

# Annual Report 2012



Kresta Holdings Limited

ACN 008 675 803

## Chairman's report

Dear Shareholder,

On behalf of the Board of directors I wish to present Kresta Holdings Limited's annual report for the year ended 30 June 2012.

The 2012 financial year has been a challenging one for the Kresta Group. Group revenues declined from \$115,489,000 in the 2011 financial year to \$110,896,000 for the 2012 financial year. Although the Group recorded a profit after tax of \$791,000 for the 2012 financial year compared to a loss after tax of \$781,000 for the 2011 financial year, an underlying EBIT loss of \$1,728,000 was incurred compared with an underlying EBIT profit of \$2,298,000 in 2011. The result for the 2012 financial year was assisted by a pre-tax gain of \$3,598,000 on the sale of land and a building which were surplus to the Group's needs. The Group also incurred expenses of \$1,277,000 (2011: \$925,000) that were associated with restructuring announced in August 2011 and a stock write down of \$203,000 (2011: \$854,000). Full details of these expenses and a reconciliation of the underlying EBIT to IFRS net profit after tax can be found in the Operating and Financial Review section of this report.

The Group's balance sheet remained strong with net assets increasing from \$18,987,000 as at 30 June 2011 to \$19,729,000 at 30 June 2012. The Group gearing ratio reduced from 17% at 30 June 2011 to 14% at 30 June 2012.

### Directors

Mr Peter Abery and Mr Robert Farrar joined the Board on the 26 June 2012 and 21 June 2012 respectively. The Company's longest servicing director, Mr Trent Bartlett retired on 19 March 2012 after over nine years of service. Mr Jonathan Huston also retired as a director on 23 November 2011.

### Executives

I am pleased to welcome Mr Giuliano (Jules) Di Bartolomeo who took up the role of Chief Executive Officer (CEO) on 20 August 2012. Mr Di Bartolomeo is a proven and success-driven executive who led the transformation and profitable growth of QBE Limited's consumer business operations in Western Australia. He has an MBA from Curtin University and has held a number of senior general management, marketing and sales roles within both retail and wholesale environments.

Mr Andrew Tacey returned to his former position as General Manager of Curtain Wonderland on the 15 May 2012 after stepping down from the CEO role. I would also like to thank Mr Tass Zorbas, a founder and former managing director, for acting as interim CEO for the period between Mr Tacey's resignation and the appointment of Mr Di Bartolomeo.

On 1 June 2012 Mr Lloyd Fels was appointed as National Sales Manager, taking over from Mr Don Gunther. Mr Fels has been with the Kresta Group for over nine years and was previously Regional Sales Manager for Queensland and Victoria.

### Dividends

Kresta has always had a policy of paying dividends when possible and the Board endorses this policy. As a result of continuing poor trading results and the underlying loss, the Board has 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.

## Chairman's report (continued)

### Outlook

The general economic conditions are uncertain and consumer confidence is subdued, resulting in continuing difficult retail trading conditions.

This year significant changes have been made across many aspects of operations to meet the challenges presented to this Company.

The key objective of the Board is to return the Kresta Group to profitability and build a strong platform to take the Group into the future. The Board are looking forward to working with Mr Di Bartolomeo during the coming year to continue this objective.



J. Molloy  
Chairman

31 August 2012

## Contents

Corporate information	1
Directors' report	2
Corporate governance statement	19
Consolidated statement of comprehensive income	23
Consolidated statement of financial position	24
Consolidated statement of cash flows	25
Consolidated statement of changes in equity	26
Notes to the financial statements	
1 Corporate information	27
2 Summary of significant accounting policies	27
3 Significant accounting judgements, estimates and assumptions	45
4 Other income and expenses	47
5 Income tax	48
6 Earnings per share	50
7 Dividends paid and proposed	51
8 Cash and cash equivalents	51
9 Trade and other receivables	52
10 Inventories	54
11 Parent entity information	54
12 Property, plant and equipment	55
13 Intangible assets and goodwill	56
14 Share-based payment plans	59
15 Trade and other payables	59
16 Interest-bearing loans and borrowings	59
17 Provisions	62
18 Contributed equity and reserves	63
19 Government grants	65
20 Financial risk management objectives and policies	66
21 Commitments	72
22 Related party disclosures	73
23 Key management personnel	74
24 Events after the balance sheet date	76
25 Auditors' remuneration	77
26 Operating segments	77
27 Derivative financial instruments	78
28 Non-current assets held for sale	79
Directors' declaration	80
Independent auditors' report	81
ASX additional information	83

## Corporate information

**ABN** 26 008 675 803

### Directors

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

### 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 Securities Exchange (ASX).  
ASX Code: KRS

### Bankers

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

### Auditors

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

## Directors' report

Your directors of Kresta Holdings Limited submit their report for the year ended 30 June 2012.

### 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)

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

##### **Richard Taylor**, B.Econ., ACA., FAICD. (Non-executive Director)

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

- Wintech Group Limited (ASX: WTG) – appointed 7 October 2011
- Lamboo Resources Limited (ASX: LMB) – appointed March 2002; resigned 14 June 2012
- Hunter Hall International Limited (ASX: HHL) – appointed 20 March 2009; resigned 29 April 2010

##### **Kevin Eley**, CA., F Fin (Non-executive Director)

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

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

##### **Robert Farrar**, (Non-executive Director) – appointed on 21 June 2012

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

## Directors' report (continued)

### Directors (continued)

#### Names, qualifications, experience and special responsibilities (continued)

**Peter Abery**, B. Sc. Eng., M. Sc. Eng., MBA., Harvard ISMP., MIET., FAICD. (Non-executive Director) – appointed on 26 June 2012

Mr Abery joined Kresta Holdings Ltd as a non-executive director in June 2012. He serves as chairman of the remuneration committee and is also a member of the audit and risk committee of the Group. He has over 25 years extensive experience as a director and executive, and has held senior management roles including CEO and Managing Director of such companies as HPM Industries, Crown Castle UK, Crown Castle Australia, Vodafone Network and QPSX Communications. He also held senior management / director positions in Telstra. He is the non-executive Chairman of the unlisted company Vesco Foods Pty Ltd and a non-executive director of Australian Convenience Foods Pty Ltd, The Ear Science Institute of Australia and the Western Australia Institute of Sport. During the past 3 years he also served as a director of the following ASX listed companies:

- Nomad Building Solutions Limited (ASX: NOD) – appointed 28 July 2008
- Pienetworks Limited (ASX: PIE) – appointed 8 May 2007; resigned 26 July 2011
- Norfolk Group Limited (ASX: NFK) – appointed 31 May 2007; resigned 4 August 2010

**Trent Bartlett**, Grad Dip Bus., Grad Cert E-Commerce, FAICD (Non-executive Director) – resigned on 19 March 2012

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 Limited for 10 years. He was Chairman of the audit and risk committee of the Group until his resignation.

**Jonathan Huston**, BA., MBus. (Non-executive Director) – resigned on 23 November 2011

Mr Huston joined Kresta Holdings Limited as non-executive director in April 2011 and was a member of the remuneration committee of the Group until his resignation. 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.

#### 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	1,749,000
R. Taylor	-
K. Eley	-
R. Farrar	250,000
P. Abery	-

### 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., CTA.

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

## Directors' report (continued)

### Dividends

	Cents	\$000
Final dividends recommended:		
Ordinary shares	-	-
Dividends paid in the year:		
<i>Interim for the year</i>		
Ordinary shares	-	-
Final for 2011 shown as recommended in the 2011 financial report:		
Ordinary shares	-	-

### 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. The Group's manufacturing and procurement operations are predominately centred in Western Australia and markets and sells through a significant chain of outlets located throughout Australia and also has presence in New Zealand.

The Group operates several manufacturing plants involving production of roller blinds, curtains, vertical blinds and awnings. The manufacturing operations continue to be a major part of the Group's core activities. At the same time, the Group sources many finished product lines from local and overseas contract suppliers at competitive prices and acceptable delivery time to customers.

During the 2012 financial year the Group welcomed Mr Peter Abery and Mr Robert Farrar as directors whilst Mr Trent Bartlett and Mr Jonathan Huston retired from their roles as directors of the Company.

