



kresta™

Kresta Holdings Limited

2013

Annual Report

ACN 008 675 803

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Corporate Information

ABN 26 008 675 803

Directors

Peter Abery, Non-executive Chairman
John Molloy, Non-executive Director
Richard Taylor, Non-executive Director
Kevin Eley, Non-executive Director
Robert Farrar, Non-executive Director

Chief Executive Officer

Giuliano (Jules) Di Bartolomeo

Company Secretary

Brendan William Cocks

Registered Office and Principal Place of Business

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

Share Register

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

**Kresta Holdings Limited shares are listed on the
Australian Securities Exchange (ASX).**

ASX Code: KRS

Bankers

Commonwealth Bank of Australia Limited
Australia and New Zealand Banking Group Limited

Auditors

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

Solicitors

Jackson McDonald
Level 25, 140 St Georges Terrace
Perth WA 6000

Chairman's Report

Dear Shareholder

On behalf of the Board of directors I am pleased to present the annual report for Kresta Holdings Limited (KHL) for the year ended 30 June 2013.

The last 12 months proved to be another very difficult and challenging year for retail in Australia, and our market sector was not immune to the reduced consumer demand. However despite these onerous conditions, KHL increased last year's pre tax profit of \$113,000 to a profit of \$1,805,000 this year. Allowing for a number of non operating items (profit on sale of land and buildings, restructuring costs and the write off of some intangible assets) the underlying profit for the year was \$249,000 a significant improvement from an underlying pre tax loss of \$1,931,000⁰ in 2012 despite \$10,141,000 lower sales revenue. Statutory full year after tax profit was \$1,535,000, an increase of 94% over the last year's result of \$791,000.

(i) Reconciliation of underlying EBIT

	2013 \$000	2012 \$000
Sales revenue	100,755	110,896
Underlying EBIT	249	(1,931)
Non operating items:		
Profit on sale of land and buildings	3,890	3,598
Restructuring costs	(604)	(1,277)
Impairment - intangibles	(1,686)	-
Results from operating activities	1,849	390
Net finance costs	(44)	(277)
Profit before tax	1,805	113
Income tax (expense) / benefit	(270)	678
Profit after tax	1,535	791

Over the last 12 months the Kresta Group has made significant changes in its management, structure and processes, all of which has resulted in a significant improvement in profitability on lower sales.

The Company's balance sheet has been strengthened with the sale of surplus property at values well in excess of book value, and the reduction in bank debt has left the company with a net cash position of \$3,741,000 at year end. The Group had credit facilities totalling at year

end of \$4,465,000 of which \$2,581,000 was unused. Kresta's Malaga factory, warehousing and offices are now consolidated on one property site on the south side of Victoria Road.

The Group's brands continue to enjoy high recognition and our stores are being selectively upgraded to enhance the customer experience. In addition our on-line sales activities are beginning to contribute to sales, and this is expected to grow in the years ahead. This "bricks and clicks" strategy is expected to strengthen our market positioning and penetration.

KHL currently manufactures a large range of its products within Australia. This has provided the Company with advantages in product delivery times to customers and will deliver a greater competitive advantage as the Australian Dollar has weakened.

Now the Company is in a sound financial position, with a strengthened balance sheet and reduced debt, it is the Board's intention to resume paying dividends. A full year dividend of 0.25 cents has been declared which represents 24.3% of the full year after tax profit. It is the Directors' intention to continue with the payment of dividends in future years, subject of course to the Company's financial performance.

I wish to thank my fellow Board members, and in particular the past chairman Mr John Molloy, the CEO Jules Di Bartolomeo, the executive team and all staff for their tremendous contribution in achieving this

improvement in profits in 2013. A huge amount of time and effort has gone into empowering and training staff, putting better processes and systems in place and working with our suppliers to ensure we receive quality product at competitive prices. Our people have always been our most valuable asset and I am pleased to see management putting more emphasis on their development. Ultimately it will benefit KHL and its shareholders.



P. Abery

Chairman

28 August 2013

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Your directors of Kresta Holdings Limited submit their report for the year ended 30 June 2013.

Directors

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

Names, qualifications, experience and special responsibilities

Peter Abery

B. Sc. Eng., M. Sc. Eng., MBA., Harvard ISMP, MIET., FAICD. (Non-executive Chairman)

Mr Abery joined Kresta Holdings Limited as a non-executive director in June 2012. He serves as chairman of the remuneration committee and is also a member of the audit and risk committee of the Group. He has over 30 years extensive experience as a director and executive, and has held senior management roles including CEO and Managing Director of such companies as HPM Industries, Crown Castle UK, Crown Castle Australia, Vodafone Network and QPSX Communications. He also held senior management / director positions in Telstra. He is the non-executive Chairman of Nomad Buildings Solutions Limited and the unlisted company Vesco Foods Pty Ltd and a non-executive director of The Ear Science Institute of Australia and the Western Australian Institute of Sport. During the past 3 years he also served as a director and chairman of the following ASX listed companies:

- Norfolk Group – appointed 31 May 2007; resigned 4 August 2010
- Pienetworks Limited (ASX: PIE) – appointed 8 May 2007; resigned 26 July 2011

John Molloy

(Non-executive Director)

Mr Molloy is a successful former advertising director and entrepreneur who for many years worked on the Kresta Holdings Limited account and played a key role in the establishment of the Kresta brands. In 2007-2008 Mr Molloy was a director of Mitchells W.A., a subsidiary of the listed Mitchells Media Group. He resigned as director of that Company when it was bought out completely by the Parent Company in 2008. He serves as a member of the remuneration committee of the Group.

Richard Taylor

B.Econ., ACA. (Non-executive Director)

Mr Taylor joined Kresta Holdings Limited as non-executive director in March 2011 and is chairman of the audit and risk committee of the Group. He is a chartered accountant and was formerly a tax partner for 20 years with Deloitte and its antecedent firms. In this role, he advised on mergers and acquisitions, helping companies IPO and structuring funding arrangements across a broad range of industries. He led their Deloitte Australia Private Equity Team and was a member of their National Tax Executive. During the past 3 years he also served as a director of the following ASX listed companies:

- Wintech Group Limited (ASX: WTG) – appointed 7 October 2011; resigned 2 October 2012
- Lamboo Resources Limited (ASX: LMB) – appointed March 2002; resigned 14 June 2012

Kevin Eley

CA., F Fin (Non-executive Director)

Mr Eley joined Kresta Holdings Limited as non-executive director in April 2011 and is a member of the audit and risk committee of the Group. During the past 3 years he also served as a director of the following ASX listed companies:

- HGL Limited (ASX: HNG) – appointed October 1985
- Equity Trustees Limited (ASX: EQT) – appointed 25 November 2011
- Milton Corporation Limited (ASX: MLT) – appointed 11 November 2011
- Po Valley Energy Limited (ASX: PVE) – appointed 19 June 2012

Robert Farrar

(Non-executive Director)

Mr Farrar joined Kresta Holdings Limited as a non-executive director in June 2012 and is a member of the remuneration committee of the Group. He has had business experience in running his own manufacturing and retail sales blinds and awnings business. Prior to running his own business he served as a Director and General Manager Operations of an Australian company, Siemens Dematic, which is part of an International Business where he managed Australian engineering, manufacturing & local and overseas purchasing operations. During his career as General Manager he was responsible for the set-up of Chinese purchasing & establishment of Chinese manufacturing operations. His strengths are in manufacturing operations, global procurement, logistics & customer service.

Interests in the shares and options of the Company

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

Number of ordinary shares	
P. Abery	65,000
J. Molloy	2,049,000
R. Taylor	31,156
K. Eley	-
R. Farrar	263,300

Company Secretary

Brendan William Cocks

B. Com., CA – appointed 27 May 2013

Mr Cocks was appointed Company Secretary and Chief Financial Officer on 27 May 2013. A Chartered Accountant, he has in excess of 18 years experience across a broad range of industries including retail, manufacturing, resources and professional services. Since 2007 he has occupied CFO positions for a number of ASX listed companies and prior to that held senior commercial finance roles with a large ASX listed manufacturer.

Kenneth McKinnon

B.Bus., P.Grad Dip Acc., EMBA., CPA. – resigned 24 May 2013

Mr McKinnon was appointed Company Secretary and Chief Financial Officer on 1 July 2011. Mr McKinnon has been a certified practising accountant for over 20 years. He has acted as Chief Financial Officer and Company Secretary in a range of publicly listed companies over the past 20 years.

Dividends

	Cents	\$000
Final dividends recommended:		
Ordinary shares	0.25	373
Dividends paid in the year:		
Interim for the year		
Ordinary shares	-	-
Final for 2012 shown as recommended in the 2012 financial report:		
Ordinary shares	-	-

Principal activities

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

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

Operating and financial review

Group overview

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

The Group operates a number of manufacturing plants involving production of roller blinds, curtains, vertical blinds and awnings. The manufacturing operations

continue to be a major part of the Group's core activities. At the same time, the Group sources many finished product lines from local and overseas contract suppliers at competitive prices and acceptable delivery time to customers.

In what has been a difficult retail trading environment during the year which has seen revenues decrease by \$10,141,000, the Group has been able to achieve an increase in its operating profits during the 2013 financial year.

After a disappointing 2012 financial year there has been a sharp focus on restoring the Group's operational profitability. Despite the reduction in revenues, our ability to deliver increased profitability highlights the significant work undertaken to improve company operations and position the Company strongly for the future.

Our strategic initiatives and achievements during the full-year ending June 2013 included:

- Establishing a new Management Team & structure
- Restructuring to improve Group synergies
- Delivering process improvements to reduce operating expenses
- Corrective action plans for pricing and products
- Extensive staff training to enhance sales and operational skills
- Staff engagement improvement through greater levels of communication and empowerment
- Improvements in supplier arrangements and relationships
- Increase in local manufacturing, underpinned by a comprehensive lean training program

These achievements provided a favourable outcome to our financial performance through:

- Improvement in our gross profit margins
- Local manufacturing of made to measure products becoming more cost efficient
- Cost price reductions received from our suppliers
- Product improvements and exclusivity enabling us to offer unique products to customers

- Reduction in the level of damaged goods and in product delivery times from the warehouse and logistics enhancements

The Group delivered a net profit before tax of \$1,805,000 (2012: \$113,000). The improved profitability reflects a return to operational profitability from the above initiatives and a significant profit on the sale of some land and buildings. Net profit after tax was \$1,535,000, an improvement of 94% over the prior year result.

