



Kresta Holdings Limited

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ASX ANNOUNCEMENT

OPEN BRIEFING

The Company is pleased to provide a transcript of an interview by Open Briefing with Kresta's Chairman, Mr John Molloy.

Yours faithfully

A handwritten signature in dark ink, appearing to read "K McKinnon". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Kenneth McKinnon
Company Secretary and Chief Financial Officer

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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

ASX ANNOUNCEMENT: 6th September 2011**Outlook and Strategic Review**

Open Briefing with Chairman John Molloy

Kresta Holdings Limited
380 Victoria Road
Malaga, WA, 6090

Kresta Holdings Limited (ASX: KRS) is a national manufacturer and retailer of window furnishing with showrooms across Australia and New Zealand. Kresta exports to markets in Japan, Canada, USA, England and South-East Asia.

Current Market Cap: \$39 million

In this Open Briefing®, Chairman John Molloy discusses:

- **FY2011 results and outlook**
 - **Strategic review implementation and cost savings**
 - **Key priorities of new management in FY2012**
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Open Briefing interview:**openbriefing.com**

Kresta Holdings Limited (ASX: KRS) announced an after tax loss of \$781,000 for the year ended June 2011, with underlying EBIT of \$2.3 million before abnormal items. This compares with EBIT (before termination costs of senior managers) of \$3.6 million in the six months to December 2010 and implies an underlying loss of \$1.3 million in the second half. What were the factors behind the result and to what extent did this reflect one-off events such as the Queensland floods?

Chairman John Molloy

As Australia's largest manufacturer and retailer of window coverings, Kresta has a large fixed cost base. We have manufacturing operations in Perth, Melbourne and Brisbane, and 93 retail stores nationwide. As a result of these fixed costs the group is sensitive to fluctuations in revenue. The 2011 loss was attributable to reduced revenue coupled with a series of abnormal expenses totalling \$2.7 million. Revenue for FY2011 was \$7 million lower than the previous year due to a decline in discretionary spending and weak home starts. The one-off costs were related to inventory write downs, termination payouts, software write-offs and the group's response to a take-over offer and associated general meeting called by a major shareholder. The recent adverse weather events in Queensland had a slight negative impact on our financial

performance – however, the decline in retail spending during the final quarter of the 2011 financial year had a greater impact on our profitability.

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Kresta had net debt of \$3.8 million in FY11 with gearing (net debt/net debt + equity) of 16.9 percent, up from net debt of \$2.6 million and gearing of 10.3 percent in FY10. How are debt levels expected to trend over FY12 and what is your gearing target range?

Chairman John Molloy

Kresta reduced its debt by \$1.99 million in FY2011 and we anticipate debt will reduce further in FY2012. This reduction will be partially funded through the sale of real estate that is excess to the group's requirements. Given current volatile trading conditions Kresta is adopting a conservative stance to debt levels in the immediate future.

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At the end of June 2011, net cash flow from operating activities was \$4.81 million, down from \$11.04 million in the previous year. Cash and cash equivalents was \$5.0 million, down from \$7.86 million in 2010. What is your outlook for cash flow in FY2012 and do you have sufficient cash flow to implement your operations restructure?

Chairman John Molloy

The cash flow outlook over FY2012 for the Kresta Group is steady, providing sales revenue does not decline significantly below that of FY2011.

Restructuring can be financed from operating cash flows. Savings during FY2012 resulting from the operational changes introduced will help offset some of the restructuring costs.

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Kresta partly attributed its 2011 loss to an inventory write-down of \$854,000. What is the reason for the write-downs and where do you expect inventory levels to trend over FY12?

Chairman John Molloy

The inventory write-down primarily relates to raw materials that were on hand for use in a production line that has now been closed as part of a recent review of our manufacturing operations. Beyond that, the inventory is current and should be cleared in the normal course of trading. We anticipate the inventory will be trending downwards in FY12 as purchasing is more closely aligned to sales trends.

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Kresta recently announced it had commenced streamlining and upgrading its manufacturing operations as part of a strategic review. What is the expected cost of implementing these changes and what is the expected level of annual savings?

Chairman John Molloy

The estimated cost of implementing the strategic changes identified so far is \$1.35 million. Further changes are planned, however the costs associated with these actions have yet to be quantified. Savings arising from the strategic changes already announced are anticipated to be in the order of \$3 million on an annual basis.

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In the year to June 2011 Kresta had an underlying EBIT margin of 2 percent, down from EBIT margin of around 6 percent five years ago. Given pricing pressure from domestic and import competition, and a weak retail and housing construction outlook, can your current strategic initiatives return the company to its previous margin levels?

Chairman John Molloy

We expect the cost savings we have identified through the strategic review process, along with a revitalised product range will deliver a return to previous, higher margin levels.

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What are the ultimate goals of the strategic review and do you anticipate further major operational restructuring? How will Kresta's fixed cost base be affected and what scope is there to introduce more flexibility into the cost base?

Chairman John Molloy

The ultimate goal of this review is to make the Company dynamic and more responsive to market trends. Our three brands, Kresta, Vista and Curtain Wonderland, are positioned to capture specific market positions. The brands supply mid to high end made-to-measure products, value orientated made-to-measure products and a large range of ready-made merchandise.

As window coverings are a fashion item, Kresta needs to continually review its product range, its method of communication with customers and its operational efficiency to ensure competitive pricing.

Kresta management is taking every step to reduce fixed costs during FY12 with a view to making the group more flexible in uncertain trading conditions.

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Kresta will retain production facilities in Perth, Brisbane and Melbourne while outsourcing some manufacturing operations to manufacturers in Asia. What is the rationale for shifting some production off-shore? What have been your criteria for choosing suitable manufacturing partners and how will you seek to maintain production quality and speed to market?

Chairman John Molloy

The objectives of the move to offshore manufacturing are to reduce manufacturing costs, increase the scalability of supply, and improve flexibility and speed of products to market from a near neighbour. The product lines we have moved offshore are our least efficient.

Our chosen manufacturer has worked with our subsidiary Curtain Wonderland for over 10 years and is one of the largest window covering manufacturers in the world with a proven ability to provide consistently high quality products. We also have an on-going long term relationship with our partner in China and Taiwan, which allows new fashion ranges to be brought into the Australian market quickly, while our purchase agreement includes assurances of high quality.

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Kresta will not pay a final dividend in FY11. What is your dividend policy and when do you anticipate dividend payments will resume?

Chairman John Molloy

Kresta has always had a policy of paying dividends when possible. The Board endorses this policy. An interim fully franked dividend of 0.5 cents 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.

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Kresta recently renewed its board and executive team, including the appointment of a new CEO. What are the management's key priorities?

Chairman John Molloy

The key management priorities are to improve the product range, and to get a balanced mix between efficient local manufacturing and offshore manufacturing. The industry is driven by both fashion and seasonal demand changes, so it is important for the company to have the ability to change direction quickly with measures to reduce the amount of stock held and improve scalability, delivering a more flexible product mix.

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Thank you John

For more information on Kresta Holdings Limited visit www.kresta.com.au or call John Molloy on +61 8 9249 0777

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