On 15 May 2012 the Group announced that Mr Andrew Tacey was stepping down as CEO and returning to his former position as General Manager of Curtain Wonderland, which is a wholly owned subsidiary. Mr Tass Zorbas, a founder and previous managing director of the Kresta Group, took up the position of interim CEO until the appointment of Mr Giuliano (Jules) Di Bartolomeo as CEO on 20 August 2012.

A strategic review of the Group's operations commenced in the early months of the 2012 financial year. In August 2011 the Company announced the closure of manufacturing facilities at Jandakot in Western Australia, rationalisation of some manufacturing activities at its factories in Malaga Western Australia, relocation of some manufacturing activities to its Queensland factory and outsourcing some production to manufacturers in Western Australia and Asia.

Unfortunately this also resulted in a reduction in the workforce of 139 employees and contractors.



## Directors' report (continued)

### Operating and financial review (continued)

#### Group overview (continued)

Manufacturing still continues at the Company's Malaga factories with redesigned production facilities and new equipment installed to boost output and reduce operating costs.

During the year the Kresta, Vista and Décor 2 Go brands suffered delays in deliveries and difficulties with product quality, which contributed to reducing profit margins and a reduction in sales revenue. While the effects of these difficulties continue to be felt, they are actively being addressed by management and we are seeing improvements in the profit margins being achieved.

Streamlining of operations by these brands saw the closure of 13 stores during this period.

Costs associated with the restructuring of the Kresta, Vista and Décor 2 Go brands during the 2012 financial year totalled \$1,277,000.

The Curtain Wonderland brand continued to trade profitably with a new store at Springvale Victoria being opened during the 2012 financial year.

Land and buildings at 387 Victoria Road Malaga in Western Australia, which were surplus to the Group's operational needs, were sold during the 2012 financial year. Cash proceeds from the sale of \$4,800,000 were applied to the repayment of bank finance (\$1,200,000) and working capital (\$3,600,000). A profit of \$3,598,000 was recorded on the sale which was responsible for the Group reporting a positive EBIT result of \$390,000 for the 2012 financial year. A further three buildings surplus to the Company's needs were offered for sale during the 2012 financial year. The Company now has an unconditional contract for sale of one of these properties set for settlement on 3 November 2012 realizing \$3,800,000 of cash, which will be used for working capital and debt reduction.

The head office and the redesigned manufacturing facilities at Malaga are situated in premises owned by the Company.

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 net profit after tax of \$791,000 for the year ended 30 June 2012 was 201 per cent higher than the previous year loss of \$781,000. The operating results were negatively impacted by reduced consumer demand and a number of significant expenses as outlined in the group overview section above.

## Directors' report (continued)

### Operating and financial review (continued)

#### Operating results for the year (continued)

Summarised operating results are as follows:

	Unaudited		Note	Financial statement reference
	2012	2011		
	\$000	\$000		
Sales revenue	110,896	115,489		
Underlying EBIT	(1,728)	2,298		
Significant items:				
Profit on sale of building <sup>(i)</sup>	3,598	-	4(a)	Net gain from disposal of property, plant and equipment
Stock provision write off	(203)	(854)	4(g)	Write down of inventory to net realisable value included within the cost of inventory recognised as an expense
Restructuring				
Redundancies	(877)	(759)	4(b)	Wages and salaries
Consulting / legal fees	(60)	(166)	4(d)	Other expenses
Loss on disposal of assets <sup>(i)</sup>	(97)	-	4(a)	Net gain from disposal of property, plant and equipment
Makegood expensed	(68)	-	4(c)	Depreciation
Onerous leases expensed	(175)	-	4(d)	Property rent
Software write off	-	(483)	4(d)	Other expenses
Takeover related costs	-	(385)	4(d)	Other expenses
Other	-	(43)	4(d)	Other expenses
EBIT	390	(392)		
Finance income	249	386		
Finance costs	(526)	(852)		
Income tax benefit	678	77		
Net profit / (loss) for the year	791	(781)		

<sup>(i)</sup> Note 4(a) "Other income – net gain from disposal of property, plant and equipment" totalling \$3,495,000 made up of profit on sale of building of \$3,598,000, loss on disposal of assets following store closures totalling \$97,000 and loss on disposal of other assets totalling \$6,000.

#### Shareholder returns

	2012	2011	2010	2009	2008
Basic earnings / (losses) per share (cents)	.55	(0.54)	1.88	2.68	3.22
Return on shareholders' fund	4%	(4%)	12%	15%	21%
Share price (cents)	11.0	26.0	35.0	13.5	26.0

## 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 Company is currently directing significant resources to improving customer service, strengthening the management team, developing strong relationships with our suppliers and developing our strong brands.

The Group remains committed to providing staff with access to appropriate training and development with an experienced team established to visit each branch to ensure consistent procedures are adopted throughout the Group in order to provide better customer service.

A new IT system is in the process of being implemented in Curtain Wonderland which will also be adopted throughout the Group. Management are focused on the enhancement of the Group's information technology systems, recognizing the need to upgrade and improve inventory management, reporting capabilities and customer service.

#### Capital structure

The Group's balance sheet is strong with net assets increasing from \$18,987,000 as at 30 June 2011 to \$19,729,000 at 30 June 2012. The Group gearing ratio reduced from 17% at 30 June 2011 to 14% at 30 June 2012.

#### Liquidity and funding

At year end, the Group had credit facilities (inclusive of bank guarantee) totalling \$9,550,000 (2011: \$11,870,000) of which unused were \$2,597,000 (2011: \$2,529,000). Cash at bank and on hand at 30 June 2012 were \$3,455,000 (2011: \$5,002,000).

As mentioned in the corporate overview above the Company expects approximately \$6,100,000 from the sale of surplus land which if achieved will be used to repay debt and increase working capital.

### 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

As disclosed in note 28, the sales conditions for one of the three properties held as available for sale were met in August 2012 and settlement is expected in November 2012. Net proceeds totalling \$3,800,000 will be received from the sale of the property of which \$1,800,000 will be used to reduce the bank facilities. Disposal of the property will result in a net profit of approximately \$2,450,000.

### Likely developments and expected results

The directors anticipate that general economic conditions will remain uncertain and consumer confidence will continue to be subdued over the next twelve months. The Board will continue its key objectives of returning the Group to profitability and building a strong platform to take the Group into the future. The Board and management of the Group will continue to vigorously pursue these objectives during the coming year.

### 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.

## Directors' report (continued)

### Environmental regulation and performance (continued)

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

### 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	11	11	-	-	-	-
R. Taylor	11	11	3	3	-	-
K. Eley	11	10	3	3	-	-
R. Farrar (appointed on 21 June 2012)	1	1	-	-	-	-
P. Abery (appointed on 26 June 2012)	-	-	-	-	-	-
T. Bartlett (resigned on 19 March 2012)	7	7	2	2	-	-
J. Huston (resigned on 23 November 2011)	4	3	-	-	-	-

### 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

R. Taylor (Chairman)  
K. Eley  
P. Abery – appointed on 31 July 2012  
T. Bartlett (Chairman) – resigned on 19 March 2012

#### Remuneration

P. Abery (Chairman) – appointed on 31 July 2012  
J. Molloy  
R. Farrar – appointed on 21 August 2012  
T. Bartlett – resigned on 19 March 2012  
J. Huston – resigned on 23 November 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.

## Directors' report (continued)

### Auditor's independence

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



**ERNST & YOUNG**

Ernst & Young Building  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843  
Tel: +61 8 9429 2222  
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 2012, 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

D S Lewsen  
Partner  
Perth  
31 August 2012

Liability limited by a scheme approved  
under Professional Standards Legislation

### Non-audit services

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

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

	\$
Assurance related and due diligence services	6,000

### Remuneration report (audited)

This remuneration report for the year ended 30 June 2012 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.

## Directors' report (continued)

### Remuneration report (audited) (continued)

#### Individual key management personnel disclosures

Details of KMP are set out below.