The sale of land and buildings and a return to operational profitability enabled the Group to apply the additional cash flow to improving the balance sheet with a reduction in debt of \$5,085,000 from \$6,550,000 at 30 June 2012 to \$1,465,000 at 30 June 2013. Net cash at year end was \$3,741,000, an improvement of \$6,836,000 from the net debt position at 30 June 2012 of \$3,095,000.

Our strategic agenda for the next few years has been carefully crafted to ensure the Company continues to build on the strong cost and efficiency improvements achieved in the last 12 months, whilst allowing the Company to grow in directions we have identified as having the greatest potential.

Costs and productivity will continue to be improved through:

- Kresta and Vista Showroom Review – a large number of our 53 showrooms across Australia and New Zealand were established many years ago. The location and performance of a number of these showrooms strongly warrant further investment for their continued growth. There are also a number of showrooms that require either relocation or consolidation, which will further reduce the Company's fixed cost base.
- Ace of Shades Restructure and Outdoor Program – Ace of Shades has operated independently since its acquisition in 2011 and has struggled to operate profitably. Plans are underway to

integrate Ace of Shades into Kresta, to transfer the Outdoor product knowledge and to improve our ability to profitably grow Outdoor product within the company.

- Decor2Go Restructure – in 2013 we commenced our plans to merge our five Curtain Wonderland and three Decor2Go stores in Western Australia into five, which is planned to reduce further to four in 2014. This activity supported by plans to increase 'Made to Measure' and 'On-Line' capabilities will assist this business.
- Local Manufacturing – Lean training programs will continue in 2014 as we continue with plans to deliver balanced and efficient manufacturing solutions between local and overseas, underpinned by quality and profitability.
- East Coast Distribution Centre – there is an opportunity for our existing building capacity and people capability to receive overseas products directly on the East coast, rather than freighting them via Perth. This change will not only reduce freight costs, but it will improve delivery times for East coast customers and is planned to be in place by the fourth quarter.
- Regional Centralisation Of Distribution Centres – consolidation of distribution centres and resources to cater for all businesses is currently underway. This will allow for the reduction of 2 distribution centres and the optimising of installation activity.
- Group Synergies – much work has already been undertaken to remove business silos and activity continues to remove duplication, and for all areas in the business to access centres of excellence.
- Group Purchasing – a key area for improvement arising from group synergy projects has been the move to consolidate product purchasing and introduce supplier tender programs. This activity together with expanding our supplier network and arrangements will continue to assist with the reduction of our costs for raw materials and ready made products.

- Job Problems – in recent years job installation problems have been a considerable drain on business profitability. While this area has seen strong improvements over the last 12 months, comprehensive and continuous training will continue with a view to delivering on our aspirations to become the industry bench mark.

Our plans for continued profitable growth include:

- Sales Consultant Performance and Remuneration – selling made to measure products is the core activity for the Kresta, Vista and Ace of Shades businesses; and makes a significant revenue contribution to the Curtain Wonderland and Decor2Go businesses. As we strive to maximise every sales lead and opportunity being generated by our strong brands, we need a motivated, knowledgeable and well remunerated sales force. We will continue to fine tune our plans to attract and develop the right sales people.
- Kresta and Vista Brand Positioning – whilst our marketing activity drives minimal lead overlapping between our brands, we are keeping abreast of market trends and will continually evolve our brand positioning and differentiation, especially for our Kresta and Vista brands.
- Curtain Wonderland Store Expansion – Curtain Wonderland performance and market trends clearly support our plans to grow this business over the next few years. There are plans for one new store this year, with more potential locations currently under review.
- On-Line Expansion – all brands by year end will have on-line sales capability in place to commence taking advantage of this ever increasing distribution opportunity.
- Commercial Expansion – existing resources and capability is being mobilised to sustainably increase our commercial business market share.

- Wholesale Expansion – Mardo Wholesale was launched in June 2013 and we have been encouraged by the response.
- Installer Capability – we will continue to work more closely with existing and potential installers as we move to improve the customer service and experience, and drive greater levels of repeat and referral business.
- Technology Advancements – whilst technology investment planned will assist in eliminating processing tasks, our plans in this area are geared more towards increasing customer service and sales tasks and roles, and allowing the company to increase its revenue without the need to increase non customer facing roles.
- Kresta College – the company's most important resource is its people and we will invest strongly in creating an internal learning organisation or “college” focussed on both growing and attracting talent.

Performance indicators

The Board has adopted a number of financial and operational key performance indicators (KPIs) to monitor the Group's core activities. These KPIs are regularly reviewed by management to gauge the performance of operations and ensure that the measures adopted continue to be relevant in the changing economic environment in which the Group operates.

Operating results for the year

The Group recorded a net profit after tax of \$1,535,000 for the year ended 30 June 2013 which was 94 per cent higher than the previous year profit of \$791,000.

Shareholder returns

	2013	2012	2011	2010	2009
Basic earnings / (losses) per share (cents)	1.06	0.55	(0.54)	1.88	2.68
Return on shareholders' funds	7%	4%	(4%)	12%	15%
Closing share price (cents)	15.0	11.0	26.0	35.0	13.5

Capital structure

The Group's balance sheet is stronger with net assets increasing from \$19,729,000 as at 30 June 2012 to \$21,311,000 at 30 June 2013. The Group's gearing ratio reduced from 14% at 30 June 2012 to (21%) at 30 June 2013.

Liquidity and funding

At year end, the Group had credit facilities (inclusive of bank guarantee) totalling \$4,465,000 (2012: \$9,550,000) of which unused were \$2,581,000 (2012: \$2,597,000). Cash at bank and on hand at 30 June 2013 were \$5,206,000 (2012: \$3,455,000).

At 30 June 2013, the Group has 2 outstanding bank bills. The first bill of \$460,872 (2012: \$2,114,872) is repayable quarterly with the final instalment due in March 2014 (variable interest rate). The second bank bill of \$450,000 (2012: \$750,000) is repayable quarterly with final instalment due in September 2014 (variable interest rate).

Significant changes in the state of affairs

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

Significant events after the balance date

On 28 August 2013, the directors of Kresta Holdings Limited declared a final dividend on ordinary shares in respect of the 2013 financial year. The total amount of the dividend is \$373,146 which represents a fully franked dividend of 0.25 cent per share payable on 25 October 2013 to shareholders registered on 11 October 2013.

Environmental regulation and performance

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

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

Indemnification and insurance of directors and officers

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

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

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

Directors’ meetings

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

	Meetings of committees					
	Directors		Audit and Risk		Remuneration	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
P. Abery	13	12	6	6	2	2
J. Molloy	13	13	-	-	2	2
R. Taylor	13	11	6	6	-	-
K. Eley	13	13	6	6	-	-
R. Farrar	13	11	-	-	2	2

Committee membership

As at the date of this report, the Company had an audit and risk committee and a remuneration committee. Members of these committees of the Board during the year were:

Audit and Risk	Remuneration
R. Taylor (Chairman)	P. Abery (Chairman)
K. Eley	J. Molloy
P. Abery	R. Farrar

Rounding

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

Shares issued under the Company’s LTI scheme

Shares granted to executives of the Company

During or since the end of the financial year, the Company granted a number of fully paid ordinary shares to executives in accordance with its Long Term Incentive scheme. Consistent with the incentive scheme the executives were provided a limited recourse loan and a number of vesting conditions were attached to the shares issued. These “in-substance options” (see note 14), were issued for no consideration to the following executives as part of their remuneration:

Executives	Number of shares granted	Date of grant
G. Di Bartolomeo	3,000,000	14 February 2013
A. Tacey	700,000	22 March 2013
S. Shwe	700,000	22 March 2013
L. Fels	700,000	22 March 2013

All shares were granted during the financial year. No shares have been granted since the end of the financial year.

Shares issued but held in escrow

At the date of this report shares issued under the LTI scheme but held in escrow are:

Expiry date	Issued price	Number of shares
14 February 2020	\$0.149	3,000,000
22 March 2020	\$0.155	2,100,000
		5,100,000

All of these shares held under escrow are ordinary shares of the Company.

Shares provided under the LTI scheme expire on the earlier of the expiry date or termination of the employee’s employment. In addition, the ability to access these shares is conditional on continuous employment. The shares are being held in escrow with half of the shares to be released between 1.5 to 2.0 years of continuous employment and the other half to be released between 2.5 to 3.0 years of continuous employment from the date of issue.

These shares held under escrow entitle the holder to participate in any share issue of the Company.

Shares released from escrow

During or since the end of the financial year, no shares were released from escrow.

Auditor's independence

The directors received the following declaration from the auditor of Kresta Holdings Limited.



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

In relation to our audit of the financial report of Kresta Holdings Limited for the year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young
Ernst & Young
D S Lewsen
D S Lewsen
Partner
28 August 2013

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Assurance related and due diligence services	4,000

Remuneration report (audited)

This remuneration report for the year ended 30 June 2013 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

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

Individual key management personnel disclosures

Details of KMP are set out below.

Directors

P. Abery	Chairman (Non-Executive)
J. Molloy	Director (Non-Executive)
R. Taylor	Director (Non-Executive)
K. Eley	Director (Non-Executive)
R. Farrar	Director (Non-Executive)

Executives

G. Di Bartolomeo	Chief Executive Officer
B. W. Cocks	Chief Financial Officer and Company Secretary – appointed 27 May 2013
K. McKinnon	Chief Financial Officer and Company Secretary – resigned 24 May 2013
A. Tacey	General Manager Curtin Wonderland
L. Fels	General Manager Kresta
S. Shwe	General Manager Operations

Remuneration philosophy

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

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

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

Remuneration committee

The remuneration committee of the Board of directors is responsible for determining and reviewing compensation arrangements for the directors and

executives. The remuneration committee assesses the appropriateness of the nature and amount of emoluments of such executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such executives are given the opportunity to receive their base emolument in cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue additional cost for the Company.

