



Kresta Holdings Limited

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Monday 29 August 2011

ASX ANNOUNCEMENT

KRESTA HOLDINGS LIMITED 2011 ANNUAL REPORT

Kresta Holdings Limited is please to release its Annual Report for the financial year ended 30th June 2011.

A copy of the Annual Report will be available on the company's website www.kresta.com.au.

Yours faithfully

A handwritten signature in dark ink, appearing to read "K McKinnon", is written over a light blue horizontal line.

Kenneth McKinnon
Company Secretary and Chief Financial Officer

For further information please contact:

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Chairman
Kresta Holdings Limited
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About Kresta

Kresta is a leading national window furnishings manufacturer and retailer. The Company has been manufacturing blinds for over 39 years, and is now the largest window coverings manufacturer / retailer in Australia and New Zealand, employing over 900 people. Kresta's brands include: Kresta Blinds, Vista Window Coverings, Decor2Go, Curtain Wonderland and Ace of Shades. For further information, see www.kresta.com.au

Kresta Holdings Limited

Annual financial report for the
year ended 30 June 2011



Kresta

Chairman's report

Dear Shareholder,

On behalf of the board of directors I am pleased to present Kresta Holdings Limited's annual report for the year ended 30 June 2011.

The 2011 financial year was an eventful one for most retail companies, and Kresta was certainly not immune. The Company's turnover was \$115 million, down from \$123 million in the previous year, during which consumer spending had been boosted by the Federal Government's Stimulus Package incentive. The Group recorded an after tax net loss of \$781,000. The 2011 financial results were not only negatively affected by a decline in revenue, but also abnormal expenses of \$2.7 million. The one-off costs related to inventory write downs, termination payouts, software write-offs and the Group's response to a take-over offer by Wildweb Enterprises Pty Ltd and an associated general meeting called by a major shareholder. Full details of the one-off costs can be found in the Group Overview section of this report.

The consolidated balance sheet remains robust with net assets of nearly \$19 million and a gearing ratio below 17% with net debt of approximately \$3.8 million.

Directors

Three directors retired during the year and four new directors were appointed. Rick Taylor and I joined long term director Trent Bartlett on the Board in March 2011. Kevin Eley and Jonathan Huston were subsequently appointed in April 2011.

Executives

The revised Board acted quickly in appointing a new CEO, with Andrew Tacey promoted from within our ranks. Andrew was previously General Manager of our wholly owned subsidiary Curtain Wonderland.

A new CFO, Ken McKinnon, was appointed soon after and commenced with the Group early July 2011. Ken and David Le, who has been with the Company for more than 12 months, share the role of Company Secretary.

Subsequently we have appointed a new National Sales Manager, Don Gunther.

As a result, we now have a strong management team that is able to lead the Company and oversee its continued growth and development.

Strategic changes

I must take this opportunity to thank all directors, and staff for the way they have thrown themselves into the task of transforming this Company and undertaking a new strategic direction to establish a formidable base from which the Company can build its future. Steps have already been taken to reduce the Group's operating expenses and improve sales revenue. This included the recently announced staff reductions, consolidation and streamlining of manufacturing facilities, as well as outsourcing of some manufacturing to high quality Asian manufacturers. The rationalisation of manufacturing and warehousing at Malaga will free up building space. Land and buildings excess to our needs will be sold.

Further measures to improve sales and reduce costs are to be implemented and these will be announced as they are undertaken.

Chairman's report (continued)

Dividends

Kresta has always had a policy of paying dividends when possible. The Board endorses this policy. An interim fully franked dividend of 0.5c was declared and paid in April 2011. The weak trading conditions alluded to at the time of announcing our interim results have continued throughout the second half. The Board has therefore decided that it should continue to preserve the Company's reserves for the immediate future and will return to its normal dividend policy as soon as possible.

Outlook

As a custodian of one of Australia's iconic brands I feel very humble and take my responsibility on the Board very seriously. I look forward to your support during the transitional period over the next 12 months. I know we have the right team to continue to execute our strategy. The directors believe that in the 2012 financial year the Group will strengthen its position as Australia's leading window coverings retailer.

I look forward to updating you on the Groups trading for the first quarter of the 2012 financial year at our AGM scheduled for the 9th November 2011.



J. Molloy
Chairman
29 August 2011

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Corporate information

ABN 26 008 675 803

Directors

John Molloy, Non-executive Chairman
Trent Bartlett
Richard Taylor
Kevin Eley
Jonathan Huston

Company Secretaries

Kenneth McKinnon
David Le

Registered Office

380 Victoria Road
Malaga WA 6090
Australia
Phone: +61 8 9249 0777

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 Stock Exchange (ASX).
ASX Code: KRS

Bankers

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

Auditors

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

Directors' report

Your directors of Kresta Holdings Limited submit their report for the year ended 30 June 2011.

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

John Molloy (Non-executive Chairman) – appointed 14 March 2011

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 also serves as Chairman of the remuneration committee of the Group.

Peter Hatfull, MAICD (Non-executive Chairman) – resigned 14 March 2011

Mr Hatfull is qualified as a chartered accountant and has over 30 years' experience in a range of senior executive positions with Australian and international companies. He has an extensive skill-set with listed companies in the areas of corporate governance, business optimization, capital raising and company restructuring.

Mr Hatfull is currently a director of mining services company Barmenco Pty Ltd and is a corporate advisor of and director of a range of private companies. He was a member of the audit and risk and remuneration committees of the Group.

Appointed as Non-executive Chairman from 2 February 2011 to 14 March 2011.

Ian Trahar, B.Ec., MBA, MAICD (Non-executive Director) – resigned 14 March 2011

Mr Trahar has a consumer products and finance background and is a member of the Australian Institute of Company Directors. He has served as a director and Chairman of CO2 Group Limited for the past eight years. He was Chairman of the remuneration committee and was a member of the audit and risk committee of the Group.

Resigned as Non-executive Chairman on 2 February 2011.

Trent Bartlett, Grad Dip Bus., Grad Cert E-Commerce, FAICD (Non-executive Director)

Mr Bartlett joined Kresta Holdings Limited as a non-executive director in 2003. He has had considerable retail experience in senior management roles with Coles Myer, Aherns and David Jones. Formerly he was the Chief Executive Officer of Capricorn Society Ltd for 10 years. He also serves as Chairman of the audit and risk committee of the Group.

Richard Taylor, B.Ecom., ACA., MAICD (Non-executive Director) – appointed 14 March 2011

Mr Taylor joined Kresta Holdings Limited as non-executive director in March 2011 and is a member 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 was a lead partner in structuring and advising on mergers and acquisitions, helping companies IPO and structuring funding arrangements across a broad range of industries. He has strategy and management expertise gained from leading the Deloitte Australia Private Equity Team and from being a member of their National Tax Executive. For four consecutive years, Mr Taylor was voted one of Australia's top ten and recommended tax advisors in surveys conducted by the International Tax Review journal. He is currently a director of Fluorotechnics Limited and was a director of Hunter Hall International Limited until he resigned on 29 April 2010.

Directors' report (continued)

Directors (continued)

Names, qualifications, experience and special responsibilities (continued)

Kevin Eley, CA., F Fin (Non-executive Director) – appointed 5 April 2011

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. In October 2010 he resigned after 25 years of service as Chief Executive Officer of HGL Limited (ASX: HNG), a supplier of branded products to niche markets. He continues as a director of HGL Limited. During the past three years he also served as a director of MMC Contrarian Limited from September 2003 to November 2008.

Jonathan Huston, BA., MBus. (Non-executive Director) – appointed 5 April 2011

Mr Huston joined Kresta Holdings Limited as non-executive director in April 2011 and is a member of the remuneration committee of the Group. He has been non-executive chairman of Croissant Express since December 2004. Formerly he was majority shareholder and chairman of Parkside Towbars Pty Ltd and director of WorldMark Pty Ltd, trading as Tintacar. He is also a director of Community First International.

Tass Zorbas (Managing Director) – retired 6 September 2010

Mr Zorbas has been involved in the window treatment industry for approximately 35 years and was instrumental in pioneering the marketing and manufacturing of vertical blinds in Australia.

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
J. Molloy	1,596,000
T. Bartlett	5,000
R. Taylor	-
K. Eley	-
J. Huston	550,257

Company Secretaries

Kenneth McKinnon, B.Bus., P.Grad Dip Acc., EMBA., CPA.

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.

David Le, B.Com., CA.

Mr Le was appointed Company Secretary on 26 May 2011. He has been a chartered accountant for over 10 years.

Ian Leijer, B.Ec., CA. – resigned 31 May 2011

Mr Leijer was appointed Company Secretary on 26 October 2010. Mr Leijer has been a chartered accountant for over 15 years.

Thye Tan, FCPA. – retired 26 October 2010

Mr Tan has worked in various senior commercial and financial positions at Wesfarmers Ltd, Bunnings Ltd, Schlumberger and ERG Ltd. Mr Tan also holds a Graduate Diploma in Chartered Secretaries and Administrators.

