



Kresta Holdings Limited
ACN 008 675 803

Annual Financial Report

31 December 2021

Contents

Corporate information	1
Directors' report	2
Auditor's independence declaration	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12
Directors' declaration	53
Independent auditor's report	54

Corporate information

ABN 26 008 675 803

Directors

Xianfeng Lu, Executive Chairman
Mingming Zhang, Executive Director
Linling Ye, Non-executive Director

Company Secretary

Tao Li

Registered Office and Principal Place of Business

380 Victoria Road
Malaga WA 6090
Phone: +61 8 6370 2614
Website: www.kresta.com.au

Share Register

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

Kresta Holdings Limited was removed from the Australian Securities Exchange (ASX) official listing on 16 September 2020.

Bankers

Commonwealth Bank of Australia Limited
Level 2
300 Murray Street
Perth WA 6000

Auditors

Hall Chadwick WA Audit Pty Ltd
(Formerly known as Bentleys Audit & Corporate (WA) Pty Ltd)
283 Rokeby Road
Subiaco
WA 6008

Solicitors

K&L Gates
Level 32, 44 St Georges Terrace
Perth WA 6000

Directors' report

Your directors of Kresta Holdings Limited (Kresta Holdings) present their report together with the financial statements of the Group, being Kresta Holdings (the Company) and its Controlled Entities (the Group) for the year ended 31 December 2021.

Directors

The Company's directors in the office during the financial year and until the date of this report are named and detailed below. Unless otherwise stated the directors were in office for the entire period.

Names, qualifications, experiences, and special responsibilities

Xianfeng Lu, (Executive Chairman)

Mr. Lu became Chairman of Kresta Holdings Limited in December 2014. He joined Kresta as a Director in February 2014 and has filled the role of Managing Director since March 2014. Mr. Lu is the Executive Chairman and a significant shareholder of Ningbo Xianfeng New Material Company Co., Ltd ("APLUS"), a company he founded in 2003 manufacturing and selling sun-screening material and products internationally.

Other current directorships: None

Former directorships (last 3 years): None

Mingming Zhang, (Executive Director)

Mr. Zhang has been with Kresta since 2014. During this time, he is managing the procurement and distribution business.

Other current directorships: None

Former directorships (last 3 years): None

Linling Ye, (Non-executive Director)

Ms. Ye has 5 years experience in finance and accounting, she has the qualifications of finance and accounting.

Other current directorships: None

Former directorships (last 3 years): None

Interest in the shares and options of the Company

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

	Number of Ordinary Shares
Xianfeng Lu	126,741,799
Mingming Zhang	933,833
Ding Li	-
Linling Ye	-

As of the date of this report, no directors have any in-substance options of Kresta Holdings Limited.

Shares granted to directors of the Company

During the period no shares were granted to directors under the Long Term Incentive scheme.

No shares have been granted since the end of the year.

Directors' report

Shares issued but held in escrow

As at reporting date, nor any time during the year, were shares issued under the Long Term Incentive scheme held in escrow.

Company secretary

Tao Li, BA (Hons), FCCA, CPA

Ms. Li joined the Company in January 2019 and was appointed Company Secretary on 29 July 2019.

Principal activities

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

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

Operating and financial review

Group overview

The Group has been a leading retailer of window furnishings for over 40 years. It markets and sells through a large number of outlets located throughout Australia and also has a presence in New Zealand.

The Group sources finished products from local and overseas contract suppliers at competitive prices and acceptable delivery time to customers.

The company has been focusing on product delivery including increased efficiency and accuracy via its self-developed customer management software and improving in product lead time since 2019. The Group recorded net revenue of \$32,096,000 (2020: \$26,935,000) which was an increase of \$5,161,000 or 19% from the corresponding year ended 31 December 2020. The increase in revenue is predominantly due to the outbreak of the pandemic being under control and re-open of the local and international borders.

The Company recorded a post-tax profit from continuing operations of \$501,000 (December 2020: \$1,275,000).

Net profit after tax was \$501,000 compared with a prior year profit of \$1,275,000.

On a cash flow basis, the Company recorded a cash inflow from operations of \$3,358,000, compared with a prior year inflow of \$1,878,000.

Cash at the end of the period was \$2,901,000 (up from \$1,985,000 at December 2020).

Shareholder returns

	2021	2020	2019	2018	2017
Basic profit/(loss) per share (cents)	0.33	0.85	(5.02)	(12.22)	(6.68)
Return on shareholders' funds	3.9%	9.9%	(58.9%)	(142.5%)	(135.8%)
Closing share price (cents)	n/a	n/a	n/a	n/a	5.0

Capital structure

The Group's net liability position decreased from \$16,721,000 at 31 December 2020 to \$16,190,000 at 31 December 2021.

Directors' report

Liquidity and funding

At year end, the Group had cash at the bank and on hand of \$2,901,000 (31 December 2020: \$1,985,000).

Significant changes in the state of affairs

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

Subsequent events

Subsequent to year end, the world and local community has been continuously impacted by COVID-19 pandemic. The Group has been continuing to monitor the impact of COVID-19 on its operations and has been trying to minimise the impact and is well placed financially to sustain short term disruptions to its operations.

The Group has followed the various measures undertaken by the government to prevent the spread of COVID-19 through lockdowns, social isolation and distancing measures. Given the better control of COVID-19 in Australia and various grants and financial supports by Australian government, the Group is in a stable financial position to continue its operation and strategic plan. Furthermore, Australia's decision to re-open its borders to skilled migrants, tourists, students and backpackers will have a positive impact on the local economy as well.

Other than the matters raised above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction, or event of a material and unusual nature likely, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments

After the disposal of its continuing loss making brand, Curtain Wonderland in December 2019, the Group will still focus on product quality with a vision to deliver the best quality in Australia and New Zealand. The Group has refocused on its Kresta and Vista brands in delivering custom made products. It's the group's mission to focus on sales and improving product lead times, product quality, and customer services in 2022.

Environmental regulation and performance

The Group is not subject to significant environmental regulation in respect to its operating activities.

Dividends

The Company has not declared a dividend for 31 December 2021 financial year (31 December 2020: \$nil).

Shares under option or issued on exercise of options.

There are no shares under option or have been issued on the exercise of options at the date of this report.