#### Directors

J. Molloy	Chairman (Non-Executive)
R. Taylor	Director (Non-Executive)
K. Eley	Director (Non-Executive)
R. Farrar	Director (Non-Executive) – appointed on 21 June 2012
P. Abery	Director (Non-Executive) – appointed on 26 June 2012
J. Huston	Director (Non-Executive) – resigned on 23 November 2011
T. Bartlett	Director (Non-Executive) – resigned on 19 March 2012

#### Executives

G. Di Bartolomeo	Chief Executive Officer – appointed 20 August 2012
A. Tacey	Chief Executive Officer – resigned as Chief Executive Officer on 15 May 2012; re-appointed as General Manager of Curtain Wonderland on 15 May 2012
T. Zorbas	Interim Chief Executive Officer – appointed on 15 May 2012
K. McKinnon	Chief Financial Officer and Company Secretary
D. Gunther	National Sales Manager – resigned on 12 June 2012
L. Fels	National Sales Manager – appointed on 12 June 2012
S. Shwe	Operations Manager – appointed on 1 October 2011

#### 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.

## Directors' report (continued)

### Remuneration report (audited) (continued)

#### 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.

##### 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.

## Directors' report (continued)

### Remuneration report (audited) (continued)

#### Executive remuneration (continued)

##### Fixed remuneration (continued)

###### *Objective (continued)*

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.

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 2012 financial year*

There was no STI cash bonus paid to executives in the 2012 financial year (accrued and vested in 2010 and paid in 2011: \$30,000). 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 2012 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.



## Directors' report (continued)

### Remuneration report (audited) (continued)

#### Executive remuneration (continued)

##### Variable remuneration – long term incentive (continued)

###### *Structure*

LTI grants to executive directors and executives will be delivered in the form of ordinary shares via a limited recourse loan. The LTI scheme will include conditions imposed by the directors which must be satisfied before the shares are released. The purpose of the scheme is to align the rewards of executive directors and executives with the strategic long term goals and performance of the Company.

As at the date of this report, there were no shares issued under this scheme (2011: nil).

#### **Employment contracts**

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

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

## Directors' report (continued)

### Remuneration report (audited) (continued)

#### Remuneration of key management personnel of the Company and the Group

Remuneration for the year ended 30 June 2012

	Short-term benefits			Post employment	Long-term benefits	Termination payments	Total	Performance related
	Salary & fees	Cash bonus	Non monetary benefits	Superannuation	Long service leave			
	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive directors</b>								
J. Molloy	93,073	-	-	47,327	-	-	140,400	-
K. Eley	50,459	-	-	4,541	-	-	55,000	-
R. Taylor	50,459	-	-	4,541	-	-	55,000	-
T. Bartlett <sup>(ii)</sup>	36,216	-	-	3,259	-	-	39,475	-
J. Huston <sup>(iii)</sup>	20,043	-	-	1,804	-	-	21,847	-
R. Farrar <sup>(iv)</sup>	1,542	-	-	139	-	-	1,681	-
P. Abery <sup>(v)</sup>	701	-	-	63	-	-	764	-
	252,493	-	-	61,674	-	-	314,167	-
<b>Other key management personnel</b>								
A. Tacey <sup>(vi)</sup>	363,292	-	29,378	33,882	<sup>(i)</sup> (48,305)	-	378,247	-
T. Zorbas <sup>(vii)</sup>	62,308	-	-	-	-	-	62,308	-
K. McKinnon	200,324	-	-	47,688	-	-	248,012	-
D. Gunther <sup>(viii)</sup>	228,769	-	-	21,430	-	-	250,199	-
L. Fels <sup>(ix)</sup>	138,513	-	28,635	12,412	7,001	-	186,561	-
S. Shwe <sup>(x)</sup>	154,145	-	19,124	13,000	514	-	186,783	-
J. Fulton <sup>(xi)</sup>	269,213	-	228	17,016	<sup>(i)</sup> (108,705)	-	177,752	-
	1,416,564	-	77,365	145,428	(149,495)	-	1,489,862	-
	1,669,057	-	77,365	207,102	(149,495)	-	1,804,029	-

## Directors' report (continued)

### Remuneration report (audited) (continued)

#### Remuneration of key management personnel of the Company and the Group (continued)

Remuneration for the year ended 30 June 2012

- (i) Relates to long service leave previously accrued but forfeited due to termination of employment or change in employment position.
- (ii) Mr T. Bartlett resigned on 19 March 2012.
- (iii) Mr J. Huston resigned on 23 November 2011.
- (iv) Mr R. Farrar appointed on 21 June 2012.
- (v) Mr P. Abery appointed on 26 June 2012.
- (vi) Mr A. Tacey resigned as Chief Executive Officer on 15 May 2012; re-appointed as General Manager of Curtain Wonderland on 15 May 2012.
- (vii) Mr T. Zorbas appointed as Interim Chief Executive Officer on 15 May 2012.
- (viii) Mr D. Gunther appointed on 18 July 2011; resigned on 12 June 2012.
- (ix) Mr L. Fels appointed on 12 June 2012 to the position of National Sales Manager. Prior to that he was the Regional Manager from 1 July 2011.
- (x) Mr S. Shwe appointed on 1 October 2011.
- (xi) Mr J. Fulton resigned on 31 December 2011.

## Directors' report (continued)

### Remuneration report (audited) (continued)

#### Remuneration of key management personnel of the Company and the Group (continued)

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			
	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive directors</b>								
J. Molloy <sup>(iii)</sup>	-	-	-	54,575	-	-	54,575	-
I. Trahar <sup>(iv)</sup>	62,292	-	-	5,606	-	-	67,898	-
T. Bartlett	63,410	-	-	5,707	-	-	69,117	-
P. Hatfull <sup>(v)</sup>	48,125	-	-	4,331	-	-	52,456	-
K. Eley <sup>(vi)</sup>	12,054	-	-	1,085	-	-	13,139	-
R. Taylor <sup>(vii)</sup>	14,717	-	-	1,325	-	-	16,042	-
J. Huston <sup>(viii)</sup>	12,054	-	-	1,085	-	-	13,139	-
	212,652	-	-	73,714	-	-	286,366	-
<b>Executive director</b>								
T. Zorbas <sup>(ix)</sup>	245,893	-	56,926	<sup>(ii)</sup> 440,283	<sup>(i)</sup> (201,378)	-	541,724	-
<b>Other key management personnel</b>								
A. Tacey <sup>(x)</sup>	270,678	10,000	23,538	21,333	73,491	-	399,040	2.5
I. Leijer <sup>(xi)</sup>	324,000	-	-	-	-	-	324,000	-
T. Tan <sup>(xii)</sup>	91,103	-	48,992	25,410	<sup>(i)</sup> (18,395)	139,833	286,943	-
J. Fulton	274,921	20,000	70,786	21,330	34,384	-	421,421	4.7
D. Le <sup>(xiii)</sup>	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 of the Company and the Group (continued)

Remuneration for the year ended 30 June 2011

- (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)

There were no shares 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, 31 August 2012

## 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 2012 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	1.5 years	Yes
R. Taylor	Non-Executive Director	1.5 years	Yes
K. Eley	Non-Executive Director	1.5 years	Yes
R. Farrar	Non-Executive Director	2 months	Yes
P. Abery	Non-Executive Director	2 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:

R. Taylor (Committee Chairman)

K. Eley

P. Abery

T. Bartlett (Committee Chairman) – resigned on 19 March 2012

### 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:

P. Abery (Committee Chairman)

J. Molloy

R. Farrar

T. Bartlett – resigned on 19 March 2012

J. Huston – resigned on 23 November 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 Officer 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.

### Diversity policy

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



## Corporate governance statement (continued)

### Diversity policy (continued)

The table below shows the proportion of women employees of the Group as at 30 June 2012.

Position	Number	Percent %
Board members	-	-
Senior managers	-	-
Managers	75	87
Other employees	454	82
	<u>529</u>	<u>81</u>

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

The Company has not adopted Recommendation 3.3 of the ASX's Corporate Governance Principles and Recommendations in that it did not set or disclose measureable objectives for achieving gender diversity in accordance with its Diversity Policy. The Company is gathering information necessary to assess the desired objectives prior to implementing the measurement criteria.