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

Remuneration report approval at 2012 AGM

At the 2012 AGM, we received a vote of 55% in support for our remuneration report. In response to the no vote of greater than 25% we have endeavoured to speak to shareholders about their concerns related to remuneration. We understand that a significant part of the vote was a protest vote related to the composition of the Board and performance of the Company.

The directors believe that the Company's remuneration policies are in line with industry standards. Furthermore in the 2013 financial year a set of financial and operating performance criteria was applied for any executive short term incentives of which \$nil was paid or earned during the year. Our Long Term Incentive scheme was approved by shareholders at the 2011 AGM.

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

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

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

The Board will not seek any increase for the non-executive directors' fee pool at the 2013 AGM.

Executive remuneration

Objective

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

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

Structure

The remuneration committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Company. Remuneration consists of the following key elements:

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

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

Fixed remuneration

Objective

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

Fixed remuneration is reviewed annually by the remuneration committee and the process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices.

Structure

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

Variable remuneration – short term incentive

Objective

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

Structure

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

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

STI bonus for 2013 financial year

There was no STI cash bonus paid to executives in the 2013 financial year (accrued and vested in 2011 and paid in 2012: \$nil). 100% of the balance was forfeited. There are no STI cash bonus accruals relating to the 2013 financial year.

Variable remuneration – long term incentive

Objective

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

As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group’s performance.

Structure

LTI grants to executives have been delivered in the form of ordinary shares via a limited recourse loan in accordance with the Company’s Long Term Incentive scheme which was approved by shareholders at the AGM in November 2011. As the shares are issued at market value and are linked to shareholder wealth through growth in the share price, the shares are not subject to any specific vesting conditions, other than continuous employment. The shares are being held in escrow with half of the shares to be released between 1.5 to 2.0 years of continuous employment and the other half to be released between 2.5 to 3.0 years of continuous employment from the date of issue. The shares have been accounted for as in-substance options (see note 14). The purpose of the scheme is to align the rewards of executives with the long term strategic goals and financial performance of the Company through share price growth.

Executives	Number of shares granted	Date of grant	Fair value per right (cents)	Vested (%)	Expiry date	Earliest exercise date	Exercise price per right (cents)
G. Di Bartolomeo	3,000,000	14 Feb 2013	7.71	-	14 Feb 2020	14 Aug 2014	14.9
A. Tacey	700,000	22 Mar 2013	7.14	-	22 Mar 2020	22 Mar 2015	15.5
S. Shwe	700,000	22 Mar 2013	7.14	-	22 Mar 2020	22 Mar 2015	15.5
L. Fels	700,000	22 Mar 2013	7.14	-	22 Mar 2020	22 Mar 2015	15.5

No executives forfeited any rights during the period.

As at the date of this report, there were 5,100,000 shares (2012: nil) issued under this scheme to KMP.

Consequences of performance on shareholder wealth

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

	2013	2012	2011	2010	2009
Earnings / (losses) before interest and tax (\$000)	1,849	390	(392)	4,609	6,224
Net profit / (loss) after tax (\$000)	1,535	791	(781)	2,697	3,658
Earnings / (losses) per share (cents)	1.06	0.55	(0.54)	1.88	2.68
Movement in share price (cents)	4.0	(15.0)	(9.0)	21.5	12.5

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for 2009 to 2013 have been calculated in accordance with Australian Accounting Standards.

Employment contracts

Executives are employed under written contracts with varying notice terms of between 3 to 6 months. Under the terms of the present contracts:

- Executives may resign from their positions and thus terminate the contract by giving 3 to 6 months’ written notice.
- The Company may terminate the employment agreement by providing 3 to 6 months’ written notice or provide payment in lieu of the notice period (based on the total remuneration).
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executives are only entitled to that portion of remuneration which is fixed, and only up to the date of termination.
- On resignation or termination, if conditions relating to the Long Term Incentive Scheme (LTIS) are not satisfied the Company may buy back or instruct the employee to sell the in-substance options (see note 14) at the discretion of the Company. If conditions relating to the LTI scheme are satisfied, the Company may make written demand for the repayment of the outstanding amount of the scheme loan.

Remuneration of key management personnel of the Company and the Group

Remuneration for the year ended 30 June 2013

	Short-term benefits			Post employment	Share-based payments	Long-term benefits	Termination payments	Total	Value of options as proportion of remuneration
	Salary & fees	Cash bonus	Non monetary benefits	Superannuation	Share options ⁽ⁱ⁾	Long service leave			
	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors									
P. Abery	50,459	-	-	4,552	-	-	-	55,011	-
J. Molloy	78,807	-	-	7,107	-	-	-	85,914	-
R. Taylor	29,434	-	-	25,577	-	-	-	55,011	-
K. Eley	50,459	-	-	4,552	-	-	-	55,011	-
R. Farrar	30,019	-	-	24,992	-	-	-	55,011	-
	239,178	-	-	66,780	-	-	-	305,958	-

Other key management personnel

G. Di Bartolomeo	298,538	-	-	24,667	47,361	-	-	370,566	12.8%
B. W. Cocks ⁽ⁱⁱ⁾	24,576	-	-	2,045	-	-	-	26,621	-
K. McKinnon ⁽ⁱⁱⁱ⁾	242,548	-	499	31,770	-	-	-	274,817	-
L. Fels	247,253	-	20,215	22,951	5,712	22,887	-	319,018	1.8%
A. Tacey	223,197	-	25,000	18,540	5,712	15,997	-	288,446	2.0%
S. Shwe	164,022	-	20,591	13,900	5,712	4,405	-	208,630	2.7%
	1,200,134	-	66,305	113,873	64,497	43,289	-	1,488,098	-
	1,439,312	-	66,305	180,653	64,497	43,289	-	1,794,056	-

(i) Relates to in-substance options issued under the LTIS as approved by shareholders at the 2011 Annual General Meeting. Refer to note 14 for further details.

(ii) Mr B. W. Cocks was appointed Company Secretary and Chief Financial Officer on 27 May 2013.

(iii) Mr K. McKinnon resigned as Company Secretary and Chief Financial Officer on 24 May 2013.

Remuneration of key management personnel of the Company and the Group

Remuneration for the year ended 30 June 2012

	Short-term benefits			Post employment	Long-term benefits	Termination payments	Total	Proportion of remuneration performance related
	Salary & fees	Cash bonus	Non monetary benefits	Superannuation	Long service leave			
	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors								
J. Molloy	93,073	-	-	47,327	-	-	140,400	-
K. Eley	50,459	-	-	4,541	-	-	55,000	-
R. Taylor	50,459	-	-	4,541	-	-	55,000	-
T. Bartlett ⁽ⁱⁱ⁾	36,216	-	-	3,259	-	-	39,475	-
J. Huston ⁽ⁱⁱⁱ⁾	20,043	-	-	1,804	-	-	21,847	-
R. Farrar ^(iv)	1,542	-	-	139	-	-	1,681	-
P. Abery ^(v)	701	-	-	63	-	-	764	-
	252,493	-	-	61,674	-	-	314,167	-

Other key management personnel

A. Tacey ^(vi)	363,292	-	29,378	33,882	⁽ⁱ⁾ (48,305)	-	378,247	-
T. Zorbas ^(vii)	62,308	-	-	-	-	-	62,308	-
K. McKinnon	200,324	-	-	47,688	-	-	248,012	-
D. Gunther ^(viii)	228,769	-	-	21,430	-	-	250,199	-
L. Fels ^(ix)	138,513	-	28,635	12,412	7,001	-	186,561	-
S. Shwe ^(x)	154,145	-	19,124	13,000	514	-	186,783	-
J. Fulton ^(xi)	269,213	-	228	17,016	⁽ⁱ⁾ (108,705)	-	177,752	-
	1,416,564	-	77,365	145,428	(149,495)	-	1,489,862	-
	1,669,057	-	77,365	207,102	(149,495)	-	1,804,029	-

(i) Relates to long service leave previously accrued but forfeited due to termination of employment or change in employment position.

(ii) Mr T. Bartlett resigned on 19 March 2012.

(iii) Mr J. Huston resigned on 23 November 2011.

(iv) Mr R. Farrar appointed on 21 June 2012.

(v) Mr P. Abery appointed on 26 June 2012.

(vi) Mr A. Tacey resigned as Chief Executive Officer on 15 May 2012; re-appointed as General Manager of Curtain Wonderland on 15 May 2012.

(vii) Mr T. Zorbas appointed as Interim Chief Executive Officer on 15 May 2012.

(viii) Mr D. Gunther appointed on 18 July 2011; resigned on 12 June 2012.

(ix) Mr L. Fels appointed on 12 June 2012 to the position of National Sales Manager. Prior to that he was the Regional Manager from 1 July 2011.

(x) Mr S. Shwe appointed on 1 October 2011.

(xi) Mr J. Fulton resigned on 31 December 2011.

Signed in accordance with a resolution of the directors.



P. Abery
Director
Perth, 28 August 2013

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

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

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

Kresta Holdings Limited's corporate governance practices were in place throughout the year ended 30 June 2013 and were compliant with the Council's best practice recommendations, except for there being no separate nomination committee.

Board responsibilities

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

discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Group is delegated by the Board to the Chief Executive Officer (CEO) and the executive team. The Board together with the CEO is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The Chief Executive Officer is responsible to the Board for the day to day management of the Company.

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

To this end the Board has established the following committees:

- Audit and risk committee
- Remuneration committee

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

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

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget — via the establishment and regular reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

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

Structure of the board

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

The Board recognises the Corporate Governance Council’s recommendation that the Chair should be an independent director. The Board believes that Mr Abery is the most appropriate person to lead the Board and that he is able to and does bring quality and independent judgement to all relevant issues falling within the scope of the role of Chairman and that the Group as a whole benefits from his long standing experience and business relationships. He is considered to be independent.

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

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

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

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

Name	Position	Term in office	Independent
P. Abery	Chairman, Non-Executive Director	1.2 years	Yes
J. Molloy	Non-Executive Director	2.5 years	Yes
R. Taylor	Non-Executive Director	2.5 years	Yes
K. Eley	Non-Executive Director	2.5 years	Yes
R. Farrar	Non-Executive Director	1.2 years	No ⁽ⁱ⁾

(i) Mr Farrar is an associate of Fiesta Design Pty Ltd which holds an 18.94% shareholding in the Company.

