Kong) Ltd entered into an Agreement for Sales and Purchase of Share and agreed that Suntarget transfers 84.35% of the Company's equity to Van Dairy.

On 15 March 2019, Suntarget, the Group and Van Dairy entered into a Loan Contract Supplemental Agreement, and agreed that Suntarget transfers AUD\$0.81 million, AUD\$10.50 million and total interest of AUD\$679,044 from Suntarget to Van Dairy.

Notes to the consolidated financial statements

For the year ended 31 December 2018

Following the sale of Suntarget's 84.3% shares in the Company to Van Dairy (Hong Kong) Co. Ltd ("Van Dairy") under an internal restructure, the Group and Van Dairy had entered into a Deed of Parent Company Support, with terms summarised per below:

- Van Dairy has extended total of \$11.31 million loan's term to 31 December 2020;
- Van Dairy is also advancing a loan to the Group, in the amount of AUD \$10 million, which is due for repayment 18 month after the date of the advance;

On 28 October 2019, following in an internal restructure, Van Dairy has transferred its 84.35% shares to Dream Curtain Holdings Co., Ltd ("DCH"), \$11.11 million loan due by 31 December 2020 has also transferred to DCH. On 28 October 2019, the Group and DCH entered into a Deed of Parent Company Support those arrangements.

Notes to the consolidated financial statements

For the year ended 31 December 2018

17. Provisions

	Onerous leases	Warranty	Employee benefits	Make good	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2018	7	164	2,464	775	3,410
Arising during the year	3,199	425	1,090	244	4,958
Utilised	(7)	(171)	(1,232)	(21)	(1,431)
Unused amounts reversed	-	(28)	(97)	-	(125)
At 31 December 2018	3,199	390	2,225	998	6,812
Current December 2018	3,103	390	1,980	616	6,089
Non-current December 2018	96	-	245	382	723
	3,199	390	2,225	998	6,812

	Onerous leases	Warranty	Employee benefits	Make good	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2017	67	164	3,477	702	4,410
Arising during the year	-	-	1,244	97	1,341
Utilised	(60)	-	(2,149)	(24)	(2,233)
Unused amounts reversed	-	-	(108)	-	(108)
At 31 December 2017	7	164	2,464	775	3,410
Current December 2017	7	66	2,149	185	2,407
Non-current December 2017	-	98	315	590	1,003
	7	164	2,464	775	3,410

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

(a) Onerous leases

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

(b) Warranty

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

(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

For the year ended 31 December 2018

18. Contributed equity and reserves

(a) Contributed Equity

	December 2018 \$000	December 2017 \$000
Issued capital - ordinary shares	12,892	12,892
	<u>12,892</u>	<u>12,892</u>

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	150,259	12,892
At 31 December	<u>150,259</u>	<u>12,892</u>

(b) Capital management

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

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

During the year additional funds required for working capital and capital expenditure were sourced from related party loans provided by Suntarget refer to note 22.

(c) Reserves

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.

Notes to the consolidated financial statements

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Foreign currency translation reserve

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

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19. Financial risk management objectives and policies

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

Risk exposures and responses

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

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

Interest rate risk

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

	December 2018 \$000	December 2017 \$000
Financial assets		
Cash and cash equivalents	3,129	2,646
Net exposure	3,129	2,646

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

At 31 December 2018, if interest rates had moved, with all other variables held constant, post tax loss/profit would have been affected as follows:

Judgements of reasonably possible movements

	Post tax loss December 2018 \$000	(higher) / lower December 2017 \$000
+1.0% (100 basis points) (2017: +1.0%)	31	111
-0.5% (50 basis points) (2017: -0.5%)	(16)	(56)

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 2017.

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.

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4.2% (December 2017: 2.3%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale. Approximately 90% (December 2017: 77%) of the Group's inventory purchases are denominated in currencies other than the functional currency of the operating unit making the purchase.

At 31 December 2018, the Group had the following exposure to USD and CNY foreign currency:

	Currency	December 2018	December 2017
		\$000	\$000
Financial Assets			
Cash and cash equivalents	USD	5	5
Cash and cash equivalents	CNY	17	2
Financial Liabilities			
Trade and other payables	USD	-	-
Trade and other payables	CNY	-	(1,054)
Related party loan	CNY	(11,043)	(10,545)

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 31 December 2018, had the Australian Dollar moved, with all other variables held constant, post-tax loss would have been affected as follows:

<i>Judgements of reasonably possible movements</i>	Post tax profit	higher / (lower)
	December 2018	December 2017
	\$000	\$000
<u>Financial assets</u>		
AUD / USD +10%	-	-
AUD / USD -5%	-	-
 AUD / CNY +10% (December 2017: +10%)	-	-
AUD / CNY -5% (December 2017: -5%)	-	-
<u>Financial liabilities</u>		
AUD / USD +10% (December 2017: +10%)	-	-
AUD / USD -5% (December 2017: -5%)	-	-
 AUD / CNY +10% (December 2017: +10%)	1,103	1,059
AUD / CNY -5% (December 2017: -5%)	(552)	(530)

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.