Indemnification and insurance of directors and officers

During the financial year, the Company paid premiums in respect of a contract insuring all the directors and officers of Kresta Holdings Limited and its controlled entities against legal costs and any other payments arising from liabilities incurred by the officers 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' report

Indemnification of auditors

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to ensure the auditor of the company or any related entity.

Directors' meetings

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

	Meeting of committees					
	Directors		Audit and Risk		Remuneration	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Xianfeng Lu	4	4	2	2	-	-
Mingming Zhang	4	4	2	2	1	1
Linling Ye	4	4	2	2	1	1

* The last remuneration meeting was held in January 2021 where remuneration was last set.

Committee membership

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

Members of these committees of the Board as at the date of this report:

Audit and Risk

Ding Li (Chair)
Mingming Zhang
Linling Ye

Remuneration

Mingming Zhang (Chair)
Linling Ye

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Auditor

Hall Chadwick WA Audit Pty Ltd (formerly known as Bentleys Audit & Corporate (WA) Pty Ltd) continues in office in accordance with section 307c of the *Corporations Act 2001*.

Non-audit services

Hall Chadwick WA Audit Pty Ltd (formerly known as Bentleys Audit & Corporate (WA) Pty Ltd) provided non-audit services for the financial year ended 31 December 2021.

Directors' report

Auditor's independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Corporate governance

The Group and its board are committed to achieving and demonstrating the highest standards of corporate governance. The Group has revised its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2021 Corporate Governance Statement is dated as of 31 December 2021 and reflects the corporate governance practices in place throughout the 2021 financial year. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at <https://www.kresta.com.au/about-us/shareholders>.

Rounding

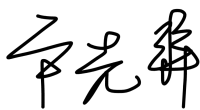
The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)) under the option available to the Company under the ASIC Corporation (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the ASIC Instrument applies.

Auditors independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors:



Xianfeng Lu
Executive Chairman
18 February 2022
Perth

To the Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit Partner for the audit of the financial statements Kresta Holdings Limited for the financial year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours Faithfully


HALL CHADWICK WA AUDIT PTY LTD
Chartered Accountants


CHRIS NICOLOFF CA
Partner

Dated in Perth, Western Australia this 18th day February 2022

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Notes	December 2021 \$000	December 2020 \$000
Continuing operations			
Revenue from contracts with customers	4a	32,096	26,935
Revenue		32,096	26,935
Other income	4b	2,026	6,052
Finished goods and consumables used		(16,773)	(13,387)
Employee benefits expense	4c	(9,474)	(10,134)
Depreciation and amortisation charge	4d	(2,593)	(3,218)
Other expenses	4e	(4,176)	(4,498)
Results from operating activities		1,106	1,750
Finance income		14	2
Finance costs		(619)	(468)
Net finance expense	4f	(605)	(466)
Profit/(loss) before income tax		501	1,284
Income tax benefit/(expense)	5a	-	(9)
Profit/(loss) for the year from continuing operations		501	1,275
Total comprehensive profit/(loss) attributable to owners of the Company	6	501	1,275
Earnings/(loss) per share for profit attributable to the ordinary equity holders of the parent:	6		
Basic earnings/(loss) per share (cents per share) from continuing operations		0.33 cents	0.85 cents
Diluted earnings/(loss) per share (cents per share) from continuing operations		0.33 cents	0.85 cents

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

Consolidated statement of financial position

As of 31 December 2021

	Note	December 2021 \$000	December 2020 \$000
ASSETS			
Current assets			
Cash and cash equivalents	7	2,901	1,985
Trade and other receivables	8	72	340
Inventories	9	497	551
Prepayments		201	339
Total current assets		3,671	3,215
Non-current assets			
Property, plant, and equipment	10	278	505
Intangible assets and goodwill	11	10	55
Right-of-use asset	16	5,954	10,112
Other assets	12	2,053	1,968
Total non-current assets		8,295	12,640
TOTAL ASSETS		11,966	15,855
LIABILITIES			
Current liabilities			
Trade and other payables	13	8,015	5,444
Interest-bearing loans and borrowings	14	79	3
Provisions	15	1,232	1,163
Lease liabilities	16	2,091	2,571
Income tax payable		-	-
Total current liabilities		11,417	9,181
Non-current liabilities			
Trade and other payables	13	-	-
Interest-bearing loans and borrowings	14	10,982	13,749
Provisions	15	417	476
Lease liabilities	16	5,340	9,170
Total non-current liabilities		16,739	23,395
TOTAL LIABILITIES		28,156	32,576
NET ASSETS / (LIABILITIES)		(16,190)	(16,721)
EQUITY			
Contributed equity	17a	12,892	12,892
Reserves	17c	(100)	(130)
Accumulated losses		(28,982)	(29,483)
TOTAL EQUITY		(16,190)	(16,721)

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

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Ordinary shares	Employee equity benefits reserve	Foreign currency translation reserve	Accumulated losses	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2021	12,892	495	(625)	(29,483)	(16,721)
Profit/(Loss) for the year	-	-	-	501	501
Other comprehensive profit	-	-	30	-	30
Total comprehensive profit/(loss) for the period	-	-	30	501	531
At 31 December 2021	12,892	495	(595)	(28,982)	(16,190)
At 1 January 2020	12,892	495	(591)	(29,761)	(16,965)
Adjustment for change in AASB 16 ⁽¹⁾	-	-	-	(997)	(997)
1 January 2020 - restated	12,892	495	(591)	(30,758)	(17,962)
Loss for the year	-	-	-	1,275	1,275
Other comprehensive loss	-	-	(34)	-	(34)
Total comprehensive loss for the period	-	-	(34)	1,275	1,241
At 31 December 2020	12,892	495	(625)	(29,483)	(16,721)

(1) In the financial report for the year ended 31 December 2019, the Group has recognised a gain of \$1,893,000 for the sale of head office building. In accordance with AASB16, as the group is leasing the building back for a period of 9.5 years with payments totalling \$3,574,000 over the period, not all the rights have been transferred to the buyer. Therefore, the recognition of the full amount of the gain on sale of the building is not appropriate. Therefore, an adjustment of \$997,000 to the opening accumulated loss and the right of use asset is required being the adjustment to reduce the profit on sale of the building and the value of right of use asset being overstated.