Audit and risk committee

The Board has established an audit and risk committee. It is the Board’s responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets,

the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated responsibility for the establishment and maintenance of a framework of internal controls and ethical standards for the management of the Group to the audit and risk committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit and risk committee are non-executive directors.

The members of the audit and risk committee during the year were:

- R. Taylor** (Committee Chairman)
- K. Eley**
- P. Abery**

Nomination committee

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

Remuneration committee

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

- Retention and motivation of key executives;
- Attraction of high quality management to the Company; and

- Performance incentives that allow executives to share in the success of Kresta Holdings Limited

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

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, and the executives. The Board has established a remuneration committee, comprising three non-executive directors. Members of the remuneration committee throughout the year were:

- P. Abery** (Committee Chairman)
- J. Molloy**
- R. Farrar**

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

Risk

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

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

The Board oversees the assessment of the effectiveness of risk management and internal

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

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

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

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

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

- Fluctuations in exchange rates and demand volumes;
- The occurrence of force majeure events by significant suppliers;
- Increasing costs of operations, including labour costs; and

- Purchase arrangements with different suppliers in order to de-risk reliance on factory.

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

Diversity policy

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

The table below shows the proportion of female employees of the Group as at 30 June 2013.

Position	Number	Percent %
Board members	-	-
Senior managers	10	34%
Managers	47	68%
Other employees	332	54%
	389	54%

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

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

is well advanced in developing a policy that is in compliance with Recommendation 3.3 and expect that this will be adopted in the new financial year.

Trading policy

Under the Company's securities trading policy all KMP, officers and employees must not buy or sell the Company's securities whilst they are in possession of inside information. Inside information is that which is not generally available and if it was generally available, a reasonable person would expect it to have a material effect on the price or value of shares or other securities.

Further, all KMP, officers and employees must not disclose any inside information to any other persons unless those persons have a need to know and confirm that they will comply with this policy.

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

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

There are no exceptional circumstances in which KMP, officers and employees may be permitted to trade during a blackout period.

Before commencing to trade, an executive or director must consult the Chairman and at least one other director, and notify the Company Secretary.

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

Chief executive officer and chief financial officer declaration

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

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

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

Independence declaration

In respect of financial years commencing on or after 1 July 2004, the Corporate Law Economic Reform Programme (Audit Reform and Corporate Disclosure) Act 2004 ("CLERP 9") amendments to the *Corporations Act 2001* require external auditors to make an annual independence declaration, addressed to the Board, declaring that the auditors have maintained their independence in accordance with CLERP 9 amendments and the rules of the professional accounting bodies.

Ernst & Young has provided such a declaration to the Board for the financial year ended 30 June 2013.

Shareholder communication policy

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

Kresta Holdings Limited is committed to:

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

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

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

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

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

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	2013 \$000	2012 \$000
Sale of goods		100,755	110,896
Revenue		100,755	110,896
Other income	4a	4,401	3,964
Changes in inventories of finished goods and work in progress		(1,742)	(3,824)
Raw materials and consumables used		(27,558)	(29,170)
Employee benefits expense	4b	(40,770)	(46,591)
Depreciation and amortisation charge	4c	(1,825)	(2,200)
Other expenses	4d	(31,412)	(32,685)
Results from operating activities		1,849	390
Finance income		193	249
Finance costs		(237)	(526)
Net finance costs	4e	(44)	(277)
Profit before income tax		1,805	113
Income tax (expense) / benefit	5	(270)	678
Net profit for the period		1,535	791
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net foreign currency translation		(40)	(44)
Effective portion of changes in fair value of cash flow hedges, net of tax		23	(5)
Other comprehensive income for the period, net of tax		(17)	(49)
Total comprehensive income for the period		1,518	742
Total comprehensive income attributable to owners of the Company		1,518	742
Earnings per share for profit attributable to the ordinary equity holders of the parent:	6		
Basic earnings per share		1.06 cents	.55 cents
Diluted earnings per share		1.06 cents	.55 cents

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

Consolidated Statement of *Financial Position*

As at 30 June 2013

	Note	2013 \$000	2012 \$000
ASSETS			
Current assets			
Cash and cash equivalents	8	5,206	3,455
Trade and other receivables	9	2,338	2,931
Inventories	10	9,093	9,303
Prepayments		1,153	848
Derivative financial instruments	26	4	-
Income tax receivable		272	676
Non-current assets held for sale	27	-	1,933
Total current assets		18,066	19,146
Non-current assets			
Trade and other receivables	9	50	26
Property, plant and equipment	12	12,220	13,788
Deferred tax assets	5	2,714	2,984
Intangible assets and goodwill	13	2,061	3,826
Total non-current assets		17,045	20,624
TOTAL ASSETS		35,111	39,770
LIABILITIES			
Current liabilities			
Trade and other payables	15	7,310	8,128
Interest-bearing loans and borrowings	16	1,315	5,549
Provisions	17	3,851	4,152
Derivative financial instruments	26	28	102
Government grants	19	34	-
Total current liabilities		12,538	17,931
Non-current liabilities			
Interest-bearing loans and borrowings	16	150	1,001
Provisions	17	1,112	1,109
Total non-current liabilities		1,262	2,110
TOTAL LIABILITIES		13,800	20,041
NET ASSETS		21,311	19,729
EQUITY			
Contributed equity	18	12,733	11,961
Employee reserved shares	18	(772)	-
Reserves	18	(392)	(439)
Retained earnings	18	9,742	8,207
TOTAL EQUITY		21,311	19,729

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

Consolidated Statement of *Cash Flows*

For the year ended 30 June 2013

	Note	2013 \$000	2012 \$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		112,407	122,358
Payments to suppliers and employees (inclusive of GST)		(111,357)	(123,613)
Receipt of government grants	19	104	-
Interest received	4e	193	249
Interest paid	4e	(237)	(526)
Income tax received / (paid)		403	(24)
Net cash flows from / (used in) operating activities	8	1,513	(1,556)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		6,349	4,911
Purchase of property, plant and equipment	12	(958)	(1,531)
Purchase of intangibles	13	(19)	(1,004)
Net cash flows from investing activities		5,372	2,376
Cash flows from financing activities			
Proceeds from borrowings		1,083	590
Repayment of borrowings		(6,085)	(2,818)
Payment of finance lease liabilities		(83)	(93)
Net cash flows used in financing activities		(5,085)	(2,321)
Net increase / (decrease) in cash and cash equivalents		1,800	(1,501)
Net foreign exchange differences		(49)	(46)
Cash and cash equivalents at beginning of period		3,455	5,002
Cash and cash equivalents at end of period	8	5,206	3,455

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

Consolidated Statement of *Changes in Equity*

For the year ended 30 June 2013

	Ordinary shares	Employee reserved shares	Employee equity benefits reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2012	11,961	-	48	(19)	(468)	8,207	19,729
Profit for the period	-	-	-	-	-	1,535	1,535
Other comprehensive income	-	-	-	23	(40)	-	(17)
Total comprehensive income for the period	-	-	-	23	(40)	1,535	1,518
Employee share plan issue	772	(772)	-	-	-	-	-
Share-based payments	-	-	64	-	-	-	64
At 30 June 2013	12,733	(772)	112	4	(508)	9,742	21,311
At 1 July 2011	11,961	-	48	(14)	(424)	7,416	18,987
Loss for the period	-	-	-	-	-	791	791
Other comprehensive income	-	-	-	(5)	(44)	-	(49)
Total comprehensive income for the period	-	-	-	(5)	(44)	791	742
At 30 June 2012	11,961	-	48	(19)	(468)	8,207	19,729

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

Notes to the *Consolidated Financial Statements*

For the year ended 30 June 2013

1. Corporate information

The consolidated financial report of Kresta Holdings Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 28 August 2013.

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

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

(b) Compliance with IFRS

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

(c) New accounting standards and interpretations

Changes in accounting policy and disclosures

Since 1 July 2012, the Group has adopted all the Australian Accounting Standards and AASB Interpretations, mandatory for annual periods beginning on or after 1 July 2012. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

Accounting standards and interpretations issued but not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2013. These are outlined below:

(i) AASB 9 *Financial Instruments*

Application date of standard – 1 January 2015.

Application date for Group – 1 July 2015.

Impact: not yet been assessed.

AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below;

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
 - The change attributable to changes in credit risk are presented in other comprehensive income
 - The remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.

(ii) AASB 10 Consolidated Financial Statements

Application date of standard – 1 January 2013.
Application date for Group – 1 July 2013.

Impact: there is no impact.

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

Consequential amendments were also made to other standards via AASB 2011-7.

(iii) AASB 12 Disclosure of Interests in Other Entities

Application date of standard – 1 January 2013.
Application date for Group – 1 July 2013.

Impact: there is no impact.

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

(iv) AASB 13 Fair Value Measurement

Application date of standard – 1 January 2013.
Application date for Group – 1 July 2013.

Impact: there is no impact.

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This

includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

Consequential amendments were also made to other standards via AASB 2011-8.

(v) AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

Application date of standard – 1 January 2013.
Application date for Group – 1 July 2013.

Impact: there is no impact.

This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.

The following items are addressed by this standard:

IFRS 1 First-time Adoption of International Financial Reporting Standards

- Repeated application of IFRS 1
- Borrowing costs

IAS 1 Presentation of Financial Statements

- Clarification of the requirements for comparative information

IAS 16 Property, Plant and Equipment

- Classification of servicing equipment

IAS 32 Financial Instruments: Presentation

- Tax effect of distribution to holders of equity instruments

IAS 34 Interim Financial Reporting

- Interim financial reporting and segment information for total assets and liabilities

(vi) AASB 119 Employee Benefits

Application date of standard – 1 January 2013.
Application date for Group – 1 July 2013.

Impact: there is no impact.

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

Consequential amendments were also made to other standards via AASB 2011-10.

(vii) AASB 2012-2 Amendment to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

Application date of standard – 1 January 2013.
Application date for Group – 1 July 2013.

Impact: there is no impact.

AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of the effect or potential effect of netting arrangements. This includes rights of set-off associated with the entity's recognised financial assets and liabilities on the entity's financial position, when the offsetting criteria of AASB 132 are not all met.