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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.

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 2018				
	< 6 months	6-12 months	1-2 years	> 2 years	Total
	\$000	\$000	\$000	\$000	\$000
Financial assets					
Cash and cash equivalents	3,129	-	-	-	3,129
Trade and other receivables	1,345	-	-	-	1,345
	4,474	-	-	-	4,474
Financial liabilities					
Trade and other payables	(17,947)	-	-	-	(17,947)
Related party loans	-	(11,043)	-	-	(11,043)
Other loans	-	-	(120)	-	(120)
	(17,947)	(11,043)	(120)	-	(29,110)
Net outflow	(13,473)	(11,043)	(120)	-	(24,636)

Notes to the consolidated financial statements

For the year ended 31 December 2018

	December 2017				
	< 6 months	6-12 months	1-2 years	> 2 years	Total
	\$000	\$000	\$000	\$000	\$000
Financial assets					
Cash and cash equivalents	2,646	-	-	-	2,646
Trade and other receivables	1,896	880	5	10	2,791
	4,542	880	5	10	5,437
Financial liabilities					
Trade and other payables	(8,785)	-	-	-	(8,785)
Related party loans	(9,788)	(757)	-	-	(10,545)
Other loans	(295)	(90)	(180)	(121)	(686)
	(18,868)	(847)	(180)	(121)	(20,016)
Net outflow	(14,326)	33	(175)	(111)	(14,579)

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.

All the financial assets and financial liabilities are Level 3.

Notes to the consolidated financial statements

For the year ended 31 December 2018

20. 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 2018 \$000	December 2017 \$000
Within one year	8,813	7,908
After one year but not more than five years	16,447	19,007
More than five years	-	141
Total minimum lease payments	25,260	27,056

Bank guarantee

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

Bank guarantee no.	Amount (AUD)	Starting date	Expiry date	Purpose
200234	\$10,587.50	03/09/2004	-	Store lease
277970	\$48,056.80	30/05/2007	-	Store lease
613004	\$38,271.10	25/10/2018	26/02/2024	Store lease
514409	\$20,000.00	08/07/2015	-	Store lease
472	\$200,501.25	21/12/2006	-	NZ Customs
Total	\$317,416.65			

Notes to the consolidated financial statements

For the year ended 31 December 2018

21. Related parties

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

	Stock sold to related parties		Interest charged by related parties		Amounts owed to related parties	
	12 months ended Dec 2018	12 months ended Dec 2017	Dec 2018	Dec 2017	Dec 2018	Dec 2017
	\$000	\$000	\$000	\$000	\$000	\$000
SunTarget (HongKong) Trading Co. Limited. ⁽ⁱ⁾	-	-	552	530	11,043	10,545
Zhejiang Suntarget New Material Co. Ltd. ⁽ⁱⁱ⁾	3,281	-	-	-	-	-
	3,281	-	552	530	11,043	10,545

⁽ⁱ⁾ 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, Mr Xianfeng Lu is also Executive Chairman of Kresta Holdings Limited.

⁽ⁱⁱ⁾ The company sold stock to Zhejiang Suntarget New Material Co.Ltd for \$3,281,000. \$263,583 of inventory is committed and yet to be shipped to Suntarget by 31 December 2018, \$128,388 of inventory is committed and yet to be shipped to Suntarget by 31 December 2019.

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

Ultimate parent

Kresta Holdings Limited is the ultimate parent company.

Notes to the consolidated financial statements

For the year ended 31 December 2018

Subsidiaries

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

	Country of Incorporation	% Equity interest	
		December 2018	December 2017
Finmar Pty Ltd	Australia	100	100
Kresta Blinds (Holdings) Pty Ltd	Australia	100	100
Kresta Blinds Ltd	Australia	100	100
Kresta Blinds International Pty Ltd	Australia	100	100
Kedena Holdings Pty Ltd	Australia	100	100
Sharatan Pty Ltd	Australia	100	100
Blind Wholesalers, Distributors and Manufacturers Pty Ltd	Australia	100	100
Mardo Australia Pty Ltd	Australia	100	100
Twilight Sun Pty Ltd	Australia	100	100
Mardo International Pty Ltd	Australia	100	100
Sandelle Pty Ltd	Australia	100	100
Curtain Wonderland Pty Ltd (note 22)	Australia	100	100

Entities subject to class order relief

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

As a condition of the Instrument, 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

For the year ended 31 December 2018

Compensation of key management personnel of the Group

	December 2018	December 2017
	\$000	\$000
Short-term employee benefits	616	317
Post-employment benefits	33	14
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
Total compensation	649	331

Notes to the consolidated financial statements

For the year ended 31 December 2018

22. Subsequent events

Other than the items notes below, 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.