Directors' report (continued)

Dividends

	Cents	\$000
Final dividends recommended:		
Ordinary shares	-	-
Dividends paid in the year:		
<i>Interim for the year</i>		
Ordinary shares	0.5	721
Final for 2010 shown as recommended in the 2010 financial report:		
Ordinary shares	1.5	2,162

Principal activities

The principal activities during the year of entities within the consolidated entity were the manufacture, distribution and retailing of window 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 and is renowned for pioneering the manufacture and marketing of vertical blinds in Australia. Although the Group's business activities are predominately centred in Western Australia, the Group has a significant chain of outlets located throughout Australia and New Zealand.

The Group operates several manufacturing plants involving textile weaving, the fabrication of timber, fabric and aluminium venetian blinds, curtains and vertical blinds. The manufacturing operations continue to be a major part of the Group's core activities. At the same time, the Group currently sources many finished product lines from overseas manufacturers and this policy will be continued, provided these imported "boxed products" can be manufactured off-shore at competitive prices and delivery time to customers is not compromised.

The Group welcomed four new directors during the 2011 financial year together with a new Chief Executive Officer replacing Mr Tass Zorbas who retired after 21 years with the Kresta Group.

The Group received a takeover offer during the 2011 financial year from Wildweb Enterprises Pty Ltd which was unsuccessful. Costs incurred by the Group as a consequence of the takeover bid were approximately \$385,000. Other abnormal costs incurred during the 2011 financial year include the following items: a review of inventory by external consultant totalling \$42,000; a write down of inventory of \$854,000; a software development project was written off to the value of \$483,000; and the Group incurred \$925,000 for termination payments and associated legal costs.

The Group is conducting a review of operations to reduce operating costs, improve product ranges and provide greater flexibility in meeting market demands. As a result of this review the Group has reduced staffing levels with 72 workers being made redundant during August 2011. Further improvements in operating efficiencies and product ranges are envisaged. The Group is committed to maintaining its Australian manufacturing operations for the foreseeable future, although it is also actively sourcing high quality products from Asian manufacturers.

Directors' report (continued)

Operating and financial review (continued)

Group overview (continued)

The Group increased the number of stores by 7 during the 2011 financial year. All store locations are being reviewed with a view to rationalizing store numbers and locations. A store refurbishment project is also underway and it is anticipated that a large proportion of existing stores will be refurbished during the 2012 financial year.

The product range offered by the Group is being reviewed and product acquisition is being expanded to ensure that new and innovative products will be brought to the marketplace. The Groups' various brands are also being rethought and refreshed.

There are a number of factors that may affect the Group's ability to achieve its objectives and these include: general economic conditions, levels of consumer spending, interest rates and other variables outside the Group's control. Accordingly there is no guarantee that the Group will reach its forward looking statements and objectives.

In preparing the review of operations the directors have omitted materials that would have been included under s.299A(1)(c) of the *Corporations Act 2001* regarding the business strategies and prospects for future financial years as they believe that it is likely to result in unreasonable prejudice to the Company or any entity that is part of the Group.

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's losses before net interest and tax of \$392,000 for the year ended 30 June 2011 was 109 per cent lower than the previous year of \$4,609,000. The operating results were negatively impacted by reduced consumer demand and a number of abnormal expenses as outlined in the group overview section above.

Summarised operating results are as follows:

	2011 \$000	2010 \$000
Sales	115,489	122,630
(Loss)/profit before income tax expense	(858)	3,921

Shareholder returns

	2011	2010	2009	2008	2007
Basic (loss)/earnings per share (cents)	(0.54)	1.88	2.68	3.22	3.00
Return on shareholders' fund	(4%)	12%	15%	21%	20%
Share price (cents)	26.0	35.0	13.5	26.0	24.0

Directors' report (continued)

Operating and financial review (continued)

Investments for future performance

The Group continues to direct significant resources into product development and remains committed to constant improvements in the products that are manufactured and marketed by its businesses. The Group is the holder of a number of patents and registered designs which have resulted from this ongoing strategy.

The Group remains committed to providing staff with access to appropriate training and development. Management has also been charged with responsibility to focus on executive succession planning and the development of internal candidates for promotion to senior positions in the Group as these opportunities present themselves.

Management is also focused on the enhancement of the Group's information technology systems, recognizing the need to constantly upgrade and improve inventory management and reporting capabilities. A software package has been selected and is currently under implementation for introduction in the 2011/2012 financial year.

Capital structure

The Group had a capital gearing ratio of 16.9% at year end (2010: 10.3%).

Liquidity and funding

At year end, the Group had credit facilities (inclusive of bank guarantee) totalling \$11,870,000 (2010: \$14,584,000) of which unused were \$2,529,000 (2010: \$3,534,000). Cash at bank and on hand at 30 June 2011 were \$5,002,000 (2010: \$7,861,000).

Significant changes in the state of affairs

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

Significant events after the balance date

On the 9th August 2011 Kresta Holdings Limited announced that it was streamlining its operations through:

- Investing in automated manufacturing equipment;
- Consolidation of curtain production to Curtain Wonderland's Brisbane operations;
- Relocating the Jandakot WA manufacturing operations to Kresta's Malaga headquarters;
- Outsourcing venetian blind manufacturing to high-quality manufacturers in Asia;
- Reducing the workforce by 72 from a total of over 1,000, with a redundancy cost of approximately \$460,000; and
- The sale of commercial real estate which is surplus to operations, likely to yield in excess of \$5,000,000.

On the 16th August 2011 the Group's banker's confirmed that all banking facilities were in good standing following an earlier technical breach of a lending covenant. On receipt of this advice bank bills with a value of \$3,102,000 were reclassified as non-current liabilities from current liabilities.

Likely developments and expected results

The directors anticipate continuing soft consumer demand and volatile trading conditions. The Group is undertaking a restructuring that will result in greater flexibility of business operations and reduced operating costs. As a result of the above changes the directors are confident that the Group is able to further consolidate its position as Australia's largest retailer of window coverings.

Directors' report (continued)

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 is subject to.

Share options

Unissued shares

As at the date of this report, there were no unissued shares under options.

Indemnification and insurance of directors and officers

During the financial year, the Company has 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' meeting

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
J. Molloy (appointed 14 March 2011)	7	7	-	-	1	1
P. Hatfull (resigned 14 March 2011)	9	9	2	2	-	-
I. Trahar (resigned 14 March 2011)	8	8	2	2	-	-
T. Bartlett	16	14	4	4	-	-
R. Taylor (appointed 14 March 2011)	7	7	2	2	-	-
T. Zorbas (retired 6 September 2010)	2	2	-	-	-	-
K. Eley (appointed 5 April 2011)	4	4	2	2	-	-
J. Huston (appointed 5 April 2011)	4	3	-	-	1	1

Directors' report (continued)

Directors' meeting (continued)

Committee membership

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

Members acting on the committees of the Board during the year were:

Audit and Risk

T. Bartlett (Chairman)
P. Hatfull – resigned 14 March 2011
I. Trahar – resigned 14 March 2011
R. Taylor – appointed 14 March 2011
K. Eley – appointed 5 April 2011

Remuneration

J. Molloy (Chairman) – appointed 14 March 2011
I. Trahar (Chairman) – resigned 14 March 2011
P. Hatfull – resigned 14 March 2011
J. Huston – appointed 5 April 2011
T. Bartlett – resigned 5 April 2011

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.

Auditor's independence

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



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Fax: +61 8 9429 2436
www.ey.com/au

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 financial year ended 30 June 2011, 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
Perth
29 August 2011

Liability limited by a scheme approved
under Professional Standards Legislation

Directors' report (continued)

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:

	\$
Special audits required for government grants	7,725
Assurance related and due diligence services	33,243

Remuneration report (audited)

This remuneration report for the year ended 30 June 2011 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, and includes the executives in the Parent and the Group receiving the highest remuneration.

Individual key management personnel disclosures

Details of KMP (including the five highest paid executives of the Company and the Group) are set out below.

Directors

J. Molloy	Chairman (Non-Executive) – appointed 14 March 2011
P. Hatfull	Chairman (Non-Executive) – resigned 14 March 2011
I. Trahar	Director (Non-Executive) – resigned 14 March 2011
T. Bartlett	Director (Non-Executive)
R. Taylor	Director (Non-Executive) – appointed 14 March 2011
K. Eley	Director (Non-Executive) – appointed 5 April 2011
J. Huston	Director (Non-Executive) – appointed 5 April 2011
T. Zorbas	Managing Director – retired 6 September 2010

Executives

I. Leijer	Chief Executive Officer & Company Secretary – appointed 11 October 2010, resigned 31 May 2011
T. Tan	Chief Financial Officer & Company Secretary – retired 26 October 2010
A. Tacey	Chief Executive Officer – appointed 16 May 2011
J. Fulton	General Manager – Sales and Marketing – resigned, to be effective from 23 May 2012
D. Le	Group Financial Controller & Company Secretary – appointed 26 May 2011

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration philosophy

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

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

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

Remuneration committee

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

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

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

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

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 with the strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

Directors' report (continued)

Remuneration report (audited) (continued)

Executive remuneration (continued)

Structure

In consultation with external remuneration consultants, the remuneration committee has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Remuneration consists of the following key elements:

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

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive by the remuneration committee. The Group has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

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. As noted above, the committee has access to external advice independent of management.

Structure

Executive directors and executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including 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 cost for the Group.