### 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 2012, 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.

### 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 2012.

### 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.

## Corporate governance statement (continued)

### 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.

### 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 2012

	Note	2012 \$000	2011 \$000
<b>Continuing operations</b>			
Sale of goods		110,896	115,489
Finance income		249	386
<b>Revenue</b>		<b>111,145</b>	<b>115,875</b>
Other income	4a	3,964	749
Changes in inventories of finished goods and work in progress		(3,824)	(2,241)
Raw materials and consumables used		(29,170)	(27,944)
Employee benefits expense	4b	(46,591)	(49,718)
Depreciation and amortisation charge	4c	(2,200)	(2,418)
Other expenses	4d	(32,685)	(34,309)
Finance costs	4e	(526)	(852)
<b>Profit / (loss) before income tax</b>		<b>113</b>	<b>(858)</b>
Income tax benefit	5	678	77
<b>Net profit / (loss) for the period</b>		<b>791</b>	<b>(781)</b>
<b>Other comprehensive income</b>			
Net foreign currency translation		(44)	(79)
Effective portion of changes in fair value of cash flow hedges		(5)	(14)
<b>Other comprehensive income for the period, net of tax</b>		<b>(49)</b>	<b>(93)</b>
<b>Total comprehensive income / (loss) for the period</b>		<b>742</b>	<b>(874)</b>
<b>Total comprehensive income / (loss) attributable to owners of the Company</b>		<b>742</b>	<b>(874)</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the parent:</b>	6		
Basic earnings / (losses) per share		.55 cents	(0.54) cents
Diluted earnings / (losses) per share		.55 cents	(0.54) 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 2012

	<b>Note</b>	<b>2012</b> \$000	<b>2011</b> \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	3,455	5,002
Trade and other receivables	9	2,931	3,045
Inventories	10	9,303	10,408
Prepayments		848	917
Non-current assets held for sale	28	1,933	-
Income tax receivable		676	700
<b>Total current assets</b>		<b>19,146</b>	<b>20,072</b>
<b>Non-current assets</b>			
Trade and other receivables	9	26	47
Property, plant and equipment	12	13,788	17,818
Deferred tax assets	5	2,984	2,258
Intangible assets and goodwill	13	3,826	2,736
<b>Total non-current assets</b>		<b>20,624</b>	<b>22,859</b>
<b>TOTAL ASSETS</b>		<b>39,770</b>	<b>42,931</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	8,128	8,621
Interest-bearing loans and borrowings	16	5,549	8,848
Provisions	17	4,152	5,149
Derivative financial instruments	27	102	49
Government grants	19	-	73
<b>Total current liabilities</b>		<b>17,931</b>	<b>22,740</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	16	1,001	23
Provisions	17	1,109	1,122
Government grants	19	-	59
<b>Total non-current liabilities</b>		<b>2,110</b>	<b>1,204</b>
<b>TOTAL LIABILITIES</b>		<b>20,041</b>	<b>23,944</b>
<b>NET ASSETS</b>		<b>19,729</b>	<b>18,987</b>
<b>EQUITY</b>			
Contributed equity	18	11,961	11,961
Reserves	18	(439)	(390)
Retained earnings	18	8,207	7,416
<b>TOTAL EQUITY</b>		<b>19,729</b>	<b>18,987</b>

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 2012

	<b>Note</b>	<b>2012</b> \$000	<b>2011</b> \$000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		122,358	125,766
Payments to suppliers and employees (inclusive of GST)		(123,613)	(120,076)
Receipt of government grants		-	434
Interest received		249	386
Interest paid		(526)	(852)
Income tax paid		(24)	(849)
<b>Net cash flows (used in) / from operating activities</b>	<b>8</b>	<b>(1,556)</b>	<b>4,809</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		4,911	95
Purchase of intangibles		(1,004)	(129)
Purchase of property, plant and equipment		(1,531)	(3,062)
<b>Net cash flows from / (used in) investing activities</b>		<b>2,376</b>	<b>(3,096)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		-	(2,883)
Repayment of borrowings		(2,818)	(1,987)
Proceeds from borrowings		590	526
Payment of finance lease liabilities		(93)	(152)
<b>Net cash flows used in financing activities</b>		<b>(2,321)</b>	<b>(4,496)</b>
Net decrease in cash and cash equivalents		(1,501)	(2,783)
Net foreign exchange differences		(46)	(76)
Cash and cash equivalents at beginning of period		5,002	7,861
<b>Cash and cash equivalents at end of period</b>	<b>8</b>	<b>3,455</b>	<b>5,002</b>

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 2012

	Ordinary shares	Foreign currency translation reserve	Employee equity benefits reserve	Hedging reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>At 1 July 2011</b>	11,961	(424)	48	(14)	7,416	18,987
Profit for the period	-	-	-	-	791	791
Other comprehensive income	-	(44)	-	(5)	-	(49)
<b>Total comprehensive income for the period</b>	-	(44)	-	(5)	791	742
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid	-	-	-	-	-	-
<b>At 30 June 2012</b>	11,961	(468)	48	(19)	8,207	19,729
<b>At 1 July 2010</b>	11,961	(345)	48	-	11,080	22,744
Loss for the period	-	-	-	-	(781)	(781)
Other comprehensive income	-	(79)	-	(14)	-	(93)
<b>Total comprehensive income for the period</b>	-	(79)	-	(14)	(781)	(874)
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid	-	-	-	-	(2,883)	(2,883)
<b>At 30 June 2011</b>	11,961	(424)	48	(14)	7,416	18,987

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 2012

## 1. Corporate information

The consolidated financial report of Kresta Holdings Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 31 August 2012.

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 2011, the Group has adopted all the Australian Accounting Standards and AASB Interpretations, mandatory for annual periods beginning on or after 1 July 2011. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

#### Accounting standards and interpretations issued but not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2012. None of these is expected to have a significant impact on the consolidated financial statements of the Group. The impact of these standards on the Group's financial statements is currently being assessed. These are outlined below:

#### (i) *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income*

Application date of standard – 1 July 2012. Application date for Group – 1 July 2012.

This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (c) New accounting standards and interpretations (continued)

Accounting standards and interpretations issued but not yet adopted (continued)

##### (ii) *AASB 9 Financial Instruments*

Application date of standard – 1 January 2015. Application date for Group – 1 July 2015.

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

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

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - The change attributable to changes in credit risk are presented in other comprehensive income
  - The remaining change is presented in profit or loss

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

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

##### (iii) *AASB 10 Consolidated Financial Statements*

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

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

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

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



## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (c) New accounting standards and interpretations (continued)

Accounting standards and interpretations issued but not yet adopted (continued)

##### (iv) AASB 12 *Disclosure of Interests in Other Entities*

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

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

##### (v) AASB 13 *Fair Value Measurement*

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

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

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

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

##### (vi) AASB 1053 *Application of Tiers of Australian Accounting Standards*

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

This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities apply Tier 1 requirements in preparing general purpose financial statements:

- For-profit entities in the private sector that have public accountability (as defined in this Standard)
- The Australian Government and State, Territory and Local Governments

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:

- For-profit private sector entities that do not have public accountability
- All not-for-profit private sector entities
- Public sector entities other than the Australian Government and State, Territory and Local Governments.

Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (c) New accounting standards and interpretations (continued)

Accounting standards and interpretations issued but not yet adopted (continued)

- (vii) *AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*  
Application date of standard – 1 January 2013. Application date for Group – 1 July 2013.

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

The following items are addressed by this standard:

IFRS 1 First-time Adoption of International Financial Reporting Standards

- Repeated application of IFRS 1
- Borrowing costs

IAS 1 Presentation of Financial Statements

- Clarification of the requirements for comparative information

IAS 16 Property, Plant and Equipment

- Classification of servicing equipment

IAS 32 Financial Instruments: Presentation

- Tax effect of distribution to holders of equity instruments

IAS 34 Interim Financial Reporting

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

- (viii) *AASB 19 Employee Benefits*

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

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets.

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

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

#### (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).

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (d) Basis of consolidation (continued)

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

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

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

Investments in subsidiaries held by Kresta Holdings Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

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

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

#### (e) Business combinations

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (e) Business combinations (continued)

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

#### (f) Revenue recognition

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

##### Sale of goods

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

##### Interest income

Income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

##### Dividends

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

#### (g) Government grants – refer note 19

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

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

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

#### (h) Leases – refer note 16

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (h) Leases – refer note 16 (continued)

##### 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.

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.

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (I) 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.

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

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

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

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

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

##### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses.

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (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).

##### 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 2012

### 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 2012

### 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 2012

### 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 charge category.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

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

##### *Software*

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

##### *Trademark*

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 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.