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

Consolidated statement of cash flows

For the year ended 31 December 2021

	Note	December 2021	December 2020
		\$000	\$000
Cash flows from operating activities			
Receipts from customers		34,112	35,828
Payments to suppliers and employees		(31,571)	(36,695)
Interest received	4f	14	2
Government subsidies received		1,242	3,255
Interest paid	4f	(439)	(468)
Income tax paid		-	(44)
Net cash flows from operating activities	7	3,358	1,878
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	147
Purchase of property, plant and equipment	11	-	(52)
Net cash flows from/(used in) investing activities		-	95
Cash flows from financing activities			
Repayment of borrowings		-	-
Repayment of lease liabilities	16	(2,472)	(2,338)
Net cash flows used in financing activities		(2,472)	(2,338)
Net (decrease)/increase in cash and cash equivalents		886	(365)
Net foreign exchange differences		30	(34)
Cash and cash equivalents at beginning of period		1,985	2,384
Cash and cash equivalents at end of period	7	2,901	1,985

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

Notes to the consolidated financial statements

For the year ended 31 December 2021

1. Corporate Information

The consolidated financial report of Kresta Holdings Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2021 was authorised for issue in accordance with a resolution of the directors on 18 February 2022.

Kresta Holdings Limited was a company limited by shares incorporated in Australia whose shares were publicly traded on the Australian Stock Exchange. However, Kresta Holdings Limited was removed from the Australian Securities Exchange (ASX) official listing on 16 September 2020. Kresta Holdings Limited is a company domiciled in Australia. The address of the Company's registered office is 380 Victoria Road, Malaga WA 6090.

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

The financial report is presented in Australian dollars, which is the Group's functional and presentation currency.

All values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

(b) Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a profit for the year of \$501,000 (2020: profit \$1,275,000) and net operating cash inflow of \$3,358,000 (2020: inflow \$1,878,000).

As at 31 December 2021, the Company has a working capital deficit of \$7,746,000 (2020: \$5,966,000).

The ability of the Group to continue as a going concern is principally dependent upon the ability of the Group to secure funds by raising capital from equity markets and managing cash flow in line with available funds. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern. In the event the above matters are not achieved, the Group will be required to raise funds for working capital from debt or equity sources.

The management has determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. With the changes from 31 Dec 2020 accounts sign-off, the following factors were considered in reaching this position:

- Financial support from the parent company Dream Curtain Holdings in the form of loan and Mr. Lu personally remain in place
- Continued support from the Group's main creditor
- The Group's continuing efforts in cost reduction including closure of stores and overhead
- Sales forecast is expected to increase following the recruitment of new Regional Managers

Notes to the consolidated financial statements

For the year ended 31 December 2021

- Victorian and New South Wales Governments have extended their commercial tenancy schemes to March 2022
- In 2022 and beyond, the property market is expected to be performing well across Australia

On 28 October 2019, the Deed of Parent Company Support was signed where Van Diary (Hong Kong) agreed to transfer its 84.35% of Kresta shares to Dream Curtain Holdings. As the parent company, Dream Curtain has agreed to provide \$10 million as an advancement should Kresta require any funding at any point of time.

On 30 November 2020, the Supplement to the Deed of Parent Company Support was signed. Under this agreement, Dream Curtain has agreed to takeover the debts that Kresta owed to the major suppliers. This Supplement to the Deed was effective from 30 November 2020 until 31 December 2022. The interest is calculated at 1.5% p.a. commencing 31 October 2020 and is not required to be repaid until the expiry of the Supplement to the Deed.

From February 2019, Ningbo Zhexiang Trade Co. Ltd has become the sole supplier of Kresta offering 3 months standard credit term. Kresta has been able to pay on time since then. This arrangement will stay as long as Kresta requires.

At the date of this report there are no statutory demands issued to the Group.

The directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report.

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. The directors are confident of the Company's ability to secure funding as and when they are required.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

(c) Compliance with IFRS

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

(d) New accounting standards and interpretations

(i) Standards and interpretations applicable to 31 December 2021

The Directors have reviewed all the new and revised standards and interpretations applicable to year ended 31 December 2021. As a result of this review the Directors have determined there is no material impact of the new and revised standards and interpretations on the company and therefore no material change to Group accounting policies.

Notes to the consolidated financial statements

For the year ended 31 December 2021

(ii) Standards and interpretations in issue not yet adopted

The Directors have reviewed all the new and revised standards and interpretations in issue not yet adopted for the year ended 31 December 2021. As a result of this review the Directors have determined there is no material impact of the new and revised standards and interpretations on the company and therefore no material change to Group accounting policies.

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previous recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Notes to the consolidated financial statements

For the year ended 31 December 2021

Profit or loss from discontinued operations

A discontinued operation is a component of the group that either has been disposed of or is classified as held for sale. Profit or loss from discontinued operations comprise the post-tax profit or loss of discontinued operations and the post-gain or loss on the measurement to fair value less costs to sell or on the disposal on the disposed group(s) constituting the discontinued operations.

(f) Revenue recognition

Sale of goods

Revenue is recognised when the Group has satisfied its performance obligations at a point in time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. When the performance obligation has been satisfied, the Group will recognise as revenue the amount of the transaction price that is allocated to the performance obligation, after excluding any estimates of variable consideration where applicable.

The Group sells window coverings and provide installation services of the window coverings sold. Revenue from sale of goods is recognised when the window coverings are picked up by customer and for installation sales once installation is complete.

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.

(h) Leases (for comparative period)

The Group's leasing activities and how these are accounted for:

- The Group leases various commercial properties and office equipment. Until the 2018 financial year, leases of commercial properties and office equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.
- From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the lease term on a straight-line basis.
- Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
 - Fixed payments (including in-substance fixed payments), less any lease incentives receivable
 - Variable lease payments that are based on an index or a rate
- Right-of-use assets are measured at cost comprising the following:
 - The amount of the initial measurement of the lease liability net of any previously recognised onerous lease provisions; and
 - Any restoration costs applicable to the lease.
- Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise of office equipment.

Notes to the consolidated financial statements

For the year ended 31 December 2021

(i) Cash and cash equivalents

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

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost by less any allowance for expected credit losses. Trade receivables are generally due immediately after products are received by customer.

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 based on the simplified credit loss model. The amount of the impairment loss is the carrying amount of the impaired receivables.

(k) Inventories

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.

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 actual cost.

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

(l) 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.