On 15 March 2019, a corporate restructure was approved by the Board of Ningbo Xianfeng New Material Company (Aplus), this internal restructure has transferred 84.35% of Aplus's indirect interests in the Company to Van Dairy (Hong Kong) Group Limited (Van Dairy), an entity also indirectly controlled by Mr Xianfeng Lu. Aplus used to hold the share interests through its wholly owned subsidiary Suntarget (Hong Kong) Trading Co., Limited ('Suntarget').

On 15 March 2019, Suntarget and Van Dairy entered into an Agreement for Sale and Purchase of Share and agreed that Suntarget transfers 84.35% of the Group's equity to Van Dairy.

On 15 March 2019, Suntarget, the Group and Van Dairy entered into a Loan Contract Supplemental Agreement and agreed that Suntarget transfers its loans of AUD\$0.81 million, AUD\$10.50 million and total interest of AUD\$679,044 from Suntarget to Van Dairy. This agreement has subordinated the debt owed by the Group to Van Dairy in favour of all other creditors of the Group.

In May 2018, the Group's major suppliers Ningbo Cathayan Weaving Co., Ltd and Mardo Import and Export has offered a 12-month credit extension further to its standard 6 month credit terms, the Group has made payments to first batch of invoices due in October 2019. In February 2019, Ningbo Zhexiang Trade Co., Ltd took over the Group's supply chain and agreed a 18-month credit term with the Group.

On 28 October 2019, the board of Van Dairy has approved an internal corporate restructure to transfer its 84.35% direct shares to its associate Dream Curtain Holdings Co., Limited ('DCH'), an entity also controlled by Mr Xianfeng Lu. Subsequently, the Group and DCH entered into a Deed of Parent Company Support ("Deed") and agreed Van Dairy to transfer its loan of AUD\$0.79 million, AUD\$10.31 million and interest of AUD\$666,928 from Van Dairy to DCH. The contract also includes an AUD\$10 million financial support to the Group from DCH.

On 27 November 2019, the Group entered into a term sheet to sale its property at 380 Victoria Road Malaga for AUD\$7 million. The sales was executed and settled on 23rd December 2019.

On 1st December 2019, the Group has entered into a Sales Agreement with a Hong Kong based entity called Champ Profit Industrial Limited ("CPI") to sell its Curtain Wonderland ("CW") business, the sales proceeds is AUD\$1 and CPI will take over all CW's assets and liabilities as of 1 December 2019. The transaction was approved by ASX on 30th December 2019 with no shareholder approval required. The transaction was completed on 31st December after KHL board approval.

The disposal was part of a strategic decision to dispose of a non-performing cash generating unit. The financial effects of this transaction have not been recognised at 31 December 2018. The operations and net assets of the above mentioned entity are reported as part of the single operating segment, which is manufacture and sales of window coverings.

Notes to the consolidated financial statements

For the year ended 31 December 2018

(ii) Disposal consideration and fair value of net liabilities disposed

	December 2018
<i>Disposal of sub</i>	
Cash received / receivable	1
	<u>1</u>

The provisionally determined fair values of the assets and liabilities of Curtain Wonderland Pty Ltd as at disposal date are as follows:

	December 2018
Cash and cash equivalents	891,592
Property, plant and equipment	2,889,649
Intangibles	14,884
Inventories	8,238,887
Trade and other receivables	329,884
Other assets	184,066
Trade and other payables	(6,580,286)
Provisions	(573,481)
Borrowings	(9,937,074)
Net identifiable liabilities disposed	<u>(4,541,879)</u>

Notes to the consolidated financial statements

For the year ended 31 December 2018

23. Auditors' remuneration

The auditors of Kresta Holdings Limited are Ernst & Young and Mazars Risk & Assurance.

	December 2018	December 2017
	\$	\$
Amounts received or due and receivable by the auditors for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group – Ernst & Young	208,855	188,053
An audit or review of the financial report of the entity and any other entity in the consolidated group – Mazars Risk & Assurance	165,000	-
Other services in relation to the entity and any other entity in the consolidated group		
Other assurance services	-	-
	373,855	188,053

Notes to the consolidated financial statements

For the year ended 31 December 2018

24. 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

	December 2018 \$000	December 2017 \$000
Revenues (Australia)	62,577	73,199
Revenues (New Zealand)	2,742	2,532
	65,319	75,731
	December 2018 \$000	December 2017 \$000
Total assets (Australia)	25,190	30,491
Total assets (New Zealand)	364	330
	25,554	30,821
	December 2018 \$000	December 2017 \$000
Total liabilities (Australia)	37,340	23,131
Total liabilities (New Zealand)	360	295
	37,700	23,426

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:

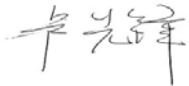
In the opinion of the Directors:

- (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 2018 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 2018.

