

Kresta Holdings Limited

A.B.N. 26 008 675 803

389 Victoria Road  
MALAGA WA 6090

PO Box 3036  
MALAGA DC WA 6945

Telephone: (08) 9249 0781  
Facsimile: (08) 9249 7923

23 February 2011

Company Announcements Office  
Australian Securities Exchange  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

## Independent Expert's Report on Wildweb Enterprise's Bid for Kresta Holdings Limited

The independent directors of Kresta Holdings Limited (**Kresta**) commissioned an independent expert's report to assist the independent directors in formulating their recommendations to shareholders and to assist shareholders in considering whether or not to accept Wildweb Enterprises Pty Ltd's (**Wildweb**) takeover offer to acquire all of the shares in Kresta.

Kresta has now received the Independent Expert's Report from Deloitte Corporate Finance Pty Ltd (**Deloitte**), a copy of which is attached.

Deloitte has formed the opinion that Wildweb's offer to acquire all the shares in Kresta is **neither fair nor reasonable**.

In forming its view, Deloitte has concluded that the fair market value of a Kresta share is in the range of 40 cents to 48 cents, as compared with the consideration offered by Wildweb of 32.5 cents.

Deloitte has also concluded that there do not appear to be any compelling reasons for shareholders to accept the offer despite it being not fair.

The independent directors are presently considering the Independent Expert's Report and determining their recommendation to be stated in the Target's Statement.

The Independent Expert's Report will be included with Kresta's Target's Statement, which is expected to be mailed to shareholders on or before 4 March 2011. The independent directors recommend that shareholders take no action in relation to Wildweb's offer until they have had an opportunity to consider the Target's Statement.

Yours faithfully



**Peter Hatfull**  
Chairman

**Kresta Holdings Limited**

**Independent expert's report and Financial Services  
Guide**

**23 February 2011**

For personal use only

23 February 2011

### What is a Financial Services Guide?

**This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.**

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

### What financial services are we licensed to provide?

We are authorised to provide general financial product advice or to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes and government debentures, stocks or bonds.

### Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

### How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

### Associations and relationships

We are ultimately owned by the Deloitte member firm in Australia (Deloitte Australia). Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

The following represents a summary of work performed by Deloitte and Deloitte Touche Tohmatsu (and other entities related to Deloitte Touche Tohmatsu) (together Deloitte Australia) over the past two years:

- analysis of the net realisable value of Kresta Holding Limited's inventory at 30 June 2010.

Neither we, or any other member of Deloitte Australia, nor any partner or employee thereof has any financial interest in the outcome of the takeover offer by Wildweb Enterprises Pty Limited which could be considered to affect our ability to render an unbiased opinion in this report.

### What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial

Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer	Financial Ombudsman Service
PO Box N250	GPO Box 3
Grosvenor Place	Melbourne VIC 3001
Sydney NSW 1220	<a href="mailto:info@fos.org.au">info@fos.org.au</a>
<a href="mailto:complaints@deloitte.com.au">complaints@deloitte.com.au</a>	<a href="http://www.fos.org.au">www.fos.org.au</a>
Fax: +61 2 9255 8434	Tel: 1300 780 808
	Fax: +61 3 9613 6399

#### **What compensation arrangements do we have?**

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

Independent Directors  
Kresta Holdings Limited  
389 Victoria Road  
Malaga WA 6090

23 February 2011

Dear Directors

## **Independent expert's report**

### **Introduction**

On 1 February 2011, Wildweb Enterprises Pty Limited (Wildweb or the Bidder) announced a conditional offer to acquire all of the shares in Kresta Holdings Limited (Kresta or the Company) that Wildweb does not already own (the Takeover Offer). The consideration offered by Wildweb to holders of Kresta shares (Shareholders) is \$0.325 cash per Kresta share held (Offer Consideration). Mr Trahar, a director of Kresta, is also a director of Wildweb.

The full details of the Takeover Offer are included in a Bidder's Statement which was issued by Wildweb on 3 February 2011 (the Bidder's Statement). An overview of the Takeover Offer is provided in Section 1 of our detailed report.

The directors of Kresta will issue a Target's Statement, in response to the Bidder's Statement, which will include their recommendation as to whether Shareholders should accept the Takeover Offer (the Target's Statement).

### **Purpose of the report**

The independent directors of Kresta (the Independent Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte) provide an independent expert's report advising whether, in our opinion, the Takeover Offer is fair and reasonable.

This independent expert's report is required pursuant to Section 640 of the Corporations Act 2001 (Section 640) to assist shareholders in their decision whether to accept or reject the Takeover Offer. We have prepared this report having regard to Section 640 and the relevant Australian Securities and Investments Commission (ASIC) Regulatory Guides.

This report is to be included in the Target's Statement to be sent to all shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Takeover Offer. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

## Basis of evaluation

In order to assess whether the Takeover Offer is fair and reasonable we have:

- Assessed whether the Takeover Offer is fair by estimating the fair market value of an ordinary Kresta share and comparing that value to the estimated fair market value of the consideration to be received by Shareholders pursuant to the Takeover Offer
- Assessed the reasonableness of the Takeover Offer by considering other significant factors relevant to Shareholders.

## Summary and conclusion

In our opinion the Takeover Offer is neither fair nor reasonable. In arriving at this opinion, we have had regard to the following factors:

### The Takeover Offer is not fair

Set out in the table below is a comparison of our assessment of the fair market value of a Kresta share with the Offer Consideration.

**Table 1: Evaluation of fairness**

	Low value per share	High value per share
Estimated fair market value of a Kresta share (Section 6.1)	\$0.40	\$0.48
Consideration offered by Wildweb	\$0.325	\$0.325

Source: Deloitte analysis

Note:

1. All amounts stated in this report are in Australian dollars (AUD) unless otherwise stated and may be subject to rounding

The consideration offered by Wildweb is below the range of our estimate of the fair market value of a Kresta share, on a control basis. Accordingly it is our opinion that the Takeover Offer is not fair.

### Valuation of a Kresta share

We have estimated the fair market value of a Kresta share using the capitalisation of maintainable earnings method, which estimates the value of Kresta by capitalising its future maintainable earnings with an appropriate earnings multiple.

We have selected earnings before interest, tax, depreciation and amortisation (EBITDA) as an appropriate measure of earnings for Kresta because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on earnings before interest and tax (EBIT) or net profit after tax (NPAT). We have assessed Kresta's maintainable level of EBITDA to be \$9.0 million, based on an analysis of Kresta's normalised historical and budgeted EBITDA. The earnings multiple range used of 6.0 times to 7.0 times, on a minority interest basis, was based on an analysis of listed companies and previous mergers and acquisitions in the home furnishings industry. We applied a premium for control of 30% to determine the fair market value of a Kresta share of \$0.40 to \$0.48.

### Valuation of consideration

The Offer Consideration is cash of \$0.325 per Kresta share.

### **The Takeover Offer is not reasonable**

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. An offer might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

We have formed our opinion on the reasonableness of the Takeover Offer based on an analysis of other significant factors relevant to the Shareholders in allowing them to make a decision on the Takeover Offer. These include:

#### ***The extent to which a control premium is being paid***

Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values. We have analysed Kresta's share price prior to the announcement of the Takeover Offer and during the offer period and compared it to the Offer Consideration of \$0.325.

We note that the Offer Consideration of \$0.325 represents a premium of 17% over Kresta's closing share price on the day prior to the announcement of the Takeover Offer, being 31 January 2011, and a premium of 12.5% over the 30 trading day volume weighted average price (VWAP) prior to the announcement of the Takeover Offer.

These control premiums are low relative to accepted takeover norms; however, given the low level of liquidity in the recent trading of Kresta's shares, this analysis provides only weak evidence of whether an appropriate premium for control is being offered.

#### ***The likely price of Kresta's shares should the Takeover Offer be rejected***

Kresta's share price has been volatile over the past two years, having traded as low as \$0.08 per share on 12 March 2009 and as high as \$0.46 per share on 22 March 2010. The 30 trading day VWAP prior to the announcement of the Takeover Offer is \$0.289. The closing share price on the day prior to the announcement of the Takeover Offer was \$0.27. Since the announcement, Kresta's share price has traded at or around \$0.32.

It is common for the share price of a target company the subject of a takeover offer to trade at or around the price of the takeover offer during the offer period. It is also not uncommon for the share price to fall back to pre-takeover levels or lower in the event that the takeover offer is unsuccessful.

In the absence of an alternative offer and in the event that the Takeover Offer is unsuccessful, it is likely (at least in the short term) that Kresta's share price may fall to around the levels achieved prior to the announcement of the Takeover Offer. We do not see any catalyst at the moment to suggest that the share price will increase in the short to medium term in the absence of a clearly defined strategy and an improvement in discretionary retail demand in the Australian economy.

#### ***Likelihood of an alternative takeover offer***

The directors of Kresta have advised us that no formal alternative offers or approaches by potential offerors have been received subsequent to the announcement of the Takeover Offer on 1 February 2011. It is possible but unlikely that an alternative offer will be made for Kresta prior to the close of the Takeover Offer.

#### ***Wildweb's current beneficial shareholding in Kresta***

At the date of the Takeover Offer, Wildweb had a relevant interest in 19.61% of the Kresta shares on issue. Wildweb could therefore prevent a competing bidder from proceeding to compulsory acquisition of Kresta.



### *Provides liquidity to shareholders*

Historically, the liquidity of Kresta's shares has been low. Over the past 12 months, 54% of the total shares outstanding were traded. If Hunter Hall Investment Management Limited's (Hunter Hall) accumulation of shares over this period is excluded, only 44% of the total shares outstanding were traded.

The Takeover Offer provides Shareholders with a level of liquidity that has not been available in the recent past. It is unlikely that the liquidity of Kresta's shares will improve materially in the short to medium term, if the Takeover Offer is unsuccessful and given the circa 40% held by the two major shareholders, Hunter Hall and Avatar Industries Pty Limited (Avatar Industries), an associate of Wildweb.

### *Wildweb acquires 40% or more but less than 90% of Kresta*

The Takeover Offer is currently conditional on Wildweb acquiring at least 40% of Kresta's shares. Shareholdings of 40% or more are generally considered to deliver a level of practical control. However, if Wildweb acquires 40% but less than 50%, it is likely that it will not obtain practical control of Kresta given that there are other major shareholders on the share register. The current uncertainty surrounding the future direction and strategy of the Company, as a result of boardroom instability, will therefore likely continue.

If Wildweb acquires more than 50% but less than 90%, it will obtain control of Kresta but Kresta will remain listed with minority shareholders holding between 10% and 50%.

In both of the above scenarios, the future liquidity of Kresta shares will likely diminish.

### *Loss of exposure to Kresta*

Shareholders who accept the Takeover Offer (Accepting Shareholders) will receive cash consideration for their shares and will therefore no longer own shares in Kresta.

Kresta is currently at an uncertain and potentially transitional stage in its lifecycle. An opportunity exists for the Company to grow its market share and earnings in the future with the right management and strategy in place. Accepting Shareholders will not receive any benefit from such future growth.

Our valuation has not been premised on the existence of special value to Wildweb. However, we note that such special value may exist, in light of a prior proposal put to the Company by Arlec Australia Pty Limited (Arlec), another entity associated with Mr Ian Trahar. The merger of Arlec and Kresta may have delivered experienced management and cost savings to the combined entity and provided a platform for Kresta to rapidly change its supply strategies. While such a merger is not currently under consideration, it could be revisited once Wildweb has control of Kresta. Accepting Shareholders would not receive any benefit from such a future strategy.

### *Conclusion on reasonableness*

Based on our consideration of the factors set out above, there do not appear to be any compelling reasons for Shareholders to accept the Takeover Offer despite it being not fair. Accordingly, we are of the opinion that the Takeover Offer is not reasonable.

### **Opinion**

In our opinion, the Takeover Offer is neither fair nor reasonable. An individual Shareholder's decision in relation to the Takeover Offer may be influenced by his or her particular circumstances. If in doubt Shareholders should consult an independent adviser, who should have regard to their individual circumstances.



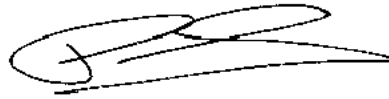
This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

**DELOITTE CORPORATE FINANCE PTY LIMITED**

A stylized, handwritten signature in black ink, appearing to be 'NI'.

**Nicki Ivory**  
Director

A stylized, handwritten signature in black ink, appearing to be 'TP'.

**Tapan Parekh**  
Director

*Note: All amounts stated in this report are AUD unless otherwise stated, and may be subject to rounding.*

# Contents

<b>1</b>	<b>Terms of the Takeover Offer</b>	<b>8</b>
1.1	Summary	8
1.2	Wildweb's intentions	8
1.3	Key conditions of the Takeover Offer	9
<b>2</b>	<b>Scope of the report</b>	<b>10</b>
2.1	Purpose of the report	10
2.2	Basis of evaluation	10
2.3	Limitations and reliance on information	12
<b>3</b>	<b>Window furnishing industry</b>	<b>13</b>
3.1	Industry overview	13
3.2	Demand	13
3.3	Supply	16
3.4	Key success factors	17
3.5	Porter's five forces	17
3.6	Future expectations	18
<b>4</b>	<b>Profile of Kresta</b>	<b>19</b>
4.1	Principal activities	19
4.2	Company history	20
4.3	Legal structure	21
4.4	Directors and Management	22
4.5	Competitive position of Kresta	23
4.6	Capital structure and shareholders	24
4.7	Share price performance	24
4.8	Financial performance	26
4.9	Financial position	29
<b>5</b>	<b>Valuation methodology</b>	<b>31</b>
5.1	Valuation methodologies	31
5.2	Selection of valuation methodologies	32
<b>6</b>	<b>Valuation of Kresta</b>	<b>33</b>
6.1	Valuation of Kresta	33
6.2	Capitalisation of maintainable earnings	33
6.3	Cross Checks	46

6.4	Number of shares outstanding	48
6.5	Conclusion	49
<b>7</b>	<b>Evaluation and conclusion</b>	<b>50</b>
7.1	Fairness	50
7.2	Reasonableness	50
7.3	Conclusion	52
 <b>Appendices</b>		
	Appendix 1: Glossary	53
	Appendix 2: Merger and acquisition transactions	55
	Appendix 3: Comparable company descriptions	56
	Appendix 4: Comparable transaction descriptions	59
	Appendix 5: Sources of information	61
	Appendix 6: Qualifications, declarations and consents	62

# 1 Terms of the Takeover Offer

## 1.1 Summary

On 1 February 2011, Wildweb announced a conditional offer to acquire all of the shares in Kresta that Wildweb does not already own. The consideration offered by Wildweb is \$0.325 cash per Kresta share held.

The full details of the Takeover Offer are included in a draft Bidder's Statement which was issued to Kresta by Wildweb on 3 February 2011.

Wildweb is a company associated with Mr Ian Trahar and Avatar Industries, a 19.6% shareholder of Kresta. Wildweb was incorporated on 13 December 2010 in Western Australia specifically for the purpose of the Takeover Offer.

## 1.2 Wildweb's intentions

In the event Wildweb and its associates acquire an interest of 90% or more in Kresta, Wildweb intends to:

- Compulsorily acquire the remaining shares outstanding to take its holding to 100% of Kresta
- Replace all board members of Kresta and its subsidiaries with its own nominees
- Remove Kresta from official listing on the Australian Securities Exchange Limited (ASX)
- Combine Kresta's head office with the head office of Wildweb
- Perform a detailed review of Kresta's business focussed on improving operations and profitability
- Continue the employment of Kresta's present employees subject to the above review which may lead to redundancies.

In the event Wildweb and its associates acquire less than 90% of Kresta, Wildweb intends to:

- Procure the appointment of a majority of its nominees to the Kresta board so that the proportion of nominees is broadly similar to Wildweb's voting power (if Wildweb acquires effective control) or seek representation on the board broadly similar to the proportion of Wildweb's voting power (if Wildweb does not acquire effective control)
- Retain the listing of Kresta on the ASX, subject to ASX Listing Rules
- Retain Kresta's head office as a standalone office at its current site in Malaga
- Attempt to procure that the Kresta Board undertakes a strategic review
- Continue the Kresta business as a standalone operation
- Continue the employment of Kresta's present employees subject to the above strategic review which may lead to redundancies.

If Wildweb acquires less than 90% its ability to implement its intentions will be limited by the legal obligations of Kresta directors to have regard to the interests of Kresta and all Kresta shareholders and the requirements of the Corporations Act and ASX Listing Rules relating to transactions between related parties.

### 1.3 Key conditions of the Takeover Offer

The Takeover Offer is subject to various conditions, the most significant being:

- None of the resolutions proposed by Hunter Hall in its requisition notice dated 13 December 2010 are approved by Kresta shareholders at the Kresta extraordinary general meeting (EGM) originally scheduled to be held on 14 February 2011 or any adjournment of that meeting (EGM Condition). On 11 February 2011, Kresta announced the postponement of the EGM until 14 March 2011
- Minimum acceptance of at least 40% (by number) of the fully paid ordinary shares in Kresta (40% Minimum Acceptance Condition)
- No major acquisitions, disposals or commitments by Kresta or its subsidiaries
- No distributions being paid by Kresta or its subsidiaries, other than the recently announced proposed dividend of approximately \$0.05 per share
- No breaches of any of the other customary conditions as detailed in the Bidder's Statement.