Notes to the consolidated financial statements

For the year ended 31 December 2021

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 other comprehensive income and carried in the foreign currency translation reserve in equity.

(m) Income tax and other taxes

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.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2021

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.

(n) Property, plant and equipment

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. The existing cost of the parts which were replaced are derecognised. 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.

If renewal option is reasonably assured, the renewal option period will be included in the depreciation period for leased equipment. 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/leasehold improvement — the lease term
- Motor vehicles — over 4 to 8 years

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

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on derecognition are determined by comparing proceeds with the carrying amount. There are included in profit or loss.

Notes to the consolidated financial statements

For the year ended 31 December 2021

(o) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred and the amount recognised for non-controlling interest and any previous interest held 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 Group re-assesses whether it has correctly identified all the assets acquired and all of the liabilities assumed and reviews the procedures to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then 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. The cash-generating units is Kresta Holdings Limited.

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

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

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

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

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognised.

(p) 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.

Notes to the consolidated financial statements

For the year ended 31 December 2021

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.

(q) Trade and other payables

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 according to supplier terms except for the following.

The Group entered into Purchase agreement with Ningbo Zhexiang Trade Co. Ltd for a standard payment terms of 90 days.

(r) Provisions and employee benefits

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 profit or loss net of any reimbursement.

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

Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave 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 these liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Notes to the consolidated financial statements

For the year ended 31 December 2021

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 corporate 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. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

Provision for warranty-related costs only applicable for Kresta brands.

(s) Interest-bearing loans and borrowings

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

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

Borrowing costs

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

(t) Share-based payment transactions

Equity settled transactions

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

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

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

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

(u) Contributed equity

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.

(v) Operating segments

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.

Notes to the consolidated financial statements

For the year ended 31 December 2021

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”.

(w) Earnings per share

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
- 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.

(x) Financial instruments

(i) Financial assets

Initial recognition and measurement

The Group has adopted AASB 9 Financial Instruments from 1 January 2018. AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: Classification and measurement, impairment and hedge accounting. The accounting for the Group's financial assets and financial liabilities remains largely the same as under AASB 139, with the main changes falling under the category of impairment. A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified on the contract expire or are discharged or cancelled.

AASB 9 contains three principal classification categories: Measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). This is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognised in profit or loss as they arise (FVPL), unless restrictive criteria are met for classifying and measuring the asset at either amortised cost or FVOCI. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the consolidated financial statements

For the year ended 31 December 2021

Subsequent measurement

Loans and receivables

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

Derecognition

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

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

(ii) **Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Groups assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

(iii) **Offsetting of financial instruments**

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2021

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 have been made as well as the following key estimates and assumptions made that have the most significant impact on the financial statements. 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 estimates and assumptions

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 five years together with future tax planning strategies.

Valuation of Inventory

The key assumptions, which require the use of management judgement in relation to the net realisable value of inventory, are the variables associated with slow moving inventory, inventory identified as obsolete or slow moving and inventory shrinkage. Management reviews and classifies inventory into the relevant categories listed based on their knowledge of current market trends and the products themselves.

These key assumptions are reviewed at least annually.

Impairment of Trade Receivables

Under AASB 9, the expected credit loss model must be used for the recognition and measurement of impairment in trade receivables. Under the expected credit loss model, losses are calculated by:

- (a) Identifying scenarios in which a loan or receivable defaults;
- (b) Estimating the cash shortfall that would be incurred in each scenario if a default were to happen;
- (c) Multiplying that loss by the probability of the default happening; and
- (d) Summing the results of all such possible default events.

In estimating its expected credit loss as at balance date, the Group has:

- (a) Completed an unbiased evaluation of a range of possible outcomes and their probabilities of occurrence;
- (b) Discounted for the time value of money; and
- (c) Obtained reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The average expected credit loss has been estimated over the entire trade receivables balance given the majority of trade receivables are from sale of window coverings and associated installation services.

Notes to the consolidated financial statements

For the year ended 31 December 2021

Management has assessed the performance of all stores under lease contracts using the incremental costs approach under AASB 137. The incremental costs approach compares all direct cash costs associated with the lease to determine if the lease contract is onerous. Management prepared an analysis of each store, setting out actual revenue and EBITDA for 2020 and 2021 and forecast revenue and EBITDA for 2022. To sensitise the forecast, revenue was then adjusted up by 30%, with a direct adjustment to EBITDA based on 2021 actual gross margin.

Based on analysis performed by management, 17 stores have been identified that require a provision. Management has estimated a provision that is the lower of:

- a) The cost to remain in the lease; or
- b) The cost to exit the lease and sublease.

Cost to remain in the lease includes lease commitments and employment costs etc. Cost to exit the lease is a one-off exit fee agreed with landlord, normally is a % of remaining lease commitments plus de fit cost. Sublease rate used is 70% in the estimation.

Refer to note 15 for further detail on the provision balance recognised as at 31 December 2021.

Impairment of Fixed Assets

The Group tests property, plant and equipment for impairment at least annually. In determining whether or not an item of property, plant and equipment is impaired, management has considered assets that remain idle after closing down the factory in Western Australia, as well as all assets within the 17 stores identified as being under onerous contracts.

The property, plant and equipment impairment provision assessment requires a degree of estimation and judgement. The following key assumptions were applied by management in determining the appropriate PP&E impairment provision. Economic performance of the leasehold improvements & other identified tangible assets attached to the underperforming stores is not expected to improve in the forecast periods; and leasehold improvements & other identified tangible assets attached to the underperforming stores have a \$nil recoverable amount; and identified items of machinery can be sold within the Group, or through local channels.

Refer to note 10 for further detail on the balance written off as at 31 December 2021.

Useful lives of assets

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

Refer to note 10 for further detail as at 31 December 2021.

Notes to the consolidated financial statements

For the year ended 31 December 2021

Long service leave provision

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

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

Refer to note 15 for further detail on the balance as at 31 December 2021.