Variable remuneration – short term incentive

Objective

The objective of the STI program is to link the achievement of the Group's 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 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 operational 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 budgeted contribution to net profit after tax, customer service, product management and risk management. 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.

Directors' report (continued)

Remuneration report (audited) (continued)

Executive remuneration (continued)

Variable remuneration – short term incentive (continued)

Structure (continued)

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Group 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 2011 financial year

100% of the STI cash bonus of \$30,000 relating to the 2010 financial year was accrued and vested in the 2010 financial year and was paid to executives in the 2011 financial year (accrued and vested in 2009 and paid in 2010: \$97,750). There were no forfeitures. Bonus payments were made at the discretion of the remuneration committee. There are no STI cash bonus accruals relating to the 2011 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 executive directors and executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against the relevant long term performance hurdle.

Structure

LTI grants to executive directors and executives have been delivered in the form of share options. The share options generally vest over varying periods and are not usually subject to a performance hurdle as these options are issued to executives as a form of retention bonus and incentive to contribute to the creation of shareholder wealth. They usually have a life from the date of grant of five years, and are exercisable at specific dates and proportions set at the time of granting the options.

As at the date of this report, there were no unissued shares under options.

Employment contracts

Executives Mr Fulton and Mr Tacey are employed under written contract. The current contract for Mr Fulton commenced on 16 May 2005, while Mr Tacey's contract commenced on 23 May 2011. Under the terms of the present contracts:

- Mr Tacey may resign from his position and thus terminate the contract by giving 3 months' written notice. On resignation, any unvested options will be forfeited.
- Mr Fulton may resign from his position and thus terminate the contract by giving 12 months' written notice. On resignation, any unvested options will be forfeited.
- The Company may terminate the employment agreement by providing 3 and 12 months' written notice for Mr Tacey and Mr Fulton respectively, or provide payment in lieu of the notice period (based on the total remuneration). On termination on notice by the Company, any options that have vested or will vest during the notice period can be exercised within a period of two years. After which, the options will be forfeited.
- 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 termination with cause, any unvested options will immediately be forfeited.

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration of key management personnel and the highest paid executives of the Company and the Group

Remuneration for the year ended 30 June 2011

	Short-term benefits			Post employment	Long-term benefits	Termination payments	Total	Performance related
	Salary & fees	Cash bonus	Non monetary benefits	Superannuation	Long service leave			
	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors								
J. Molloy ⁽ⁱⁱⁱ⁾	-	-	-	54,575	-	-	54,575	-
I. Trahar ^(iv)	62,292	-	-	5,606	-	-	67,898	-
T. Bartlett	63,410	-	-	5,707	-	-	69,117	-
P. Hatfull ^(v)	48,125	-	-	4,331	-	-	52,456	-
K. Eley ^(vi)	12,054	-	-	1,085	-	-	13,139	-
R. Taylor ^(vii)	14,717	-	-	1,325	-	-	16,042	-
J. Huston ^(viii)	12,054	-	-	1,085	-	-	13,139	-
	212,652	-	-	73,714	-	-	286,366	-
Executive director								
T. Zorbas ^(ix)	245,893	-	56,926	⁽ⁱⁱ⁾ 440,283	⁽ⁱ⁾ (201,378)	-	541,724	-
Other key management personnel								
A. Tacey ^(x)	270,678	10,000	23,538	21,333	73,491	-	399,040	2.5
I. Leijer ^(xi)	324,000	-	-	-	-	-	324,000	-
T. Tan ^(xii)	91,103	-	48,992	25,410	⁽ⁱ⁾ (18,395)	139,833	286,943	-
J. Fulton	274,921	20,000	70,786	21,330	34,384	-	421,421	4.7
D. Le ^(xiii)	112,940	-	-	9,964	-	-	122,904	-
	1,073,642	30,000	143,316	78,037	89,480	139,833	1,554,308	-
	1,532,187	30,000	200,242	592,034	(111,898)	139,833	2,382,398	-

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration of key management personnel and the highest paid executives of the Company and the Group (continued)

Remuneration for the year ended 30 June 2011 (continued)

- (i) Relates to long service leave previously accrued but forfeited due to termination of employment.
- (ii) Includes termination payments paid directly to superannuation.
- (iii) Mr J. Molloy was appointed as Non-executive Director on 14 March 2011.
- (iv) Mr I. Trahar resigned as Non-executive Director on 14 March 2011.
- (v) Mr P. Hatfull resigned as Non-executive Director on 14 March 2011.
- (vi) Mr K. Eley was appointed as Non-executive Director on 5 April 2011.
- (vii) Mr R. Taylor was appointed as Non-executive Director on 14 March 2011.
- (viii) Mr J. Huston was appointed as Non-executive Director on 5 April 2011.
- (ix) Mr T. Zorbas retired on 6 September 2010.
- (x) Mr A. Tacey was appointed as Chief Executive Officer on 16 May 2011.
- (xi) Mr I. Leijer was appointed as Chief Executive Officer on 11 October 2010 and Company Secretary on 26 October 2010 and resigned on 31 May 2011.
- (xii) Mr T. Tan retired on 26 October 2010.
- (xiii) Mr D. Le was appointed Company Secretary on 26 May 2011.

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration of key management personnel and the highest paid executives of the Company and the Group (continued)

Remuneration for the year ended 30 June 2010

	Short-term benefits			Post employment	Long-term benefits	Termination payments	Total	Performance related
	Salary & fees	Cash bonus	Non monetary benefits	Superannuation	Long service leave			
	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors								
I. Trahar	-	-	-	-	-	-	-	-
N. Fearis ⁽ⁱ⁾	37,500	-	-	-	-	-	37,500	-
P. Hatfull	43,911	-	-	3,952	-	-	47,863	-
P. Johnston ⁽ⁱⁱ⁾	52,499	-	-	4,725	-	-	57,224	-
T. Bartlett	45,833	-	-	4,125	-	-	49,958	-
	179,743	-	-	12,802	-	-	192,545	-
Executive director								
T. Zorbas	566,057	55,250	62,031	51,599	29,510	-	764,447	7.2
Other key management personnel								
T. Tan	267,646	25,500	26,192	25,168	12,665	-	357,171	7.1
J. Fulton	210,555	17,000	69,846	17,838	12,043	-	327,282	5.2
	478,201	42,500	96,038	43,006	24,708	-	684,453	-
	1,224,001	97,750	158,069	107,407	54,218	-	1,641,445	-

⁽ⁱ⁾ Mr N. Fearis retired 31 December 2009.

⁽ⁱⁱ⁾ Mr P. Johnston retired 23 June 2010.

Directors' report (continued)

Remuneration report (audited) (continued)

There were no options granted during the financial year to key management personnel and the board of directors.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'John Molloy', written in a cursive style.

J. Molloy

Director

Perth, 29 August 2011

Corporate governance statement

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

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

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

Kresta Holdings Limited's corporate governance practices were in place throughout the year ended 30 June 2011 and were compliant with the Council's best practice recommendations, except for there being no separate nomination committee. To ensure the board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of directors and for the operation of the board.

Structure of the board

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 directors;
- The Chairman must be a non-executive director;
- 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
J. Molloy	Chairman, Non-Executive Director	6 months	Yes
T. Bartlett	Non-Executive Director	7 years	Yes
R. Taylor	Non-Executive Director	6 months	Yes
K. Eley	Non-Executive Director	5 months	Yes
J. Huston	Non-Executive Director	5 months	Yes

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 consolidated entity to the audit and risk committee.

Corporate governance statement (continued)

Audit and risk committee (continued)

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:

T. Bartlett (Committee Chairman)
 I. Trahar – resigned 14 March 2011
 P. Hatfull – resigned 14 March 2011
 R. Taylor – appointed 14 March 2011
 K. Eley – appointed 5 April 2011

Nomination committee

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

Remuneration committee

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 two non-executive directors. Members of the remuneration committee throughout the year were:

J. Molloy (Committee Chairman) – appointed 14 March 2011
 T. Bartlett (Committee Chairman) – resigned 5 April 2011
 I. Trahar – resigned 14 March 2011
 P. Hatfull – resigned 14 March 2011
 J. Huston – appointed 5 April 2011

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 consolidated entity is delegated by the board to the Chief Executive Office and the executive team. The board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The Chief Executive Officer is responsible to the board for the day to day management of the Company.

The board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board.

Chief executive officer and chief financial officer declaration

Consistent with ASX Principle 4, the Company's financial report preparation and approval process for the financial year ended 30 June 2011, involved the Chief Executive Officer and Chief Financial Officer providing a written statement to the board that, to the best of their knowledge and belief, the Company's financial report presents a true and fair view, in all material respects, of the Company's financial condition and operating results and is in accordance with applicable accounting standards.

Corporate governance statement (continued)

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 2011.

Attendance of external auditors at annual general meeting

Consistent with ASX Principle 6 and CLERP 9, Ernst & Young attend, and are available to answer questions at, the Company’s annual general meeting relating to 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.

Risk identification and management

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. These include:

- Guidelines and limits for approval of capital expenditure and investments;
- A group compliance programme supported by approved guidelines and standards covering such key areas as safety, the environment, legal liability, risk identification, quantification and reporting and financial controls;
- A comprehensive annual insurance programme;
- Annual budgeting and monthly reporting systems for all operations which enable the monitoring of progress against performance targets and the evaluation of trends; and
- Directors’ financial due diligence questionnaires to management.