(viii) AASB 2012-3 Amendment to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

Application date of standard – 1 January 2014.
Application date for Group – 1 July 2014.

Impact: not yet been assessed.

AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

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inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Kresta Holdings Limited and its subsidiaries as at and for the period ended 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Kresta Holdings Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of

the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 2(e)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

(e) Business combinations

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

(f) Revenue recognition

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

Sale of goods

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

Interest income

Income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and

allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

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

(g) Government grants – refer note 19

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

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

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

(h) Leases – refer note 16

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

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

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

(i) Cash and cash equivalents – refer note 8

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

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

(j) Trade and other receivables – refer note 9

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

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to

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

(k) Inventories – refer note 10

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

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

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

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

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

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

The Group uses derivative financial instruments (including forward currency contracts and interest rate swaps) to hedge its risks associated with foreign

currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

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

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

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

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

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other

comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses.

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

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

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

(m) Foreign currency translation

Functional and presentation currency

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

Transactions and balances

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

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

Translation of Group Companies' functional currency to presentation currency

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

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

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

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

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

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

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

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

reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

Other taxes

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

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

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

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

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

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

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

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

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

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

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Gains and losses on derecognition are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

(p) Goodwill and intangibles – refer note 13

Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

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

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

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

When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment

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

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology

outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

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

Software

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

Trademark

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference

between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

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

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

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(r) Trade and other payables – refer note 15

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(s) Provisions and employee benefits – refer note 17

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

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

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

Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised in respect of employees'

services up to the reporting date. They are measured at the amounts expected to be paid when these liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

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

Make good

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

Warranty

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

Onerous contract

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost

of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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

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

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

Borrowing costs

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

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

Equity settled transactions

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

Benefits were provided under the Group's LTIS this year as eligible employee subscribed for fully paid ordinary

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

(v) Contributed equity – refer note 18

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

(w) Operating segments – refer note 25

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

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

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

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

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

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

(x) Earnings per share – refer note 6

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

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

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

(y) Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

Loans and receivables

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

Derecognition

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

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

(ii) Impairment of financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

(iii) Offsetting of financial instruments

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

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

(z) Non-current assets held for sale – refer note 27

Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction instead of use. Once classified as held for sale they are not depreciated or amortised. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

3. Significant accounting judgements, estimates and assumptions

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

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Significant accounting judgements

Lease classification

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

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant

management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

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

Inventory net realisable value

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

Useful lives of assets

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

Long service leave provision

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

4. Other income and expenses

	2013 \$000	2012 \$000
(a) Other income		
Government grants	70	132
Net gain from disposal of property, plant & equipment	3,580	3,495
Net unrealised gain from derivatives	55	-
Other	696	337
	<u>4,401</u>	<u>3,964</u>
(b) Employee benefits expense		
Wages and salaries	25,775	29,550
Superannuation expense	2,140	2,342
Employee share-based payment	64	-
Subcontractors	10,154	11,597
Other employee benefits expense	2,637	3,102
	<u>40,770</u>	<u>46,591</u>
(c) Depreciation and amortisation charge		
Depreciation	1,727	2,107
Amortisation of IT software	98	93
	<u>1,825</u>	<u>2,200</u>
(d) Other expenses		
Advertising	9,727	10,377
Property rent	8,144	8,489
Property outgoings	3,805	4,073
Communication expenses	2,234	2,311
Banking and transaction expenses	806	1,050
Impairment loss – receivables	3	331
Impairment loss – intangibles	1,686	-
Net unrealised loss from derivatives	-	48
Foreign exchange losses	179	84
Freight	2,054	2,525
Other expenses	2,774	3,397
	<u>31,412</u>	<u>32,685</u>

(e) Net finance costs

Finance income	193	249
Finance charges payable under finance leases and hire purchase contracts	(20)	(24)
Other borrowing costs	(217)	(502)
Finance costs	(237)	(526)

Net finance costs

(f) Cost of inventories recognised as an expense	29,300	32,994
(g) Write (back) / down of inventory to net realisable value included within the cost of inventory recognised as an expense	(777)	203
(h) Minimum lease payments – operating leases	118	126

	2013 \$000	2012 \$000
	193	249
	(20)	(24)
	(217)	(502)
	(237)	(526)
	(44)	(277)
	29,300	32,994
	(777)	203
	118	126

(continued)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

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

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

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

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

Members of the tax consolidated group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a systematic basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

(f) Nature of the tax funding agreement

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

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

6. Earnings per share

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

	2013 \$000	2012 \$000
Earnings used in calculating earnings per share		
Net profit attributable to ordinary equity holders of Kresta Holdings Limited from continuing operations	1,535	791
Weighted average number of shares	Thousands	Thousands
Weighted average number of ordinary shares for basic earnings per share	144,158	144,158
Effect of dilution:		
In-substance options	349	-
Weighted average number of ordinary shares adjusted for the effect of dilution	144,507	144,158

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. There are 4,751,000 in-substance options (out of

a total of 5,100,000) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for the current period presented.

7. Dividends paid and proposed

	2013 \$000	2012 \$000
(a) Recognised amounts		
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2012: nil (2011: nil)	-	-
Interim franked dividend for 2013: nil (2012: nil)	-	-
	-	-
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Final franked dividend for 2013: 0.25 cents (2012: nil)	373	-
(c) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at end of the financial year at 30% (2012: 30%)	1,437	1,841
Franking credits that will reduce due to the refund of income tax as at the end of the financial year	(272)	(676)
	1,165	1,165
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(160)	-
	1,005	1,165
(d) Tax rates		
The tax rate at which paid dividends have been franked is 30% (2012: 30%).		
Dividends proposed will be franked at the rate of 30% (2012: 30%).		

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

8. Cash and cash equivalents

	2013	2012
	\$000	\$000
Cash at bank and on hand	5,206	3,455
Total cash and cash equivalents	5,206	3,455

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of cash and cash equivalents represent fair value.

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

	2013	2012
	\$000	\$000
Net profit	1,535	791
<i>Adjustments for:</i>		
Depreciation	1,727	2,107
Amortisation	98	93
Net gain on disposal of property, plant and equipment	(3,580)	(3,495)
Net unrealised (gain) / loss on derivatives	(55)	48
Share-based payment expense	64	-
Impairment – intangibles	1,686	-
<i>Changes in assets and liabilities</i>		
(Increase) / decrease in trade and other receivables	569	135
(Increase) / decrease in inventories	210	1,105
(Increase) / decrease in deferred tax assets	270	(726)
(Increase) / decrease in prepayments	(305)	69
Increase / (decrease) in trade and other payables	(818)	(493)
Increase / (decrease) in government grants	34	(132)
Increase / (decrease) in tax receivables/payable	404	24
Increase / (decrease) in provisions	(326)	(1,082)
Net cash (used in) / from operating activities	1,513	(1,556)

9. Trade and other receivables

	2013	2012
	\$000	\$000
Current		
Trade receivables	2,263	3,083
Allowance for impairment loss ^(a)	(229)	(323)
	2,034	2,760
Short term deposits ^(b)	80	56
Other receivables ^(c)	224	115
	2,338	2,931
Non-current		
Short term deposits ^(b)	50	26

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment allowance of \$17,000 (2012: \$331,000) has been recognised by the Group during the year. The amount has been included in the other expense item. No individual amount within the impairment allowance is material.

Movements in the provision for impairment loss were as follows:

	2013	2012
	\$000	\$000
At 1 July	323	32
Charge for the year	17	331
Utilised	(97)	(40)
Unused amounts reversed	(14)	-
At 30 June	229	323

At 30 June, the aging analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days	61-90 days	+91 days	+91 days
				PDNI ⁽ⁱ⁾	CI ⁽ⁱⁱ⁾	PDNI ⁽ⁱ⁾	CI ⁽ⁱⁱ⁾
		\$000	\$000	\$000	\$000	\$000	\$000
2013	2,263	1,422	357	106	-	149	229
2012	3,083	1,668	439	198	21	455	302

(i) Past due not impaired (PDNI)

(ii) Considered impaired (CI)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

Receivables past due but not considered impaired are: \$255,000 (2012: \$653,000). Payment terms on these amounts have not been renegotiated. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

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

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

(d) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(e) Foreign exchange and interest rate risk

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

10. Inventories

	2013 \$000	2012 \$000
Raw materials (at the lower of cost and net realisable value)	3,180	2,514
Finished goods (at the lower of cost and net realisable value)	5,913	6,789
Total inventories at the lower of cost and net realisable value	9,093	9,303

11. Parent entity information

	2013 \$000	2012 \$000
Current assets	4,213	2,752
Total assets	6,949	9,639
Current liabilities	868	373
Total liabilities	11,539	9,641
Issued capital	12,733	11,961
Accumulated losses	(16,663)	(12,011)
Reserves	112	48
Employee reserved shares	(772)	-
Total shareholder's equity	(4,590)	(2)
Loss of the parent entity	(5,879)	(6,848)
Total comprehensive loss of the parent entity	(5,879)	(6,848)

Remuneration commitments

Commitments (within one year) for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities payable by Kresta Holdings Limited (parent entity) amounted to \$309,000 (2012: \$192,000).

Pursuant to Class Order 98/1418, relief has been granted to these controlled entities of Kresta Holdings Limited from the *Corporations Act* requirements for preparation, audit and lodgement of their financial reports.