Notes to the consolidated financial statements

For the year ended 31 December 2021

4. Revenue, income and expenses

	December 2021 \$000	December 2020 \$000
(a) Revenue from contracts with customers		
The disaggregation of the Group's revenue from contracts with customers		
Installation of windows coverings, treatments and components	32,096	26,935
	<u>32,096</u>	<u>26,935</u>
No reconciling items between revenue from contracts with customers and segments and segments disclosure.		
(b) Other income		
Gain/(Loss) on sale of assets	(5)	66
Sub-lease income	620	838
Government subsidy – job keeper	1,243	3,255
Shared services income	4	1,555
Other income	164	338
	<u>2,026</u>	<u>6,052</u>
(c) Employee benefits expense		
Wages and salaries	7,538	8,992
Superannuation expense	676	505
Subcontractors	1	2
Other employee benefits expense	1,259	635
	<u>9,474</u>	<u>10,134</u>
(d) Depreciation and amortisation charge		
Depreciation	227	407
Right-of-use asset depreciation	2,185	2,715
Amortisation of IT software	181	96
	<u>2,593</u>	<u>3,218</u>
(e) Other expenses		
Advertising	1,690	2,006
Property rent	62	36
Property outgoings	1,070	1,193
Communication expenses	312	411
Banking and transaction expenses	140	236
Foreign exchange losses	112	(302)
Other expenses	790	918
	<u>4,176</u>	<u>4,498</u>

Notes to the consolidated financial statements

For the year ended 31 December 2021

(f) Net finance expense

Finance income	14	2
Finance charges	(439)	(640)
Other borrowing costs	(180)	172
Finance costs	(619)	(468)
Net finance expense	(605)	(466)

5. Income tax

(a) Income tax expense

The major components of income tax expense are:

	December 2021 \$000	December 2020 \$000
Current income tax	24	160
Under provision for prior year	-	(9)
Deferred income tax	(24)	(160)
Income tax benefit/(expense) reported in the statement of comprehensive income	-	(9)

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax	501	1,284
At the Group's statutory income tax rate of 30% (December 2020: 30%)	(150)	(385)
Adjustments in respect of current and deferred income tax of previous years	286	3,632
Expenditure not allowable for income tax	-	-
Under provision – prior year	-	(9)
Unrecognised deferred tax assets	(136)	(3,242)
Impact of different tax rates in different jurisdictions	-	(5)
Income tax benefit/(expense)	-	(9)

Notes to the consolidated financial statements

For the year ended 31 December 2021

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 31 December relates to the following:

	Statement of financial position	
	December 2021	December 2020
	\$000	\$000
<i>Deferred tax assets</i>		
Allowance for doubtful debts	-	33
Accruals	56	82
Provision for make good	102	116
Employee entitlements	410	370
Intangibles	177	177
Tax losses (current & prior)	11,040	11,137
Right-of-use assets	223	563
Other	1	61
	12,009	12,539
<i>Deferred tax liabilities</i>		
Prepayment	41	20
Makegood assets (net)	2	7
Other	2	-
	45	27
Net deferred tax assets	11,964	12,512
Less: unrecognised deferred tax assets and liabilities	(11,964)	(12,512)
Net deferred tax assets	-	-
Deferred tax benefit/(expense)	-	-

As at 31 December 2021, the Group has accumulated tax losses of \$36,801,030 (December 2020: \$36,573,756).

(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 recognises the current tax liabilities (or assets) from controlled entities in the tax consolidated Group.

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

Notes to the consolidated financial statements

For the year ended 31 December 2021

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. All of the subsidiaries, except for Kresta Blinds International Pty Ltd, are part of the tax consolidated Group (refer to note 23).

(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. Loss per share

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

	December 2021	December 2020
Loss used in calculating loss per share	\$000	\$000
Profit/(loss) from continuing operations	501	1,275
Net profit/(loss) attributable to ordinary equity holders of Kresta Holdings Limited	501	1,275
Weighted average number of shares		
Issued ordinary shares at 1 January	150,258,518	150,258,518
Effect of shares issued during the year	-	-
Weighted average number of ordinary shares (basic)	150,258,518	150,258,518
Weighted average number of ordinary shares (diluted) at 31 December	150,258,518	150,258,518
Basic earnings / (loss) per share from continuing earnings	0.33 cents	0.85 cents
Diluted earnings / (loss) per share from continuing earnings	0.33 cents	0.85 cents

Notes to the consolidated financial statements

For the year ended 31 December 2021

7. Cash and cash equivalents

	December 2021 \$000	December 2020 \$000
Cash at bank and on hand	2,901	1,985
Total cash and cash equivalents	2,901	1,985

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of cash and cash equivalents approximate fair value. Details regarding credit risk is disclosed in Note 21.

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

	December 2021 \$000	December 2020 \$000
Net profit/(loss)	501	1,275
<i>Adjustments for:</i>		
Depreciation	407	503
Amortisation	2,185	2,715
Net gain/(loss) on disposal of property, plant and equipment	-	(66)
Forgiveness of interest-bearing loans	(2,767)	7,633
<i>Changes in assets and liabilities</i>		
(Increase)/Decrease in trade and other receivables	268	(19)
Decrease in inventories	54	253
(Increase)/Decrease in prepayments	138	(44)
Increase in other assets	(85)	(1,018)
Increase/(Decrease) in trade and other payables	2,647	(8,357)
(Decrease)/increase in tax receivables/payable	-	(35)
(Increase)/decrease in provisions	10	(962)
Net cash from operating activities	3,358	1,878

Notes to the consolidated financial statements

For the year ended 31 December 2021

8. Trade and other receivables

	December 2021 \$000	December 2020 \$000
Trade receivables	10	157
Allowance for expected credit losses ^(a)	-	(110)
	10	47
Other receivables ^(b)	62	293
	72	340

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally recognised immediately after installation. An allowance for expected credit losses is recognised based on the “simplified credit loss approach” model. No impairment allowance (December 2020: \$110,000) has been recognised by the Group during the year.

Movements in the provision for expected credit losses were as follows:

	December 2021 \$000	December 2020 \$000
At 1 January	-	15
Charge for the year	-	106
Utilised	-	(11)
	-	110

At 31 December, the ageing analysis of trade and other receivables is as follows:

	Total	0-30 days \$000	31-60 days \$000	61-90 days \$000	90 days+ \$000
December 2021	10	10	-	-	-
December 2020	157	7	4	2	144

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

(c) Fair value and credit risk

The carrying value of trade and other receivables approximates their fair value. The maximum exposure to credit risk is the carrying value of receivables. Detail regarding credit risk is disclosed in note 21.

(d) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 21.