Management is ultimately responsible to the board for the Group’s system of internal control and risk management. The Audit and Risk Committee assists the board in monitoring this role.

In accordance with ASX Principle 7, the Chief Executive Officer and Chief Financial Officer have provided the board with a written statement that:

- The statement given with respect to the integrity of the financial statements (referred to under the heading “Financial Reporting”) was founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and
- The Company’s risk management and internal compliance and control system was operating efficiently and effectively in all material respects.

Continuous disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange’s securities market and has adopted a comprehensive policy covering announcements to the Australian Securities Exchange, prevention of elective or inadvertent disclosure, conduct of investor and analysts briefings, media communications, commenting on expected earnings, communication black-out periods and review of briefings and communications. The Company’s continuous disclosure policy is consistent with ASX Principle 5.

Corporate governance statement (continued)

Communication to shareholders

The board of directors aims to ensure that the shareholders, on whose behalf they act, are informed of all information necessary to assess the performance of the directors. Information is communicated to the shareholders through:

- The annual report which is distributed to all shareholders;
- The annual general meeting and other meetings called to obtain approval for board action as appropriate; and
- Continuous disclosure notices and periodic filings lodged with the ASX.

Consolidated statement of comprehensive income

For the year ended 30 June 2011

	Note	2011 \$000	2010 \$000
Continuing operations			
Sale of goods		115,489	122,630
Finance revenue		386	286
Revenue		115,875	122,916
Other income	4a	749	1,496
Changes in inventories of finished goods and work in progress		(2,241)	(7,138)
Raw materials and consumables used		(27,944)	(30,685)
Employee benefits expense	4b	(49,718)	(48,084)
Depreciation and amortisation expense	4c	(2,418)	(2,521)
Other expenses	4d	(34,309)	(31,089)
Finance costs	4e	(852)	(974)
(Loss)/profit from continuing operations before income tax		(858)	3,921
Income tax benefit/(expense)	5	77	(1,224)
Net (loss)/profit for the period		(781)	2,697
Other comprehensive income			
Net foreign currency translation		(79)	(77)
Effective portion of changes in fair value of cash flow hedges		(14)	-
Other comprehensive income for the period, net of tax		(93)	(77)
Total comprehensive (loss)/income for the period		(874)	2,620
Total comprehensive (loss)/income attributable to owners of the Company		(874)	2,620
Earnings per share for profit attributable to the ordinary equity holders of the parent:	6		
Basic (loss)/earnings per share		(0.54) cents	1.88 cents
Diluted (loss)/earnings per share		(0.54) cents	1.88 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 2011

	Note	2011 \$000	2010 \$000
ASSETS			
Current assets			
Cash and cash equivalents	8	5,002	7,861
Trade and other receivables	9	3,045	3,612
Inventories	10	10,408	12,471
Prepayments		917	618
Derivative financial instruments	27	-	83
Income tax receivable		700	-
Total current assets		20,072	24,645
Non-current assets			
Trade and other receivables	9	47	-
Property, plant and equipment	12	17,818	16,618
Deferred tax assets	5	2,258	3,955
Intangible assets and goodwill	13	2,736	3,114
Total non-current assets		22,859	23,687
TOTAL ASSETS		42,931	48,332
LIABILITIES			
Current liabilities			
Trade and other payables	15	8,621	7,608
Interest-bearing loans and borrowings	16	8,848	10,215
Income tax payable		-	1,924
Provisions	17	5,149	4,645
Derivative financial instruments	27	49	42
Government grants	19	73	49
Total current liabilities		22,740	24,483
Non-current liabilities			
Interest-bearing loans and borrowings	16	23	268
Provisions	17	1,122	678
Government grants	19	59	159
Total non-current liabilities		1,204	1,105
TOTAL LIABILITIES		23,944	25,588
NET ASSETS		18,987	22,744
EQUITY			
Contributed equity	18	11,961	11,961
Reserves	18	(390)	(297)
Retained earnings	18	7,416	11,080
TOTAL EQUITY		18,987	22,744

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 2011

	Note	2011 \$000	2010 \$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		125,766	131,605
Payments to suppliers and employees (inclusive of GST)		(120,076)	(118,353)
Receipt of government grants		434	475
Interest received		386	286
Interest paid		(852)	(974)
Income tax paid		(849)	(1,999)
Net cash flows from operating activities	8	4,809	11,040
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		95	64
Purchase of intangibles		(129)	(630)
Purchase of property, plant and equipment		(3,062)	(856)
Acquisition of investment	28	-	(1,687)
Net cash flows used in investing activities		(3,096)	(3,109)
Cash flows from financing activities			
Options exercised		-	285
Equity dividends paid		(2,883)	(4,295)
Repayment of borrowings		(1,987)	(2,438)
Proceeds from borrowings		526	1,024
Payment of finance lease liabilities		(152)	(355)
Net cash flows used in financing activities		(4,496)	(5,779)
Net (decrease)/increase in cash and cash equivalents		(2,783)	2,152
Net foreign exchange differences		(76)	(1)
Cash and cash equivalents at beginning of period		7,861	5,710
Cash and cash equivalents at end of period	8	5,002	7,861

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 2011

	Ordinary shares	Foreign currency translation reserve	Employee equity benefits reserve	Hedging reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2010	11,961	(345)	48	-	11,080	22,744
Loss for the period	-	-	-	-	(781)	(781)
Other comprehensive income	-	(79)	-	(14)	-	(93)
Total comprehensive income for the period	-	(79)	-	(14)	(781)	(874)
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(2,883)	(2,883)
At 30 June 2011	11,961	(424)	48	(14)	7,416	18,987
At 1 July 2009	11,676	(268)	48	-	12,678	24,134
Profit for the period	-	-	-	-	2,697	2,697
Other comprehensive income	-	(77)	-	-	-	(77)
Total comprehensive income for the period	-	(77)	-	-	2,697	2,620
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(4,295)	(4,295)
Shares issued	285	-	-	-	-	285
At 30 June 2010	11,961	(345)	48	-	11,080	22,744

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 2011

1. Corporate information

The consolidated financial report of Kresta Holdings Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 29 August 2011.

Kresta Holdings Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

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 2010, the Group has adopted all the Australian Accounting Standards and AASB Interpretations, mandatory for annual periods beginning on or after 1 July 2010. 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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

(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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation (continued)

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 (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

Subsequent to 1 July 2010

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer 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 should not be remeasured until it is finally settled within equity.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(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 revenue

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

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(h) Leases – refer note 16 (continued)

Group as a lessee (continued)

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 are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(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 27

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(I) Derivative financial instruments and hedging – refer note 27 (continued)

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.

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

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or to a forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

The Group tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 30 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

At each balance date, the Group measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over-hedged, the ineffective portion is taken immediately to other income/expense in the statement of comprehensive income.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to the statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(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 (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(m) Foreign currency translation (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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

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

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

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

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 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.

(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 Ltd cash-generating unit

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

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

Goodwill (continued)

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 expense 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 expense'. 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

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

Intangibles (continued)

Trademark (continued)

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.

Kresta Holdings Limited 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 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(s) Provisions and employee benefits – refer note 17 (continued)

Employee leave benefits

Wages, salaries, annual leave and sick leave

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

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.

(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. Kresta Holdings Limited does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(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).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

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

Equity settled transactions (continued)

The current plan to provide these benefits is the Employee Share Option Plan (ESOP). 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 model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions that are linked to the price of the shares of Kresta Holdings Limited (market conditions).

The cost of equity-settled transactions is recognised, 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).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- The grant date fair value of the award.
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.
- The expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(w) Operating segments – refer note 26

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) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

2. Summary of significant accounting policies (continued)

(y) Investments and other financial assets (continued)

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

Subsequent measurement

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position.

