PURPOSE	The purpose of this document is to establish a framework and policy guideline within which Kresta Holdings Limited (KHL) manages its treasury risks. It is recognised that a broader definition of treasury risks could include other elements such as Accounts Receivable; however existing KHL policies adequately address those areas. The KHL Group Treasury operates in 2 distinct units:- • The Kresta Group of companies operating from head offices in Malaga, Western Australia; and • Curtain Wonderland operating from head offices in Queensland. The primary treasury function for KHL is exercised by the CFO and Financial Controller. The objectives of KHL's treasury function are to: • Identify, assess and manage foreign exchange exposures; • Identify, assess and manage interest rate; • Manage banking relationship including counterparty and refinance risk; • Manage liquidity risk; • Manage and control treasury related risks to protect shareholder wealth and to assist the company in meeting annual budget and long-term financial goals; • Minimise borrowing costs; and • Oversee and review treasury activities in CW. The overarching goal of treasury management is to protect KHL's financial performance from adverse currency and interest rate movements, while accommodating a desire to gain from favourable market moves and ensuring that KHL has adequate liquidity to pursue its financial goals. KHL will tend to adopt a risk adverse approach to treasury risk management. This policy should be reviewed every financial year, in accordance with the company's goals and strategies.

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DEFINITIONS AND REFERENCES	**ANZ** *means* Australia and New Zealand Banking Group **AUD** *means* Australian dollar **CBA** *means* Commonwealth Bank of Australia **CEO** *means* Chief Executive Officer **CFO** *means* Chief Financial Officer **EUR** *means* Euro currency **FC** *means* Financial Controller **FECs** *means* foreign exchange contracts **FRAs** *means* forward rate agreements **NZD** *means* New Zealand dollar **USD** *means* United States dollar

<u>MANAGEMENT STRUCTURE AND RESPONSIBILITIES</u>	All levels of Board and management responsibility and delegated authority are established on a prescriptive basis as follows:
Board of Directors	• Approve and review treasury policy; • Approve banking arrangements; and • Evaluate and approve any intended significant departure from Treasury Policy parameters and approved strategy (including material use of options or derivative products).
CEO	• Propose Treasury Policy and amendments to the Board of Directors; • Approve foreign exchange, interest rates and liquidity risk management strategies in conjunction with the Board of Directors; and • Review treasury activity and performance and evaluate risk management strategies.
CFO	• Overall responsibility for treasury activity; • Develop foreign exchange, interest rates and liquidity risk management strategies; • Execute approved foreign exchange and interest rate risk management strategies, using approved hedging products; • Review treasury reports for Board of Directors reporting; • Review cash flow reports; • Review Treasury Policy and recommend any required changes; • Manage KHL's banking relationships and counterparty risks; • Review and liaise with treasury activities in CW; and • Ensure all treasury activities are undertaken ethically within the terms of the KHL Group Treasury Policy.
FC	• Maintain liaison with relevant managers and CFO to ensure that KHL cash flow is controlled in line with Bank Covenants and cash flow is optimised; • Maintain liaison with relevant managers to ensure potential future foreign exchange risks are identified; • Implement agreed Foreign Exchange risk management strategies; • Maintain/optimise cash management strategies and undertake cash management activity; • Maintain day to day operating systems/relationships with banking counterparties; and • Prepare treasury reports for Board of Directors reporting.

RISK MANAGEMENT STRATEGIES	
Counterparty Risk	Counterparty risk is the risk that the other party to the financial transaction will fail to deliver or perform to the level required by the contract between the parties. KHL will mitigate this risk by ensuring that it only deals with counterparties who have the financial and operating capability to perform contractual obligations. The CFO is accountable for managing this risk.
Liquidity Risk	Liquidity risk is the risk that KHL operations will not generate sufficient funds to allow KHL to pursue its strategic goals or that insufficient funding will be forthcoming from capital or debt markets. This risk will be managed at 2 levels: • Day to day cash management – this is a combination of effective management of the operating divisions trading and working capital management, and the effective use of KHL's funding facilities. This will be primarily achieved by the CFO and FC maintaining liaison with relevant KHL managers to ensure that the cash flow is controlled and cash flow is optimised. • Long term "going concern" management – this will be primarily managed by the CFO, the CEO, and the Board of Directors to ensure ongoing funding is in place and seeking to avoid, as far as possible, excessive concentration of funding maturing in any single period or from any single source.
Interest Rate Risk	Currently the Board considers there is no need to hedge any new financial instruments affected by changes in interest rates. However, this may change in the future. Any current interest rate hedges will be left to run its course until expiry date.