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

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

#### (r) Trade and other payables – refer note 15

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and 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 2012

### 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

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

##### Warranty

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

##### Onerous contract

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

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

##### Borrowing costs

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

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

##### Equity settled transactions

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

The current plan to provide these benefits is under a Long Term Incentive Scheme (LTIS) in which the eligible employee will receive fully paid ordinary shares via a limited recourse loan. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model or as deemed appropriate.

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

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

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

The dilutive effect, if any, of outstanding shares 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 2012

### 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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (y) Financial instruments – initial recognition and subsequent measurement

##### (i) Financial assets

###### Initial recognition and measurement

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

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

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

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

###### Subsequent measurement

###### *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. 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.

###### Derecognition

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (y) Financial instruments – initial recognition and subsequent measurement (continued)

##### (ii) Impairment of financial assets

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

##### (iii) Financial liabilities

###### Initial recognition and measurement

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and derivative financial instruments.

###### Subsequent measurement

###### *Financial liabilities at fair value through profit or loss*

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

###### *Loans and receivables*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included in finance costs in the income statement.

###### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.



## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 2. Summary of significant accounting policies (continued)

#### (y) Financial instruments – initial recognition and subsequent measurement (continued)

##### (iv) Offsetting of financial instruments

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

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

#### (z) Non-current assets held for sale – refer note 28

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

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

### 3. Significant accounting judgements, estimates and assumptions

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

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

#### Significant accounting judgements

##### *Lease classification*

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

##### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

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

#### 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 2012

### 4. Other income and expenses

	2012	2011
	\$000	\$000
<b>(a) Other income</b>		
Government grants	132	510
Net gain from disposal of property, plant & equipment	3,495	-
Other	337	239
	<b>3,964</b>	<b>749</b>
<b>(b) Employee benefits expense</b>		
Wages and salaries	29,550	32,902
Superannuation expense	2,342	2,628
Subcontractors	11,597	11,419
Other employee benefits expense	3,102	2,769
	<b>46,591</b>	<b>49,718</b>
<b>(c) Depreciation and amortisation charge</b>		
Depreciation	2,107	2,369
Amortisation of IT software	93	49
	<b>2,200</b>	<b>2,418</b>
<b>(d) Other expenses</b>		
Advertising	10,377	11,193
Property rent	8,489	7,796
Property outgoing	4,073	3,900
Communication expenses	2,311	2,566
Banking and transaction expenses	1,050	1,085
Impairment loss – receivables	331	47
Net loss from disposal of property, plant & equipment	-	4
Net unrealised loss from derivatives	48	76
Foreign exchange losses	84	130
Freight	2,525	2,562
Other expenses	3,397	4,950
	<b>32,685</b>	<b>34,309</b>
<b>(e) Finance costs</b>		
Finance charges payable under finance leases and hire purchase contracts	24	175
Other borrowing costs	502	677
	<b>526</b>	<b>852</b>

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 4. Other income and expenses (continued)

	2012 \$000	2011 \$000
(f) Cost of inventories recognised as an expense	32,994	30,185
(g) Write-down of inventory to net realisable value included within the cost of inventory recognised as an expense	203	854
(h) Minimum lease payments – operating leases	126	562

### 5. Income tax

	2012 \$000	2011 \$000
<b>(a) Income tax expense</b>		
The major components of income tax expense are:		
<i>Income statement</i>		
<i>Current income tax</i>		
Current income tax charge	-	460
Adjustments in respect of current income tax of previous years	48	(2,234)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(699)	(549)
Adjustments in respect of deferred income tax of previous years	(27)	2,246
Income tax benefit reported in the statement of comprehensive income	(678)	(77)
<b>(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate</b>		
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 profit / (loss) before tax	113	(858)
At the Group's statutory income tax rate of 30% (2011: 30%)	34	(258)
Adjustments in respect of current and deferred income tax of previous years	50	12
Expenditure not allowable for income tax purposes	71	87
Expenditure allowable for income tax purposes	(89)	(32)
Capital losses utilised	(741)	-
Kresta Blinds International Pty Ltd loss	37	114
Other	(40)	-
Income tax benefit	(678)	(77)

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 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	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
<i>Deferred tax assets</i>				
Allowance for doubtful debts	94	8	(86)	3
Inventory	451	473	22	1,790
Accruals	91	94	3	23
Other creditors	31	89	58	(5)
Provision for FBT	10	15	5	13
Provision for warranty	16	-	(16)	-
Provision for onerous leases	53	-	(53)	-
Employee entitlements	1,294	1,585	291	(79)
Property, plant and equipment	-	57	57	-
Proceeds on disposal taxed in earlier year	1,139	-	(1,139)	-
Tax losses	225	-	(225)	-
Other	48	63	15	(63)
	<u>3,452</u>	<u>2,384</u>	<u>(1,068)</u>	<u>1,682</u>
<i>Deferred tax liabilities</i>				
Prepayment	60	45	15	43
Property, plant and equipment	406	81	325	-
Capitalised borrowings	-	-	-	(28)
Interest receivable	2	-	2	-
	<u>468</u>	<u>126</u>	<u>342</u>	<u>15</u>
Net deferred tax assets	<u>2,984</u>	<u>2,258</u>		
Deferred tax (benefit) / expense			<u>(726)</u>	<u>1,697</u>

The Group has tax losses of \$751,000 (2011: nil) for the year of which \$225,000 (2011: nil) was recognised as a deferred tax asset.

#### (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.

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 5. Income tax (continued)

#### (d) Tax consolidation legislation (continued)

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

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

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

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

#### (f) Nature of the tax funding agreement

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

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

### 6. Earnings per share

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

	2012	2011
	\$000	\$000
<b>Earnings used in calculating earnings per share</b>		
Net profit / (loss) attributable to ordinary equity holders of Kresta Holdings Ltd from continuing operations	791	(781)
<b>Weighted average number of shares</b>		
	2012 Thousands	2011 Thousands
Weighted average number of ordinary shares for basic earnings per share	144,158	144,158
Weighted average number of ordinary shares adjusted for the effect of dilution	144,158	144,158

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. There are no potential ordinary shares on issue at reporting date (2011: nil).

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 7. Dividends paid and proposed

	2012 \$000	2011 \$000
<b>(a) Recognised amounts</b>		
<i>Declared and paid during the year</i>		
Dividends on ordinary shares:		
Final franked dividend for 2011: nil (2010: 1.5 cents)	-	2,162
Interim franked dividend for 2012: nil (2011: 0.5 cents)	-	721
	<u>-</u>	<u>2,883</u>
<b>(b) Unrecognised amounts</b>		
Dividends on ordinary shares:		
Final franked dividend for 2012: nil (2011: nil)	-	-
	<u>-</u>	<u>-</u>
<b>(c) Franking credit balance</b>		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at end of the financial year at 30% (2011: 30%)	1,841	1,817
Franking credits that will arise from the refund of income tax as at the end of the financial year	(676)	(700)
	<u>1,165</u>	<u>1,117</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	-	-
	<u>1,165</u>	<u>1,117</u>
<b>(d) Tax rates</b>		
The tax rate at which paid dividends have been franked is 30% (2011: 30%).		
Dividends proposed will be franked at the rate of 30% (2011: 30%).		

### 8. Cash and cash equivalents

	2012 \$000	2011 \$000
Cash at bank and on hand	3,455	5,002
Total cash and cash equivalents	<u>3,455</u>	<u>5,002</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 2012

### 8. Cash and cash equivalents (continued)

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

	2012 \$000	2011 \$000
Net profit / (loss)	791	(781)
<i>Adjustments for:</i>		
Depreciation	2,107	2,369
Amortisation	93	49
Net (gain) / loss on disposal of property, plant and equipment	(3,495)	4
Net unrealised loss on derivatives	48	76
<i>Changes in assets and liabilities</i>		
(Increase) / decrease in trade and other receivables	135	520
(Increase) / decrease in inventories	1,105	2,063
(Increase) / decrease in deferred tax assets	(726)	1,697
(Increase) / decrease in prepayments	69	(299)
Increase / (decrease) in trade and other payables	(493)	1,013
Increase / (decrease) in government grants	(132)	(76)
Increase / (decrease) in tax receivables/payable	24	(2,624)
Increase / (decrease) in provisions	(1,082)	798
Net cash (used in) / from operating activities	(1,556)	4,809

### 9. Trade and other receivables

	2012 \$000	2011 \$000
<b>Current</b>		
Trade receivables	3,083	2,506
Allowance for impairment loss <sup>(a)</sup>	(323)	(32)
	2,760	2,474
Short term deposits <sup>(b)</sup>	56	78
Other receivables <sup>(c)</sup>	115	493
	2,931	3,045
<b>Non-current</b>		
Short term deposits <sup>(b)</sup>	26	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 \$331,000 (2011: \$82,000) has been recognised by the Group during the year. The amount has been included in the other expense item. No individual amount within the impairment allowance is material.



## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 9. Trade and other receivables (continued)

#### (a) Allowance for impairment loss (continued)

Movements in the provision for impairment loss were as follows:

	2012 \$000	2011 \$000
At 1 July	32	37
Charge for the year	331	82
Amounts written off (included in other expense item)	(40)	(87)
At 30 June	323	32

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

	Total	0-30 days	31-60 days	61-90 days PDNI <sup>(i)</sup>	61-90 days CI <sup>(ii)</sup>	+91 days PDNI <sup>(i)</sup>	+91 days CI <sup>(ii)</sup>
		\$000	\$000	\$000	\$000	\$000	\$000
2012	3,083	1,668	439	198	21	455	302
2011	2,506	1,757	257	151	-	309	32

<sup>(i)</sup> Past due not impaired (PDNI)

<sup>(ii)</sup> Considered impaired (CI)

Receivables past due but not considered impaired are: \$653,000 (2011: \$460,000). 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 2012

### 10. Inventories

	2012	2011
	\$000	\$000
Raw materials (at the lower of cost and net realisable value)	2,514	3,397
Finished goods (at the lower of cost and net realisable value)	6,789	7,011
Total inventories at the lower of cost and net realisable value	9,303	10,408

### 11. Parent entity information

	2012	2011
	\$000	\$000
Current assets	2,752	505
Total assets	9,639	18,786
Current liabilities	373	2,108
Total liabilities	9,641	12,576
Issued capital	11,961	11,961
Accumulated losses	(12,011)	(5,799)
Reserves	48	48
Total shareholder's equity	(2)	6,210
Loss of the parent entity	(6,848)	(599)
Total comprehensive loss of the parent entity	(6,848)	(599)

#### 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 \$192,000 (2011: \$361,000).

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 12. Property, plant and equipment

	Freehold land and building	Plant and equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000
<b>Cost</b>				
Balance at 1 July 2011	10,950	25,965	2,827	39,742
Other additions	153	1,137	2	1,292
Disposals	(1,663)	(1,555)	(533)	(3,751)
Reclassification to assets held for sale	(2,724)	-	-	(2,724)
Impairment	-	-	-	-
Effect of movements in exchange rates	-	(94)	-	(94)
Balance at 30 June 2012	6,716	25,453	2,296	34,465
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
<b>Depreciation</b>				
Balance at 1 July 2011	1,890	18,564	1,470	21,924
Depreciation charge for the year	243	1,613	251	2,107
Transfer	-	(138)	-	(138)
Disposals	(551)	(1,343)	(441)	(2,335)
Reclassification to assets held for sale	(791)	-	-	(791)
Effect of movements in exchange rates	-	(90)	-	(90)
Balance at 30 June 2012	791	18,606	1,280	20,677
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
<b>Carrying amounts</b>				
At 30 June 2012	5,925	6,847	1,016	13,788
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 2012 is \$372,000 (2011: \$569,000). There were no additions during the year (2011: \$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 2012

### 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 \$7,858,000 (2011: \$9,060,000) are subject to a first charge over available finance facilities (see note 16).

Plant and equipment and motor vehicles with a carrying amount of \$7,491,000 (2011: \$8,189,000) is pledged as securities for current and non-current liabilities as disclosed in note 16.

### 13. Intangible assets and goodwill

	IT software	Trade mark	Goodwill	Total
	\$000	\$000	\$000	\$000
<b>Cost</b>				
Balance at 1 July 2011	528	589	2,212	3,329
Transfer	-	-	-	-
Other additions	1,321	-	-	1,321
Impairment	-	-	-	-
Balance at 30 June 2012	1,849	589	2,212	4,650
Balance at 1 July 2010	857	1,089	1,712	3,658
Transfer <sup>(i)</sup>	-	(500)	500	-
Other additions	129	-	-	129
Impairment <sup>(ii)</sup>	(458)	-	-	(458)
Balance at 30 June 2011	528	589	2,212	3,329

<sup>(i)</sup> In 2011, 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.

<sup>(ii)</sup> 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 "Solotech" system. The impairment loss has been recognised in the statement of comprehensive income in the line item "other expenses".

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 13. Intangible assets and goodwill (continued)

	IT software \$000	Trade mark \$000	Goodwill \$000	Total \$000
<b>Amortisation</b>				
Balance at 1 July 2011	301	-	292	593
Amortisation charge for the year	93	-	-	93
Transfer	138	-	-	138
Balance at 30 June 2012	532	-	292	824
Balance at 1 July 2010	252	-	292	544
Amortisation charge for the year	49	-	-	49
Balance at 30 June 2011	301	-	292	593
<b>Carrying amounts</b>				
At 30 June 2012	1,317	589	1,920	3,826
At 30 June 2011	227	589	1,920	2,736

#### 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 1.29% per annum (2011: 4.76%).

The pre-tax discount rate applied to cash flow projections is 12.9% per annum (2011: 10.1%). 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 (2011: \$1,064,000).

Trademarks with a cost of \$589,000 (2011: \$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 2012

### 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 4.06% per annum (2011: 6.0%).

The pre-tax discount rate applied to cash flow projections is 8.55% per annum (2011: 7.74%). 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 (2011: \$856,000).

Market capitalisation of the Group as at the reporting date was \$15,857,000 (2011: \$37,481,000).

#### 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 2012

### 14. Share-based payment plans

The Long Term Incentive Scheme (LTIS) provides benefits to eligible employees as equity compensation benefits. Shares are issued as part of a limited recourse scheme loan which entitles the holder to fully paid ordinary shares at an exercise price determined by the directors but not less than the weighted average of the prices at which the Company's shares were traded during the 5 business days up to and including the date of issue. There were no shares issued in 2012 (2011: nil) under the LTIS.

### 15. Trade and other payables

	2012 \$000	2011 \$000
<b>Current</b>		
Trade payables <sup>(a)</sup>	2,910	3,141
Other payables <sup>(b)</sup>	2,030	2,182
Customer deposits	2,892	2,504
Goods and services tax	296	794
	<b>8,128</b>	<b>8,621</b>

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

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

#### (c) Fair value

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

#### (d) Interest rate, foreign exchange and liquidity risk

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

### 16. Interest-bearing loans and borrowings

	2012 \$000	2011 \$000
<b>Current</b>		
Obligations under finance leases and hire purchase contracts (note 21)	176	245
Insurance finance loan	472	-
Business bill facility	4,901	8,603
	<b>5,549</b>	<b>8,848</b>
<b>Non-current</b>		
Obligations under finance leases and hire purchase contracts (note 21)	-	23
Business bill facility	1,001	-
	<b>1,001</b>	<b>23</b>

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 16. Interest-bearing loans and borrowings (continued)

#### 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 a remaining average lease term of 1 year 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 (2011: 7.00% per annum). Lease liabilities are secured by a charge over the leased assets.

#### Hire purchase

Hire purchase leases have a remaining average lease term of 1 year. The average discount rate implicit in the leases is 5.65% per annum (2011: 6.07% per annum). Hire purchase liabilities are secured by a charge over the assets under hire purchase.

#### Insurance finance loan

Insurance finance loan has a fixed rate of 3.55%.

#### Business bill facility

The business bill facility is made up of 4 separate bills. The first bill of \$2,800,000 (2011: \$4,000,000) has interest only repayment terms and is due in July 2013 (variable rate). The second bill of \$237,311 (2011: \$1,186,559) is repayable quarterly with final instalments due in July 2012 (variable rate). The third bill of \$2,114,872 (2011: \$2,365,872) is repayable quarterly with final instalments due in March 2014 (variable rate). The fourth bill of \$750,000 (2011: \$1,050,000) is repayable quarterly with final instalments due in September 2014 (variable rate). Interest for these bills is recognised at an average rate of 3.64% per annum (2011: 6.48% per annum). The bills are secured by a first mortgage over the freehold land and buildings of the Group.