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

12. Property, plant and equipment

	Freehold land and building \$000	Plant and equipment \$000	Motor vehicles \$000	Total \$000
Cost				
Balance at 1 July 2012	6,716	25,453	2,296	34,465
Other additions	72	884	35	991
Disposals	(21)	(3,460)	(467)	(3,948)
Transfer	(21)	21	-	-
Effect of movements in exchange rates	-	4	2	6
Balance at 30 June 2013	6,746	22,902	1,866	31,514
Balance at 1 July 2011	10,950	25,965	2,827	39,742
Other additions	153	1,137	2	1,292
Disposals	(1,663)	(1,555)	(533)	(3,751)
Reclassification to assets held for sale	(2,724)	-	-	(2,724)
Effect of movements in exchange rates	-	(94)	-	(94)
Balance at 30 June 2012	6,716	25,453	2,296	34,465

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

	Freehold land and building	Plant and equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000
Depreciation				
Balance at 1 July 2012	791	18,606	1,280	20,677
Depreciation charge for the year	159	1,360	208	1,727
Transfer	(20)	20	-	-
Disposals	-	(2,740)	(372)	(3,112)
Effect of movements in exchange rates	-	1	1	2
Balance at 30 June 2013	930	17,247	1,117	19,294
Balance at 1 July 2011	1,890	18,564	1,470	21,924
Depreciation charge for the year	243	1,613	251	2,107
Transfer	-	(138)	-	(138)
Disposals	(551)	(1,343)	(441)	(2,335)
Reclassification to assets held for sale	(791)	-	-	(791)
Effect of movements in exchange rates	-	(90)	-	(90)
Balance at 30 June 2012	791	18,606	1,280	20,677
Carrying amounts				
At 30 June 2013	5,816	5,655	749	12,220
At 30 June 2012	5,925	6,847	1,016	13,788

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2013 is \$234,000 (2012: \$372,000). There were no additions during the year (2012: \$nil) of plant and equipment held under finance leases and hire purchase contracts.

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Land and buildings with a carrying amount of \$5,816,000 (2012: \$7,858,000) are subject to a first charge over available finance facilities (see note 16).

Plant and equipment and motor vehicles with a carrying amount of \$6,170,000 (2012: \$7,491,000) is pledged as securities for current and non-current liabilities as disclosed in note 16.

13. Intangible assets and goodwill

	IT software	Trade mark	Goodwill	Total
	\$000	\$000	\$000	\$000
Cost				
Balance at 1 July 2012	1,849	589	2,212	4,650
Other additions	19	-	-	19
Balance at 30 June 2013	1,868	589	2,212	4,669
Balance at 1 July 2011	528	589	2,212	3,329
Other additions	1,321	-	-	1,321
Balance at 30 June 2012	1,849	589	2,212	4,650
Amortisation and impairment				
Balance at 1 July 2012	532	-	292	824
Impairment	1,097	589	-	1,686
Amortisation charge for the year	98	-	-	98
Balance at 30 June 2013	1,727	589	292	2,608
Balance at 1 July 2011	301	-	292	593
Amortisation charge for the year	93	-	-	93
Transfer	138	-	-	138
Balance at 30 June 2012	532	-	292	824
Carrying amounts				
At 30 June 2013	141	-	1,920	2,061
At 30 June 2012	1,317	589	1,920	3,826

Impairment tests for goodwill

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

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

Market capitalisation of the Group as at the reporting date was \$21,624 000 (2012: \$15,857,000).

Kresta Holdings Limited unit

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period. The anticipated sales growth over the five years is estimated to average 3.38% per annum (2012: 1.29%).

The pre-tax discount rate applied to cash flow projections is 12.68% per annum (2012: 12.9%). The projected value in use exceeds the carrying amount of the assets within the cash generating unit and therefore no impairment has been noted.

The carrying amount of goodwill allocated to the Kresta Holdings Limited unit is \$1,064,000 (2012: \$1,064,000).

Curtain Wonderland Pty Limited unit

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period. The anticipated sales growth over the five years is estimated to average 3.52% per annum (2012: 4.06%).

The pre-tax discount rate applied to cash flow projections is 12.68% per annum (2012: 8.55%). The projected value in use exceeds the carrying amount of the assets within the cash generating unit and therefore no impairment has been noted.

The carrying amount of goodwill allocated to the Curtain Wonderland Pty Limited unit is \$856,000 (2012: \$856,000).

Key assumptions

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

Gross margins

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

Raw materials price inflation

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

Discount rate

Discount rate reflects management's estimate of the time value of money and the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted year.

Sales growth

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

Sensitivity to changes in assumptions

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

Impairment loss

In January 2010 the Group acquired Ace of Shades, a supplier and retailer of external blinds and awnings. The acquisition included \$589,000 trademark and \$500,000 goodwill. Profitability has been challenging for our Ace of Shades brand and the Group is currently assessing strategic options on the most appropriate way of marketing our external blinds and awnings capability. Potential options may include the discontinued use of the Ace of Shades brand with the products being sold under one of the existing Company brands. Due to the uncertainty surrounding the continuous use of the “Ace of Shades” trademark the Company has made the decision to write down the carrying value of the trademark to zero. As the Company remains committed to the external blinds and awnings market there has been no impairment charge to the goodwill on acquisition.

In June 2011, the Company commenced a process of implementing a new ERP system across the business. In July 2012 the Company made the decision to suspend the implementation to reassess the suitability to the Company. The business is currently assessing the most appropriate way forward in regard to utilisation of existing systems and how a new ERP would support the Company’s future plans. Options include recommencement of the ERP implementation or an enhancement of existing systems with a deferral or abandonment of the current implementation. At year end this decision had not been made and given the uncertainty of the carrying value of the work in progress in relation to this ERP implementation, the Company has made the decision to write off the value of the work done to date of \$1,097,000.

14. Share-based payment plans

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

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

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

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

The following table sets out the number and weighted average exercise prices (WAEP) of and movements in in-substance share options during the year:

	2013 No. of in- substance options Thousands	2013 WAEP	2012 No. of in- substance options Thousands	2012 WAEP
Granted during the year	5,100	\$0.151	-	-
Outstanding and exercisable at the end of the year	5,100	\$0.151	-	-

The impact on profit or loss is set out in note 4 (b).

The inputs used in the measurement of the fair values at grant date of the in-substance shares options were as follows:

	2013 KMP	2013 CEO
Exercise price	\$0.155	\$0.149
Fair value at grant date	\$0.0714	\$0.0771
Share price at grant date	\$0.155	\$0.16
Expected volatility (weight average)	40%	40%
Expected dividends	5%	5%
Risk-free interest rate (based on government bonds)	2.75%	2.75%
Expected life (weight average)	7 years	7 years

15. Trade and other payables

	2013 \$000	2012 \$000
Current		
Trade payables ^(a)	2,729	2,910
Other payables ^(b)	1,918	2,030
Customer deposits	2,367	2,892
Goods and services tax	296	296
	7,310	8,128

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

(b) Other payables are non-trade payables, are non-interest bearing and are normally settled on 30-day terms.

(c) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(d) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 20.

16. Interest-bearing loans and borrowings

	2013 \$000	2012 \$000
Current		
Obligations under finance leases and hire purchase contracts (note 21)	92	176
Insurance finance loan	462	472
Business bill facility	761	4,901
	1,315	5,549
Non-current		
Business bill facility	150	1,001
	150	1,001

Fair value disclosures

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

Finance leases

As at 30 June 2013, the Group does not have any outstanding finance leases. The average discount rate implicit in the leases in 2012 was 7.00% per annum. The 2012 lease liabilities were secured by a charge over the leased assets.

Hire purchase

Hire purchase leases have a remaining average lease term of 1 year. The average discount rate implicit in the leases is 6.64% per annum (2012: 5.65% per annum). Hire purchase liabilities are secured by a charge over the assets under hire purchase.

Insurance finance loan

Insurance finance loan has a fixed rate of 3.84%.

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Business bill facility

During the year ended 30 June 2013, 2 of the bank bills were repaid in full using the proceeds from the sale of the buildings. At 30 June 2013, the Group has 2 outstanding bank bills. The first bill of \$460,872 (2012: \$2,114,872) is repayable quarterly with final instalment due in March 2014 (variable interest rate). The second bill of \$450,000 (2012: \$750,000) is repayable quarterly with final instalment due in September 2014 (variable interest rate).

Interest for these bills is recognised at an average rate of 5.48% per annum (2012: 6.14% per annum). The bills are secured by a first mortgage over the freehold land and buildings of the Group.

Trade finance facility

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

Financing facilities available

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

	2013 \$000	2012 \$000
Total facilities		
Bank overdraft	2,083	2,083
Bank guarantee	742	742
Trade	175	175
Insurance finance loan	462	472
Hire purchase and finance lease	92	176
Business bill facility	911	5,902
	4,465	9,550
Facilities used at reporting date		
Bank overdraft	-	-
Bank guarantee	419	403
Trade	-	-
Insurance finance loan	462	472
Hire purchase and finance lease	92	176
Business bill facility	911	5,902
	1,884	6,953

Facilities unused at reporting date

Bank overdraft	2,083	2,083
Bank guarantee	323	339
Trade	175	175
Insurance finance loan	-	-
Hire purchase and finance lease	-	-
Business bill facility	-	-

Total facilities

Facilities used at reporting date

Facilities unused at reporting date

	2013 \$000	2012 \$000
Bank overdraft	2,083	2,083
Bank guarantee	323	339
Trade	175	175
Insurance finance loan	-	-
Hire purchase and finance lease	-	-
Business bill facility	-	-
	2,581	2,597
Total facilities	4,465	9,550
Facilities used at reporting date	1,884	6,953
Facilities unused at reporting date	2,581	2,597

Assets pledged as security

The carrying amount of assets pledged as security for current and non-current interest liabilities are:

	Note	2013 \$000	2012 \$000
Current			
<i>Floating charge</i>			
Cash and cash equivalents	8	5,206	3,455
Receivables	9	2,338	2,931
Inventories	10	9,093	9,303
<i>First mortgage</i>			
Non-current assets held for sale	27	-	1,933
Total current assets pledged as security		16,637	17,622
Non-current			
<i>First mortgage</i>			
Freehold land and buildings	12	5,816	5,925
<i>Hire purchase and finance lease</i>			
Motor vehicles	12	234	372
<i>Floating charge</i>			
Plant and equipment and motor vehicles	12	6,170	7,491
Total non-current assets pledged as security		12,220	13,788
Total assets pledged as security		28,857	31,410

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17. Provisions

	Onerous leases	Warranty	Employee benefits	Make good	Total
	\$000	\$000	\$000	\$000	\$000
At 1 July 2012	175	58	4,404	624	5,261
Arising during the year	-	-	1,909	33	1,942
Utilised	(122)	-	(2,025)	(24)	(2,171)
Unused amounts reversed	(13)	-	(49)	(7)	(69)
At 30 June 2013	40	58	4,239	626	4,963
Current 2013	40	24	3,599	188	3,851
Non-current 2013	-	34	640	438	1,112
	40	58	4,239	626	4,963
Current 2012	74	23	3,892	163	4,152
Non-current 2012	101	35	512	461	1,109
	175	58	4,404	624	5,261

(a) Onerous leases

The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The unexpired terms of the leases range from 1 to 8 months.