The above conditions can be waived by Wildweb at any time.

## 2 Scope of the report

### 2.1 Purpose of the report

Under Section 640 a Target's Statement given in response to a takeover offer must include, or be accompanied by, an independent expert's report if either the bidder's or associates' voting power in the target is 30% or more, or the bidder and target have one or more common directors. The independent expert's report is required for the purpose of providing shareholders of the target company with an objective and disinterested view as to whether the offer is fair and reasonable and to provide them with sufficient information to make an effective, informed decision as to whether to accept or reject the offer.

Wildweb and its associates currently hold 19.6% of the voting power in Kresta and have one director in common with Kresta, being Mr Ian Trahar. An independent expert's report is therefore required under Section 640.

This report is to be included in Target's Statement to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Takeover Offer. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

### 2.2 Basis of evaluation

#### 2.2.1 Regulation

In our assessment as to whether the Takeover Offer is fair and reasonable, we have had regard to common market practice and to ASIC Regulatory Guide 111 regarding the content of expert's reports. ASIC Regulatory Guide 111 prescribes standards of best practice in the preparation of independent expert's reports pursuant to Section 640.

#### ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert's reports prepared for transactions under Chapters 5, 6 and 6A of the Corporations Act, in relation to:

- Takeover bids
- Schemes of arrangement
- Compulsory acquisitions or buy-outs
- Acquisitions approved by security holders under item 7 of s611
- Selective capital reductions
- Related party transactions
- Transactions with persons in a position of influence
- Demergers and demutualisations of financial institutions
- Buy-backs.

ASIC Regulatory Guide 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of s611, a selective capital reduction or selective buy back under Chapter 2J.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- Fair, when the value of the consideration is equal to or greater than the value of the shares subject to the takeover offer. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium if appropriate)
- Reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should accept the takeover offer, in the absence of any higher bids before the close of the offer.

To assess whether the Takeover Offer is fair and reasonable, we have adopted the tests of whether the Takeover Offer is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

### 2.2.2 Fairness

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming 100% ownership of the target company.

Accordingly we have assessed whether the Takeover Offer is fair by comparing the Offer Consideration with the value of a Kresta share. The Kresta shares have been valued at fair market value, which we have defined as the amount at which the shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of a Kresta share has not been premised on the existence of a special purchaser.

We have assessed whether the Takeover Offer is fair by comparing the value of a Kresta share with the value of the consideration to be received from Wildweb, being cash of \$0.325. We have assessed the value of each Kresta share by estimating the current value of Kresta on a control basis and dividing this value by the number of shares on issue, and after considering any options on issue.

### 2.2.3 Reasonableness

ASIC Regulatory Guide 111 considers an offer in respect of a control transaction to be reasonable if either:

- The offer is fair
- Despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Takeover Offer we considered the following significant factors in addition to determining whether the Takeover Offer is fair:

- The extent to which a control premium is being paid
- The likely price of Kresta's shares should the Takeover Offer be rejected
- Likelihood of an alternative offer
- Wildweb's current beneficial shareholding in Kresta
- The Takeover Offer provides liquidity to Shareholders
- Wildweb acquires 40% or more but less than 90% of Kresta



- Loss of exposure to Kresta and the market it operates in as a result of accepting the Takeover Offer.

#### **2.2.4 Individual circumstances**

We have evaluated the Takeover Offer for Shareholders as a whole and have not considered the effect of the Takeover Offer on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Takeover Offer from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Takeover Offer is fair and reasonable. If in doubt investors should consult an independent adviser, who will have regard to their individual circumstances.

### **2.3 Limitations and reliance on information**

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 6.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited (APESB).

Our procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (AUASB) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

## 3 Window furnishing industry

Kresta is a manufacturer and retailer of window furnishings and related products. The window furnishing industry is influenced by the dynamics of and outlook for a number of related industries, particularly:

- Textile and fabric manufacturing, retail and wholesale
- Household furniture and home wares manufacturing, retail and wholesale.

The following is an overview of the key dynamics of and outlook for the window furnishing industry.

### 3.1 Industry overview

Window furnishings can generally be described as indoor and outdoor furnishings attached on or near windows. This includes products such as blinds, curtains, awnings, shutters, venetians and outdoor blinds.

Window furnishings are used in the furnishing of new buildings or as part of building refurbishments and upgrades. The key distribution channels are:

- Physical stores (retail)
- Online sales (retail)
- Sales representatives (retail, commercial and wholesale).

The industry is highly fragmented with a large number of private companies selling window furnishings. However, the companies listed on capital markets that operate in this industry are generally diversified, with window furnishings forming part of a much larger product offering.

Window furnishings are manufactured using a wide variety of raw materials including wood, fabric, plastic and aluminium. Generally, products are either manufactured in Australia or imported from low-cost countries such as China.

The key demand and supply factors affecting the window furnishing industry are discussed below.

### 3.2 Demand

The demand for window furnishings arises mainly from the construction of new homes and businesses, the refurbishment of existing homes and businesses and upgrades to existing window furnishings. Retail demand in industries closely related to window furnishings such as fabric retailing (growth of 0.7% per annum since 2006) and furniture retailing (decline of 0.2% per annum since 2006) has been subdued over the past five years. Over this period retail demand was positively influenced by growth in income levels and housing construction but was negatively influenced by the global financial crisis (2008/09) and fluctuations in consumer sentiment.

The future demand for window furnishings is expected to be influenced by the following factors:

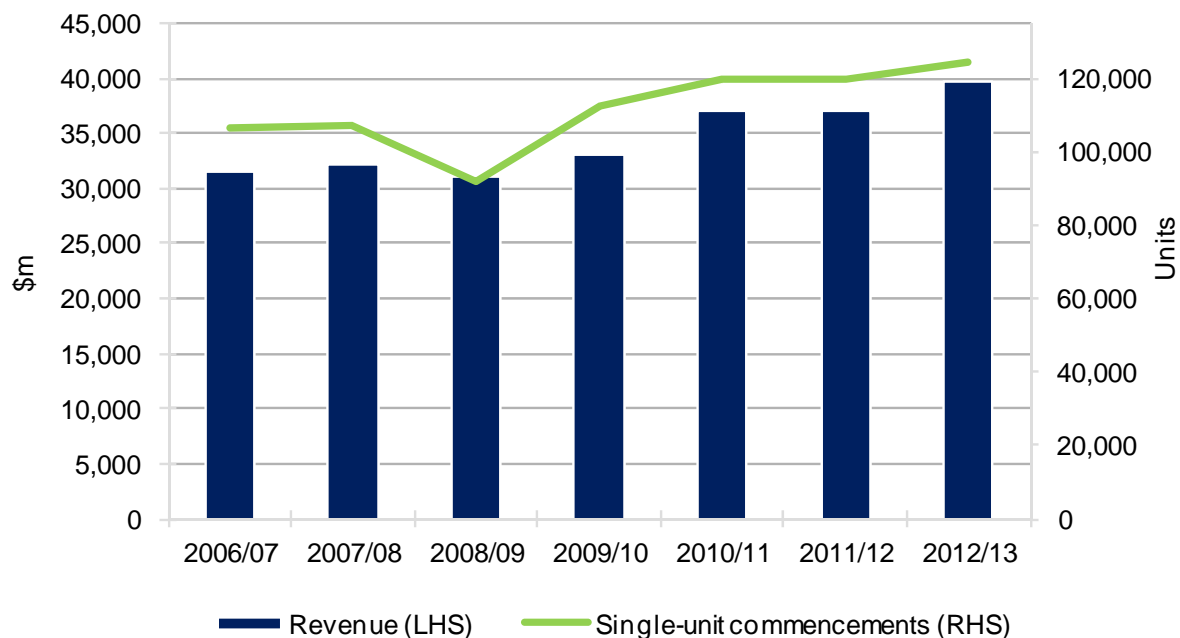
#### Interest rates and downstream demand from building construction

Interest rates are a key driver of demand and have a direct impact on the level of building construction. Given that construction projects are often financed by debt, interest rates contribute to the cost of construction and therefore influence building decisions. Generally, an increase in interest rates reduces the level of construction and has a negative effect on the demand for window furnishings.

Housing construction has improved significantly since the lows of the global financial crisis in 2008/09 and was also boosted by an increase in the Australian government's first home owner's grant in 2009. However, interest rates in Australia are currently trending upward due to the improving economy and the resultant increase in inflation. Access to property finance and household equity draw-downs is also challenging in the current economic environment. As a result construction activity and therefore demand for window furnishings is expected to remain stagnant in the short to medium term.

As shown in the figure below, the number of single-unit construction commencements is expected to increase moderately from 120,000 in 2010/11 to 124,500 in 2012/13. The expected single-unit housing commencements of roughly 120,000 units in 2010/11 is up 30.5% from the cyclical trough experienced in 2008/09.

**Figure 1: Housing construction revenue and single-unit commencements**



Source: IBISWorld - House Construction in Australia (E4111) – January 2011

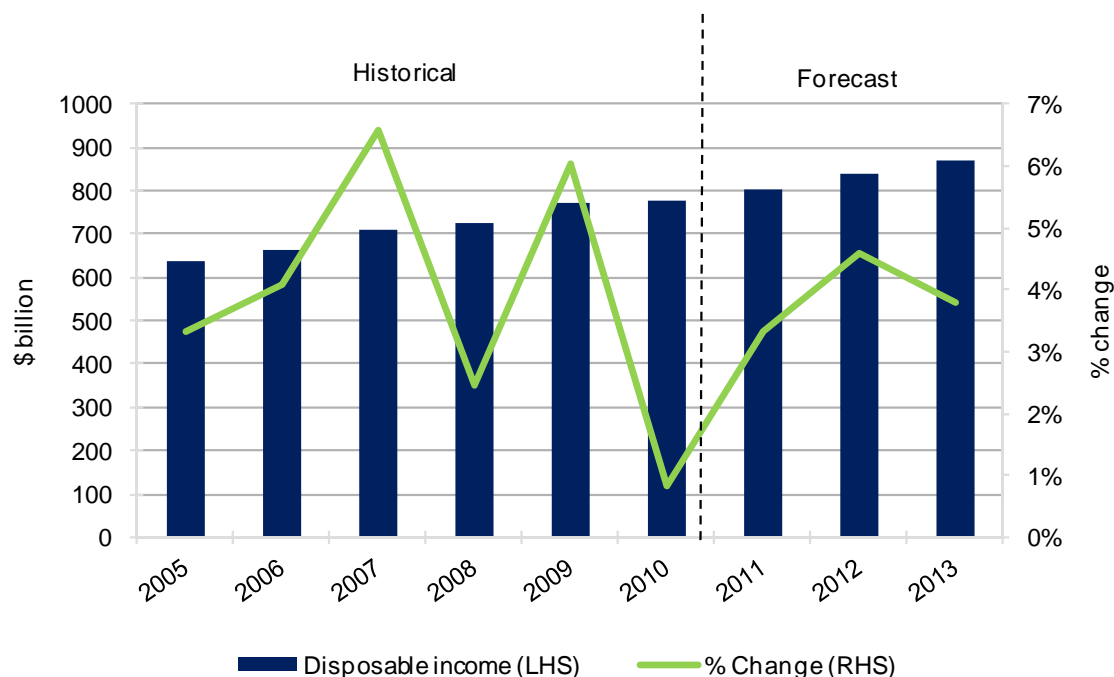
In addition to the above, an increase in interest rates generally also reduces consumer sentiment and household disposable income and therefore has a negative effect on the demand for window furnishings. The impact of real household disposable income and consumer sentiment on the demand for window furnishings is discussed below.

### Real household disposable income

Real household disposable income is an important driver of the demand for window furnishings as it determines the amount of money consumers have available for discretionary spending. An increase in real disposable income increases downstream retail demand for window furnishings.

As can be seen in the figure below, real household disposable income has increased from \$639 billion in 2005 to \$777 billion in 2010 but the annual change has historically been volatile. IBISWorld Pty Ltd (IBISWorld) expects an increase in real household disposable income of 3% to 5% per annum over the three years to 2013.

Figure 2: Real household disposable income



Source: IBISWorld - Real Household Disposable Income (D1151) – August 2010

However, due to economic uncertainties such as the potential for future interest rate increases and the prevailing weakness in the global economy, consumer retail spending is currently weak. As households adopt a more cautious approach to spending the propensity to save increases. An increase in real household disposable income as highlighted above may therefore not result in significant improvements in the demand for window furnishings.

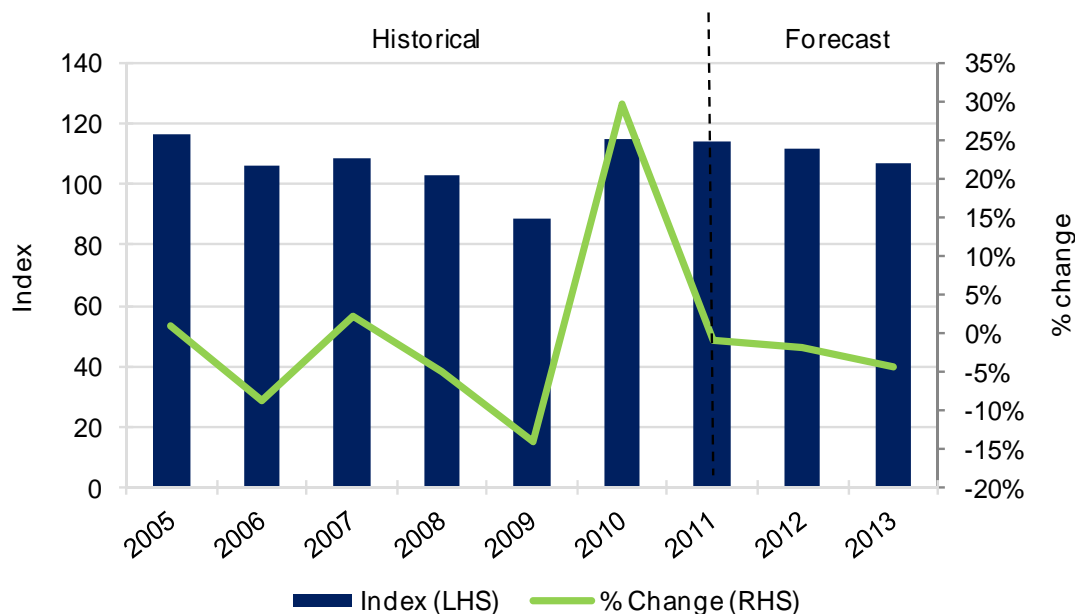
### Consumer confidence

Consumer confidence is a key driver of retail demand for window furnishings. This is mainly due to the fact that the level of consumer spending is influenced by changes in consumer sentiment.

Generally, consumer spending increases as consumer sentiment increases. Growth in the consumer sentiment index fosters a stable spending environment in which consumers are more certain about their future financial position and hence willing to increase discretionary spending.

As illustrated in the figure below, consumer sentiment was negatively affected by the global financial crisis in 2008/09 but rebounded strongly in 2010 particularly in light of strong stimulus efforts by the government. Forecast consumer sentiment is relatively weak due to the effect of recent interest rate increases and global economic uncertainty and is expected to have a negative effect on the demand for window furnishings.

Figure 3: Consumer sentiment index



Source: IBISWorld – Consumer Sentiment Index (D1111) – June 2010

### 3.3 Supply

Window furnishings are supplied by a combination of specialist window furnishing retailers, wholesalers and generalist retailers supplying a broad range of household goods. Specialist window furnishing retailers in Australia are generally small private businesses with the exception of Kresta and Hunter Douglas N.V. (Hunter Douglas). Hunter Douglas is a world leader in window coverings with a presence in over 100 countries. It operates the Luxaflex brand in Australia.

The supply of window furnishings in Australia is fragmented amongst a number of retailers as shown in the table below.

Table 2: Key retailers of window furnishing's in Australia

NSW	Victoria	Queensland	South Australia	Western Australia	National
Accent Blinds	Victory Curtains and Blinds	Vanguard Blinds	Victory Curtains and Blinds	ABC Blinds and Curtains	Kresta
Sydney Blinds	The Blinds Factory	Victory Curtains and Blinds		Westral Blinds	Hunter Douglas
Apollo Blinds	Dollar Curtains				Bunnings
Curtain Wonderland		Curtain Wonderland		Curtain Wonderland	Australian Outdoor Living Verosol

Source: Kresta management

There are no significant supply constraints pertaining to the manufacture of window furnishings and changes in production volumes are primarily demand-driven. Window furnishings in Australia are either imported from low-cost production countries such as China or manufactured locally. Products are either pre-made to standard measurements or custom made to customer requirements. Some of the key issues facing Australian manufacturers are:

- Skilled and semi-skilled labour - with the unemployment rate close to historical lows in Australia, the industry is currently facing difficulties in securing skilled and semi-skilled labour. This is compounded by higher salaries in the mining and resource sector which divert labour away from industries with relatively lower salaries and wages such as the window furnishing industry
- Increased competition from China - Australian manufacturers continue to face intense competition from low-cost countries such as China, Malaysia, Vietnam and India. Competition has intensified particularly as their exporting efforts and product quality continue to increase. The strengthening of the Australian dollar in 2010 has made imports even more attractive which is expected to place extra strain on the local industry.