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

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

Significant accounting judgements (continued)

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 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

4. Other income and expenses

	2011 \$000	2010 \$000
(a) Other income		
Government grants	510	524
Net gain from disposal of property, plant & equipment	-	8
Net unrealised gain from derivatives	-	467
Other	239	497
	<u>749</u>	<u>1,496</u>
(b) Employee benefits expense		
Wages and salaries	32,902	30,406
Superannuation expense	2,628	2,578
Subcontractors	11,419	12,141
Other employee benefits expense	2,769	2,959
	<u>49,718</u>	<u>48,084</u>
(c) Depreciation and amortisation		
Depreciation	2,369	2,477
Amortisation of IT software	49	44
	<u>2,418</u>	<u>2,521</u>
(d) Other expenses		
Advertising	11,193	10,274
Property rent	7,796	7,431
Property outgoing	3,900	3,782
Communication expenses	2,566	2,298
Banking and transaction expenses	1,085	1,118
Impairment loss – loans and receivables	47	4
Net loss from disposal of property, plant & equipment	4	-
Net unrealised loss from derivatives	76	-
Foreign exchange losses	130	272
Freight	2,562	2,568
Other expenses	4,950	3,342
	<u>34,309</u>	<u>31,089</u>
(e) Finance costs		
Finance charges payable under finance leases and hire purchase contracts	175	212
Other borrowing costs	677	762
	<u>852</u>	<u>974</u>

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

4. Revenue, income and expenses (continued)

	2011 \$000	2010 \$000
(f) Cost of inventories recognised as an expense	30,185	37,823
(g) Write-down of inventory to net realisable value included within the cost of inventory recognised as an expense	854	7,061
(h) Minimum lease payments – operating leases	562	334

5. Income tax

	2011 \$000	2010 \$000
(a) Income tax expense		
The major components of income tax expense are:		
<i>Income statement</i>		
<i>Current income tax</i>		
Current income tax charge	460	3,386
Adjustments in respect of current income tax of previous years	(2,234)	(32)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(549)	(2,130)
Adjustments in respect of deferred income tax of previous years	2,246	-
Income tax (benefit)/expense reported in the statement of comprehensive income	(77)	1,224
(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting (loss)/profit before tax	(858)	3,921
At the Group's statutory income tax rate of 30% (2010: 30%)	(258)	1,176
Adjustments in respect of current and deferred income tax of previous years	12	(32)
Expenditure not allowable for income tax purposes	87	18
Expenditure allowable for income tax purposes	(32)	-
Kresta Blinds International Pty Ltd loss	114	62
Income tax (benefit)/expense	(77)	1,224

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

5. Income tax (continued)

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June relates to the following:

	Statement of financial position		Income statement	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<i>Deferred tax assets</i>				
Allowance for doubtful debts	8	11	3	(5)
Inventory	473	2,262	1,790	(2,112)
Accruals	94	92	23	198
Other creditors	89	95	(5)	20
Provision for FBT	15	28	13	(12)
Employee entitlements	1,585	1,520	(79)	(165)
Property, plant and equipment	57	32	-	-
Other	63	-	(63)	-
	<u>2,384</u>	<u>4,040</u>	<u>1,682</u>	<u>(2,076)</u>
<i>Deferred tax liabilities</i>				
Prepayment	45	1	43	(2)
Property, plant and equipment	81	81	-	(26)
Capitalised borrowings	-	3	(28)	(26)
	<u>126</u>	<u>85</u>	<u>15</u>	<u>(54)</u>
Net deferred tax assets	<u>2,258</u>	<u>3,955</u>		
Deferred tax benefit/(expense)			<u>1,697</u>	<u>(2,130)</u>

The Group does not have any tax losses or unrecognised temporary differences.

(d) Tax consolidation legislation

Kresta Holdings Limited and its wholly owned Australian subsidiaries have formed a tax consolidated group as of 1 July 2002. The head entity, Kresta Holdings Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Kresta Holdings Limited also recognise the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

5. Income tax (continued)

(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:

	2011 \$000	2010 \$000
Earnings used in calculating earnings per share		
Net (loss)/profit attributable to ordinary equity holders of Kresta Holdings Ltd from continuing operations	(781)	2,697
Weighted average number of shares		
	2011 Thousands	2010 Thousands
Weighted average number of ordinary shares for basic earnings per share	144,158	143,164
Weighted average number of ordinary shares adjusted for the effect of dilution	144,158	143,164

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 no potential ordinary shares on issue at reporting date (2010: nil).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

7. Dividends paid and proposed

	2011 \$000	2010 \$000
(a) Recognised amounts		
<i>Declared and paid during the year</i>		
Dividends on ordinary shares:		
Final franked dividend for 2010: 1.5 cents (2009: 1.0 cent)	2,162	1,432
Interim franked dividend for 2011: 0.5 cents (2010: 2.0 cents)	721	2,863
	<u>2,883</u>	<u>4,295</u>
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Final franked dividend for 2011: nil (2010: 1.5 cents)	-	2,162
	<u>-</u>	<u>2,162</u>
(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% (2010: 30%)	1,817	2,204
Franking credits that will arise from the (refund)/payment of income tax as at the end of the financial year	(700)	1,924
	<u>1,117</u>	<u>4,128</u>
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.	-	(927)
	<u>1,117</u>	<u>3,201</u>
(d) Tax rates		
The tax rate at which paid dividends have been franked is 30% (2010: 30%).		
Dividends proposed will be franked at the rate of 30% (2010: 30%).		

8. Cash and cash equivalents

	2011 \$000	2010 \$000
Cash at bank and on hand	5,002	7,861
Total cash and cash equivalents	<u>5,002</u>	<u>7,861</u>

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

8. Cash and cash equivalents (continued)

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

	2011 \$000	2010 \$000
Net (loss)/profit	(781)	2,697
<i>Adjustments for:</i>		
Depreciation	2,369	2,477
Amortisation	49	44
Net loss/(gain) on disposal of property, plant and equipment	4	(8)
Net unrealised loss/(gain) on derivatives	76	(589)
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	520	(157)
(Increase)/decrease in inventories	2,063	9,000
(Increase)/decrease in deferred tax assets	1,697	(2,157)
(Increase)/decrease in prepayments	(299)	182
Increase/(decrease) in trade and other payables	1,013	(1,885)
Increase/(decrease) in government grants	(76)	(49)
Increase/(decrease) in tax receivables/payable	(2,624)	1,382
Increase/(decrease) in provisions	798	103
Net cash from operating activities	4,809	11,040

9. Trade and other receivables

	2011 \$000	2010 \$000
Current		
Trade receivables	2,506	2,820
Allowance for impairment loss ^(a)	(32)	(37)
	2,474	2,783
Short term deposits ^(b)	78	215
Other receivables ^(c)	493	614
	3,045	3,612
Non-current		
Short term deposits ^(b)	47	-

(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 \$32,000 (2010: \$37,000) has been recognised by the Group at year end. The amount has been included in the other expense item. No individual amount within the impairment allowance is material.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

9. Trade and other receivables (continued)**(a) Allowance for impairment loss (continued)**

Movements in the provision for impairment loss were as follows:

	2011	2010
	\$000	\$000
At 1 July	37	22
Charge for the year	82	64
Amounts written off (included in other expense item)	(87)	(49)
At 30 June	<u>32</u>	<u>37</u>

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

	Total	0-30 days	31-60 days	61-90 days	+91 days	+91 days
				PDNI ⁽ⁱ⁾	PDNI ⁽ⁱ⁾	CI ⁽ⁱⁱ⁾
		\$000	\$000	\$000	\$000	\$000
2011	2,506	1,757	257	151	309	32
2010	2,820	2,296	201	120	166	37

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

Receivables past due but not considered impaired are: \$460,000 (2010: \$286,000). 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

10. Inventories

	2011	2010
	\$000	\$000
Raw materials (at the lower of cost and net realisable value)	3,397	5,449
Finished goods (at the lower of cost and net realisable value)	7,011	7,022
Total inventories at the lower of cost and net realisable value	10,408	12,471

11. Parent entity information

	2011	2010
	\$000	\$000
Current assets	505	3,014
Total assets	18,786	16,973
Current liabilities	2,108	7,231
Total liabilities	12,576	7,280
Issued capital	11,961	11,961
Accumulated losses	(5,799)	(2,316)
Reserves	48	48
Total shareholder's equity	6,210	9,693
(Loss)/profit of the parent entity	(599)	4,516
Total comprehensive income of the parent entity	(599)	4,516

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 \$361,000 (2010: \$1,206,000).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

12. Property, plant and equipment

	Freehold land and building	Plant and equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000
Cost				
Balance at 1 July 2009	10,804	25,342	2,604	38,750
Acquisition through business combinations	-	90	77	167
Other additions	80	343	433	856
Disposals	-	(787)	(298)	(1,085)
Effect of movements in exchange rates	-	5	-	5
Balance at 30 June 2010	10,884	24,993	2,816	38,693
Balance at 1 July 2010	10,884	24,993	2,816	38,693
Other additions	67	3,448	190	3,705
Disposals	-	(2,428)	(178)	(2,606)
Impairment	-	(25)	-	(25)
Effect of movements in exchange rates	(1)	(23)	(1)	(25)
Balance at 30 June 2011	10,950	25,965	2,827	39,742
Depreciation				
Balance at 1 July 2009	1,348	18,054	1,218	20,620
Depreciation charge for the year	279	1,840	358	2,477
Disposals	-	(773)	(253)	(1,026)
Effect of movements in exchange rates	-	4	-	4
Balance at 30 June 2010	1,627	19,125	1,323	22,075
Balance at 1 July 2010	1,627	19,125	1,323	22,075
Depreciation charge for the year	264	1,798	307	2,369
Disposals	-	(2,342)	(160)	(2,502)
Effect of movements in exchange rates	(1)	(17)	-	(18)
Balance at 30 June 2011	1,890	18,564	1,470	21,924
Carrying amounts				
At 30 June 2010	9,257	5,868	1,493	16,618
At 30 June 2011	9,060	7,401	1,357	17,818

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2011 is \$569,000 (2010: \$699,000). There were no additions during the year (2010: \$nil) of plant and equipment held under finance leases and hire purchase contracts.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

12. Property, plant and equipment (continued)

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 \$9,060,000 (2010: \$9,257,000) are subject to a first charge over available finance facilities (see note 16).

Plant and equipment and motor vehicles with a carrying amount of \$8,189,000 (2010: \$6,662,000) is pledged as securities for current and non-current liabilities as disclosed in note 16.