Notes to the consolidated financial statements

For the year ended 31 December 2021

9. Inventories

	December 2021	December 2020
	\$000	\$000
At lower of cost and net realisable value:		
Finished goods – at realisable value	497	551
Total inventories	497	551

During 2021, the Group purchased \$5,768,542 (2020: \$5,248,654) only from Ningbo Zhexiang Trade Co. Ltd.

As at balance date \$1,219,252 (2020: \$781,772) was committed and yet to be shipped.

Notes to the consolidated financial statements

For the year ended 31 December 2021

10. Property, plant and equipment

	Freehold land and building \$000	Plant and equipment \$000	Motor vehicles \$000	Total \$000
Cost				
Balance at 1 January 2021	325	14,398	1,044	15,767
Additions	-	5	-	5
Disposals	-	(22)	(2)	(24)
Transfer	-	-	-	-
Discontinued operations	-	-	-	-
Effect of movements in exchange rates	-	-	-	-
Balance at 31 December 2021	325	14,381	1,042	15,748
Balance at 1 January 2020	325	14,730	1,137	16,192
Additions	-	52	-	52
Disposals	-	(384)	(93)	(477)
Transfer	-	-	-	-
Discontinued operations	-	-	-	-
Effect of movements in exchange rates	-	-	-	-
Balance at 31 December 2020	325	14,398	1,044	15,767
Depreciation				
Balance at 1 January 2021	317	14,137	808	15,262
Depreciation charge for the year	8	166	124	298
Disposals	-	(90)	-	(90)
Transfer	-	-	-	-
Discontinued operations	-	-	-	-
Effect of movements in exchange rates	-	-	-	-
Balance at 31 December 2021	325	14,213	932	15,470
Balance at 1 January 2020	316	14,136	794	15,246
Depreciation charge for the year	1	461	76	538
Disposals	-	(460)	(62)	(522)
Transfer	-	-	-	-
Discontinued operations	-	-	-	-
Effect of movements in exchange rates	-	-	-	-
Balance at 31 December 2020	317	14,137	808	15,262
Carrying amounts				
At 31 December 2021	-	168	110	278
At 31 December 2020	8	261	236	505

Notes to the consolidated financial statements

For the year ended 31 December 2021

11. Intangible assets and goodwill

	IT software \$000	Trademark \$000	Goodwill \$000	Total \$000
Cost				
Balance at 1 January 2021	2,681	589	-	3,270
Additions	136	-	-	136
Balance at 31 December 2021	2,817	589	-	3,406
Balance at 1 January 2020	2,681	589	-	3,270
Additions	-	-	-	-
Balance at 31 December 2020	2,681	589	-	3,270
Amortisation and impairment				
Balance at 1 January 2021	2,626	589	-	3,215
Amortisation charge for the year	181	-	-	181
Balance at 31 December 2021	2,807	589	-	3,396
Balance at 1 January 2020	2,534	589	-	3,123
Amortisation charge for the year	92	-	-	92
Balance at 31 December 2020	2,626	589	-	3,215
Carrying amounts				
At 31 December 2021	10	-	-	10
At 31 December 2020	55	-	-	55

12. Other assets

	December 2021 \$000	December 2020 \$000
Bank guarantees and security deposits	2,053	1,968
	2,053	1,968

Refer to note 22 for details of bank guarantees and security deposits.

Notes to the consolidated financial statements

For the year ended 31 December 2021

13. Trade and other payables

	December 2021	December 2020
	\$000	\$000
Current		
Trade payables ^(a)	2,744	1,439
Other payables ^(b)	669	391
Customer deposits	4,454	3,488
Goods and services tax	148	126
	8,015	5,444
Non-current		
Trade payables ^(a)	-	-
	-	-

(a) Trade payables are non-interest bearing and are normally settled on 30-day terms. Purchases from Ningbo Zhexiang Trade Co are made on 90 days credit term.

(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 approximates their fair value.

(d) **Foreign exchange and interest rate risk**

Detail regarding foreign exchange and interest rates exposure is disclosed in Note 21.

14. Interest-bearing loans and borrowings

	December 2021	December 2020
	\$000	\$000
Current		
Insurance finance loan	79	3
Software licence finance loan	-	-
	79	3
Non-current		
Related party loan	10,982	13,749
	10,982	13,749

Fair value disclosures

The carrying value of the Group's interest-bearing liabilities are materially in line with their fair values.

Insurance finance loan

Insurance finance loan is an unsecured loan that has a fixed rate of 3.35% (2020: 2.16%) and which is payable by January 2022.

Notes to the consolidated financial statements

For the year ended 31 December 2021

Software licence finance loan

Software licence finance loan is an unsecured loan that has a nominal interest rate of nil (2020: nil).

Related party loan

On 28 October 2019, Van Dairy had transferred its 84.35% shareholding and loans to Dream Curtain Holdings Co., Limited (Dream Curtain) under an internal restructuring. Dream Curtain has agreed to help with Kresta's debts in favour of all other creditors of Kresta, in order that Kresta may continue trading. Dream Curtain has also agreed to provide the \$10 million advancement should Kresta require.

On 30 November 2020, the Supplement to the Deed of Parent Company Support was signed for the purpose of consolidating debts. Under this agreement, Dream Curtain has agreed to takeover the debts that Kresta owed to the major suppliers and the previous loan which is comprised of the following:

(i) Ningbo Zhexiang invoices paid by Dream Curtain	\$5,245,117.60
(ii) Balance due to Ningbo Mardo	\$2,093,345.22
(iii) Balance due to Suntarget	\$6,392,098.19

This Supplement to the Deed was effective from 30 November 2020 until 31 December 2022. The interest is calculated at 1.5% p.a. commencing 31 October 2020 and is not required to be repaid until the expiry of the Supplement to the Deed.

	Opening Balance \$000	Cash flow \$000	Interest \$000	Foreign Exchange \$000	Loan \$000	Closing Balance \$000
Insurance finance loan	3	(139)	-	-	215	79
Software licence finance loan	-	-	-	-	-	-
Related party loans ⁽ⁱ⁾	13,749	(2,767)	-	-	-	10,982
	13,752	(2,906)	-	-	215	11,061

⁽ⁱ⁾Interest accrued in the 2021 financial year includes interest of \$179,883 that was previously in sundry accruals.