### 3.4 Key success factors

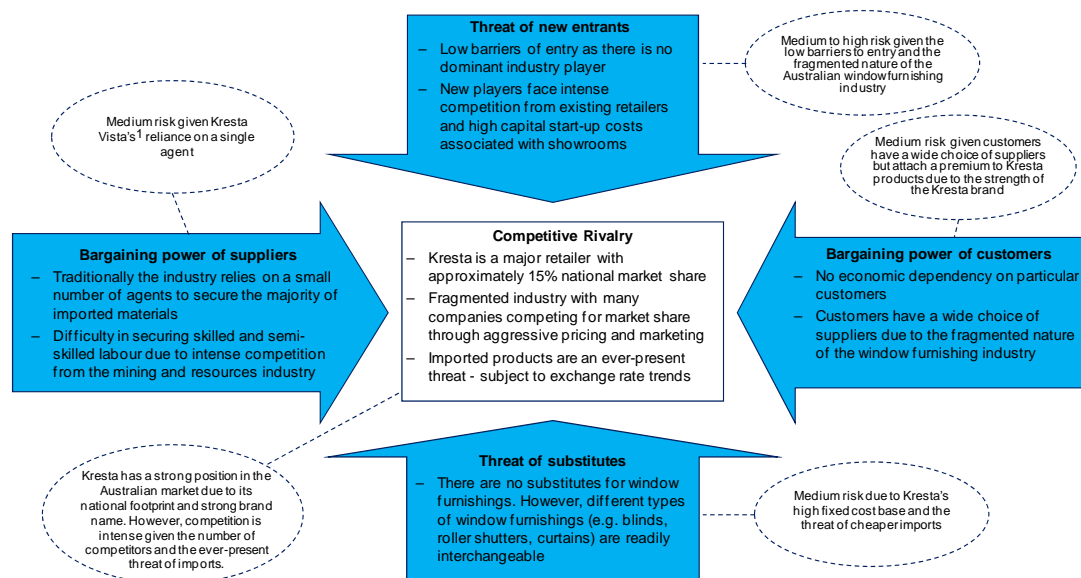
Some of the key success factors affecting the window furnishing industry are:

- Establishment of brand names – a strong brand name is important for maintaining market share in retail markets
- Production of goods currently favoured by the market – a company's products should meet the current decor and furnishing trends within the industry in order to maintain sales volumes
- Attractive product position – store layouts should be clear, consistent and provide customers with a good overview of products on offer. Product positioning should aim to boost impulse buying and increase sales
- Offshore product sourcing and manufacturing – due to the competitive nature of the domestic window furnishing industry, the ability to import or manufacture products offshore is key to maintain profitability and competitive pricing
- Proximity to key markets – stores need to be located where there is a high volume of passing traffic or positioned alongside stores that retail associated goods to receive maximum benefit from impulse shoppers
- Production of premium goods – a company's ability to produce high quality products assists in differentiating its products from low-end cheaper imports
- Automation and effective cost controls – automation reduces production costs, particularly those associated with labour, resulting in improved margins.

### 3.5 Porter's five forces

The figure below shows an analysis of Kresta's position in the window furnishing industry using Porter's five forces framework for industry analysis and business strategy.

Figure 4: Porter's five forces industry analysis



Source: Deloitte analysis

Notes:

1. Kresta Vista refers to the business and brands of Kresta excluding Curtain Wonderland, as defined in Section 4.1.

## 3.6 Future expectations

Due to key challenges such as rising interest rates and weak consumer sentiment, the demand for window furnishings in Australia is not expected to show significant growth over the short to medium term. This will have a negative impact on manufacturers and retailers of window furnishings and related products.

In addition, labour shortages and intense competition from cheaper imports are expected to constrain the Australian window furnishing manufacturing industry over the short to medium term. Industry players are expected to shift their focus away from competing with cheap imports and invest more resources into the development of premium products. Given that Australia struggles to effectively compete with cheap imports from countries like China and India, the ability to shift into premium niche markets will be a key determinant of future success for domestic manufacturers.



## 4 Profile of Kresta

Kresta was incorporated in 1955 as a retailer and wholesaler of electrical merchandise. Following a series of transactions, the Company listed on the ASX in 1971. Kresta subsequently divested of its electrical and furniture retailing operations, leaving the primary business of window furnishings manufacturing and retailing.

### 4.1 Principal activities

Kresta has been a manufacturer and retailer of window furnishings and related products in Australia for over 34 years. The Company is involved in the manufacture, distribution, wholesale and retail of blinds, curtains, soft furnishings and components primarily in the residential market but it also sells to commercial customers.

Kresta's expertise in the window coverings industry stems from its vertically integrated manufacturing, wholesaling and retail operations. The Company imports and manufactures window furnishings which it then distributes through its retail branch network or call centre. Call centre customers are diverted to sales representatives at their nearest showroom. Kresta also has a fitting and installation business, Blind Wholesalers, Distributors and Manufacturers Pty Limited, which does in-home installations. Retail stores are owned by the Company and not franchised.

The Company sells its products through the following brands:

- **Kresta Blinds** – this is the Company's premium brand and has a strong national presence. Kresta Blinds has 35 retail showrooms across Australia and New Zealand
- **Vista Blinds** – Vista carries a similar range to Kresta Blinds but is aimed at the more cost-conscious market. Vista offers an in-home service and has 23 stores across Australia
- **Decor2Go** – specialising in ready-made blinds, Decor2Go has five stores in WA and also caters to the cost-conscious market. While also offering an in-home service, Decor2Go is aimed at customers who prefer buying and self-installing ready-made blinds. Decor2Go's sales are primarily driven by call centre customers and sales representatives.

In addition to the above, Kresta also owns the following businesses:

- **Curtain Wonderland** – a soft furnishings company with 23 retail stores in Queensland, New South Wales, Australian Capital Territory (ACT) and Western Australia acquired by Kresta in 2006
- **Ace of Shades** – a Melbourne-based specialist manufacturer of external blinds and awnings acquired by Kresta in January 2010
- **Sharatan and Mardo** – Kresta's wholesale distribution network which supplies fabrics, components and finished products to the Australian and New Zealand window coverings industry.

Curtain Wonderland Pty Limited (Curtain Wonderland) is run autonomously to the other entities within Kresta and has its own management team in place. Kresta, excluding Curtain Wonderland, is referred to internally as Kresta Vista (Kresta Vista). The majority of Kresta Vista's sales relate to custom made products. Raw materials and some products are sourced through a single agent, Santa Monica Company Limited (Santa Monica), based in Taiwan<sup>1</sup>. Curtain Wonderland sells mainly ready-made products sourced from various suppliers in China. We understand that Kresta Vista and Curtain Wonderland are not locked into any long-term supply arrangements.

---

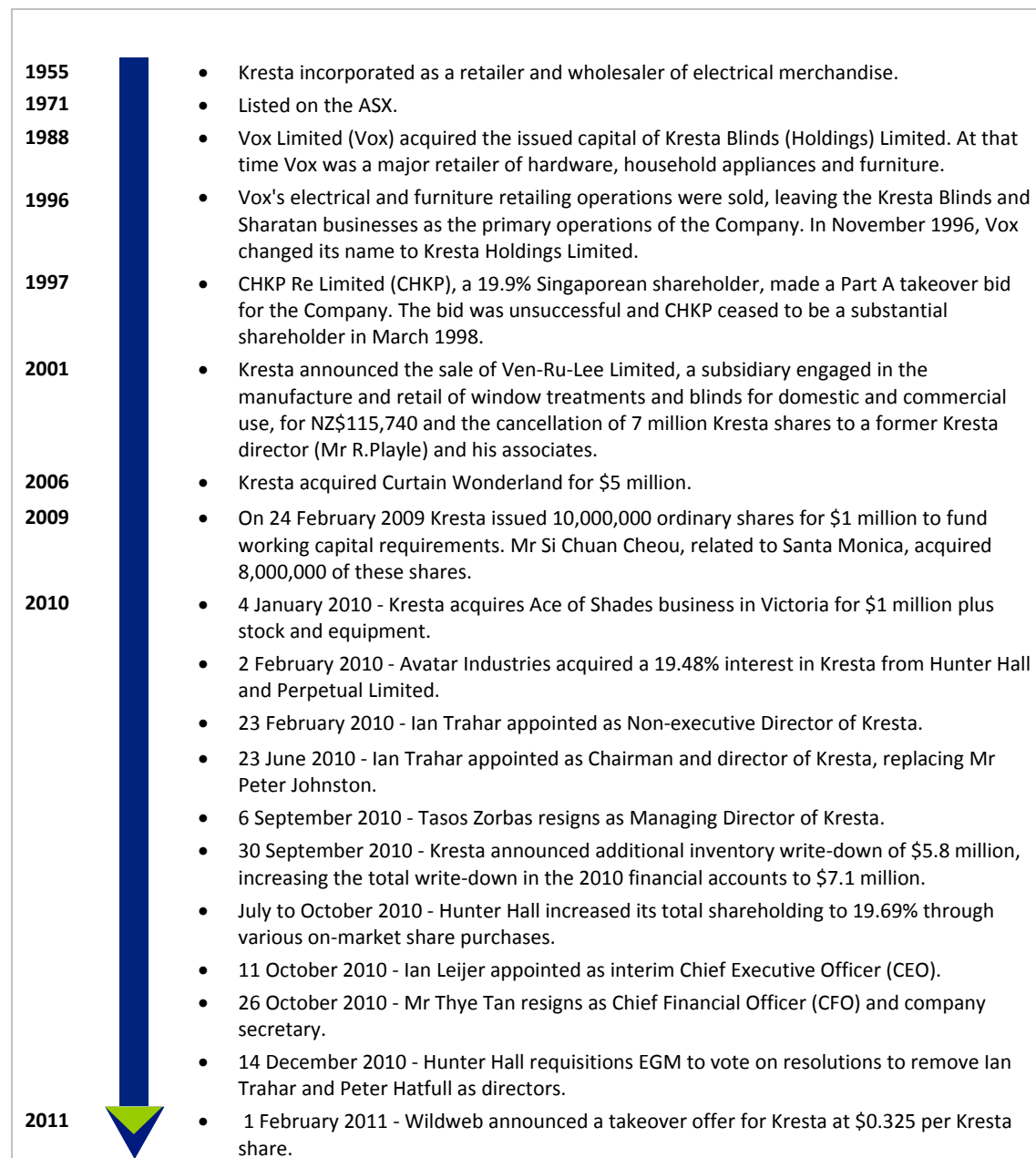
<sup>1</sup> Also a major shareholder. Refer to Cheou (Si Chuan) in Table 5

Manufacturing operations are a major element of Kresta's core activities and the Company is well known for being one of the first to manufacture vertical blinds in Australia. Kresta operates two manufacturing facilities in Western Australia and one in Victoria involving textile weaving and coating, manufacturing of plastic components and the fabrication of timber, fabric and aluminium venetian blinds and curtains.

## 4.2 Company history

An overview of the company history is provided in Figure 5 below.

Figure 5: Company history

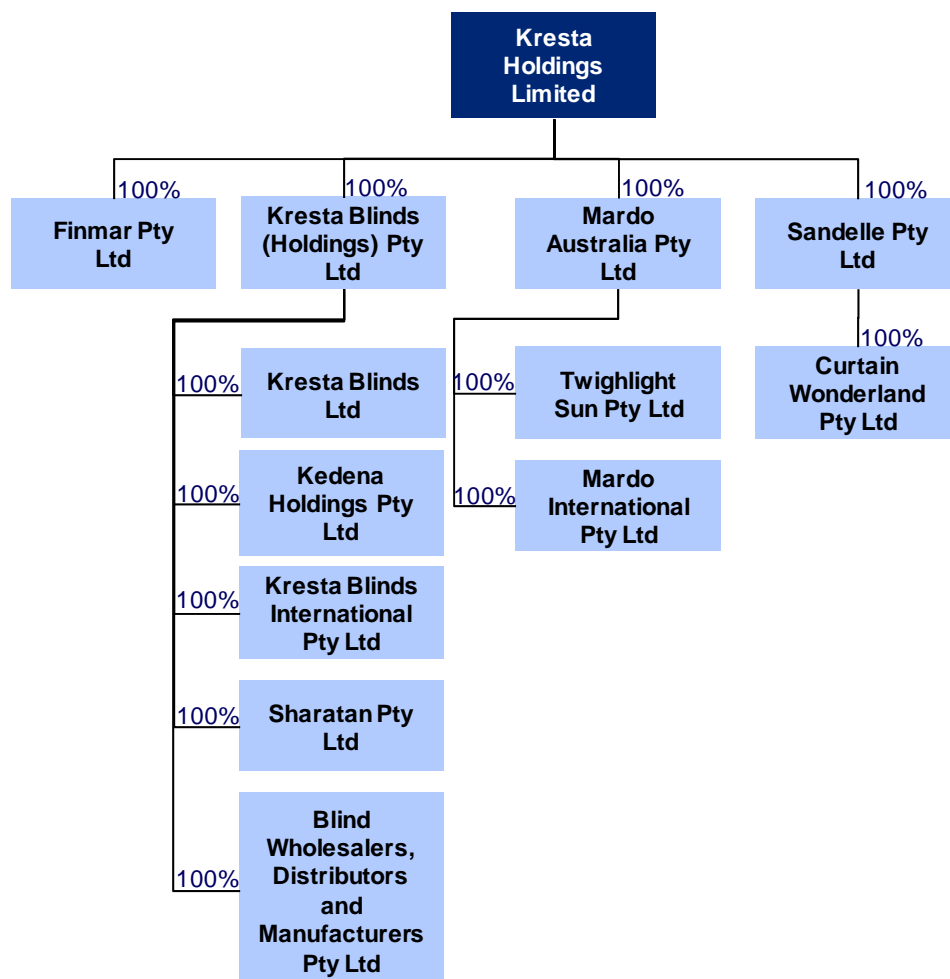


Source: ASX announcements

## 4.3 Legal structure

The figure below sets out the group structure of Kresta.

Figure 6: Kresta group structure



Source: Kresta management

The principal activities of each of the companies in the Kresta group are as follows:

- Finmar Pty Limited is a sales entity and trades as Vista
- Kresta Blinds (Holdings) Pty Limited, Twilight Sun Pty Limited and Sandelle Pty Limited are accounting entities which are not actively trading
- Kresta Blinds Limited, Kresta Blinds International Pty Limited and Sharatan Pty Limited operate as sales entities for the Kresta brand
- Kedena Holdings Pty Limited is a sales entity and trades as Decor2Go
- Blind Wholesalers, Distributors and Manufacturers Pty Limited owns and operates Kresta's fitting and installation business
- Mardo Australia Pty Limited owns and runs Kresta's manufacturing operations
- Mardo International Pty Limited owns the properties within the group

- Curtain Wonderland Pty Limited owns and operates the Curtain Wonderland business which is run as a standalone entity separate from Kresta's other brands (Kresta, Vista and Decor2Go).

## 4.4 Directors and Management

Kresta's directors and key management are:

**Table 3: Directors and management**

Name	Title
Peter Hatfull	Chairman, Non-executive director
Ian Trahar	Non-executive director
Trent Bartlett	Non-executive director
Ian Leijer	CEO, Company secretary

Source: ASX Announcements

There have been a number of changes in key management since Avatar Industries acquired a 19.48% interest in Kresta in February 2010. These are summarised below:

- Mr Ian Trahar was appointed as a non-executive director of Kresta in February 2010. He was subsequently appointed as Chairman of Kresta in June 2010, replacing the previous Chairman, Mr Peter Johnston. He resigned as Chairman on 1 February 2011 but remains a director
- Mr Tasos Zorbas resigned as Managing Director in September 2010
- Mr Ian Leijer was appointed as interim CEO in October 2010
- Mr Thye Tan, resigned as CFO and company secretary in October 2010.

Hunter Hall requisitioned an EGM on 14 December 2010, proposing resolutions to remove Mr Ian Trahar and Mr Peter Hatfull as directors and appoint Mr Richard Taylor and Mr John Molloy as directors. On 11 February 2011, Kresta announced the postponement of the EGM until 14 March 2011.

## 4.5 Competitive position of Kresta

The table below sets out the strengths, weaknesses, opportunities and threats (SWOT) for Kresta.