Market appraisal and valuation of freehold land and freehold buildings

The Group engaged Burgess Rawson (WA) Pty Ltd, an independent Licensed Valuer to determine the fair value of its freehold land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions an arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The market appraisal and valuation was conducted in February 2010 and the result is as follows:

Book value of land and buildings	\$9,060,000
Burgess Rawson valuation	\$18,250,000
Difference	\$9,190,000

There is no change in accounting policy and the fair value has not been reflected in the accounts.

13. Intangible assets and goodwill

	IT software \$000	Trade mark \$000	Goodwill \$000	Total \$000
Cost				
Balance at 1 July 2009	227	-	1,712	1,939
Acquisition through business combinations	-	1,089	-	1,089
Other additions	630	-	-	630
Balance at 30 June 2010	857	1,089	1,712	3,658
Balance at 1 July 2010	857	1,089	1,712	3,658
Acquisition through business combinations	-	-	-	-
Transfer ⁽ⁱ⁾	-	(500)	500	-
Other additions	129	-	-	129
Impairment ⁽ⁱⁱ⁾	(458)	-	-	(458)
Balance at 30 June 2011	528	589	2,212	3,329

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

13. Intangible assets and goodwill (continued)

	IT software \$000	Trade mark \$000	Goodwill \$000	Total \$000
Amortisation				
Balance at 1 July 2009	208	-	292	500
Amortisation charge for the year	44	-	-	44
Balance at 30 June 2010	252	-	292	544
Balance at 1 July 2010	252	-	292	544
Amortisation charge for the year	49	-	-	49
Balance at 30 June 2011	301	-	292	593
Carrying amounts				
At 30 June 2010	605	1,089	1,420	3,114
At 30 June 2011	227	589	1,920	2,736

⁽ⁱ⁾ During the provisional accounting period of the business combination, the fair value of the trade mark which was provisionally determined was finalised resulting in a reallocation between trade mark and goodwill.

⁽ⁱⁱ⁾ An impairment loss of \$483,000, including \$25,000 plant and equipment (see note 12) was recognised in the 2011 financial year. The impaired IT software and plant and equipment related to the “Solatech” system. The impairment loss has been recognised in the statement of comprehensive income in the line item “other expenses”.

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 Ltd cash-generating unit

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 next five years is estimated to average 4.76% per annum (2010: 7.1%).

The discount rate applied to cash flow projections is 10.1% per annum (2010: 10.2%). 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 is \$1,064,000 (2010: \$564,000).

Trademarks with a cost of \$589,000 are included in the Kresta Holdings Limited cash-generating unit.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

13. Intangible assets and goodwill (continued)

Impairment tests for goodwill (continued)

Curtain Wonderland Pty Ltd 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 next five years is estimated to average 6.0% per annum (2010: 6.0%).

The discount rate applied to cash flow projections is 10.1% per annum (2010: 10.2%). 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 is \$856,000 (2010: \$856,000).

Market capitalisation of the Group as at the reporting date was \$37,481,000 (2010: \$50,455,000).

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

14. Share-based payment plans

The Employee Share Option Plan (ESOP) provides benefits to directors and senior executives as equity compensation benefits under the long-term incentive plan. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price equal to the market price of the shares on the date of grant of the option.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Kresta Holdings Limited ('market conditions'). The expense recognised in the income statement in relation to share-based payments is disclosed in note 4(b).

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at the beginning of the year	-	-	1,000,000	\$0.29
Exercised during the year ⁽ⁱ⁾	-	-	(1,000,000)	\$0.29
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

⁽ⁱ⁾ The weighted average share price at the date of exercise in 2010 was \$0.35.

15. Trade and other payables

	2011 \$000	2010 \$000
Current		
Trade payables ^(a)	3,141	2,542
Other payables ^(b)	2,182	2,230
Customer deposits	2,504	1,950
Goods and services tax	794	886
	8,621	7,608

(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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

16. Interest-bearing loans and borrowings

	2011 \$000	2010 \$000
Current		
Obligations under finance leases and hire purchase contracts (note 21)	245	152
Finance loan	-	49
Business bill facility	8,603	10,014
	8,848	10,215
Non-current		
Obligations under finance leases and hire purchase contracts (note 21)	23	268
	23	268

Fair value disclosures

Details of the fair value of the Group's interest bearing liabilities are set out in note 20.

Finance leases

Finance leases have an average lease term of 4 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 7.00% per annum (2010: 7.00% per annum). Lease liabilities are secured by a charge over the leased assets.

Hire purchase

Hire purchase leases have an average lease term of 3 years. The average discount rate implicit in the leases is 6.07% per annum (2010: 7.16% per annum). Hire purchase liabilities are secured by a charge over the assets under hire purchase.

Finance loan

Finance loan for the insurance premiums has a fixed rate of 3.32%.

Business bill facility

The business bill facility is made up of 4 separate bills. Due to a debt covenant breach at 30 June 2011, the facilities have been classified as current liabilities. Subsequent to balance date, the bank has agreed to waive the breach and the original repayment terms are reinstated. In the absence of a debt covenant breach: The first bill of \$4,000,000 (2010: \$4,000,000) has interest only repayment terms and is due in June 2012 (fixed rate of 8.1%). The second bill of \$1,186,559 (2010: \$2,135,807) is repayable quarterly with final instalments due in July 2012 (variable rate). The third bill of \$2,365,872 (2010: \$2,527,354) is due in March 2014 (variable rate). The fourth bill of \$1,050,000 (2010: \$1,350,000) is repayable quarterly with final instalments due in September 2014 (variable rate). Interest for these bills is recognised at an average rate of 6.48% per annum (2010: 7.21% per annum). The bills are secured by a first mortgage over the freehold land and buildings of the Group.

Bank overdraft

The consolidated entity has a multi-option facility of \$2,083,000 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

16. Interest-bearing loans and borrowings (continued)

Financing facilities available

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

	2011 \$000	2010 \$000
Total facilities		
Bank overdraft	2,083	3,258
Bank guarantee	742	742
Trade	175	150
Hire purchase and finance lease	268	420
Business bill facility	8,602	10,014
	<u>11,870</u>	<u>14,584</u>
Facilities used at reporting date		
Bank overdraft	-	-
Bank guarantee	471	616
Trade	-	-
Hire purchase and finance lease	268	420
Business bill facility	8,602	10,014
	<u>9,341</u>	<u>11,050</u>
Facilities unused at reporting date		
Bank overdraft	2,083	3,258
Bank guarantee	271	126
Trade	175	150
Hire purchase and finance lease	-	-
Business bill facility	-	-
	<u>2,529</u>	<u>3,534</u>
Total facilities	11,870	14,584
Facilities used at reporting date	<u>9,341</u>	<u>11,050</u>
Facilities unused at reporting date	<u>2,529</u>	<u>3,534</u>

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

16. Interest-bearing loans and borrowings (continued)

Assets pledged as security

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

	Note	2011 \$000	2010 \$000
Current			
<i>Floating charge</i>			
Cash and cash equivalents	8	5,002	7,861
Receivables	9	3,045	3,612
Inventories	10	10,408	12,471
Total current assets pledged as security		18,455	23,944
Non-current			
<i>First mortgage</i>			
Freehold land and buildings	12	9,060	9,257
<i>Hire purchase and finance lease</i>			
Motor vehicles	12	569	699
<i>Floating charge</i>			
Plant and equipment and motor vehicles	12	8,189	6,662
Total non-current assets pledged as security		17,818	16,618
Total assets pledged as security		36,273	40,562

17. Provisions

	Employee benefits \$000	Make good \$000	Total \$000
At 1 July 2010	5,165	158	5,323
Arising during the year	2,734	643	3,377
Utilised	(2,417)	(12)	(2,429)
At 30 June 2011	5,482	789	6,271
Current 2011	4,842	307	5,149
Non-current 2011	640	482	1,122
	5,482	789	6,271
Current 2010	4,645	-	4,645
Non-current 2010	520	158	678
	5,165	158	5,323

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

18. Contributed equity and reserves

(a) Ordinary shares

	2011 \$000	2010 \$000
Issued and fully paid	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.

Movement in ordinary shares on issue

	2011 No. of shares Thousands	2011 \$000	2010 No. of shares Thousands	2010 \$000
At 1 July	144,158	11,961	143,158	11,676
Exercise of options ⁽ⁱ⁾	-	-	1,000	285
At 30 June	144,158	11,961	144,158	11,961

⁽ⁱ⁾ 1,000,000 options were exercised in 2010 per the share based payment option scheme (refer note 14).

(b) Share options

The Company has share based payment option schemes under which options to subscribe for the Company's shares have been granted to certain executives and other employees (refer note 14). These options carry no rights to dividends and no voting rights. Currently there are no options on issue.