Notes to the consolidated financial statements

For the year ended 31 December 2021

15. Provisions

	Onerous leases \$000	Warranty \$000	Employee benefits \$000	Make good \$000	Total \$000
At 1 January 2021	-	-	1,237	402	1,639
Arising during the year	-	-	269	-	269
AASB 16 adjustment	-	-	-	-	-
Utilised	-	-	(197)	(62)	(259)
Unused amounts reversed	-	-	-	-	-
Discontinued operations	-	-	-	-	-
At 31 December 2021	-	-	1,309	340	1,649
Current December 2021	-	-	1,130	102	1,232
Non-current December 2021	-	-	179	238	417
	-	-	1,309	340	1,649
At 1 January 2020	-	455	1,725	421	2,601
Arising during the year	-	-	316	-	316
AASB 16 adjustment	-	-	-	-	-
Utilised	-	(455)	(804)	(19)	(1278)
Unused amounts reversed	-	-	-	-	-
Discontinued operations	-	-	-	-	-
At 31 December 2020	-	-	1,237	402	1,639
Current December 2020	-	-	1,098	65	1,163
Non-current December 2020	-	-	139	337	476
	-	-	1,237	402	1,639

The time value of money attributed to the non-current components of provisions is immaterial, therefore, no interest expenses were recognised.

(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.

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2021

(c) Employee benefits

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

(d) Make good

The Group is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets, being between 1 and 6 years.

16. Right-of-use assets and lease liabilities

	December 2021	December 2020
	\$000	\$000
Right-of-Use Assets		
Non-current	5,954	10,112
Lease Liabilities		
Current	2,091	2,571
Non-current	5,340	9,170
	<u>7,431</u>	<u>11,741</u>

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

	No of Right-of-Use assets Leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of variable leases with payments linked to an index	No of leases with termination options
Showroom	25	0-5 years	3 years	6	-	15	-
Warehouse and related facilities	2	6-9 years	3 years	1	-	2	-
	Opening Balance (Restated)	Additions	Disposals	Depreciation	Adjustments	Closing Balance	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Right-of-use assets	10,112	1,069	(3,137)	(2,090)	-	5,954	
	10,112	1,069	(3,137)	(2,090)	-	5,954	

Notes to the consolidated financial statements

For the year ended 31 December 2021

The lease liabilities are secured by the related underlying assets. Future minimum lease payments as at 31 December 2021 were as follows:

	Within 1 year	1-5 years	5+ years	Total
	\$000	\$000	\$000	\$000
31 December 2021				
Lease payments	2,405	5,342	627	8,374
Finance charges	(315)	(603)	(25)	(943)
Net present values	2,090	4,739	602	7,431

	Opening Balance	Additions	Disposals	Interest	Repayments	Adjustments	Closing Balance
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Lease liabilities	11,741	-	(2,277)	439	(2,472)	-	7,431
	11,741	-	(2,277)	439	(2,472)	-	7,431

17. Contributed equity and reserves

(a) Contributed Equity

	December 2021	December 2020
	\$000	\$000
Issued capital - ordinary shares	12,892	12,892
	12,892	12,892

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

	No. of shares	\$000
At 1 January	150,258,518	12,892
At 31 December	150,258,518	12,892

(b) Capital management

For the purpose of the Group's capital management, capital includes contributed equity and all other equity reserves attributable to the equity holders of the parent. 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.

Notes to the consolidated financial statements

For the year ended 31 December 2021

(c) Reserves

Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees, including key management personnel, as part of their remuneration.

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 operations.

18. Share-based payment plans

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

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

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

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

During the year no LTI Shares were granted to executives (2020: nil).

Notes to the consolidated financial statements

For the year ended 31 December 2021

19. Dividends paid and proposed

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at end of the financial year at 30% (2020: 30%)

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

December 2021	December 2020
\$000	\$000
1,033	1,033
-	-
1,033	1,033

20. Parent entity information

	December 2021	December 2020
	\$000	\$000
Current assets	166	141
Non-current assets	9,459	10,002
Total assets	9,625	10,143
Current liabilities	1,522	1,255
Non-current liabilities	24,691	26,071
Total liabilities	26,213	27,326
Contributed equity	12,892	12,892
Accumulated losses	(30,048)	(30,643)
Reserves	568	568
Total shareholder's equity	(16,588)	(17,183)
Profit/(Loss) of the parent entity	594	3,476
Other comprehensive income	-	-
Total comprehensive loss of the parent entity	594	3,476

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

No deeds of cross guarantee have been entered into (2020: nil).

Contingent liabilities of the parent entity

As at 31 December 2021, Kresta Holdings Limited has no contingent liabilities (2020: \$nil).

Notes to the consolidated financial statements

For the year ended 31 December 2021

21. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

Risk exposures and responses

The Group manages its exposure to key financial risks 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.

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

At balance date, the Group had the following mix of financial assets exposed to Australian variable interest rate risk:

	December 2021 \$000	December 2020 \$000
Financial assets		
Cash and cash equivalents	2,901	1,985
Bank guarantee and Security deposits	2,053	1,968
Financial liabilities		
Trade payables	8,015	5,444
Related party loans	10,982	13,749
Other loans	-	-

Currently the Group does not have any debts that may be affected from changes in interest rates.

At 31 December 2021, if interest rates had moved, with all other variables held constant, post tax loss/profit would have been affected as follows:

Judgements of reasonably possible movements

The movements in profit/loss 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 December 2020. However, the interest costs have immaterial impact on profit/loss.

Foreign currency risk

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

For the year ended 31 December 2021

None of the Group's sales (2020: 6.6%) are denominated in currencies other than the functional currency of the operating unit making the sale. Approximately 2% (December 2020: 90%) of the Group's inventory purchases are denominated in currencies other than the functional currency of the operating unit making the purchase.

At 31 December 2021, the Group had the following exposure to USD and CNY foreign currency:

	Currency	December 2021 \$000	December 2020 \$000
Financial Assets			
Cash and cash equivalents	USD	3	30
Cash and cash equivalents	CNY	6	-
Financial Liabilities			
Trade and other payables	USD	(110)	(102)
Trade and other payables	CNY	(9,477)	(53)
Related party loan	CNY	-	-

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 31 December 2021, had the Australian Dollar moved, with all other variables held constant, post-tax loss would have been affected as follows:

Judgements of reasonably possible movements

In both the current and prior year, 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. However, the foreign currencies have immaterial impact on profit/loss.