**Table 4: SWOT analysis**

Strengths		Weaknesses	
<ul style="list-style-type: none"> <li>Established brands and track record</li> <li>National network of retail stores</li> <li>Curtain Wonderland is a strong, well managed business.</li> </ul>		<ul style="list-style-type: none"> <li>Kresta Vista is reliant on a single agent for the majority of its raw materials, fabrics and finished goods</li> <li>High fixed and near-fixed cost base at Kresta Vista</li> <li>Weak inventory management, systems and controls at Kresta Vista</li> <li>High turnover of senior management in the past twelve months at corporate level</li> <li>Underinvestment in product development, training and information technology at Kresta Vista.</li> </ul>	
Threats		Opportunities	
<ul style="list-style-type: none"> <li>Online and sales representative based retailing poses a threat to Kresta's traditional store-based retail model</li> <li>Lack of suitably qualified staff due to Australia's prevailing skills shortage</li> <li>Increased competition from other retailers through price matching and promotions could result in damage to Kresta's sales volumes and margins</li> <li>Weak consumer sentiment and an increasing propensity to save due to recent increases in interest rates and an uncertain economic outlook may further weaken Kresta's earnings outlook. Further interest rate increases may continue to dampen consumer spending</li> <li>Instability at the senior management level and continuing acrimony between major shareholders may limit the ability of management to implement significant changes in Kresta Vista's business model and pose a threat to the Kresta brand resulting from negative publicity.</li> </ul>		<ul style="list-style-type: none"> <li>Electronic marketing in the form of e-commerce and iPhone and iPad applications</li> <li>Expand the outdoor product range such as awnings</li> <li>Expand commercial business segment</li> <li>Improve operational efficiency through investment in information technology and logistics</li> <li>Offshore manufacturing to reduce high fixed cost base</li> <li>Expand into the Melbourne and Sydney markets</li> <li>Expand the Curtain Wonderland business.</li> </ul>	

Source: Kresta management, Deloitte analysis

## 4.6 Capital structure and shareholders

At the date of this report, Kresta had 144,158,518 shares on issue and no listed or unlisted share options on issue.

Kresta's top 5 shareholders as at 23 February 2011 are listed below.

**Table 5: Top 5 shareholders**

Shareholders	Number of shares	% of total shares on issue
Hunter Hall	28,390,759	19.69%
Avatar Industries	28,276,030	19.61%
Perpetual Investments Limited	10,375,102	7.20%
Cheou (Si Chuan)	10,163,107	7.05%
Jasforce Pty Ltd	3,146,683	2.18%

Source: ThomsomReuters, ASX announcements, Kresta management

We note the following in relation to Kresta's top 5 shareholders:

- The top 5 shareholders account for 55.7% of Kresta's issued share capital as at 23 February 2011
- Hunter Hall requisitioned the EGM to remove Mr Peter Hatfull and Mr Ian Trahar as directors
- Avatar Industries is an associated company of Mr Ian Trahar and Wildweb
- Mr Si Chuan Cheou is related to Santa Monica, the agent who supplies the majority of Kresta's imported raw materials and other supplies
- On 15 February 2011, Perpetual Investments Limited (Perpetual) announced that their relevant interest had increased to 10,375,102 shares from 8,844,409 as a result of on market purchases and specifically purchases at a price of \$0.32 after the announcement of the Takeover Offer.

## 4.7 Share price performance

A summary of Kresta's share price performance is provided in the table below.

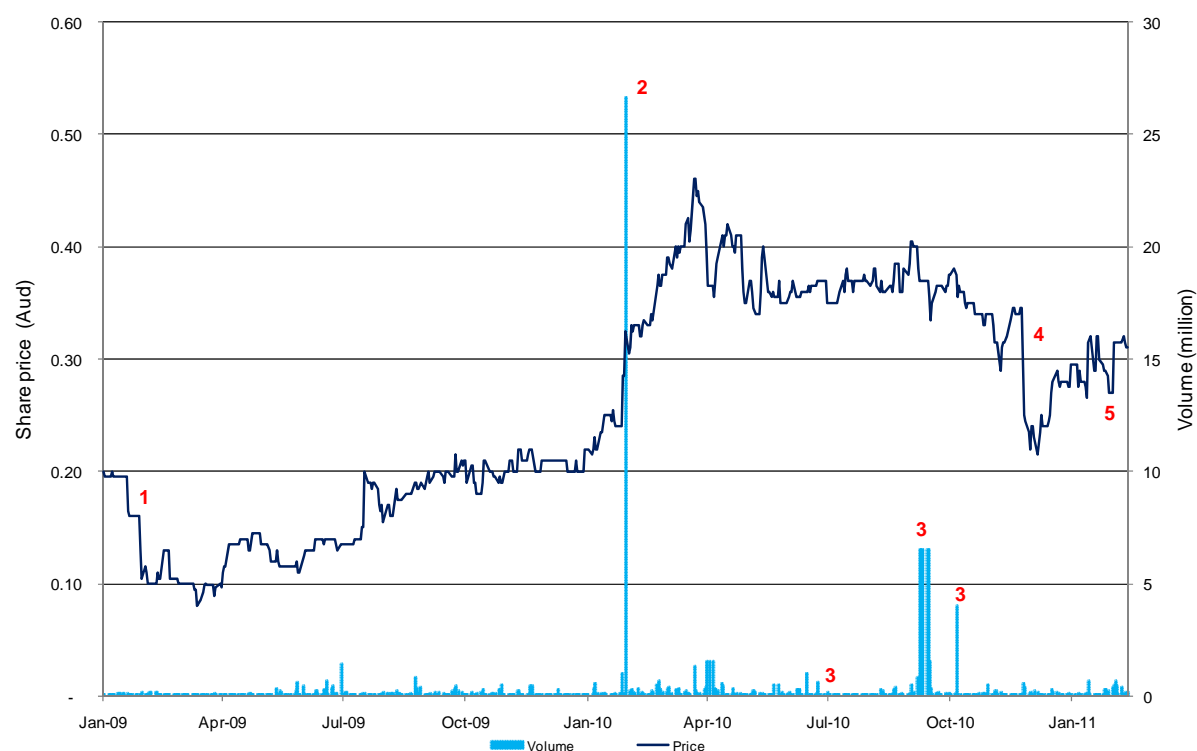
**Table 6: Kresta's quarterly ordinary share price information**

Quarter end date	High (AUD)	Low (AUD)	Last Trade (AUD)	Volume (million)
31-Mar-09	0.20	0.08	0.10	4.0
30-Jun-09	0.15	0.11	0.14	7.8
30-Sep-09	0.23	0.14	0.21	7.8
31-Dec-09	0.22	0.18	0.22	6.5
31-Mar-10	0.46	0.21	0.40	39.4
30-Jun-10	0.42	0.33	0.35	14.2
30-Sep-10	0.42	0.31	0.38	40.6
31-Dec-10	0.38	0.22	0.30	10.5
Up to 11 February 2011	0.32	0.25	0.31	5.6

Source: ThomsonReuters

These share price movements and trading volumes are presented graphically in the figure below.

**Figure 7: Kresta share price and volume**



Source: ThomsonReuters, ASX announcements



Notes:

1. Kresta announces profit warning that half-year results for the period ending 31 December 2008 are approximately 50% below the prior year comparative period
2. Avatar Industries acquired 27,890,068 Kresta shares (19.48% interest). This interest was acquired principally from Hunter Hall and Perpetual Limited. As a result, Hunter Hall's interest in Kresta reduced from 19.26% to 9.97%.
3. Hunter Hall increased its shareholding in Kresta from 9.97% to 19.69% by purchasing 14,117,725 shares between July 2010 and October 2010
4. Kresta announces profit warning of weaker results for the 2011 financial year. First quarter results are down 50% on the prior year comparative period
5. Wildweb announces Takeover Offer for Kresta.

## 4.8 Financial performance

The audited income statements of Kresta for the periods ended 30 June 2007 (FY07), 30 June 2008 (FY08), 30 June 2009 (FY09) and 30 June 2010 (FY10) and the 6 months ended 31 December 2010 (H1-FY11) are summarised in the table below.

**Table 7: Financial performance**

	FY07 Audited (AUD'000)	FY08 Audited (AUD'000)	FY09 Audited (AUD'000)	FY10 Audited (AUD'000)	H1-FY11 Reviewed (AUD'000)
<b>Revenue</b>	<b>116,860</b>	<b>116,421</b>	<b>116,999</b>	<b>122,630</b>	<b>60,715</b>
% change	46.01%	(0.00%)	0.00%	4.81%	n/a
<b>EBITDA</b>	<b>8,776</b>	<b>9,170</b>	<b>8,579</b>	<b>7,130</b>	<b>3,741</b>
% change	28.27%	4.49%	(6.44%)	(16.89%)	n/a
<b>EBIT</b>	<b>6,669</b>	<b>6,991</b>	<b>6,224</b>	<b>4,609</b>	<b>2,696</b>
% change	29.96%	(0.11%)	(10.97%)	(25.95%)	n/a
<b>NPAT</b>	<b>4,099</b>	<b>4,294</b>	<b>3,658</b>	<b>2,697</b>	<b>1,569</b>
% change	8.30%	4.76%	(14.81%)	(26.27%)	n/a
<i>EBITDA Margin %</i>	<i>7.5%</i>	<i>7.9%</i>	<i>7.3%</i>	<i>5.8%</i>	<i>6.2%</i>
<i>EBIT Margin %</i>	<i>5.7%</i>	<i>6.0%</i>	<i>5.3%</i>	<i>3.8%</i>	<i>4.4%</i>
<i>NPAT Margin %</i>	<i>3.5%</i>	<i>3.7%</i>	<i>3.1%</i>	<i>2.2%</i>	<i>2.6%</i>

Source: Kresta annual reports, Kresta half-year report, Deloitte analysis

We note the following in relation to Kresta's financial performance:

- Kresta's revenue remained flat in FY09 compared to FY08 as a result of the onset of the global financial crisis. EBITDA decreased as a result of an increase in salary and wage costs.
- Total revenue increased from \$117.0 million in FY09 to \$122.6 million in FY10 primarily driven by the Federal Government stimulus package. Despite the increase in revenue, EBITDA decreased from \$8.6 million in FY09 to \$7.1 million in FY10. This was primarily the result of a \$7.1 million write-down in inventory, partially offset by the above increase in revenue
- H1-FY11 results are significantly below the prior year comparative result mainly due to weak consumer sentiment and the absence of the Federal Government stimulus package that drove FY10 first half revenues

- For personal use only
- The compound annual growth rate (CAGR) of Kresta Vista's revenue between FY07 and FY10 is 0.6% which indicates that, in real terms, Kresta Vista's revenue has decreased in the past three financial years, assuming a 3% inflation rate
  - We understand that in the past 12 months reviews of Kresta Vista's product range and inventory management processes have been conducted and a comprehensive strategic review is planned for the coming months. Management advised that they have recently updated the policy regarding reviews of the product range. In future the range will be formally reviewed each year and samples will be refreshed every two years. Management also advised that they:
    - have made a conscious change to the way they manage inventory, particularly reducing the volume of stock bought
    - are improving inventory usage between different products where the raw material can be used to produce more than one product
    - are reducing the colour range to mitigate the risks associated with changing styles and trends
    - are more actively tracking market demand trends
    - are increasing communication between the buying department and sales team to better understand the level of demand for different products
    - will undertake a formal relaunch of the Kresta Vista product range in July 2011.
  - Curtain Wonderland has a strong track record of earnings and contributes approximately 30% of Kresta's revenue. Revenue has grown from \$30.2 million in FY07 to \$34.4 million in FY10, peaking at \$38.5 million in FY09. The CAGR over this period was 4.5%, which suggests that revenue has grown in real terms, assuming an inflation rate of 3%. The key drivers of this growth were:
    - new store openings: since its acquisition by Kresta in 2006, Curtain Wonderland has consistently attempted to grow revenue through organic growth from new store openings. Since joining the Kresta group, Curtain Wonderland has opened seven new stores and closed three stores
    - relocation of manufacturing facilities: in 2008, Curtain Wonderland moved its inventory sourcing function to China. Management advised that an increase in revenue was achieved due to an improvement in the presentation of a number of product ranges and a significant improvement in gross margin was achieved due to lower manufacturing costs
    - the Federal Government stimulus package: similarly to Kresta Vista, the stimulus measures increased consumer spending and were a key driver of revenue growth, although the effects of the stimulus package were felt more in FY09 rather than in the first half of FY10 (H1-FY10) as was the case for Kresta Vista.
  - Curtain Wonderland's gross profit has historically been strong and has improved significantly since the relocation of Curtain Wonderland's inventory sourcing function to China in FY08. Management advised that the benefit of this was not seen until part way through FY09, approximately 12 months after the relocation, which is evident in the improvement in gross profit margin between FY09 and FY10. The result has been growth in EBITDA from \$2.2 million in FY07 to \$4.2 million in FY10, representing a CAGR of 23.6%.

The EBIT and EBITDA presented in the table above are affected by a number of abnormal or non-recurring items. We have adjusted for these items to present a normalised level of EBITDA and EBIT in the table below.

**Table 8: Adjusted financial performance**

	FY07 Audited (AUD'000)	FY08 Audited (AUD'000)	FY09 Audited (AUD'000)	FY10 Audited (AUD'000)	H1-FY11 Reviewed (AUD'000)
Reported EBITDA	9,014	9,170	8,579	7,130	3,741
Reversal of reported inventory write-down	-	-	-	7,061	-
Normalised inventory write-down	(700)	(700)	(700)	(700)	(175)
Net loss on sale of property, plant and equipment	-	-	107	-	-
Termination payments	-	-	-	-	874
Redundancy payments	91	232	184	85	14
<b>Adjusted EBITDA</b>	<b>8,405</b>	<b>8,702</b>	<b>8,170</b>	<b>13,576</b>	<b>4,454</b>
Depreciation and amortisation	(2,107)	(2,179)	(2,355)	(2,521)	(1,045)
<b>Adjusted EBIT</b>	<b>6,298</b>	<b>6,523</b>	<b>5,815</b>	<b>11,055</b>	<b>3,409</b>

Source: Kresta annual reports, Kresta half-year report, Deloitte analysis

We note the following in relation to Kresta's adjusted financial performance:

- Kresta had an inventory write-down of \$7.1 million in FY10 relating to the build-up of obsolescent and slow-moving stock over a number of years. We have normalised this to only include the amount of the provision deemed necessary for each year, being \$0.7 million per annum which assumes the provision was built up over the past 10 years (discussed further in 6.2.1)
- The normalised inventory write-down since FY10 is reduced due to the improvements in the Company's inventory management. We have included a provision of \$0.35 million per annum, which equates to \$0.175 million for H1-FY11
- H1-FY11 results have been adjusted by \$0.9 million for the termination costs of the previous CEO and CFO/Company Secretary
- Kresta has made a number of redundancy payments over the past four years as the Company rationalised its workforce. These costs have been added back as redundancy payments are not expected to be significant going forward based on management's budget.

## 4.9 Financial position

The audited balance sheets of Kresta as at 30 June 2007, 30 June 2008, 30 June 2009, 30 June 2010 and 31 December 2010 are summarised in the table below.

**Table 9: Financial position**

	June 2007 Audited (AUD'000)	June 2008 Audited (AUD'000)	June 2009 Audited (AUD'000)	June 2010 Audited (AUD'000)	December 2010 Reviewed (AUD'000)
Cash and cash equivalents	1,317	5,556	7,511	7,861	8,658
Trade and other receivables	4,801	3,458	3,462	3,612	2,578
Inventories	23,620	23,677	21,168	12,471	10,840
Income tax receivable	-	-	-	-	376
Other	763	774	677	701	1,346
<b>Total current assets</b>	<b>30,501</b>	<b>33,465</b>	<b>32,818</b>	<b>24,645</b>	<b>23,798</b>
Property, plant and equipment	14,775	15,574	18,130	17,052	17,159
Deferred tax assets	1,554	1,615	1,799	3,955	1,775
Intangibles	1,552	1,495	1,439	2,680	3,159
<b>Total non-current assets</b>	<b>17,881</b>	<b>18,684</b>	<b>21,368</b>	<b>23,687</b>	<b>22,093</b>
Trade and other payables	10,442	11,654	10,007	7,608	7,762
Interest-bearing loans and borrowings	1,376	1,721	3,618	10,215	4,157
Income tax payable	1,128	1,248	542	1,924	-
Provisions	3,726	3,979	4,120	4,645	5,176
Other	264	75	524	91	167
<b>Total current liabilities</b>	<b>16,936</b>	<b>18,677</b>	<b>18,811</b>	<b>24,483</b>	<b>17,262</b>
Interest bearing liabilities	10,869	11,939	10,434	268	5,651
Provisions	494	551	603	678	738
Other	86	136	204	159	139
<b>Total non-current liabilities</b>	<b>11,449</b>	<b>12,626</b>	<b>11,241</b>	<b>1,105</b>	<b>6,528</b>
<b>Net assets</b>	<b>19,997</b>	<b>20,846</b>	<b>24,134</b>	<b>22,744</b>	<b>22,101</b>

Source: Kresta annual reports, Kresta half-year report

We note the following in relation to Kresta's financial position:

- Cash included approximately \$2.3 million of customer deposits which was recognised as unearned revenue at 31 December 2010. A dividend of \$0.05 per share was announced on 25 January 2011 and a provision for dividends payable of \$0.7 million was raised in the 31 December 2010 half year accounts. The majority of cash at 31 December 2010 is working capital required for the operations of the business
- Inventory reduced from \$21.2 million in FY09 to \$12.5 million in FY10 mainly due to a \$7.1 million write-down of obsolescent and slow-moving stock
- Property plant and equipment is recognised at depreciated book value. However, in FY10 management commissioned a valuation of properties held by Kresta. The value was assessed at \$18.3 million

- The increase in intangible assets from \$1.4 million in FY09 to \$2.7 million in FY10 relates mainly to the acquisition of the Ace of Shades business in FY10. \$1.1 million of the purchase price was allocated to trademarks and goodwill
- The current portion of interest-bearing loans and borrowings increased from \$3.6 million in FY09 to \$10.2 million in FY10. This was due to a debt covenant breach as a result of the inventory write-down. Kresta management has stated that this breach has been rectified and the loans and borrowings have been reclassified as non-current in H1-FY11.