(c) 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

18. Contributed equity and reserves (continued)**(c) Capital management (continued)**

The gearing ratio was as follows:

	2011	2010
	\$000	\$000
Total borrowings ⁽ⁱ⁾	8,871	10,483
Less cash and cash equivalents	(5,002)	(7,861)
Net debt	3,869	2,622
Total equity	18,987	22,744
Total capital	22,856	25,366
Gearing ratio	16.9%	10.3%

⁽ⁱ⁾ Includes interest bearing loans and borrowings.**(d) Retained earnings***Movement in retained earnings*

	2011	2010
	\$000	\$000
Balance as at 1 July	11,080	12,678
Net (loss)/profit for the year	(781)	2,697
Dividends	(2,883)	(4,295)
Balance as at 30 June	7,416	11,080

(e) Reserves*Movement in reserves*

	Share-based payment	Foreign currency translation	Cash flow hedge	Total
	\$000	\$000	\$000	\$000
At 1 July 2010	48	(345)	-	(297)
Foreign currency translation differences	-	(79)	-	(79)
Effective portion of changes in fair value of cash flow hedges	-	-	(14)	(14)
At 30 June 2011	48	(424)	(14)	(390)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

18. Contributed equity and reserves (continued)

(e) Reserves (continued)

Share-based payment reserve

This reserve is used to record the value of equity benefits provided to suppliers, employees and directors 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

	2011 \$000	2010 \$000
At 1 July	208	257
Received during the year	434	475
Recognised as income	(510)	(524)
At 30 June	132	208
Current	73	49
Non-current	59	159
Total government grants deferred	132	208

The accounting policies adopted and the description of government grants received by the Group have been 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

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:

	2011 \$000	2010 \$000
Financial assets		
Cash and cash equivalents	4,970	7,845
	<u>4,970</u>	<u>7,845</u>
Financial liabilities		
Business bill facility	(4,602)	(2,136)
	<u>(4,602)</u>	<u>(2,136)</u>
Net exposure	<u>368</u>	<u>5,709</u>

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. The Group's policy is to maintain approximately 65% of its borrowings at fixed rates which are carried at amortised cost. To manage this mix of 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 2011, after taking into account the effect of interest rate swaps, approximately 86% of the Group's borrowings are at a fixed rate of interest (2010: 79%).

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Interest rate risk (continued)

Interest rate swap contracts outlined in note 27 with an effective notional value of \$3,416,000 (2010: \$3,625,000) is exposed to fair value movements if interest rates change.

At 30 June 2011, 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)	
	2011	2010
	\$000	\$000
+1.0% (100 basis points) (2010: +0.5%)	18	20
-0.5% (50 basis points) (2010: -0.5%)	(28)	(20)

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 2010.

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 US\$/A\$ 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 3% (2010: 5%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale. Approximately 60% (2010: 70%) of the Group's inventory purchases are denominated in currencies other than the functional currency of the operating unit making the purchase.

The Group uses forward currency contracts to manage foreign currency exposures. It is the Group's policy not to enter into forward currency contracts until a firm commitment is in place and to negotiate the terms of the hedge derivatives to exactly match the terms of the hedged item to maximise hedge effectiveness. During the year the Group commenced hedge accounting (refer note 27).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Foreign currency risk (continued)

At 30 June 2011, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:

	2011 \$000	2010 \$000
Financial assets and derivatives		
Forward currency contracts – notional value	-	2,113
	-	2,113
Financial liabilities		
Trade and other payables	(356)	(451)
	(356)	(451)
Net exposure	(356)	1,662

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 30 June 2011, 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)	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
AUD/USD +10% (2010: +10%)	23	(52)	(108)	-
AUD/USD -5% (2010: -10%)	(13)	193	29	-

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 2010.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Credit risk (continued)

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 risk monitored from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital. These assets are considered in the Group's overall liquidity risk.

	2011				
	< 6 months	6-12 months	1-2 years	> 2 years	Total
	\$000	\$000	\$000	\$000	\$000
Financial assets					
Cash and cash equivalents	5,002	-	-	-	5,002
Trade and other receivables	2,673	-	-	-	2,673
	7,675	-	-	-	7,675
Financial liabilities					
Trade and other payables	(7,401)	-	-	-	(7,401)
Business bill facility ⁽ⁱ⁾	(8,602)	-	-	-	(8,602)
Hire purchase and finance lease liability	(127)	(127)	(28)	-	(282)
Derivatives	(23)	(9)	(15)	(2)	(49)
	(16,153)	(136)	(43)	(2)	(16,334)
Net outflow	(8,478)	(136)	(43)	(2)	(8,659)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Liquidity risk (continued)

	2010				
	< 6 months	6-12 months	1-2 years	> 2 years	Total
	\$000	\$000	\$000	\$000	\$000
Financial assets					
Cash and cash equivalents	7,861	-	-	-	7,861
Trade and other receivables	3,612	-	-	-	3,612
Derivatives	83	-	-	-	83
	11,556	-	-	-	11,556
Financial liabilities					
Trade and other payables	(7,608)	-	-	-	(7,608)
Business bill facility ⁽ⁱ⁾	(11,053)	-	-	-	(11,053)
Hire purchase and finance lease liability	(87)	(87)	(252)	(30)	(456)
Derivatives	(42)	-	-	-	(42)
Other loans	(49)	-	-	-	(49)
	(18,839)	(87)	(252)	(30)	(19,208)
Net outflow	(7,283)	(87)	(252)	(30)	(7,652)

⁽ⁱ⁾ Due to a debt covenant breached, the facilities have been classified as current liabilities.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Fair values (continued)

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

	2011			Total
	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	
	\$000	\$000	\$000	\$000
Financial liabilities				
Derivative instruments				
Foreign exchange contracts	-	14	-	14
Interest rate swaps	-	35	-	35
	-	49	-	49

	2010			Total
	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	
	\$000	\$000	\$000	\$000
Financial assets				
Derivative instruments				
Foreign exchange contracts	-	83	-	83
	-	83	-	83

Financial liabilities				
Derivative instruments				
Interest rate swaps	-	42	-	42
	-	42	-	42

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

20. Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

Fair values (continued)

Fair values of other financial assets and liabilities approximate their carrying values.

There were no transfers between Level 1 and Level 2 during the year.

21. Commitments

Operating lease commitments

The Group has entered into commercial leases on buildings and IT equipment. The commercial leases on buildings have an average life of between 2 and 3 years with renewal options included in some of the contracts, while the IT equipment have an average life of between 1 and 2 years. There are no restrictions placed upon the lessee by entering into these leases.

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

	2011 \$000	2010 \$000
Within one year	8,866	6,671
After one year but not more than five years	18,284	14,354
More than five years	812	754
Total minimum lease payments	27,962	21,779

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. These lease contracts expire within 2 years.

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:

	2011 \$000	2010 \$000
Within one year	254	174
After one year but not more than five years	28	282
Total minimum lease payments	282	456
Less amounts representing finance charges	(14)	(36)
Present value of minimum lease payments	268	420

The weighted average interest rate implicit in the leases for the Group is 6.13% per annum (2010: 7.16%)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

21. Commitments (continued)

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:

	2011 \$000	2010 \$000
Within one year	361	1,206
	<u>361</u>	<u>1,206</u>

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 KMP.

Capital commitments

The Company has started to implement a new ERP called "Epicor". This is expected to be completed in 2012 at an estimated cost of \$1,600,000.

22. Related party disclosures

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	
		2011	2010	2011	2010
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
				<u>24,704</u>	<u>24,704</u>
Curtain Wonderland Pty Ltd (control is via Sandelle Pty Ltd)	Australia	100	100	1,290	1,290
				<u>25,994</u>	<u>25,994</u>

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

22. Related party disclosures (continued)

There were no transactions with other related parties.

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

23. Key management personnel

(a) Compensation of key management personnel

	2011 \$	2010 \$
Short-term employee benefits	1,762,429	1,479,820
Post-employment benefits	592,034	107,407
Other long-term benefits	(111,898)	54,218
Termination benefits	139,833	-
Total compensation	2,382,398	1,641,445

(b) Option holdings of key management personnel

	Held at 1 July 2009	Granted as compensation	Exercised	Other changes	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Executives							
T. Tan	1,000,000	-	1,000,000	-	-	-	1,000,000

No KMP held any options during the current financial year.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

23. Key management personnel (continued)

(c) Shareholdings of key management personnel

Shares held in Kresta Holdings Limited (number)

	Balance 1 July 2010	Granted as compensation	On exercise of options	Net change other	Balance 30 June 2011
Directors					
J. Molloy ⁽ⁱ⁾	-	-	-	1,596,000	1,596,000
I. Trahar ⁽ⁱⁱ⁾	27,890,068	-	-	(27,890,068)	-
T. Zorbas ⁽ⁱⁱⁱ⁾	5,832,577	-	-	(5,832,577)	-
T. Bartlett	5,000	-	-	-	5,000
R. Taylor ^(iv)	-	-	-	-	-
K. Eley ^(v)	-	-	-	-	-
J. Huston ^(vi)	-	-	-	550,257	550,257
Executives					
A. Tacey ^(vii)	-	-	-	-	-
J. Fulton	300,000	-	-	(300,000)	-
T. Tan ^(viii)	1,000,000	-	-	(1,000,000)	-
I. Leijer ^(ix)	-	-	-	-	-
D. Le ^(x)	-	-	-	-	-
Total	35,027,645	-	-	(32,876,388)	2,151,257