(b) Warranty

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

(c) Employee benefits

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

(d) Make good

The Group is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets, being between 1 and 14 years.

18. Contributed equity and reserves

(a) Ordinary shares

	2013 \$000	2012 \$000
Issued capital - ordinary shares	12,733	11,961
Employee reserved shares	(772)	-
	11,961	11,961

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Shares issued to employees under the share loan plan referred to in note 14 are fully issued via a limited recourse loan to employees, and as such the arrangement is accounted for as in-substance options. Loans are repaid from dividends declared, capital returns and cash repayments. Once the loan is repaid in full the employee reserved shares are converted to unrestricted ordinary shares.

Movement in ordinary shares on issue

	2013 No. of shares Thousands	2013 \$000	2012 No. of shares Thousands	2012 \$000
At 1 July	144,158	11,961	144,158	11,961
Employee reserved shares	5,100	772	-	-
At 30 June	149,258	12,733	144,158	11,961

Movement in employee reserved shares on issue

	2013 No. of shares Thousands	2013 \$000	2012 No. of shares Thousands	2012 \$000
At 1 July	-	-	-	-
Issued \$0.149 per share on 14th February 2013	3,000	447	-	-
Issued \$0.155 per share on 22nd March 2013	2,100	325	-	-
At 30 June	5,100	772	-	-

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(b) Capital management

The Group's objective when managing capital is to safeguard the ability to continue as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Group is not subject to any externally imposed capital requirements.

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing loans and borrowings less cash and cash equivalents. Total capital is calculated as total equity as shown in the balance sheet plus net debt.

Management has no current plans to issue further shares on the market.

The gearing ratio was as follows:

	2013 \$000	2012 \$000
Total borrowings ⁽ⁱ⁾	1,465	6,550
Less cash and cash equivalents	(5,206)	(3,455)
Net debt	(3,741)	3,095
Capital	21,311	19,729
Capital and net debt	17,570	22,824
Gearing ratio (net debt / capital and net debt)	(21.3%)	13.6%

(i) Includes interest bearing loans and borrowings.

(c) Retained earnings

Movement in retained earnings

	2013 \$000	2012 \$000
Balance as at 1 July	8,207	7,416
Net profit for the year	1,535	791
Balance as at 30 June	9,742	8,207

(d) Reserves

Movement in reserves

	Share-based payment \$000	Foreign currency translation \$000	Cash flow hedge \$000	Total \$000
At 1 July 2012	48	(468)	(19)	(439)
Foreign currency translation differences	-	(40)	-	(40)
Effective portion of changes in fair value of cash flow hedges	-	-	23	23
Employee share plan expense	64	-	-	64
At 30 June 2013	112	(508)	4	392

Share-based payment reserve

This reserve is used to record the value of equity benefits provided to employees, including key management personnel, as part of their remuneration. Refer to note 14 for further details of these plans.

Foreign currency translation reserve

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

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

19. Government grants

Movement in government grants

	2013 \$000	2012 \$000
At 1 July	-	132
Received during the year	104	-
Recognised as income	(70)	(132)
At 30 June	34	-
Current	34	-
Non-current	-	-
Total government grants deferred	34	-

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The government grants received during the year were in relation to the Lean Manufacturing training program which is being implemented at our Malaga factory. The accounting policy adopted by the Group is disclosed in note 2 (g).

20. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases and hire purchase contracts, cash and short-term deposits and derivatives.

Risk exposures and responses

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

The Group enters into derivative transactions, principally interest rate swap and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

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

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	2013	2012
	\$000	\$000
Financial assets		
Cash and cash equivalents	5,175	3,423
	5,175	3,423
Financial liabilities		
Business bill facility	(911)	(5,902)
	(911)	(5,902)
Net exposure	4,264	(2,479)

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. As at 30 June 2013, after taking into account the effect of interest rate swaps, 100% of the Group's borrowings are at a fixed rate of interest (2012: 49%).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The Group regularly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

Interest rate swap contracts outlined in note 26 with an effective notional value of \$911,000 (2012: \$2,865,000) are exposed to fair value movements if interest rates change.

At 30 June 2013, if interest rates had moved, with all other variables held constant, post tax profit would have been affected as follows:

Judgements of reasonably possible movements

	Post tax profit higher / (lower)	
	2013	2012
	\$000	\$000
+1.0% (100 basis points) (2012: +1.0%)	36	3
-0.5% (50 basis points) (2012: -0.5%)	(18)	(1)

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

The sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates and management's judgement of future trends. The analysis was performed on the same basis for 2012.

Foreign currency risk

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

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

Less than 2.7% (2012: 2.5%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale. Approximately 60% (2012: 49%) of the Group's inventory purchases are denominated in currencies other than the functional currency of the operating unit making the purchase.

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

At 30 June 2013, the Group had the following exposure to USD foreign currency:

	2013 \$000	2012 \$000
Trade and other payables	(527)	(365)
Forward exchange contracts (see note 26)	(645)	(1,648)

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 30 June 2013, had the Australian Dollar moved, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
AUD / USD +10% (2012: +10%)	34	23	(57)	(176)
AUD / USD -5% (2012: -5%)	(19)	(13)	35	56

The sensitivity rates are based on reasonably possible changes, over a financial year, using the observed range of actual historical rates and management's judgement of future trends. The analysis was performed on the same basis for 2012.

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

Credit risk

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

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

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

At balance date, there are no significant concentrations of credit risk within the Group.

Liquidity risk

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

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

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

	< 6 months \$000	6-12 months \$000	2013 1-2 years \$000	> 2 years \$000	Total \$000
Financial assets					
Cash and cash equivalents	5,206	-	-	-	5,206
Trade and other receivables	2,332	6	8	42	2,388
Derivatives	4	-	-	-	4
	7,542	6	8	42	7,598
Financial liabilities					
Trade and other payables	(6,657)	-	-	-	(6,657)
Business bill facility	(293)	(492)	(151)	-	(936)
Hire purchase and finance lease liability	(48)	(48)	-	-	(96)
Derivatives	(22)	(6)	-	-	(28)
Other loans	(346)	(116)	-	-	(462)
	(7,366)	(662)	(151)	-	(8,179)
Net outflow	176	(656)	(143)	42	(581)

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	< 6 months	6-12 months	2012 1-2 years	> 2 years	Total
	\$000	\$000	\$000	\$000	\$000
Financial assets					
Cash and cash equivalents	3,455	-	-	-	3,455
Trade and other receivables	2,931	-	-	-	2,931
	6,386	-	-	-	6,386
Financial liabilities					
Trade and other payables	(7,500)	-	-	-	(7,500)
Business bill facility	(2,404)	(2,619)	(649)	(375)	(6,047)
Hire purchase and finance lease liability	(93)	(94)	-	-	(187)
Derivatives	(50)	(26)	(26)	-	(102)
Other loans	(354)	(118)	-	-	(472)
	(10,401)	(2,857)	(675)	(375)	(14,308)
Net outflow	(4,015)	(2,857)	(675)	(375)	(7,922)

Fair values

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair values of financial instruments and the methods used to estimate their fair values are as follows:

	2013			
	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total
	\$000	\$000	\$000	\$000
Financial assets				
Derivative instruments				
Foreign exchange contracts	-	4	-	4
	-	4	-	4
Financial liabilities				
Derivative instruments				
Interest rate swaps	-	28	-	28
	-	28	-	28

	2012			
	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total
	\$000	\$000	\$000	\$000
Financial liabilities				
Derivative instruments				
Foreign exchange contracts	-	19	-	19
Interest rate swaps	-	83	-	83
	-	102	-	102

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

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

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

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21. Commitments

Operating lease commitments

The Group has entered into commercial leases on buildings and IT equipment. The commercial leases on buildings have an average life of between 1 and 5 years with renewal options included in some of the contracts, while the IT equipment has an average life of between 1 and 4 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2013 \$000	2012 \$000
Within one year	8,968	8,905
After one year but not more than five years	14,032	14,997
More than five years	29	306
Total minimum lease payments	23,029	24,208

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and equipment and motor vehicles. The hire purchase lease contracts expire within 1 year. Currently, the Group does not have any outstanding finance lease contracts.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2013 \$000	2012 \$000
Within one year	96	187
Total minimum lease payments	96	187
Less amounts representing finance charges	(4)	(11)
Present value of minimum lease payments	92	176

The weighted average interest rate implicit in the leases for the Group is 6.64% per annum (2012: 5.74%).

Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

Within one year

	2013 \$000	2012 \$000
	371	221
	371	221

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of executives referred to in the remuneration report of the directors' report that are not recognised as liabilities and are not included in the compensation of key management personnel.

22. Related parties

Ultimate parent

Kresta Holdings Limited is the ultimate parent company.

Subsidiaries

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

	Country of Incorporation	% Equity interest		Investment \$000	
		2013	2012	2013	2012
Finmar Pty Ltd	Australia	100	100	1,752	1,752
Kresta Blinds (Holdings) Pty Ltd	Australia	100	100	20,154	20,154
Kresta Blinds Ltd	Australia	100	100	-	-
Kresta Blinds International Pty Ltd	Australia	100	100	-	-
Kedena Holdings Pty Ltd	Australia	100	100	-	-
Sharatan Pty Ltd	Australia	100	100	-	-
Blind Wholesalers, Distributors and Manufacturers Pty Ltd	Australia	100	100	-	-
Mardo Australia Pty Ltd	Australia	100	100	2,405	2,405
Twilight Sun Pty Ltd	Australia	100	100	-	-
Mardo International Pty Ltd	Australia	100	100	-	-
Sandelle Pty Ltd	Australia	100	100	393	393
				24,704	24,704
Curtain Wonderland Pty Ltd (control is via Sandelle Pty Ltd)	Australia	100	100	1,290	1,290
				25,994	25,994

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to these controlled entities of Kresta Holdings Limited from the Corporations Act requirements for preparation, audit and lodgement of their financial reports.