## 5 Valuation methodology

### 5.1 Valuation methodologies

To estimate the fair market value of the shares in Kresta we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. These are discussed below.

#### 5.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- Capitalisation of maintainable earnings
- Analysis of a company's recent share trading history
- Industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from the trading multiples of comparable companies and market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

#### 5.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

#### 5.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net tangible assets on a going concern basis method estimates the market values of the net tangible assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

## 5.2 Selection of valuation methodologies

We are of the opinion that the most appropriate methodology to value Kresta is the capitalisation of maintainable earnings method due to the following factors:

- Kresta has shown a consistent pattern of historical earnings which is expected to continue in future
- There is an adequate number of publicly listed companies with operations sufficiently similar to those of Kresta to provide meaningful analysis
- Kresta does not have a finite lifespan nor is it required to undertake significant capital expenditure in the near future
- There are no reliable long-term cash flow forecasts thus the discounted cash flow method is not appropriate.

In addition, we have cross-checked our primary method to the net tangible assets on a going concern basis, an analysis of recent share trading and the implied price earnings ratio.



## 6 Valuation of Kresta

### 6.1 Valuation of Kresta

Deloitte has estimated the fair market value of Kresta to be in the range of \$57.9 million to \$69.6 million. This equates to a fair market value per Kresta share, on a control basis, of \$0.40 to \$0.48.

For the purpose of our opinion fair market value is defined as the amount at which Kresta's shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we estimated the fair market value of Kresta using the capitalisation of maintainable earnings method. We cross checked our primary method to the net tangible assets on a going concern basis, an analysis of recent share trading and the implied price earnings ratio.

These are discussed below.

### 6.2 Capitalisation of maintainable earnings

The capitalisation of maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate multiple, adding any surplus or non-operating assets, deducting net debt and applying a premium for control (where necessary). To value Kresta using the capitalisation of maintainable earnings requires the determination of the following:

- An estimate of future maintainable earnings
- An appropriate earnings multiple
- An appropriate premium for control
- The value of any surplus assets
- The level of net debt outstanding.

Our considerations on each of these are discussed separately below.

#### 6.2.1 Future maintainable earnings

Future maintainable earnings represent the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an appropriate measure of earnings for Kresta because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or NPAT. This allows a better comparison with earnings multiples of other companies and recent comparable transactions.

The key change in the business over the past five years has been the acquisition of Curtain Wonderland in June 2006. Prior to the acquisition, Kresta's average revenue between FY04 and FY06 was \$81.3 million. Kresta's revenue increased considerably as a result of the additional revenue from Curtain Wonderland. Kresta's average revenue between FY07 and FY10 was \$118.4 million. As a result, we consider the actual results since the acquisition of Curtain Wonderland provide the most appropriate historical basis for the determination of Kresta's future maintainable earnings.

In our assessment of future maintainable earnings for Kresta we have analysed Curtain Wonderland and Kresta Vista separately, as Curtain Wonderland is distinctly independent from Kresta Vista, has its own autonomous management team and has distinctly different strengths, weaknesses, opportunities and threats. However, management does not prepare segment reports for Kresta Vista and Curtain Wonderland and the management budgets were prepared on a consolidated basis. Therefore, we have assessed a single maintainable earnings for Kresta but with due regard to the current financial position, historical actual results and outlook for each of Kresta Vista and Curtain Wonderland.

Management's original budget for the financial year ending 30 June 2011 (FY11B) has been revised to include the seven months actual trading results to 31 January 2011 and to take into account the current economic and trading environment. The revised budget has not been approved by the board and has not been independently reviewed. We have considered the revised budget for the purpose of forming a view on the expected results for the remainder of the current financial year. We have undertaken limited procedures to understand the basis of its preparation and to understand the drivers and key assumptions used by management.

Our analysis of future maintainable earnings is presented below.

### Kresta Vista

In estimating future maintainable earnings we have had regard to the following limitations:

- Budgeting processes have been poor. Long-term forecasts are not prepared and were unavailable for the purpose of our valuation. The only forecast information that is available, is the revised budget for the six month period to 30 June 2011
- Business plans and/or commercial strategy documents have not been prepared and management have historically not conducted regular and comprehensive market and operational reviews. We understand that although a number of future strategies are being considered by management, the Company's current business strategy is to continue to operate the business on an "as-is" basis. This appears to be driven largely by the recent management instability.

We have therefore considered the normalised actual results of the Company over the past five financial years and the current budget for FY11B to estimate future maintainable earnings.

In determining future maintainable earnings we have specifically considered the following:

- Management are of the opinion that future rates of revenue growth are unlikely to be materially higher than the rates observed in recent years and there is currently no formal strategic plan in place to grow revenue in the short to medium term
- Management considers the following operational areas are likely to require review and will be incorporated into the comprehensive strategic review of the Company:
  - manufacturing processes and cost base: Kresta Vista has a relatively fixed and high cost base compared with a number of its competitors who manufacture in Asia. Management believe efficiency improvements can be achieved through better production management or, in the longer term, relocation of the manufacturing function overseas
  - marketing and media: management advised that they are considering alternatives to the Company's current advertising and media processes and anticipate that cost savings can be achieved
  - sales process: management believe the efficiency and success of the sales efforts can be improved and a review of these processes will be undertaken
  - information technology and operational processes require improvement in order to reduce overheads to a level more commensurate with the Company's competitors and improve decision making efficiency.

- For personal use only
- Although plans are being considered to review the major areas of the business, the current strategy and outlook for the rest of FY11 and the following financial year is to continue to operate the business in-line with the second half of FY10 (H2-FY10) and H1-FY11. This assumption is reflected in the budgeted earnings for FY11B
  - Revenue in FY10 increased by approximately 9% compared with FY09. The key drivers of this growth were the increased discretionary spending as a result of the Federal Government stimulus package and the increase in housing development as a result of the increase in the first home owners grant. However, the revenue of Kresta Vista in the past six months was considerably lower than in H1-FY10 due to the winding back of the effects of the stimulus packages compounded by recent interest rate rises. The strong performance in FY10 appears to have been driven by once-off factors and therefore we have placed less weight on the performance in FY10
  - Gross margins were relatively stable between FY07 and FY10. The gross margin is budgeted to be consistent for the remainder of FY11 in line with H1-FY11. Kresta Vista has a high fixed cost base which is the direct result of its significant investment in property, plant and equipment and relatively fixed salary costs. This exposes future maintainable earnings to significant volatility and we have undertaken a sensitivity analysis of the effect of changes in revenue on gross profit and EBITDA
  - Given the relatively fixed nature of Kresta Vista's cost base, overheads have been relatively stable since FY07. Budgeted overheads are broadly in line with the historical average since FY07. We consider the historical average to provide a reasonable basis for the budgeted overheads
  - Inventory management processes have historically been poor. In FY10, Kresta commissioned Deloitte Touche Tohmatsu to undertake an independent analysis of the net realisable value of the Company's inventory at 30 June 2010 (the Inventory Analysis). Following the Inventory Analysis, Kresta raised an additional provision of \$5.8 million against the inventory balance at 30 June 2010 bringing the total provision to \$7.1 million
  - The \$7.1 million inventory provision did not relate specifically to FY10 production but was the result of the Company's inventory policy applied over several years. However, it is not possible to accurately determine how much of the provision applied to each prior year. Based on the analysis conducted as part of the Inventory Analysis and interviews with management, we consider it appropriate to spread the provision over ten years for the purpose of our analysis of future maintainable earnings. We have therefore included a normalisation adjustment of \$0.7 million per annum in each financial year from FY06 to FY10. For FY11B we have included an inventory provision adjustment of \$0.35 million, being 50% of the amount included in previous years, as a result of management's recent improvements to inventory management
  - We have also adjusted reported earnings for a number of other one-off or abnormal items. These are summarised as follows:
    - add back of the net loss on the sale of property plant and equipment of \$0.11 million in FY09
    - add back of redundancy and termination payments aggregating to \$1.48 million during FY07 to H1-FY11.

- Management's revised budget for FY11B includes actual EBITDA for the seven month period to 31 January 2011 of \$2.4 million and is based on the following key assumptions:
  - no material changes to the business are planned for the rest of the financial year
  - the actual gross margin achieved in H1-FY11 is expected to continue during the period to 30 June 2011
  - an improvement in EBITDA of approximately \$0.7 million due to salary and wage savings as a result of the resignation of the former CEO and CFO/Company Secretary, offset by the appointment of the acting CEO, Mr Ian Leijer
  - the current weakness in consumer sentiment and resulting softer consumer demand for retail products together with an increase in the propensity of consumers to save are expected to prevail in the short to medium term
  - recently implemented improvements in inventory management following the Inventory Analysis are expected to result in significantly lower inventory provisions being required in the future. On this basis, we have included an inventory provision of \$0.35 million in FY11B, which is a decrease of 50% from the adjustment made in previous years.
- Following interviews with management regarding the longer term outlook of Kresta Vista, we note the following:
  - management's general view is that until a formal strategic review is completed and a marketing and operational plan is formalised and approved by the board, it is unlikely that earnings will grow substantially from recent actual results
  - earnings growth in the longer term is likely to come from an improvement in operational efficiency which may involve the relocation of the manufacturing facilities to lower cost countries in Asia (discussed further below), increasing market share in the key Australian markets of Victoria and New South Wales, capitalising on the fragmentation of the industry by making strategic acquisitions of quality small businesses, continuing to develop Kresta Vista's outdoor range, consolidating Kresta and Vista as the premier window furnishings brands in Australia and critically evaluating the cost base including rationalising costs and improving overhead efficiency
  - an opportunity exists to relocate Kresta Vista's Western Australian manufacturing facilities to Asia or to replace in-house manufacturing with contract manufacturing in Asia. The potential for production efficiency improvements and lower cost base will be the key drivers of this strategy and will align the Company with many of its direct competitors. However, there is currently no formal strategy in place to move the Company's manufacturing offshore and a number of risks exist with such a strategy that will need to be carefully considered. This includes the investment that will need to be made to establish new facilities and measures to ensure quality and consistency of supply. Although this strategy is theoretically available to the Company there is currently insufficient information for us to include any potential cost and efficiency savings in our estimate of future maintainable earnings. We have however considered this factor in our assessment of an appropriate control premium as a number of market participants may be willing to pay a higher than average premium to control the Company as a result of the potential future cost and efficiency savings that they could realise from the successful implementation of such a strategy
  - Kresta Vista faces a number of key risks and growth mitigating factors in the longer term. These include increased competition from new entrants such as Bunnings and from existing businesses that have more efficient operations and are able to offer comparable products at cheaper prices, an inefficient fixed cost base that will continue to drive earnings volatility and a potential for a sustained propensity for consumers to save and hence ongoing soft demand for discretionary retail products.

## Curtain Wonderland

Curtain Wonderland operates a different business model to Kresta Vista with more than 70% of their sales being of readymade products rather than the custom made products that Kresta Vista mainly sells. Curtain Wonderland contributes approximately 30% of Kresta's total revenue and therefore is a significant part of the overall Kresta business. Curtain Wonderland's revenue has increased each year since being acquired by Kresta in 2006, except in FY10, and the business has a clear and direct strategy of growing the business through a combination of new store openings and increased penetration into new markets.

Management are currently in the process of formalising their five year business plan. We note the following regarding management's outlook for Curtain Wonderland:

- The business is well positioned to capture market share over the next few years. It has strong margins driven by an efficient cost base, and management's ability to efficiently open new stores has been proven over the past few years
- The key driver of growth going forward will be the penetration into Western Australia (currently in progress) and Victoria. Curtain Wonderland currently has no stores in Victoria and plans to grow this to 12 within five years. Overall, management's plan is to have 50 operating stores within five years compared with 23 stores currently
- The key issues facing the business going forward will be:
  - interest rate rises which dampen consumer spending
  - prevailing weakness in consumer sentiment and increased propensity to save
  - the ability of Curtain Wonderland to continue to recruit and retain skilled and semi-skilled labour
  - continuing to maintain efficient distribution processes, through continuous improvement in the way stock is managed and distributed from Asian manufacturing facilities to Australian stores.
- Management's budget includes actual EBITDA for the seven month period to 31 January 2011 of \$2.1 million.

## Conclusion on future maintainable earnings

Kresta Vista is at an uncertain and potentially transitional stage of its lifecycle. Recent management changes and the current boardroom uncertainties mean that there is no clear strategic direction for the Company, particularly for Kresta Vista. However, Curtain Wonderland's business model, future strategy and outlook appear strong and are likely to provide some earnings growth in the future.

In our opinion the only reasonable approach to estimating future maintainable earnings of the Company as a whole is to assume that the business maintains its current structure and business model and operates in line with the most recent actual results for the seven months to January 2011. This is consistent with management's budget for FY11B and is also underpinned by the average results from FY07 through to FY09. We set out below a summary of the normalised actual EBITDA for Kresta.

**Table 10: Summary of adjusted financial performance**

	<b>FY07 Audited (AUD'000)</b>	<b>FY08 Audited (AUD'000)</b>	<b>FY09 Audited (AUD'000)</b>	<b>FY10 Audited (AUD'000)</b>	<b>H1-FY11 Reviewed (AUD'000)</b>
Reported EBITDA	9,014	9,170	8,579	7,130	3,741
Net normalisation adjustment	(609)	(468)	(409)	6,446	713
<b>Adjusted EBITDA</b>	<b>8,405</b>	<b>8,702</b>	<b>8,170</b>	<b>13,576</b>	<b>4,454</b>

Source: Kresta annual reports, Kresta half-year report, Deloitte analysis (Table 8)

On this basis, we have estimated future maintainable EBITDA to be \$9.0 million.

Notwithstanding this is lower than the FY10 adjusted EBITDA, we consider it reasonable recognising that a key driver of FY10 earnings was the Federal Government stimulus package which the Company has not benefited from in H1-FY11. H1-FY11's performance has also been impacted by weak consumer sentiment in part driven by higher interest rates.

### 6.2.2 Earnings multiple

We have determined an earnings multiple in the range of 6.0 times to 7.0 times EBITDA, on a minority interest basis. In assessing this multiple range we have had regard to the different business models, historical performance and outlook for Kresta Vista and Curtain Wonderland.

In selecting these earnings multiples we have considered:

- Earnings multiples derived from share market prices of Kresta and of comparable listed companies
- Prices achieved in mergers and acquisitions of comparable companies

These are discussed separately below.

### Market trading multiples

The share market valuation of listed companies provides evidence of an appropriate earnings multiple for Kresta. The share price of a listed company represents the market value of a minority interest in that company.

Table 11: Earnings multiples – market trading

Company	Currency	Enterprise value (Local'm)	EBITDA times Historical	EBITDA times Current
<b>Australian comparable companies</b>				
GWA International Limited	AUD	1,152	10.1	8.9
Gale Pacific Limited	AUD	58	3.5	n/a
Fantastic Holdings Limited	AUD	248	8.1	7.3
John Shearer (Holdings) Limited	AUD	18	8.8	n/a
Reece Australia Limited	AUD	2,281	13.5	10.9
Nick Scali Limited	AUD	135	8.3	7.8
DuluxGroup Limited	AUD	1,252	n/m	8.4
<b>Average</b>			<b>8.7</b>	<b>8.7</b>
<b>Median</b>			<b>8.5</b>	<b>8.4</b>
<b>International comparable companies</b>				
Hunter Douglas N.V.	USD	2,278	10.7	9.1
Ching Feng Home Fashions Co Limited	TWD	4,599	24.7	n/a
Tachikawa Corporation	JPY	4,647	3.3	n/a
Sangetsu Co Limited	JPY	39,472	5.6	4.9
Topps Tiles Plc	GBP	198	8.3	7.5
<b>Average</b>			<b>10.5</b>	<b>7.0</b>
<b>Median</b>			<b>8.1</b>	<b>7.0</b>
<b>Average</b>			<b>9.7</b>	<b>8.2</b>
<b>Average excluding Reece Australia</b>			<b>9.2</b>	<b>7.6</b>
<b>Average excluding Reece Australia/Ching Feng</b>			<b>7.3</b>	<b>7.6</b>

Source: ThomsonReuters, Deloitte analysis

Notes:

1. n/m = not meaningful, n/a = not available
2. Enterprise values were calculated as the sum of net borrowings at the most recent reporting date and the market capitalisation at 11 February 2011
3. Enterprise values for comparable companies translated to AUD from relevant foreign exchange rate as at 11 February 2011 sourced from ThomsonReuters
4. Historical EBITDA was sourced from the most recent annual reports while forecast EBITDA was based on consensus estimates provided by ThomsonReuters
5. Historical EBITDA multiple = Multiple based on most recent actual results, Current EBITDA multiple = Multiple based on current year consensus estimate forecasts provided by ThomsonReuters
6. The EBITDA used in the Australian comparable companies' historical multiple is taken from each respective company's 30 June 2010 financial statements
7. The EBITDA used in Hunter Douglas and Ching Feng's historical multiples are based on the EBITDA for the 12 months to 30 June 2010, which is the aggregate of the half year to 31 December 2009 and 30 June 2010, as full year results at 31 December 2010 were unavailable
8. The EBITDA used in Tachikawa's and Sangestsu's historical multiples are from the 31 December 2010 and 31 March 2010 financial statements respectively.