⁽ⁱ⁾ Mr J. Molloy was appointed as Non-executive Director on 14 March 2011.⁽ⁱⁱ⁾ Mr I. Trahar resigned as Non-executive Director on 14 March 2011.⁽ⁱⁱⁱ⁾ Mr T. Zorbas retired on 6 September 2010.^(iv) Mr R. Taylor was appointed as Non-executive Director on 14 March 2011.^(v) Mr K. Eley was appointed as Non-executive Director on 5 April 2011.^(vi) Mr J. Huston was appointed as Non-executive Director on 5 April 2011.^(vii) Mr A. Tacey was appointed as Chief Executive Officer on 16 May 2011.^(viii) Mr T. Tan retired on 26 October 2010.^(ix) Mr I. Leijer was appointed Chief Executive Officer on 11 October 2010 and Company Secretary on 26 October 2010 and resigned on 31 May 2011.^(x) Mr D. Le was appointed Company Secretary on 26 May 2011.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

23. Key management personnel (continued)

(c) Shareholdings of key management personnel (continued)

Shares held in Kresta Holdings Limited (number)

	Balance 1 July 2009	Granted as compensation	On exercise of options	Net change other	Balance 30 June 2010
Directors					
T. Zorbas ⁽ⁱ⁾	5,432,577	-	-	400,000	5,832,577
T. Bartlett	5,000	-	-	-	5,000
I. Trahar ⁽ⁱⁱ⁾	-	-	-	27,890,068	27,890,068
N. Fearis ⁽ⁱⁱⁱ⁾	1,655,380	-	-	(1,655,380)	-
Executives					
J. Fulton	300,000	-	-	-	300,000
T. Tan	-	-	1,000,000	-	1,000,000
Total	<u>7,392,957</u>	<u>-</u>	<u>1,000,000</u>	<u>26,634,688</u>	<u>35,027,645</u>

⁽ⁱ⁾ Mr T. Zorbas retired on 6 September 2010.

⁽ⁱⁱ⁾ Mr I. Trahar was appointed as Non-executive Director on 23 February 2010.

⁽ⁱⁱⁱ⁾ Mr N. Fearis retired on 31 December 2009.

(d) Other transactions with key management personnel and their related parties

Ian Leijer is a director of Unimain Pty Ltd. During the year, a total of \$324,000 was paid to Unimain Pty Ltd for work performed by Mr Leijer as interim Chief Executive Officer and Company Secretary for the Group.

24. Events after the balance sheet date

On the 9th August 2011 Kresta Holdings Limited announced that it was streamlining its operations through:

- Investing in automated manufacturing equipment;
- Consolidation of curtain production to Curtain Wonderland's Brisbane operations;
- Relocating the Jandakot WA manufacturing operations to Kresta's Malaga headquarters;
- Outsourcing venetian blind manufacturing to high-quality manufacturers in Asia;
- Reducing the workforce by 72 from a total of over 1,000, with a redundancy cost of approximately \$460,000; and
- The sale of commercial real estate which is surplus to operations, likely to yield in excess of \$5,000,000.

On the 16th August 2011 the Group's banker's confirmed that all banking facilities were in good standing following an earlier technical breach of a lending covenant. On receipt of this advice bank bills with a value of \$3,102,000 were reclassified as non-current liabilities from current liabilities.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

25. Auditors' remuneration

The auditor of Kresta Holdings Limited is Ernst & Young.

	2011 \$	2010 \$
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	117,250	100,000
Other services in relation to the entity and any other entity in the consolidated group		
Special audits required for government grants	7,725	5,923
Special audits required for sales certificates	3,090	1,200
Assurance related and due diligence services	30,153	77,137
	158,218	184,260

26. Operating segments

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

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

Geographical areas

The Group has revenues from external customers attributed to:

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

	2011 \$000	2010 \$000
Revenues (Australia)	112,780	119,546
Revenues (New Zealand)	2,709	3,084
	115,489	122,630
Non-current assets (Australia)	21,041	19,670
Non-current assets (New Zealand)	43	62
	21,084	19,732

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

27. Derivative financial instruments

	2011 \$000	2010 \$000
Current assets		
Forward currency contracts – held for trading	-	83
	-	83
Current liabilities		
Interest rate swap contracts – held for trading	35	42
Forward currency contracts – cash flow hedges	14	-
	49	42

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 – held for trading

In the 2010 financial year the Group entered into forward exchange contracts which were economic hedges but did not satisfy the requirements for hedge accounting.

	Notional amounts \$AUD		Average exchange rate	
	2011 \$000	2010 \$000	2011	2010
Buy US\$/sell Australian \$				
Buy US\$ maturity 1-6 months – consolidated	-	2,113	-	0.87

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same period to maturity. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value loss on foreign currency derivatives during the year was \$83,000 for the Group (2010: net gain \$509,000).

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 – 4 months from 1 July 2011. At balance date, the details of outstanding contracts are:

	Notional amounts \$AUD		Average exchange rate	
	2011 \$000	2010 \$000	2011	2010
Buy US\$/sell Australian \$				
Buy US\$ maturity 1-4 months – consolidated	975	-	1.0538	-

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

27. Derivative financial instruments (continued)

Instruments used by the Group (continued)

Forward currency contracts – cash flow hedges (continued)

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

	2011 \$000	2010 \$000
Charged to other comprehensive income	(14)	-
Closing balance	(14)	-

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 5.07%. 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%.

At 30 June 2011, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	2011 \$000	2010 \$000
1-2 years	2,366	-
2-3 years	1,050	2,425
3-4 years	-	1,200
	3,416	3,625

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 \$7,000 for the Group (2010: net loss \$42,000).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2011

28. Business combination

In January 2010, Kresta Group acquired the Ace of Shades business based in Victoria. The business specializes in external blinds and awnings and has been a well regarded and profitable supplier in Melbourne for the past 17 years.

The total consideration transferred was \$1,687,700.

The Group had provisionally recognized the fair values of the identifiable net assets of Ace of Shades business based upon the best information available at the time. Final business combination accounting was as follows:

	Fair value at acquisition date \$000
Plant and equipment	167
Inventories	301
Prepayments	123
Accounts receivable	212
Trademark	589
Goodwill	500
Customer deposits	(137)
Provisions	(68)
Fair value of identifiable net assets	<u>1,687</u>
Acquisition date fair value of consideration transferred:	
Cash paid	<u>1,687</u>
Direct costs relating to the acquisition (included in other expense)	<u>3</u>
The cash outflow on acquisition is as follows:	
Cash paid	<u>1,687</u>
Net cash outflow	<u>1,687</u>

Included in the business acquired were receivables with a gross contractual and fair value of \$212,000 resulting from trade sales with customers.

The trademark acquired at the business combination relates to the line of products produced by the Ace of Shades business for 17 years.

Directors' declaration

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

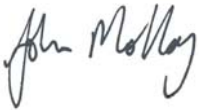
In the opinion of the Directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position as at 30 June 2011 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 2011.

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



J. Molloy
Director

Perth, 29 August 2011

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 2011, 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(b), 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.

Auditors' report (continued)



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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 2011 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(b).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

D S Lewsen
Partner
Perth
29 August 2011

Liability limited by a scheme approved
under Professional Standards Legislation

ASX additional information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as 25 August 2011.

(a) Distribution of equity securities

(i) Ordinary share capital

144,158,518 fully paid ordinary shares are held by 1,396 individual shareholders.

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

(ii) Options

There are no options on issue.

Options do not carry a right to vote.

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

	Fully paid ordinary share
1 – 1,000	196
1,001 – 5,000	406
5,001 – 10,000	258
10,001 – 100,000	443
100,001 and over	93
	<u>1,396</u>
Holding less than marketable parcel	291

(b) Substantial shareholders

Ordinary shareholders	Fully paid	
	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	31,126,437	21.59
AVATAR INDUSTRIES PTY LTD	28,244,985	19.59
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	10,301,892	7.15
MR SI CHUAN CHEOU	10,163,107	7.05
	<u>79,836,421</u>	<u>55.38</u>

ASX additional information (continued)

(c) Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid	
	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	31,126,437	21.59
AVATAR INDUSTRIES PTY LTD	28,244,985	19.59
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	10,301,892	7.15
MR SI CHUAN CHEOU	10,163,107	7.05
JASFORCE PTY LTD	3,300,000	2.29
MS SHIRLEY ANN FRY + MR DONALD ERIC FRY	2,260,000	1.57
MR ROBERT KEITH YORSTON	2,075,000	1.44
MRS LIU SHU-JEN CHEN	1,982,600	1.38
SANDHURST TRUSTEES LTD	1,970,478	1.37
COGENT NOMINEES PTY LIMITED	1,877,042	1.30
PENDOMER INVESTMENTS PTY LTD	1,655,380	1.15
MS YEN JU CHEN	1,616,292	1.12
L P O INVESTMENTS PTY LTD	1,500,000	1.04
MR CHENG CHIA CHEN	1,314,215	0.91
MR JOHN WILLIAM FRANCIS MOLLOY + MRS SHARON MAREE MOLLOY	1,206,000	0.84
UBS NOMINEES PTY LTD	1,200,000	0.83
MR ERIC ROYDS	1,116,970	0.77
DANEHILL HOLDINGS PTY LTD	1,003,000	0.70
MR DAVID JOHN LE CORNU + MRS BETTY LORRAINE LE CORNU	1,000,000	0.69
GREENFIELD COMPANY LIMITED	948,324	0.66
	<u>105,861,722</u>	<u>73.44</u>