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

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

Compensation of key management personnel

	2013	2012
	\$	\$
Short-term employee benefits	1,505,617	1,746,422
Post-employment benefits	180,653	207,102
Other long-term benefits	43,289	(149,495)
Share-based payment	64,497	-
Total compensation	1,794,056	1,804,029

Shareholdings of key management personnel

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

Shares	Balance 1 July 2012	Granted as compensation	Net change other	Balance 30 June 2013
Directors				
P. Abery	-	-	65,000	65,000
J. Molloy	1,749,000	-	300,000	2,049,000
R. Taylor	-	-	31,156	31,156
K. Eley	-	-	-	-
R. Farrar	250,000	-	13,300	263,300
Executives				
G. Di Bartolomeo	-	-	200,000	200,000
B. W. Cocks ⁽ⁱ⁾	-	-	-	-
K. McKinnon ⁽ⁱⁱ⁾	-	-	-	-
L. Fels	-	-	-	-
A. Tacey	-	-	-	-
S. Shwe	-	-	-	-
Total	1,999,000	-	609,456	2,608,456
In-substance options				
G. Di Bartolomeo	-	3,000,000	-	3,000,000
A. Tacey	-	700,000	-	700,000
L. Fels	-	700,000	-	700,000
S. Shwe	-	700,000	-	700,000
Total	-	5,100,000	-	5,100,000

(i) Mr B. W. Cocks was appointed Company Secretary and Chief Financial Officer on 27 May 2013.

(ii) Mr K. McKinnon resigned as Company Secretary and Chief Financial Officer on 24 May 2013.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

Shares	Balance 1 July 2011	Granted as compensation	Net change other	Balance 30 June 2012
Directors				
J. Molloy	1,596,000	-	153,000	1,749,000
R. Taylor	-	-	-	-
K. Eley	-	-	-	-
R. Farrar ⁽ⁱ⁾	-	-	250,000	250,000
P. Abery ⁽ⁱⁱ⁾	-	-	-	-
T. Bartlett ⁽ⁱⁱⁱ⁾	5,000	-	(5,000)	-
J. Huston ^(iv)	550,257	-	(550,257)	-
Executives				
A. Tacey ^(v)	-	-	-	-
T. Zorbas ^(vi)	-	-	-	-
K. McKinnon	-	-	-	-
D. Gunther ^(vii)	-	-	-	-
L. Fels ^(viii)	-	-	-	-
S. Shwe ^(ix)	-	-	-	-
J. Fulton ^(x)	-	-	-	-
Total	2,151,257	-	(152,257)	1,999,000

(i) Mr R. Farrar appointed as Non-executive Director on 21 June 2012.

(ii) Mr P. Abery appointed as Non-executive Director on 26 June 2012.

(iii) Mr T. Bartlett resigned as Non-executive Director on 19 March 2012.

(iv) Mr J. Huston resigned as Non-executive Director on 23 November 2011.

(v) Mr A. Tacey resigned as Chief Executive Officer on 15 May 2012; re-appointed as General Manager of Curtain Wonderland on 15 May 2012.

(vi) Mr T. Zorbas appointed as Interim Chief Executive Officer on 15 May 2012.

(vii) Mr D. Gunther appointed on 18 July 2011; resigned on 12 June 2012.

(viii) Mr L. Fels appointed on 12 June 2012 to the position of National Sales Manager. Prior to that he was the Regional Manager from 1 July 2011.

(ix) Mr S. Shwe appointed on 1 October 2011.

(x) Mr J. Fulton resigned on 31 December 2011.

Other transactions with key management personnel and their related parties

There were no other transactions with key management personnel and their related parties during the year ended 30 June 2013.

23. Events after the balance sheet date

On 28 August 2013, the directors of Kresta Holdings Limited declared a final dividend on ordinary shares in respect of the 2013 financial year. The total amount of the dividend is \$373,146 which represents a fully franked dividend of 0.25 cent per share.

24. Auditors' remuneration

The auditor of Kresta Holdings Limited is Ernst & Young.

Amounts received or due and receivable by Ernst & Young (Australia) for:

An audit or review of the financial report of the entity and any other entity in the consolidated group

Other services in relation to the entity and any other entity in the consolidated group

Special audits required for sales certificates

2013	2012
\$	\$
131,000	148,500
4,000	6,000
135,000	154,500

25. Operating segments

The Group has identified its operating segment based on the management reports that are reviewed and used by the executive management team (chief operating decisions makers) in assessing performance and in determining the allocation of resources. Management has identified a single operating segment, which is manufacture and sales of window coverings.

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

Geographical areas

The Group has revenues from external customers attributed to:

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

	2013 \$000	2012 \$000
Revenues (Australia)	98,004	108,219
Revenues (New Zealand)	2,751	2,677
	100,755	110,896
Non-current assets (Australia)	15,978	17,601
Non-current assets (New Zealand)	39	39
	16,017	17,640

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

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

Major customers

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

26. Derivative financial instruments

	2013 \$000	2012 \$000
Current assets		
Forward currency contracts – cash flow hedges	4	-
	4	-
Current liabilities		
Interest rate swap contracts – held for trading	28	83
Forward currency contracts – cash flow hedges	-	19
	28	102

Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign currency rates.

Forward currency contracts – cash flow hedges

The Group's purchases are mainly denominated in US dollars. In order to protect against exchange rate movements and to manage the inventory costing process, the Group has entered into forward contracts to purchase US dollars. These contracts are hedging highly probable forecasted purchases and they are timed to mature when payments are scheduled to be made.

The cash flows are expected to occur between 1 – 2 months from 1 July 2013. At balance date, the details of outstanding contracts are:

	Notional amounts AUD		Average exchange rate	
	2013 \$000	2012 \$000	2013	2012
Buy USD / sell AUD				
Buy USD maturity 1-2 months – consolidated	645	1,648	0.9296	1.0052

The forward currency contracts are considered to be highly effective hedges as they are matched against forecast inventory purchases. Any unrealised gain or loss on the contracts attributable to the hedged risk is taken directly to equity.

Movement in forward currency contract cash flow hedge reserve

	2013 \$000	2012 \$000
Opening balance	(19)	(14)
Charged to other comprehensive income	23	(5)
Closing balance	4	(19)

Interest rate swap contract – held for trading

The Group has entered into interest rate swap contracts which are economic hedges but do not satisfy the requirements for hedge accounting.

Interest-bearing loans of the Group bear an average variable interest rate of 5.48%. In order to protect against rising interest rates the Group has entered into interest swap contracts under which it has fixed the interest rates ranging from 5.55% to 5.71%.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

(continued)

Directors' Declaration

At 30 June 2013, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	2013 \$000	2012 \$000
0-1 years	911	-
1-2 years	-	2,115
2-3 years	-	750
	911	2,865

These contracts are fair valued by comparing the contracted fixed rate to the variable rates as at 30 June. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value gain on interest rate swap derivatives during the year was \$55,000 for the Group (2012: net loss \$48,000).

27. Non-current assets held for sale

At 30 June 2012, the Group had three buildings which were part of the total land and building disclosed in note 12, were held for sale following the commitment of the Group's management. These buildings have since been sold.

Assets classified as held for sale

	Note	2013 \$000	2012 \$000
Land and buildings	12	-	1,933

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

In the opinion of the Directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position as at 30 June 2013 and its performance for the year ended on that date of the consolidated entity; and
 - (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b).
- (c) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2013.

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

On behalf of the Board



P. Abery

Director

Perth, 28 August 2013

Independent Auditors' Report



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

Report on the financial report

We have audited the accompanying financial report of Kresta Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

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DL:DR:KRESTA:068



Opinion

In our opinion:

- a. the financial report of Kresta Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Kresta Holdings Limited for the Year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

D S Lewsen

D S Lewsen
Partner
Perth
28 August 2013

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DL:DR:KRESTA:068

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as 10 September 2013.

(a) Distribution of equity securities

(i) Ordinary share capital

150,258,518 fully paid ordinary shares are held by 1,854 individual shareholders.

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

Of the 150,258,518 shares issued, 6,100,000 shares are held under escrow.

(ii) Options

There are no options on issue.

Options do not carry a right to vote.

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

	Fully paid ordinary share
1 – 1,000	230
1,001 – 5,000	578
5,001 – 10,000	360
10,001 – 100,000	583
100,001 and over	103
	<u>1,854</u>
Holding less than marketable parcel	211

(b) Substantial shareholders

Ordinary shareholders	Fully paid	
	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	32,123,333	21.38
FIESTA DESIGN PTY LTD	28,276,030	18.82
LD COM PTY LTD	11,030,469	7.34
MR SI CHUAN CHEOU	10,163,107	6.76
	<u>81,592,939</u>	<u>54.30</u>

(c) Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid	
	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	32,123,333	21.38
FIESTA DESIGN PTY LTD	28,276,030	18.82
LD COM PTY LTD	11,030,469	7.34
MR SI CHUAN CHEOU	10,163,107	6.76
MR GIULIANO DI BARTOLOMEO	4,000,000	2.66
JASFORCE PTY LTD	3,400,000	2.26
MS SHIRLEY ANN FRY + MR DONALD ERIC FRY	2,260,000	1.50
MR ROBERT KEITH YORSTON	2,075,000	1.38
MRS LIU SHU-JEN CHEN	1,982,600	1.32
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,714,890	1.14
MR JOHN WILLIAM FRANCIS MOLLOY + MRS SHARON MAREE MOLLOY	1,659,000	1.10
PENDOMER INVESTMENTS PTY LTD	1,655,380	1.10
MS YEN JU CHEN	1,616,292	1.08
UBS NOMINEES PTY LTD	1,573,693	1.05
L P O INVESTMENTS PTY LTD	1,500,000	1.00
MR CHENG CHIA CHEN	1,314,215	0.87
MR ANTHONY ROBERT KNIGHT <A KNIGHT SUPER FUND A/C>	1,203,790	0.80
MR ERIC ROYDS	1,116,970	0.74
MR BRIAN JOSEPH LYNCH	1,100,000	0.73
DANEHILL HOLDINGS PTY LTD	1,003,000	0.67
	<u>110,767,769</u>	<u>73.70</u>



Kresta Holdings Limited

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