Specific details regarding the above companies are provided at Appendix 3.

We note the following in relation to the above trading multiples:

- There are no listed ASX companies whose primary business is the manufacture and retail of window furnishings. As a result, we have expanded our analysis to include companies whose primary business is the manufacture and/or sales of consumer durable goods in Australia
- We have also considered companies operating globally whose primary business is the manufacture and retail of window furnishings
- Most of the companies that we consider comparable to Kresta are significantly larger in terms of quoted market value. Generally, larger companies have higher earnings multiples than smaller companies, as evidenced by the multiples of GWA, Reece, Hunter Douglas and Sangetsu, due to a number of factors including but not limited to scale, ability to enter into new markets, access to equity and debt capital, increased ability to make acquisitions and increased ability to diversify into new products and geographies
- All of the ASX listed companies manufacture their own line of products, except Reece and Nick Scali, who are primarily retailers of consumer durable products. Accordingly, the commercial opportunities and risks of these two companies are different to those of Kresta
- Based on our analysis, we consider Fantastic Holdings to be the most comparable Australian listed company to Kresta due to the following factors which are considered similar to Kresta:
  - they manufacture their own products for sale in their own Fantastic Furniture branded stores
  - they provide a broad range of household furnishings
  - their retail stores are located in Australia.

Fantastic Holdings' current EBITDA multiple is 7.3 times.

- In addition, we consider Hunter Douglas to be the most comparable internationally listed company to Kresta. Hunter Douglas is one of Kresta's main competitors in Australia, through its Australian brand Luxaflex and is one of the largest blind manufacturers and retailers in the world. However, Hunter Douglas is considered less comparable than Fantastic Holdings due to their size, international reach and technical sophistication. Hunter Douglas' current EBITDA multiple is 9.1 times

Based on the comparable company analysis we are of the view that Kresta Vista's multiple would be at the low end of the range of comparable multiples observed primarily as a result of its size and the current strategic and management uncertainty. However, Curtain Wonderland would achieve a higher multiple than Kresta Vista due to its more stable management team, more efficient operating structure, track record of successfully opening new stores and more positive future prospects.

### Merger and acquisition multiples

The price achieved in merger or acquisition transactions involving comparable companies provides evidence of an appropriate earnings multiple for Kresta on a control basis. The acquisition price of a company represents the market value of a controlling interest in that company. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control.

We compiled merger and acquisition multiples for companies comparable to Kresta. These companies, together with their earnings multiples, are summarised in Appendix 2.

Specific details regarding the comparable transactions are provided at Appendix 4.

The following table summarises the multiples for recent comparable mergers and acquisition transactions:



Table 12: Summary of transaction multiples

Date	Target	Acquirer	Implied EV (Local'm)	Historical EBITDA	Historical EBITDA Multiple
01-Feb-11	Kresta	Wildweb Enterprises Pty Ltd	56	13.6	4.1
<b>Australian and New Zealand consumer durable manufacturing companies</b>					
13-Sep-10	Wattyl Limited	The Valspar Corporation	165	25.2	6.5
29-Jun-07	Gale Pacific Limited <sup>2</sup>	Investec Wentworth Private Equity Pty Limited	118	7.3	16.2
01-Aug-06	Feltex Carpets Limited	Godfrey Hirst	142	20.3	7.0
<b>International consumer durable manufacturing companies</b>					
28-Jul-08	Bonar Floors Limited	Forbo Holding AG	123	8.6	14.3
28-Apr-08	Burghad AG	Eczacibasi Holding A S	71	14.2	5.0
08-Jan-08	Westbond Limited	Bonar Floors Limited	11	0.76	14.7
05-Jun-07	Hillary Blinds Limited	European Capital S.A. SICAR/MBO	648	22.5	28.7
03-May-07	Mity-Lite Inc	MLE Holdings Inc	75	8.4	8.9
16-Jun-05	Hunter Douglas NV	Bergson Holdings B.V.	2,296	248	9.3
<b>International textile manufacturing companies</b>					
08-Sep-10	Vilco Helmond B.V.	Actis LLP	118	28.2	4.2
19-Jun-08	Tessitura Pontelambro s.p.a	Beste s.p.a.	13	2.9	4.5
29-Nov-07	Mehler Technologies GmbH	Low & Bonar Plc	166	18.4	9.0
26-Apr-07	Elastic Fabric of America	Dogi International Fabrics S.A.	34	6.0	5.7
<b>Average</b>					<b>10.3</b>
<b>Median</b>					<b>9.0</b>
<b>Average exc. Hillary Blinds</b>					<b>8.1</b>

Source: MergerMarket

Notes:

- Hillary Blinds has been removed from the above averages as it is an outlier and thus the average excluding Hillary Blinds is provided separately
- Implied enterprise values were calculated as the sum of the net borrowings at the most recent reporting date and the consideration paid at the relevant transaction date. For acquisitions of less than 100%, we have nominally grossed up the consideration paid in order to estimate the equivalent consideration assuming a 100% acquisition
- Historical EBITDA was sourced from the most recent annual reports. Current multiples would be expected to be lower than historical multiples due to earnings growth.

We note the following in relation to the merger and acquisition multiples:

- The Wattyl and Feltex transactions are the most comparable to the Takeover Offer, due to the nature of the product offering of each of the companies, being home improvement products, such as paints, for Wattyl and consumer durable products, such as carpets, for Feltex. Gale Pacific also has a similar product offering to Kresta, namely outdoor shade cloth for residential and commercial applications. The average EBITDA multiple for these three transactions was 9.9 times
- Hunter Douglas, the most comparable listed company to Kresta, completed a transaction in June 2005 with Bergson Holding, a holding company formed by Hunter Douglas's largest shareholder, whereby 25% of the company was sold at an EBITDA multiple of 9.3 times
- The average and median EBITDA multiple of all the transactions is 10.3 and 9.0 times respectively.

We have considered the merger and acquisition multiples discussed above and note that the transactions involve target companies considered only loosely comparable to Kresta. Furthermore, the majority of the transactions occurred prior to 2007 which was before the onset of the global financial crisis. These multiples provide a less meaningful basis for determining an appropriate multiple for Kresta than the current trading multiples of Kresta and the comparable companies.

### Selected multiple

Based on our analysis of comparable company multiples we consider an appropriate minority interest EBITDA multiple for Kresta to be in the range of 6.0 times to 7.0 times. In assessing this range, we have had regard to Kresta's current trading multiple of around 6 times (although this already factors in some premium for control and is based on relatively illiquid share trading), Fantastic Holdings' current trading multiple of 7.3 times and Hunter Douglas' current trading multiple of 9.1 times. We believe an appropriate multiple lies at the low end of this range due to the following factors:

- Fantastic Holdings is larger than Kresta. However, it could be argued that Kresta's brands carry more value than Fantastic Holdings' brands which would partially offset the fact that it is smaller than Fantastic Holdings. Therefore, we would expect Fantastic Holdings to have a slightly higher multiple than Kresta
- Hunter Douglas is significantly larger, more geographically diversified and more technologically sophisticated than Kresta. Therefore, we would expect Hunter Douglas to have a significantly higher multiple than Kresta.

We note that our assessed multiple is based on the trading of portfolio interests in Kresta and the comparable companies and therefore provides a valuation of Kresta on a minority interest basis. In order to assess the value of Kresta on a control basis, as required under ASIC Regulatory Guide 111, we have applied a premium for control as discussed in Section 6.2.5 below.

### 6.2.3 Surplus assets

Surplus assets are those assets owned by a company that are surplus to its main operating activities, such as unused property, loans or investments. Such assets should be valued separately from the main operating activities of the company, after adjusting operating results to remove the net income or expense provided by the surplus assets.

Kresta has a significant portfolio of property and manufacturing facilities in Western Australia and Victoria. Property valuations were conducted in February 2010 by Burgess Rawson, for the purpose of disclosing directors' valuations in the notes to the FY10 annual report. The value of Kresta's property was assessed to be \$18.3 million.

We interviewed management regarding the efficient level of property required to sustain the current business model. All of the property is currently being used in the normal course of business. However, should there be a change in the future manufacturing strategy of the Company, the required level of property, plant and equipment may reduce.

As such strategic decisions are not currently being seriously evaluated, at the date of our valuation we consider there is no property, plant and equipment surplus to the current operating requirements of the business.

However, recognising the opportunity that may be created by relocating or outsourcing the manufacturing, we have considered the additional value potential in our assessment of the premium for control.

## 6.2.4 Net debt

We have considered the most recent financial accounts provided by management as at 31 December 2010 and the current level of surplus cash in assessing the fair market value of net debt. This is summarised in the table below.

Table 13: Net debt

	(AUD'000)
Current interest bearing liabilities	4,157
Non-current interest bearing liabilities	5,651
Less: Surplus cash	(1,000)
Provision for dividend	721
<b>Net debt</b>	<b>9,529</b>

Source: Kresta half-year report, Kresta management, Deloitte analysis

## Surplus cash

Surplus cash relates to the amount of cash that is surplus to the working capital requirements of the business.

We have analysed Kresta's historical cash requirements and average working capital on a daily basis since 1 July 2010 to estimate the current amount of surplus cash. We have estimated the current surplus cash to be \$1.0 million, which is based on total current cash of approximately \$8.6 million less customer deposits of approximately \$2.6 million and working capital requirements of approximately \$5.0 million.

## 6.2.5 Premium for control

Earnings multiples derived from market trading do not reflect the market value for control of a company as they are for portfolio holdings. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values.

The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

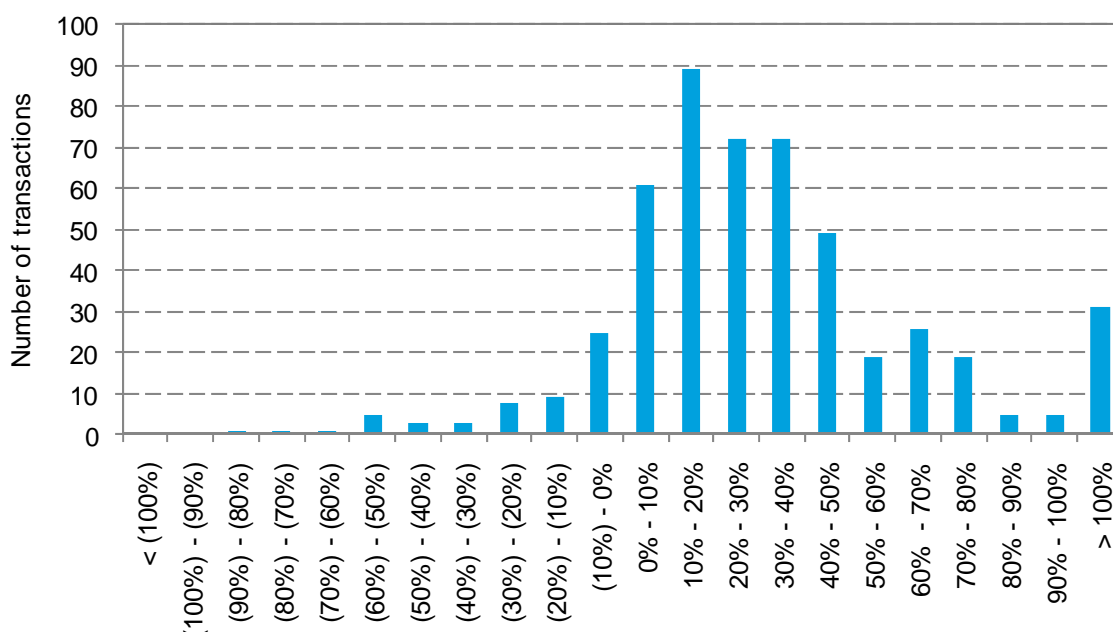
- Control the cash flows of the company, such as dividends, capital expenditure and compensation for directors
- Determine the strategy and policy of the company
- Make acquisitions, or divest operations
- Control the composition of the board of directors.

The following factors have been taken into consideration in determining an appropriate premium for control for Kresta:

- The majority of the transactions listed in Appendix 2 relate to unlisted companies, hence we are unable to observe a control premium
- Due to market fragmentation, the industry is subject to significant competition particularly from unlisted private companies

- Kresta's current level of gearing of 16%. Generally, companies with lower gearing tend to attract lower implied control premiums
- The current business model and the ability of management to potentially realise value from properties and relocate or contract manufacture in Asia. It is possible that there are market participants who would be willing to pay a premium to control the Company as a result of having the ability to effect this change in strategy and potentially realise future cost and efficiency savings. There are, however, risks and costs associated with implementing such a strategy
- An empirical study conducted by Deloitte of the premiums paid in transactions in Australia between 1999 and 2010. The figure below illustrates the findings of this study:

**Figure 8: Premium for control study**



Source: Deloitte analysis

The level of premium that should be applied to the value of a minority interest in order to derive the value of a controlling interest is somewhat subjective. Based on the above considerations, we believe that a premium for control of 30% is appropriate for Kresta's shares.

## 6.2.6 Valuation: capitalisation of maintainable earnings

The value of Kresta derived from the capitalisation of maintainable earnings method is summarised below.

Table 14: Summary – capitalisation of maintainable earnings method

	Section		Low value	High value
Maintainable earnings	6.2.1	(\$m)	9.0	9.0
Earnings multiple (minority interest basis)	6.2.2	times	6.0	7.0
<b>Enterprise value</b>		<b>(\$m)</b>	<b>54.0</b>	<b>63.0</b>
Surplus assets	6.2.3	(\$m)	nil	nil
Net debt	0	(\$m)	(9.5)	(9.5)
<b>Equity value (on a minority interest basis)</b>		<b>(\$m)</b>	<b>44.5</b>	<b>53.5</b>
Premium for control	6.2.5		30%	30%
<b>Equity value (on a control basis)</b>			<b>57.9</b>	<b>69.6</b>

Source: Deloitte analysis

## 6.3 Cross Checks

### 6.3.1 Net tangible assets on a going concern basis

The net tangible assets on a going concern basis is equivalent to the orderly realisation of assets method, except costs of realisation are not included. This method estimates the value of an entity based on the market value of the net tangible assets on a continuing basis.

Our estimate has been based on the financial position of Kresta at 31 December 2010 having regard to fair value adjustments to certain assets and liabilities. This is presented in the table below.

**Table 15: Net tangible assets on a going concern basis**

	31-Dec-10 reviewed (AUD'000)	Fair value Midpoint (AUD'000)
Cash	8,658	8,658
Receivables	2,578	2,578
Inventories	10,840	10,840
Income tax receivable	376	376
Prepayments	1,346	1,346
<b>Total current assets</b>	<b>23,798</b>	<b>23,798</b>
Property, plant and equipment	17,159	26,159
Deferred tax assets	1,775	1,775
<b>Total non-current assets</b>	<b>18,934</b>	<b>27,934</b>
Payables	7,762	7,762
Interest bearing liabilities	4,157	4,157
Provisions	5,176	5,176
Other	167	167
<b>Total current liabilities</b>	<b>17,262</b>	<b>17,262</b>
Interest bearing liabilities	5,651	5,651
Provisions	738	738
Other	139	139
<b>Total non-current liabilities</b>	<b>6,528</b>	<b>6,528</b>
<b>Net assets</b>	<b>18,942</b>	<b>27,942</b>
<b>Assessed equity value</b>		<b>27,942</b>

Source: Kresta half-year report, management accounts, Deloitte analysis

We have assessed the current fair value of all tangible assets and liabilities to be equivalent to the reported book values at 31 December 2010, except property, plant and equipment. We have adjusted the book value of property, plant and equipment to \$26.2 million which is based on the fair market value of the property of \$18.3 million (based on the valuation by Burgess Rawson in February 2010) and the depreciated book value of plant and equipment of \$7.9 million.

We have assessed the net tangible assets of Kresta to be \$27.9 million. Our valuation range using our primary method represents a premium of \$30.0 million to \$41.7 over net tangible assets which is attributable to intangible assets. This level of intangible assets is explained by the significant brand names held by Kresta, the experienced workforce in place and the goodwill that has developed over the many years that Kresta has been operating in Australia. In this context, the implied intangible asset value does not appear unreasonable.