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

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. 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.

Notes to the consolidated financial statements

For the year ended 31 December 2021

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 where required.

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

	December 2021			
	Within 1 year	1-5 years	Thereafter	Total
	\$000	\$000	\$000	\$000
Financial assets				
Cash and cash equivalents	2,901	-	-	2,901
Trade and other receivables	72	-	-	72
Financial liabilities				
Trade and other payables	(8,015)	-	-	(8,015)
Related party loans	-	(10,982)	-	(10,982)
Other loans	(79)	-	-	(79)

	December 2020			
	Within 1 year	1-5 years	Thereafter	Total
	\$000	\$000	\$000	\$000
Financial assets				
Cash and cash equivalents	1,985	-	-	1,985
Trade and other receivables	340	-	-	340
Financial liabilities				
Trade and other payables	(5,444)	-	-	(5,444)
Related party loans	-	(13,749)	-	(13,749)
Other loans	(3)	-	-	(3)

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

For the year ended 31 December 2021

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.

22. Commitments

Bank guarantee and security deposits

The Group has following bank guarantees for store leases and New Zealand customs.

Bank guarantee no.	Amount (AUD)	Starting date	Expiry date	Purpose
200234	\$10,588	03/09/2004	-	Store lease
277970	\$48,057	30/05/2007	-	Store lease
613004	\$38,271	25/10/2018	26/02/2024	Store lease
514409	\$22,000	08/07/2015	-	Store lease
472	\$216,231	21/12/2006	-	NZ Customs
641362	\$14,200	15/10/2019	30/06/2024	Store lease
6000 5043 8712	\$1,000,000	16/12/2019	-	Store lease
Security deposit	\$6,900	April 2018	-	Store lease
Security deposit	\$9,450	January 2018	-	Store lease
647475	\$562,653	20/12/2019	31/07/2030	Office lease
G68620	\$78,610	September 2021	30/08/2026	Office lease
N/A	\$6,069	NA	NA	Bank interest
N/A	<u>\$40,000</u>	N/A	N/A	Credit card
	<u>\$2,053,029</u>			

Notes to the consolidated financial statements

For the year ended 31 December 2021

23. Related parties

The following table provides the total amount of transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

	Stock sold to related parties		Interest charged by related parties		Amounts owed to related parties	
	December 2021	December 2020	December 2021	December 2020	December 2021	December 2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Dream Curtain Holdings Co., Limited	-	-	180	-	10,982	13,749
Ningbo Zhexiang Trade Co., Limited	-	-	-	-	2,049	10
	-	-	180	-	13,031	13,759

Terms and conditions of transactions with related parties

The purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees received for any related party payables.

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	
		December 2021	December 2020
Finmar Pty Ltd	Australia	100	100
Kresta Blinds (Holdings) Pty Ltd	Australia	100	100
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
Twilight Sun Pty Ltd	Australia	100	100
Mardo International Pty Ltd	Australia	100	100
Sandelle Pty Ltd	Australia	100	100

Notes to the consolidated financial statements

For the year ended 31 December 2021

Entities subject to class order relief

Pursuant to ASIC Corporations (Wholly-owned Companies) 2016/785, 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.

Compensation of Key Management Personnel of the Group

	December 2021 \$000	December 2020 \$000
Short-term employee benefits	471,282	465,174
Post-employment benefits	18,087	14,263
Termination benefits	-	-
Total compensation	489,368	479,437

Other transactions with Key Management Personnel

No other transaction with Key Management Personnel during the year (2020: \$nil).

24. Subsequent events

Subsequent to year end, the world and local community has been continuously impacted by COVID-19 pandemic. The Group has been continuing to monitor the impact of COVID-19 on its operations and has been trying to minimise the impact and is well placed financially to sustain short term disruptions to its operations.

The Group has followed the various measures undertaken by the government to prevent the spread of COVID-19 through lockdowns, social isolation and distancing measures. Given the better control of COVID-19 in Australia and various grants and financial supports by Australian government, the Group is in a stable financial position to continue its operation and strategic plan. Furthermore, Australia's decision to re-open its borders to skilled migrants, tourists, students and backpackers will have a positive impact on the local economy as well.

Other than the above mentioned item no further adjusting or significant non-adjusting events have occurred between the 31 December 2021 reporting date and the date of authorisation.

Notes to the consolidated financial statements

For the year ended 31 December 2021

25. Auditors' remuneration

The auditors of Kresta Holdings Limited are Hall Chadwick WA Audit Pty Ltd.

Amounts received or due and receivable by the auditors for:

An audit or review of the financial report of the entity and any other entity in the consolidated Group – Hall Chadwick WA Audit Pty Ltd

Other services in relation to the entity and any other entity in the consolidated Group – Hall Chadwick WA Audit Pty Ltd

Other services

December 2021	December 2020
\$	\$
120,000	150,000
-	51,950
120,000	201,950

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

	December 2021 \$000	December 2020 \$000
Revenues (Australia)	29,147	25,251
Revenues (New Zealand)	2,949	1,684
	32,096	26,935
Total assets (Australia)	10,476	15,033
Total assets (New Zealand)	1,490	822
	11,966	15,855
Total liabilities (Australia)	24,811	31,989
Total liabilities (New Zealand)	1,402	587
	26,213	32,576

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

Major customers

The Group's customers consist of over eighty 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.

Directors' declaration

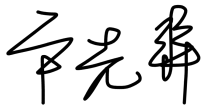
In accordance with a resolution of the Directors of Kresta Holdings Limited, I state that:

In the opinion of the Directors:

- (a) The financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position as at 31 December 2021 and its performance for the year ended on that date of the Group; 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(c).
- (c) There are reasonable grounds to believe that the Company 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 31 December 2021.

On behalf of the Board



Xianfeng Lu
Executive Chairman
Perth, 18 February 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KRESTA HOLDINGS LIMITED

Opinion

We have audited the financial report of Kresta Holdings Limited ("the Company") and its subsidiaries ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a. the accompanying financial report of the Consolidated Entity 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 31 December 2021 and of its financial performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



HALL CHADWICK WA AUDIT PTY LTD



CHRIS NICOLOFF CA
Partner

Dated in Perth, Western Australia this 18th day of February 2022