Foreign Exchange Risk	KHL is broadly exposed to 3 forms of Foreign Exchange Risk: • Translation Risk • Transaction Risk • Competitive/Economic Risk <u>Translation Risk</u> This exposure arises because KHL has an operating subsidiary in New Zealand where the domestic currency is NZD. KHL is therefore exposed to the extent of net assets. This risk is deemed acceptable because: • There is a close alignment between Australian and NZ economies and governments; • NZD has historically traded within a fairly narrow band to the AUD; • Both currencies tend to be USD influenced; and • The nature of investment is long term. <u>Transaction Risk</u> This is the major foreign exchange risk to which KHL is exposed. It arises because KHL imports products in currencies other than AUD. KHL are primarily exposed to USD and to a lesser extent EUR and other currencies. As KHL undertakes little export activity there is little natural hedge against the foreign exchange payable. It is likely that KHL will increase its volume of imported material thus this area of exposure will increase. <u>Competitive/Economic Risk</u> This exposure arises because KHL may have competitors whose cost base is denominated in currencies other than AUD or its largely determinant currency, USD. Whilst it is important that commercial management recognise that this exposure may exist it is very difficult to quantify and to hedge effectively. It is believed that for KHL this exposure may not be excessive as the majority of competitive products come from either Australian manufacture or from imports of a similar source to KHL.

Foreign Exchange Risk	The principle objectives of KHL's foreign exchange risk management strategy are: • To give operating businesses reasonable certainty as to the foreign exchange conversion rate to be used such that KHL products may be commercially priced; and • To protect KHL's financial performance from adverse currency movements, while accommodating a desire to gain from favourable market moves. In order to achieve these objectives KHL will use hedging devices to include FECs currency SWAPs, and FRAs. KHL will also retain some "spot" transactions to bring a combination of floating and fixed exchange rates to KHL's imported product requirement. Use of options or more sophisticated derivative instruments will only be undertaken with the prior express agreement of the Board of Directors of Directors. KHL's imported product requirement will be determined by the KHL purchasing and production departments, and in turn passed onto the FC to determine effective hedges. Agreed Operating Mandate for Foreign Exchange Risk Management 1. KHL's requirement will be hedged as per table below. Timeframe / Minimum / Maximum 0-3 months / 50% / 80% 3-6 months / 50% / 60% 6-9 months / - / 25% 9-12 months / - / 25% Operation outside these benchmarks will require the express agreement of the Board of Directors. Should KHL's hedged position exceed 100% (for any period >1 month) then the currency hedge must be closed. 2. KHL will normally effect hedges for "blocks" of foreign exchange. However operating subsidiaries may liaise directly with the FC to effect specific hedges for individual transactions if material or if commercial need exists.

Foreign Exchange Risk	3. The FC will effect the foreign exchange hedge with an approved counterparty. The FC will liaise with the accounts departments in regard to the utilisation and recording of the use of the hedge(s). 4. The FC will report on a monthly basis the status of hedges. 5. The maximum hedge period is 1 year except with the prior approval from the Board of Directors. 6. Delegated authority levels are: Face value of <u>each hedge</u> entered into: • ≤$0.5m FC of each subsidiary • ≤$1m CFO/CEO • >$1m Board of Directors Total value of <u>all hedges</u> entered into: • ≤$2m FC of each subsidiary • ≤$10m CFO/CEO • >$10m Board of Directors
Banking Relationships	The CFO is also primarily responsible for maintaining all relationships with current or potential bankers to KHL. At present KHL's prime banking relationship is with the Commonwealth Bank of Australia (CBA). With regards to maintaining a sound relationship with CBA the CFO must: • Ensure that contractual documentation in respect of all working capital and funding facilities are acceptable and are in place; • Ensure that agreed information/data as specified therein is supplied in a timely/accurate manner; • Ensure that all facilities are negotiated in advance such that KHL has facilities in place for at least 12 months from financial period end; • Ensure that all agreed Bank Covenants are complied with and/or anticipatory advice is given to CBA and waivers for non compliance are forthcoming; • Ensure that all facilities are maintained on mutually acceptable commercial terms; and • Maintain an open and responsive dialogue with CBA.

POLICY HISTORY

Description	Reference	Date	Authority
Original Policy	FIN 1000	01/04/2011	Board of Directors
Next review date		01/04/2013	Board of Directors