#### Trade finance facility

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



## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 16. Interest-bearing loans and borrowings (continued)

#### Financing facilities available

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

	2012 \$000	2011 \$000
Total facilities		
Bank overdraft	2,083	2,083
Bank guarantee	742	742
Trade	175	175
Insurance finance loan	472	-
Hire purchase and finance lease	176	268
Business bill facility	5,902	8,602
	<u>9,550</u>	<u>11,870</u>
Facilities used at reporting date		
Bank overdraft	-	-
Bank guarantee	403	471
Trade	-	-
Insurance finance loan	472	-
Hire purchase and finance lease	176	268
Business bill facility	5,902	8,602
	<u>6,953</u>	<u>9,341</u>
Facilities unused at reporting date		
Bank overdraft	2,083	2,083
Bank guarantee	339	271
Trade	175	175
Insurance finance loan	-	-
Hire purchase and finance lease	-	-
Business bill facility	-	-
	<u>2,597</u>	<u>2,529</u>
Total facilities	9,550	11,870
Facilities used at reporting date	6,953	9,341
Facilities unused at reporting date	2,597	2,529

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 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:

	<b>Note</b>	<b>2012</b> \$000	<b>2011</b> \$000
<b>Current</b>			
<i>Floating charge</i>			
Cash and cash equivalents	8	3,455	5,002
Receivables	9	2,931	3,045
Inventories	10	9,303	10,408
<i>First mortgage</i>			
Non-current assets held for sale	28	1,933	-
Total current assets pledged as security		17,622	18,455
<b>Non-current</b>			
<i>First mortgage</i>			
Freehold land and buildings	12	5,925	9,060
<i>Hire purchase and finance lease</i>			
Motor vehicles	12	372	569
<i>Floating charge</i>			
Plant and equipment and motor vehicles	12	7,491	8,189
Total non-current assets pledged as security		13,788	17,818
Total assets pledged as security		31,410	36,273

### 17. Provisions

	<b>Onerous leases</b> \$000	<b>Warranty</b> \$000	<b>Employee benefits</b> \$000	<b>Make good</b> \$000	<b>Total</b> \$000
At 1 July 2011	-	-	5,482	789	6,271
Arising during the year	175	58	1,673	90	1,996
Utilised	-	-	(2,703)	(255)	(2,958)
Unused amounts reversed	-	-	(48)	-	(48)
At 30 June 2012	175	58	4,404	624	5,261
Current 2012	74	23	3,892	163	4,152
Non-current 2012	101	35	512	461	1,109
	175	58	4,404	624	5,261
Current 2011	-	-	4,842	307	5,149
Non-current 2011	-	-	640	482	1,122
	-	-	5,482	789	6,271

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 17. Provisions (continued)

#### (a) Onerous leases

The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The unexpired terms of the leases range from 8 to 20 months.

#### (b) Warranty

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

#### (c) Employee benefits

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

#### (d) Make good

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

### 18. Contributed equity and reserves

#### (a) Ordinary shares

	2012 \$000	2011 \$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*

	2012 No. of shares Thousands	2012 \$000	2011 No. of shares Thousands	2011 \$000
At 1 July	144,158	11,961	144,158	11,961
At 30 June	144,158	11,961	144,158	11,961

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 18. Contributed equity and reserves (continued)

#### (b) Share scheme

The Company has a Long Term Incentive Scheme under which fully paid ordinary shares are allotted to eligible employees under a limited recourse loan scheme (refer note 14). These shares carry the same rights to dividends and voting rights as apply to the other shares of the Company. Currently there are no shares on issue under this scheme.

#### (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.

The gearing ratio was as follows:

	2012 \$000	2011 \$000
Total borrowings <sup>(i)</sup>	6,550	8,871
Less cash and cash equivalents	(3,455)	(5,002)
Net debt	3,095	3,869
Total equity	19,729	18,987
Total capital	22,824	22,856
Gearing ratio	13.6%	16.9%

<sup>(i)</sup> Includes interest bearing loans and borrowings.

#### (d) Retained earnings

*Movement in retained earnings*

	2012 \$000	2011 \$000
Balance as at 1 July	7,416	11,080
Net profit / (loss) for the year	791	(781)
Dividends	-	(2,883)
Balance as at 30 June	8,207	7,416

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 18. Contributed equity and reserves (continued)

#### (e) Reserves

*Movement in reserves*

	Share-based payment \$000	Foreign currency translation \$000	Cash flow hedge \$000	Total \$000
At 1 July 2011	48	(424)	(14)	(390)
Foreign currency translation differences	-	(44)	-	(44)
Effective portion of changes in fair value of cash flow hedges	-	-	(5)	(5)
At 30 June 2012	48	(468)	(19)	(439)

#### Share-based payment reserve

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

#### Foreign currency translation reserve

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

#### Cash flow hedge reserve

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

### 19. Government grants

*Movement in government grants*

	2012 \$000	2011 \$000
At 1 July	132	208
Received during the year	-	434
Recognised as income	(132)	(510)
At 30 June	-	132
Current	-	73
Non-current	-	59
Total government grants deferred	-	132

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 19. Government grants (continued)

The accounting policies adopted and the description of government grants received by the Group have been disclosed in note 2 (g).

During the year ended 30 June 2012, as the useful life of the underlying assets of the government grant were fully utilised, the remaining grants were released to the statement of comprehensive income.

### 20. Financial risk management objectives and policies

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

#### Risk exposures and responses

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

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

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

#### Interest rate risk

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

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

	2012 \$000	2011 \$000
<b>Financial assets</b>		
Cash and cash equivalents	3,423	4,970
	<u>3,423</u>	<u>4,970</u>
<b>Financial liabilities</b>		
Business bill facility	(5,902)	(4,602)
	<u>(5,902)</u>	<u>(4,602)</u>
Net exposure	<u>(2,479)</u>	<u>368</u>

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 20. Financial risk management objectives and policies (continued)

#### Risk exposures and responses (continued)

##### Interest rate risk (continued)

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. As at 30 June 2012, after taking into account the effect of interest rate swaps, approximately 49% of the Group's borrowings are at a fixed rate of interest (2011: 86%).

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

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

Interest rate swap contracts outlined in note 27 with an effective notional value of \$2,865,000 (2011: \$3,416,000) is exposed to fair value movements if interest rates change.

At 30 June 2012, 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)	
	2012	2011
	\$000	\$000
+1.0% (100 basis points) (2011: +1.0%)	3	18
-0.5% (50 basis points) (2011: -0.5%)	(1)	(28)

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 2011.

##### Foreign currency risk

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 20. Financial risk management objectives and policies (continued)

#### Risk exposures and responses (continued)

##### Foreign currency risk (continued)

Less than 2.5% (2011: 3%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale. Approximately 49% (2011: 60%) 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.

At 30 June 2012, the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

	2012 \$000	2011 \$000
<b>Financial liabilities</b>		
Trade and other payables	(365)	(356)
	<u>(365)</u>	<u>(356)</u>
Net exposure	<u>(365)</u>	<u>(356)</u>

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 30 June 2012, 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)	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
AUD / USD +10% (2011: +10%)	23	23	(176)	(108)
AUD / USD -5% (2011: -5%)	(13)	(13)	56	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 2011.

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



## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 20. Financial risk management objectives and policies (continued)

#### Risk exposures and responses (continued)

##### Credit risk

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

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

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

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

##### Liquidity risk

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

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

The 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.

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 20. Financial risk management objectives and policies (continued)

#### Risk exposures and responses (continued)

##### Liquidity risk (continued)

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

<sup>(i)</sup> Due to a debt covenant breach, 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 2012

### 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:

	2012			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
<b>Financial liabilities</b>				
Derivative instruments				
Foreign exchange contracts	-	19	-	19
Interest rate swaps	-	83	-	83
	-	102	-	102

	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
<b>Financial liabilities</b>				
Derivative instruments				
Foreign exchange contracts	-	14	-	14
Interest rate swaps	-	35	-	35
	-	49	-	49

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

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

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

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

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 21. Commitments

#### Operating lease commitments

The Group has entered into commercial leases on buildings and IT equipment. The commercial leases on buildings have an average life of between 1 and 6 years with renewal options included in some of the contracts, while the IT equipment have an average life of between 1 and 4 years. There are no restrictions placed upon the lessee by entering into these leases.