### 6.3.2 Analysis of recent share trading

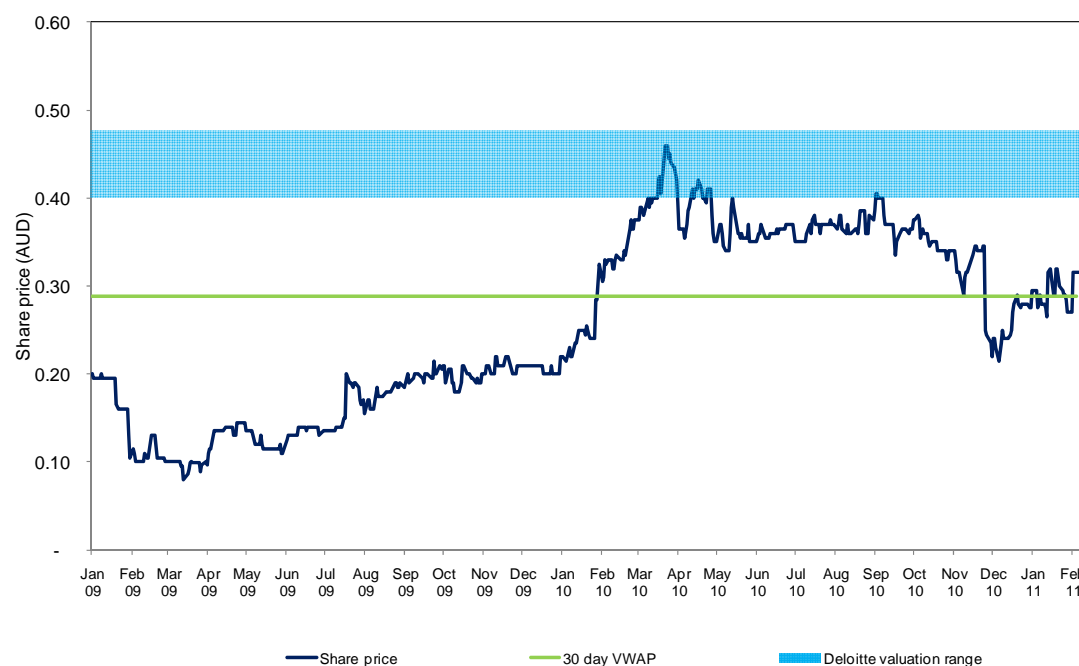
The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. The share price of an entity in an efficient market should incorporate the influence of all publicly known information relevant to the value of an entity's securities.

Share prices from market trading do not reflect the market value for control of a company as they are for portfolio holdings. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values.

In the 12 months preceding the Takeover Offer, the total volume of shares traded in Kresta was 54% of the issued share capital. During the period between 9 August 2010 and the date of the Takeover Offer, 24% of the total shares traded can be attributed to the accumulation of shares by Hunter Hall. Excluding Hunter Hall's accumulation of shares in the 12 months preceding the Takeover Offer, only 44% of the total shares outstanding were traded. We consider this level of liquidity to be low and thus regard the historical share price of Kresta to provide only weak evidence of the fair market value of Kresta's shares.

Notwithstanding this limitation, we have analysed Kresta's historical share price over the past two year period and the VWAP for the 30 trading days prior to the announcement of the Takeover Offer on 1 February 2011. This analysis is presented in the figure below.

**Figure 10: Kresta share price analysis**



Source: ThomsonReuters, Deloitte analysis

The 30 trading day VWAP prior to the Takeover Offer was \$0.29 and Kresta's share price closed at \$0.31 on 11 February 2011.

### 6.3.3 Implied price earnings ratio

We have assessed the implied price earnings ratio of our valuation range using our primary method to be between 13.5 times to 16.2 times based on the NPAT implied from our future maintainable earnings of \$4.3 million. This compares to the current price earnings ratio of the ASX Small Industrials Index of 15 times. However, the price earnings ratio of the ASX Small Industrials Index excludes a premium for control. Assuming a premium for control of 25%, the price earnings ratio would be 19 times.

On this basis the price earnings ratios implied by our valuation are below that of the ASX Small Industrials Index and therefore do not appear unreasonable.

## 6.4 Number of shares outstanding

At the valuation date, Kresta had 144,158,518 shares on issue. There are no options on issue at the valuation date.



## 6.5 Conclusion

The valuation of Kresta shares derived from the capitalisation of maintainable earnings is summarised in the following table.

**Table 16: Valuation of Kresta shares**

	Section	Low value	High value
<b>Deloitte assessed fair market value (\$m)</b>	<b>6.2.6</b>	<b>57.9</b>	<b>69.6</b>
Number of shares on issue		144,158,518	144,158,518
<b>Value per share</b>		<b>\$0.40</b>	<b>\$0.48</b>

Source: Deloitte analysis

## 7 Evaluation and conclusion

### 7.1 Fairness

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the Offer Consideration is equal to or greater than the value of the securities being the subject of the offer. Set out in the table below is a comparison of our assessment of the fair market value of a Kresta share with the consideration offered by Wildweb.

Table 17: Evaluation of fairness

	Low value per share	High value per share
Estimated fair market value of a Kresta share	\$0.40	\$0.48
Consideration offered by Wildweb	\$0.325	\$0.325

Source: Deloitte analysis

The consideration offered by Wildweb is below the range of our estimate of the fair market value of a Kresta share. Accordingly it is our opinion that the Takeover Offer is not fair.

### 7.2 Reasonableness

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. An offer might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

We have formed our opinion on the reasonableness of the Takeover Offer based on an analysis of the following other considerations that we consider relevant to the decision to be made by Shareholders in relation to the Takeover Offer.

#### *The extent to which a control premium is being*

Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values. We have analysed Kresta's share price prior to the announcement of the Takeover Offer and during the offer period and compared it to the Offer Consideration of \$0.325.

We note that the Offer Consideration of \$0.325 represents a premium of 17% over Kresta's closing share price on the day prior to the announcement of the Takeover Offer, being 31 January 2011, and a premium of 12.5% over the 30 trading day VWAP prior to the announcement of the Takeover Offer.

These control premiums are low relative to accepted takeover norms; however, given the low level of liquidity in the recent trading of Kresta's shares, this analysis provides only weak evidence of whether an appropriate premium for control is being offered.

#### *The likely price of Kresta's shares should the Takeover Offer be rejected*

Kresta's share price has been volatile over the past two years, having traded as low as \$0.08 per share on 12 March 2009 and as high as \$0.46 per share on 22 March 2010. The 30 trading day VWAP prior to the announcement of the Takeover Offer is \$0.289. The closing share price on the day prior to the announcement of the Takeover Offer was \$0.27. Since the announcement, Kresta's share price has traded at or around \$0.32.

It is common for the share price of a target company the subject of a takeover offer to trade at or around the price of the takeover offer during the offer period. It is also not uncommon for the share price to fall back to pre-takeover levels or lower in the event that the takeover offer is unsuccessful.

In the absence of an alternative offer and in the event that the Takeover Offer is unsuccessful, it is likely (at least in the short term) that Kresta's share price may fall to around the levels achieved prior to the announcement of the Takeover Offer. We do not see any catalyst at the moment to suggest that the share price will increase in the short to medium term in the absence of a clearly defined strategy and an improvement in discretionary retail demand in the Australian economy.

### *Likelihood of an alternative takeover offer*

The directors of Kresta have advised us that no formal alternative offers or approaches by potential offerors have been received subsequent to the announcement of the Takeover Offer on 1 February 2011. It is possible but unlikely that an alternative offer will be made for Kresta prior to the close of the Takeover Offer.

### *Wildweb's current beneficial shareholding in Kresta*

At the date of the Takeover Offer, Wildweb had a relevant interest in 19.61% of the Kresta shares on issue. Wildweb could therefore prevent a competing bidder from proceeding to compulsory acquisition of Kresta.

### *Provides liquidity to shareholders*

Historically, the liquidity of Kresta's shares has been low. Over the past 12 months, 54% of the total shares outstanding were traded. If Hunter Hall's accumulation of shares over this period is excluded, only 44% of the total shares outstanding were traded.

The Takeover Offer provides Shareholders with a level of liquidity that has not been available in the recent past. It is unlikely that the liquidity of Kresta's shares will improve materially in the short to medium term, if the Takeover Offer is unsuccessful and given the circa 40% held by the two major shareholders, Hunter Hall and Avatar Industries, an associate of Wildweb.

### *Wildweb acquires 40% or more but less than 90% of Kresta*

The Takeover Offer is currently conditional on Wildweb acquiring at least 40% of Kresta's shares. Shareholdings of 40% or more are generally considered to deliver a level of practical control. However, if Wildweb acquires 40% but less than 50%, it is likely that it will not obtain practical control of Kresta given that there are other major shareholders on the share register. The current uncertainty surrounding the future direction and strategy of the Company, as a result of boardroom instability, will therefore likely continue.

If Wildweb acquires more than 50% but less than 90%, it will obtain control of Kresta but Kresta will remain listed with minority shareholders holding between 10% and 50%.

In both of the above scenarios, the future liquidity of Kresta shares will likely diminish.

### *Loss of exposure to Kresta going forward*

Accepting Shareholders will receive cash consideration for their shares and will therefore no longer own shares in Kresta.

Kresta is currently at an uncertain and potentially transitional stage in its lifecycle. An opportunity exists for the Company to grow its market share and earnings in the future with the right management and strategy in place. Accepting Shareholders will not receive any benefit from such future growth.

Our valuation has not been premised on the existence of special value to Wildweb. However, we note that such special value may exist, in light of a prior proposal put to the Company by Arlec, another entity associated with Mr Ian Trahar. The merger of Arlec and Kresta may have delivered experienced management and cost savings to the combined entity and provided a platform for Kresta to rapidly change its supply strategies. While such a merger is not currently under consideration, it could be revisited once Wildweb has control of Kresta. Accepting Shareholders would not receive any benefit from such a future strategy.

### **Conclusion on reasonableness**

Based on our consideration of the factors set out above, there do not appear to be any compelling reasons for Shareholders to accept the Takeover Offer despite it being not fair. Accordingly, we are of the opinion that the Takeover Offer is not reasonable.

## **7.3 Conclusion**

In our opinion, the Takeover Offer is neither fair nor reasonable. An individual Shareholder's decision in relation to the Takeover Offer may be influenced by his or her particular circumstances. If in doubt Shareholders should consult an independent adviser, who should have regard to their individual circumstances.

# Appendix 1: Glossary

Reference	Definition
40% Minimum Acceptance Condition	During, or at the end of, the offer period of the Takeover Offer, Wildweb having received minimum valid acceptances so that Wildweb and its associates hold a relevant interest in at least 40% (by number) of the fully paid ordinary shares in Kresta
Accepting Shareholders	Kresta shareholders who accept the Takeover Offer
ACT	Australian Capital Territory
AFSL	Australian Financial Services Licence
Arlec	Arlec Australia Pty Limited
APESB	Accounting Professional and Ethical Standards Board Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
AUD	Australian dollars
AUASB	Auditing and Assurance Standards Board
Avatar Industries	Avatar Industries Pty Limited
Bidder's Statement	Draft document issued to Kresta by Wildweb relating to the cash takeover offer for Kresta shares at \$0.325 per share
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHKP	CHKP Re Limited
Ching Feng	Ching Feng Home Fashions Co Limited
Company	Kresta Holdings Limited
Curtain Wonderland	Curtain Wonderland Pty Limited
Deloitte	Deloitte Corporate Finance Pty Limited
Deloitte Australia	Deloitte member firm in Australia
Dulux	DuluxGroup Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EC	European Capital SA
EGM	Extraordinary general meeting
EGM Condition	None of the resolutions proposed by Hunter Hall in its requisition notice dated 13 December 2010 are approved by Kresta shareholders at the Kresta EGM to be held on 14 February 2011 or any adjournment of that meeting
Fantastic Holdings	Fantastic Holdings Limited
Feltex	Feltex Carpets Limited
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY07, FY08, FY09, FY10	Financial year ending 30 June 2007, 30 June 2008, 30 June 2009 and 30 June 2010

Reference	Definition
FY11B	Budgeted income statement for the year ending 30 June 2011
GWA	GWA International Limited
Hunter Douglas	Hunter Douglas N.V.
Hunter Hall	Hunter Hall Investment Management Limited
H1-FY10, H1-FY11	Half-year ending 31 December 2009 and 31 December 2010
H2-FY10, H2-FY11	Half-year ending 30 June 2010 and the budgeted half-year ending 30 June 2011
IBISWorld	IBIS World Pty Limited
Independent Directors	Non-Executive Directors of Kresta who are not associated with Wildweb
Inventory Analysis	Analysis performed by Deloitte Touche Tohmatsu of the net realisable value of Kresta's inventory at 30 June 2010
John Shearer	John Shearer Holdings Limited
Joyce	Joyce Corporation Limited
Kresta	Kresta Holdings Limited
Kresta Vista	Kresta, excluding Curtain Wonderland
Nick Scali	Nick Scali Limited
NPAT	Net profit after tax
Offer Consideration	\$0.325 cash per Kresta share
Reece	Reece Australia Limited
Sangetsu	Sangetsu Co. Limited
Santa Monica	Santa Monica Company Limited
Section 640	Section 640 of the Corporations Act 2001
Shareholders	Existing holders of Kresta shares
SWOT	Strengths, weaknesses, opportunities and threats
Tachikawa	Tachikawa Corporation
Takeover Offer	Wildweb's offer to acquire all of the outstanding shares in Kresta
Target's Statement	Kresta's Target's Statement in response to the Takeover Offer
Topps Tiles	Topps Tiles Plc
Vox	Vox Limited
Wildweb	Wildweb Enterprises Pty Limited

## Appendix 2: Merger and acquisition transactions

Date	Target	Acquirer	Interest acquired	Country	Currency	Implied EV (Local'm)	EBITDA	EBIT	EBITDA Multiple	EBIT Multiple	Premium for control 30 days prior
01-Feb-11	Kresta <sup>1</sup>	Wildweb Enterprises Pty Ltd	100%	Australia	AUD	56	13.6	11.1	4.1	5.1	
<b>Australian and New Zealand consumer durable manufacturing companies</b>											
13-Sep-10	Wattyl Limited	The Valspar Corporation	100%	Australia	AUD	165	25.2	14.6	6.5	11.3	32.5%
29-Jun-07	Gale Pacific Limited <sup>2</sup>	Investec Wentworth Private Equity Pty Limited	29%	Australia	AUD	118	7.3	(6.6)	16.2	(17.8)	8.7%
01-Aug-06	Feltex Carpets Limited	Godfrey Hirst	100%	New Zealand	NZD	142	20.3	(18.9)	7.0	(7.5)	n/a
<b>International consumer durable manufacturing companies</b>											
28-Jul-08	Bonar Floors Limited	Forbo Holding AG	100%	United Kingdom	GBP	123	8.6	7.87	14.3	15.6	n/a
28-Apr-08	Burgbad AG	Eczacibasi Holding A S	89%	Germany	Euro	71	14.2	7.94	5.0	8.9	36.0%
08-Jan-08	Westbond Limited	Bonar Floors Limited	100%	United Kingdom	GBP	11	0.76	0.62	14.7	18.0	n/a
05-Jun-07	Hillary Blinds Limited	European Capital S.A. SICAR/MBO	100%	United Kingdom	Euro	648	22.5	20.76	28.7	31.2	n/a
03-May-07	Mity-Lite Inc	MLE Holdings Inc	100%	United States	USD	75	8.4	6.7	8.9	11.2	12.9%
16-Jun-05	Hunter Douglas NV	Bergson Holdings B.V.	25%	Netherlands	Euro	2,296	248	181	9.3	12.7	9.7%
<b>International textile manufacturing companies</b>											
08-Sep-10	Vilco Helmond B.V.	Actis LLP	100%	Netherlands	Euro	118	28.2	n/a	4.2	n/a	n/a
19-Jun-08	Tessitura Pontelambro s.p.a	Beste s.p.a.	70%	Italy	Euro	13	2.9	2.19	4.5	5.9	6.2%
29-Nov-07	Mehler Technologies GmbH	Low & Bonar Plc	100%	Germany	Euro	166	18.4	14.6	9.0	11.4	n/a
26-Apr-07	Elastic Fabric of America	Dogi International Fabrics S.A.	100%	United States	Euro	34	6.0	n/a	5.7	n/a	n/a
<b>Average</b>									<b>10.3</b>	<b>9.2</b>	<b>18%</b>
<b>Median</b>									<b>9.0</b>	<b>11.3</b>	<b>11%</b>
<b>Average exc. Hillary Blinds</b>									<b>8.1</b>		
<b>Average exc. Gale Pacific, Feltex Carpets, Hillary Blinds, Gamma Holdings, Vilco and Elastic Fabric</b>										<b>12.0</b>	
<b>Average exc. Feltex</b>											<b>15%</b>

Source: ThomsonReuters, Deloitte analysis

Notes:

1. Kresta's implied EBIT and EBITDA multiples are based on the normalised adjusted EBIT and EBITDA presented in Table 8
2. One off restructuring expenses and impairment charges of \$4.45m incurred in FY06 have been added back to the EBIT and EBITDA figures.

## Appendix 3: Comparable company descriptions

We provide descriptions for each of the comparable companies below.