As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 21 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, 07 February 2020

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF KRESTA HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

Report on the Financial Report

Disclaimer of Opinion

We were engaged to audit the financial report of Kresta Holdings Limited and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, other selected explanatory notes and the directors' declaration as set out on pages 19 to 77.

We do not express an opinion on the accompanying financial report of the Group. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial report.

Basis for Disclaimer of Opinion

Going concern

The Directors have set out their reasons for believing the Group is a going concern in Note 1 to the financial report. As at 31 December 2018, the Group incurred a net loss after tax of \$18,376,000. In addition, net current liabilities amounted to \$21,237,000 and net liabilities were \$12,146,000 as at 31 December 2018.

As at the date of this report, the Group has limited cash available to fulfil their operating cash needs, whilst maintaining adequate levels of working capital. The following factors were key to our determination of the appropriateness of the going concern basis of preparation assumption:

1. We are advised that the Group has entered into an agreement with Hong Kong based company, Champ Profit Industrial Limited, to purchase 100% of the shares of Curtain Wonderland Pty Ltd effective 31 December 2018.

As at the date of this report, we have not been provided with the final agreement, signed and acknowledged by both parties. This has significantly limited our ability to determine how the mutually agreed terms of sale will impact the ongoing operational cash flow needs of the Group. Further, it has limited our ability to determine the extent of execution risk associated with completing the conditions of the contract to dispose of Curtain Wonderland, which could impact commitments and contingencies connected with the Curtain Wonderland business, which have been disclosed in the financial report and which have a direct impact on the working capital of the Group.

2. The parent entity Van Dairy, domiciled in China, is in the process of organising a \$10 million advance to the Group with loan a term of 18 months. In the past, Van dairy has had difficulties advancing cash to the Group as and when required due to regulatory issues precluding cash transfers.

As at the date of this report, we have been unable to obtain sufficient appropriate audit evidence as to the likelihood of the parent entity being permitted to advance the said amount of working capital as and when required to meet the ongoing obligations and commitments of the Group, both immediately and for at least the next 12 months, with particular regard to issues resulting from China's foreign exchange regulations surrounding the repatriation of funds.

We have not expressed an opinion on the accompanying financial report of the Group as a result of the uncertainties described above, and their importance on future cash flows of the group.

Limitation of scope

We were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves as to whether the following accounts were free from material misstatement, which we determined to be pervasive in combination:

Inventory \$10,034,000

Our stock take attendance at 31 December 2018 identified material discrepancies between our audit counts and the final stock listing. The discrepancies were deemed pervasive to the extent we were unable to form an opinion on the existence & completeness of Inventory at 31 December 2018.

Subsequent to 31 December 2018, we attended stock takes in May 2019 with the view of performing alternative roll back procedures to 31 December 2018. Our testing identified irregularities between stock count sheets and the final inventory listing which were inconclusive.

These factors have resulted in our inability to form an opinion on the accuracy, existence and completeness of Inventory as at 31 December 2018.

Provisions for onerous leases \$3,103,000 and Property, plant and equipment (PP&E) impairment \$412,000

The Directors' assessment of the provisions for onerous leases and PP&E impairment as at 31 December 2018 is based upon their expectations of improved performance and resulting cash flows following initiatives to improve the financial performance of the Group. Subsequent to our original assessment of the accuracy and completeness of the onerous lease and PP&E impairment calculations, material adjustments were made by management for which we received insufficient audit evidence to form an opinion. This resulted in our inability to form an opinion on the accuracy and completeness of the onerous lease and PP&E impairment provisions as at 31 December 2018.

Responsibilities of the Directors for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Responsibilities

We have audited the Remuneration Report for the year ended 31 December 2018 as outlined on pages 9 to 17 of the financial report. The directors of the Group 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.

Auditor's Opinion on the remuneration report

In our opinion, the Remuneration Report of Kresta Holdings Limited for the year ended 31 December 2018, complies with section 300A of the Corporations Act 2001.

MAZARS RISK AND ASSURANCE PTY LTD



Paul Collins
Director

Sydney, on this 7th day of February 2020

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 January 2020.

(a) Distribution of equity securities

(i) Ordinary share capital

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

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

(ii) Options

There are no options on issue.

Options do not carry a right to vote.

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

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

(b) Substantial shareholders

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

(c) Twenty largest holders of quoted equity securities

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

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