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

	2012 \$000	2011 \$000
Within one year	8,905	8,866
After one year but not more than five years	14,997	18,284
More than five years	306	812
Total minimum lease payments	24,208	27,962

#### 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 1 year.

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:

	2012 \$000	2011 \$000
Within one year	187	254
After one year but not more than five years	-	28
Total minimum lease payments	187	282
Less amounts representing finance charges	(11)	(14)
Present value of minimum lease payments	176	268

The weighted average interest rate implicit in the leases for the Group is 5.74% per annum (2011: 6.13%)

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 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:

	2012 \$000	2011 \$000
Within one year	221	361
	<u>221</u>	<u>361</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 key management personnel.

#### Capital commitments

The Group has started to implement a new ERP called "Epicor". This is expected to be completed in 2013 at an estimated cost of \$1,600,000. As at 30 June 2012, the Group has spent \$960,000 (2011: Nil).

### 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	
		2012	2011	2012	2011
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 2012

### 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

	2012 \$	2011 \$
Short-term employee benefits	1,746,422	1,762,429
Post-employment benefits	207,102	592,034
Other long-term benefits	(149,495)	(111,898)
Termination benefits	-	139,833
Total compensation	1,804,029	2,382,398

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 23. Key management personnel (continued)

#### (b) Shareholdings of key management personnel

*Shares held in Kresta Holdings Limited (number)*

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

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

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

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

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

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

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

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

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

<sup>(ix)</sup> Mr S. Shwe appointed on 1 October 2011.

<sup>(x)</sup> Mr J. Fulton resigned on 31 December 2011.

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 23. Key management personnel (continued)

#### (b) Shareholdings of key management personnel (continued)

*Shares held in Kresta Holdings Limited (number)*

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

<sup>(i)</sup> Mr J. Molloy was appointed as Non-executive Director on 14 March 2011.

<sup>(ii)</sup> Mr I. Trahar resigned as Non-executive Director on 14 March 2011.

<sup>(iii)</sup> Mr T. Zorbas retired on 6 September 2010.

<sup>(iv)</sup> Mr R. Taylor was appointed as Non-executive Director on 14 March 2011.

<sup>(v)</sup> Mr K. Eley was appointed as Non-executive Director on 5 April 2011.

<sup>(vi)</sup> Mr J. Huston was appointed as Non-executive Director on 5 April 2011.

<sup>(vii)</sup> Mr A. Tacey was appointed as Chief Executive Officer on 16 May 2011.

<sup>(viii)</sup> Mr T. Tan retired on 26 October 2010.

<sup>(ix)</sup> 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.

<sup>(x)</sup> Mr D. Le was appointed Company Secretary on 26 May 2011.

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

Tass Zorbas is a director of Selene Holdings Pty Ltd. During the year, a total of \$62,308 was paid to Selene Holdings Pty Ltd for work performed by Mr Tass Zorbas as interim Chief Executive Officer for the Group.

### 24. Events after the balance sheet date

As disclosed in note 28, the sales conditions for one of the three properties held as available for sale were met in August 2012 and settlement is expected in November 2012. Net proceeds totalling \$3,800,000 will be received from the sale of the property of which \$1,800,000 will be used to reduce the bank facilities. Disposal of the property will result in a net profit of approximately \$2,450,000.



## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 25. Auditors' remuneration

The auditor of Kresta Holdings Limited is Ernst & Young.

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

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

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

Special audits required for government grants

Special audits required for sales certificates

Assurance related and due diligence services

2012	2011
\$	\$
148,500	117,250
-	7,725
6,000	3,090
-	30,153
154,500	158,218

### 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

Revenues (Australia)

Revenues (New Zealand)

Non-current assets (Australia)

Non-current assets (New Zealand)

2012	2011
\$000	\$000
108,219	112,780
2,677	2,709
110,896	115,489
17,601	21,041
39	43
17,640	21,084

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 2012

### 27. Derivative financial instruments

	2012 \$000	2011 \$000
<b>Current liabilities</b>		
Interest rate swap contracts – held for trading	83	35
Forward currency contracts – cash flow hedges	19	14
	<b>102</b>	<b>49</b>

#### Instruments used by the Group

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

#### Forward currency contracts – cash flow hedges

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

The cash flows are expected to occur between 1 – 3 months from 1 July 2012. At balance date, the details of outstanding contracts are:

	Notional amounts AUD		Average exchange rate	
	2012 \$000	2011 \$000	2012	2011
<b>Buy USD / sell AUD</b>				
Buy USD maturity 1-3 months – consolidated	1,648	975	1.0052	1.0538

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*

	2012 \$000	2011 \$000
Opening balance	(14)	-
Recycled to profit and loss	27	-
Charged to other comprehensive income	(32)	(14)
Closing balance	<b>(19)</b>	<b>(14)</b>

## Notes to the consolidated financial statements (continued)

For the year ended 30 June 2012

### 27. Derivative financial instruments (continued)

#### Instruments used by the Group (continued)

##### 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 3.64%. 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 2012, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	2012 \$000	2011 \$000
1-2 years	2,115	2,366
2-3 years	750	1,050
	<u>2,865</u>	<u>3,416</u>

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 loss on interest rate swap derivatives during the year was \$48,000 for the Group (2011: net gain \$7,000).

### 28. Non-current assets held for sale

Three buildings, which were part of the total land and building disclosed in note 12, are held for sale following the commitment of the Group's management in June 2012. Efforts to sell the land and buildings have commenced. An unconditional offer has been received for one of the buildings and settlement is expected in November 2012. The remaining buildings are expected to be settled by February 2013.

#### Assets classified as held for sale

	Note	2012 \$000	2011 \$000
Land and buildings	12	<u>1,933</u>	<u>-</u>

## 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 2012 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 2012.

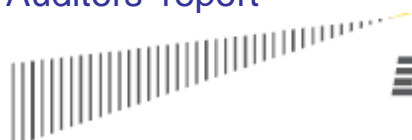
As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 22 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



J. Molloy  
Director

Perth, 31 August 2012



## 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 2012, 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)



**ERNST & YOUNG**

### 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 2012 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 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

D S Lewsen  
Partner  
Perth  
31 August 2012

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 31 July 2012.

### (a) Distribution of equity securities

#### (i) Ordinary share capital

144,158,518 fully paid ordinary shares are held by 1,269 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	189
1,001 – 5,000	374
5,001 – 10,000	220
10,001 – 100,000	394
100,001 and over	92
	<u>1,269</u>
Holding less than marketable parcel	491

### (b) Substantial shareholders

Ordinary shareholders	Fully paid	
	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	32,264,211	22.38
FIESTA DESIGN PTY LTD	28,276,030	19.61
LD COM PTY LTD	11,428,135	7.93
MR SI CHUAN CHEOU	10,163,107	7.05
	<u>82,131,483</u>	<u>56.97</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	32,264,211	22.38
FIESTA DESIGN PTY LTD	28,276,030	19.61
LD COM PTY LTD	11,428,135	7.93
MR SI CHUAN CHEOU	10,163,107	7.05
JASFORCE PTY LTD	3,400,000	2.36
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
PENDOMER INVESTMENTS PTY LTD	1,655,380	1.15
MS YEN JU CHEN	1,616,292	1.12
UBS NOMINEES PTY LTD	1,573,693	1.09
L P O INVESTMENTS PTY LTD	1,500,000	1.04
SANDHURST TRUSTEES LTD	1,499,528	1.04
MR JOHN WILLIAM FRANCIS MOLLOY + MRS SHARON MAREE MOLLOY	1,359,000	0.94
MR CHENG CHIA CHEN	1,314,215	0.91
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
COMSEC NOMINEES PTY LIMITED	973,500	0.68
GREENFIELD COMPANY LIMITED	948,324	0.66
	<u>107,408,985</u>	<u>74.51</u>