### Australian companies

#### GWA International Limited

GWA International Limited (GWA) is a supplier of building fixtures and fittings to households and commercial premises. GWA is engaged in the research, design, manufacture, import and marketing of building fixtures and fittings to households and commercial premises and the distribution of these various products through a range of distribution channels in Australia and overseas. It operates in four business segments: building fittings, heating and cooling, commercial furniture and other. On April 1, 2010, the Company sold the business and assets of its lawn and garden care equipment business, Rover Mowers to MTD Products Australia Pty Limited. On April 1, 2010, GWA purchased the business and assets of Bravis Climate Systems from Carrier Air Conditioning Pty Limited. On June 1, 2010, the Company sold the business and assets of its European sanitaryware business, Wisa Beheer.

#### Fantastic Holdings Limited

Fantastic Holdings Limited (Fantastic Holdings) is an Australia-based company. Fantastic Holdings is principally engaged in retail, manufacture and import of household furniture. It operates in two segments: retail and property. The retail segment consists of businesses that retail locally manufactured and imported household furniture under the Fantastic Furniture, Plush, Original Mattress Factory, Le Cornu and Dare Gallery brands in Australia. The retail segment also consists of a manufacturing operation, which includes manufacturing of lounges and mattresses. The property segment purchases and develops sites, which are used by the Company, and leases surplus requirements to external tenants.

#### John Shearer Holdings Limited

John Shearer Holdings Limited (John Shearer) is an Australia based holding company active within the transport, farm machinery and storage segments. John Shearer operates through five direct and indirect subsidiaries: John Shearer Limited, engaged in the agricultural machinery built; Kockums Industries Pty Limited and Kockums Engineering Pty Limited, engaged in the manufacture of transport equipment, and Brownbuilt Pty Limited and Ningbo Tristar Forging Co Limited, engaged in the steel shelving and storage systems business. John Shearer is a member of Arrowcrest Group, which holds a 77.5% stake in the company.

#### Joyce Corporation Limited

Joyce Corporation Limited (Joyce) is an Australia based owner and franchisor of the Bedshed chain of retail bedding stores. Its business consists of three segments: the Bedshed retail bedding franchise operations, operations of Company owned Bedshed stores in Western Australia, South Australia, Victoria, New South Wales and Queensland and the investment properties segment, comprising properties in New South Wales and Queensland which are leased under the sale agreement of the Foam Business. During FY10, Joyce maintained 15 company owned stores and 31 franchise stores, a total of 46 stores nationwide. As of June 2010, the company operated through nine subsidiaries, including Joyce Rural Pty Limited, Bedding Investments Pty Limited, Joyce Industries Pty Limited, Marfoam Pty Limited, Sierra Bedding Pty Limited, Joyce Indpac Limited, Votrait No. 611 Pty Limited, Joyce Asia Pty Limited and Bedshed Franchising Pty Limited.



### **Reece Australia Limited**

Reece Australia Limited (Reece) is a supplier of plumbing and bathroom products with operations in Australia and New Zealand. Its activities include importing, wholesaling, distribution, marketing and retailing. Reece supplies customers in the trade, retail, professional and commercial markets. During FY10, Reece had 433 trading outlets throughout Australia and New Zealand. Its bathroom products portfolio includes accessories, heated towel rails, basins, shower outlets, shower cubicles and bath screens, showerbases, kitchen sinks, kitchen and bathroom appliances, laundry trough and cabinets, hot water units and water flow control. Its plumbing product portfolio includes hot water units, rainwater tanks, surface water drainage, pumps, water filters, gas spares and floor wastes.

### **Nick Scali Limited**

Nick Scali Limited (Nick Scali) is an Australia based company engaged in sourcing and retailing of household furniture and related accessories. The company's products include lounges, dining tables, chairs, entertainment units and furniture care products. The company has 28 showrooms in New South Wales, Victoria, Queensland and South Australia under the Nick Scali brand. It has distribution centres in Sydney, Melbourne, Brisbane and Adelaide. The company's covering and care segment include leathers, fabrics and other lounge coverings.

### **DuluxGroup Limited**

DuluxGroup Limited (Dulux) engages in the manufacture and marketing of various paints and related products for commercial and residential applications. Its products include retail paints, stains and varnishes, protective and woodcare coatings, powder and industrial coatings, automotive refinish coatings, fillers, adhesives, sealants, paint brushes and rollers, specialized household cleaners, seeds, fertilizers, pesticides, plant protection solutions, potting mixes, texture coatings, paint preparation products, polyurethanes, oils, polishes, home improvement products, and car and garden care products. The company offers its products primarily under the brand names of Dulux, Berger, British Paints, Walpamur, Cabot's, Feast Watson, Intergrain, Acratex, Selleys, Rota Cota, Poly, Turtle Wax, Yates, Hortico, Thrive, Zero, and Dynamic Lifter, as well as provides timber finishes under the Opel brand name in Eastern China. It sells its products through various retail outlets and trade distribution outlets. The company principally operates in Australia, New Zealand, Papua New Guinea, China, and the southeast Asia.

## **International companies**

### **Hunter Douglas N.V.**

Hunter Douglas N.V. (Hunter Douglas) is a Netherlands based company engaged in the manufacture and marketing of window coverings and architectural products. The group is comprised of 162 companies with 67 manufacturing and 95 assembly operations and marketing organizations in more than 100 countries. Hunter Douglas has its Head Office in Rotterdam, the Netherlands, and a Management Office in Lucerne, Switzerland. The company's product portfolio includes fabric shades, woven wood shades, pleated shades, wood blinds and custom shutters. Its marketing brands include HunterDouglas, Luxaflex, Duette, Silhouette, Pirouette, Luminette, Vignette, Alouette and Facette. Hunter Douglas operates in five geographic markets: Europe, North America, Latin America, Asia and Australia.

### **Ching Feng Home Fashions Co Limited**

Ching Feng Home Fashions Co Limited (Ching Feng) is principally engaged in the development, production and distribution of curtains, home decoration products and plastic products. The company provides desk decoration products, including desk cloth and cushions; bed sets, including bed sheets, bedspreads and pillows; bathroom products, including baskets, shower curtains and other products; curtains; louvers, including ordinary louvers, vertical louvers and artificial wood louvers; and plastic construction materials. It distributes its products primarily in the Americas, Asia, Europe and Oceania.

### **Tachikawa Corporation**

Tachikawa Corporation (Tachikawa) is a Japan based manufacturing company mainly engaged in the manufacturing, sale, design and installation of interior and exterior products, and mechanical multi-level parking systems. The company operates in three business segments. The Interior and Exterior Products related segment manufactures and sells blinds, partitions and curtain rails. This segment is also involved in the interior finish works. The Parking System-related segment is engaged in the manufacturing, sale, maintenance and inspection of mechanical multi-level parking systems. The Reducer related segment is involved in the manufacturing and sale of reducers through one of its consolidated subsidiaries.

### **Sangetsu Co. Limited**

Sangetsu Co. Limited (Sangetsu) engages in the development and sale of interior decorating products, including wall papers, curtains, flooring materials, and upholstery. The company operates showrooms in Tokyo, Nagoya, Osaka, Okayama, Hiroshima, and Fukuoka.

### **Topps Tiles Plc**

Topps Tiles Plc (Topps Tiles) engages in the retail and wholesale distribution of ceramic tiles, wood flooring, and related products in the United Kingdom and Holland. The company offers various types of tiles, including bathroom wall and floor, kitchen wall and floor, ceramic, porcelain, travertine, and mosaic tiles, as well as granite, slate, marble, limestone, glass, and clearance tiles. It also offers tiling tools, which include rubi tile cutters, rubi tools and accessories, tile cutters, tile cutter accessories, grouting tools, tiling trowels, drilling tiles, tile spacers, silicone sealants, adhesive makers, adhesive mixers, knee pads, gloves, and safety glasses. In addition, Topps Tiles offers grouts and adhesives; and laminate, engineered wood, and hardwood flooring. Further, the company offers bathroom suites and accessories, such as basins, vanity suites, and taps; heated towel rails and valves; bathroom accessories; wet rooms; baths and panels; furniture and accessories; shower enclosures; toilets and basins; cloakrooms and ensembles; taps and wastes; and showers. It operates under the brand names of Topps Tiles and Tile Clearing House.

## Appendix 4: Comparable transaction descriptions

Below are the details of the comparable market transactions, listed by target company.

### **Wattyl Limited**

On 13 September 2010, The Velspar Corporation completed the acquisition of Wattyl Limited, the Australian manufacturer of paints and related products, for a total cash consideration of \$142.0 million. The offer represented a premium of 32.5% based on Wattyl Limited's closing share price of \$1.26 on 25 June 2010, one day before the announcement.

### **Gale Pacific Limited**

On 24 August 2007, Investec Wentworth Private Equity Pty Ltd, the Australian private equity arm of Investec Group, the listed South African private equity firm and investment bank and Thorney Holdings Pty Ltd, the Australian investment company, agreed to acquire a combined 29.17% stake in Gale Pacific Limited, the Australian manufacturer and exporter of advanced polymer fabrics, at a subscription price of \$0.50 (USD 0.42) per share, valuing the company at USD 58.2 million.

### **Feltex Carpets Limited**

On 30 November 2006, Godfrey Hirst, the Australian carpet manufacturing company, agreed to acquire Feltex Carpets Limited, the listed New Zealand based carpet manufacturer, for a total consideration of AUD 114.0 million, including assumed net debt.

### **Bonar Floors Limited**

On 30 September 2008, Forbo Holding AG, the listed Switzerland based producer of flooring systems, agreed to acquire Bonar Floors Limited, from Low & Bonar Plc, the listed UK based materials group, for an assumed cash consideration of GBP 123.0 million on a net debt/cash free basis.

### **Burgbad AG**

On 28 July 2008, Eczacibasi Holding A S, the listed Turkish industrial group, and its subsidiary Eczacibasi Yapi Gerecleri San. ve T.A.S., the listed Turkish company engaged in the production and marketing of ceramic sanitary ware and sanitary fittings, agreed to acquire 88.92% of Burgbad AG, the listed German based provider of bathroom furniture and fittings services, from Ruddies Beteiligungs- und Vermögensverwaltungsgesellschaft GmbH, the German family owned company, valuing the entire share capital at EUR 70.8 million.

### **Westbond Limited**

On 8 January 2008, Bonar Floors Limited, the UK based provider of specialist flooring solutions, and a subsidiary of Low & Bonar, the listed UK based manufacturer and supplier of textile materials, fabrics, yarns, and flooring products, acquired Westbond Limited, the UK based producer of fusion-bonded carpet tiles, from Cambrosa Holdings Limited, the UK based holding company, for a consideration of GBP 10.9 million.

### **Hillary Blinds Limited**

On 5 June 2007, the management of Hillarys Blinds Ltd, the UK based manufacturer and supplier of made-to-measure window blinds, acquired the company in a management buy out transaction, backed by European Capital SA (EC), the France based private equity firm, from Change Capital Partners, the UK private equity firm, for EUR 648.0 million.

### **Mity-Lite Inc**

On 3 May 2007, MLE Holdings Inc, the US based acquisition vehicle of Sorenson Capital, and Peterson Partners, the US based private equity firms, agreed to acquire Mity Enterprises Inc, the listed US based designer and manufacturer of institutional furniture, for total cash consideration of USD 71.6 million.

### **Hunter Douglas**

On 2 August 2005, Bergson Holding NV, a holding company formed by Mr. R. Sonnenberg, a private investor and Hunter Douglas' largest shareholder, signed an agreement to make a restricted tender offer to acquire approximately a 25% stake in Hunter Douglas, the listed Netherlands based manufacturer of window coverings and architectural products, for a total cash consideration of EUR 483.0 million.

### **Vilco Helmond B.V.**

On 7 September 2009, Actis Capital LLP, the UK based private equity firm, acquired Vilco Helmond B.V., the Netherlands based company engaged in designing and producing cotton broad woven fabrics, from Gamma Holding N.V., the listed Netherlands based company engaged in the development, manufacture and sale of textile based products, for consideration of EUR 118.0 million.

### **Tessitura Pontelambro s.p.a**

On 30 June 2008, Beste SpA, the Italy based textile group, acquired Tessitura Pontelambro SpA., the listed Italy based textile firm, from Investimenti e Sviluppo SpA, the listed Italy based private equity firm, for a cash consideration of EUR 10.8 million.

### **Mehler Technologies GmbH**

On 29 November 2007, Low & Bonar Plc, the listed UK based specialist materials group, acquired Mehler Technologies GmbH, the Germany based manufacturer and distributor of technical coated fabrics, for a total consideration of EUR 166.0 million.

### **Elastic Fabric of America**

On 26 April 2007, Dogi International Fabrics S.A, the listed Spanish manufacturer of elastic fabrics, acquired Elastic Fabric of America, the US based supplier of warp-knitted and circular-knitted elastomeric fabrics, for total consideration of EUR 25.1 million.

## Appendix 5: Sources of information

In preparing this report we have had access to the following principal sources of information:

- Bidder's Statement
- Audited financial statements and annual reports for Kresta for FY07, FY08, FY09 and FY10, and the reviewed financial statements for H1-FY11
- Management accounts for the Kresta Vista and Curtain Wonderland segments for FY07, FY08, FY09, FY10 and H1-FY11
- Budgeted financial information for FY11 and supporting assumptions
- Company websites of Kresta and the comparable companies
- Publicly available information on comparable companies and market transactions published by ASIC, Thomson research, Thomson Reuters, SDC Platinum and Mergermarket
- IBISWorld company and industry reports
- Other publicly available information, media releases and brokers reports on Kresta, comparable companies and window furnishing and related industries.

In addition, we have had interviews and other correspondence with Kresta's independent directors and the senior management and staff of Kresta Vista and Curtain Wonderland in relation to the above information and current operations and prospects of the Company.

## Appendix 6: Qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of Kresta and is to be included in the Target's Statement to be given to Shareholders for approval of the Takeover Offer in accordance with Section 640. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Target's Statement in their assessment of the Takeover Offer outlined in the report and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Takeover Offer. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the APESB.

The report represents solely the expression by Deloitte of its opinion as to whether the Takeover Offer is fair and reasonable in relation to Section 640. Deloitte consents to this report being included in the Target's Statement.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by Kresta and its officers, employees, agents or advisors which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Kresta management for confirmation of factual accuracy.

In recognition that Deloitte may rely on information provided by Kresta and its officers, employees, agents or advisors, Kresta has agreed that it will not make any claim against Deloitte to recover any loss or damage which Kresta may suffer as a result of that reliance and that it will indemnify Deloitte against any liability that arises out of either Deloitte's reliance on the information provided by Kresta and its officers, employees, agents or advisors or the failure by Kresta and its officers, employees, agents or advisors to provide Deloitte with any material information relating to the Takeover Offer.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of Kresta personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte considers that there are reasonable grounds to believe that the prospective financial information for Kresta included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of Kresta referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Nicki Ivory (B.Com (Hons), CA, CFA) and Tapan Parekh (B.Bus, M.Com, CA, F.Fin). Nicki and Tapan are Directors of Deloitte. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Over the past two years, Deloitte Touche Tohmatsu, the partnership that owns Deloitte, has provided other services to Kresta. These services related to the independent analysis of the net realisable value of Kresta's inventory balance at 30 June 2010 (previously defined as the Inventory Analysis). Deloitte Touche Tohmatsu received fees of \$27,500 exclusive of GST and disbursements in relation to these services.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the Takeover Offer which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte will receive a fee of \$125,000 exclusive of GST and disbursements in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Takeover Offer.

### **Consent to being named in disclosure document**

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 240 St Georges Terrace, Perth 6000 acknowledges that:

- Kresta proposes to issue a Target's Statement in respect of the Takeover Offer
- The Target's Statement will be issued in hard copy and be available in electronic format
- It has previously received a copy of the draft Target's Statement for review (Draft Target's Statement)
- It is named in the Target's Statement as the 'independent expert' and the Target's Statement includes its independent expert's report in Schedule 1 of the Target's Statement.

On the basis that the Target's Statement is consistent in all material respects with the draft Target's Statement received, Deloitte Corporate Finance Pty Limited consents to it being named in the Target's Statement in the form and context in which it is so named, to the inclusion of its independent expert's report in Schedule 1 of the Target's Statement and to all references to its independent expert's report in the form and context in which they are included, whether the Target's Statement is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Target's Statement and takes no responsibility for any part of the Target's Statement, other than any references to its name and the independent expert's report as included in the Schedule 1.



### *About Deloitte*

In Australia, Deloitte has 12 offices and over 4,500 people and provides audit, tax, consulting, and financial advisory services to public and private clients across the country. Known as an employer of choice for innovative human resources programs, we are committed to helping our clients and our people excel. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

For more information, please visit Deloitte's web site at [www.deloitte.com.au](http://www.deloitte.com.au)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

"Deloitte" is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee. Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTTL does not itself provide services to clients. DTTL and each DTTL member firm are separate and distinct legal entities, which cannot obligate each other. DTTL and each DTTL member firm are liable only for their own acts or omissions and not those of each other. Each DTTL member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its territory through subsidiaries, affiliates, and/or other entities.

© Deloitte Touche Tohmatsu. February, 2011. All rights reserved.