



Kresta Holdings Limited

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21 July 2014

Company Announcements Office  
Australian Securities Exchange  
Level 10  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**Target's statement in response to takeover offer by Suntarget (Hong Kong) Trading Co Ltd**

Kresta Holdings Limited (**Kresta**) has today lodged with ASIC its Target's Statement in response to Suntarget (Hong Kong) Trading Co Ltd's (**Suntarget**) takeover offer to acquire all of the shares in Kresta (**Offer**) for \$0.23 for each Kresta share (**Offer Consideration**).

A copy of the Independent Expert's Report commissioned by Kresta and prepared by KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) is enclosed with the target's statement. KPMG Corporate Finance has formed the opinion that the Offer is fair and reasonable.

The Non-associated Directors have unanimously recommended that Kresta shareholders accept the Offer for the following reasons, in summary:

- The \$0.23 cash offer per Kresta share is at a premium to the share price that existed in the 3 months prior to the announcement by Suntarget of its intention to make an on-market takeover bid for Kresta.
- The Non-associated Directors consider the \$0.23 price per Kresta share to be fair in that it is greater in value than the value range of the securities subject to the Offer as valued by KPMG Corporate Finance.
- There remains significant work to be done to restructure Kresta's business to improve its profitability and as such there is risk that this may not be done effectively and in a timely manner.

- It is likely that additional capital will need to be raised to complete the restructure process and shareholders who do not participate in any equity capital raising would have their percentage ownership in Kresta diluted.
- In the event that Suntarget gains control of Kresta, shareholders who have not accepted the Offer, and later wish to sell their Kresta shares, may face a market for Kresta shares with reduced liquidity and no control premium.
- The Offer is currently the only option available for shareholders to realise value in excess of recently traded prices, and after the Offer closes the price of Kresta shares may fall.

Shareholders are encouraged to carefully read the target's statement and the Independent Expert's Report before deciding whether or not to accept the Offer.

Yours faithfully

Richard Taylor  
Chairman

# **Kresta Holdings Limited**

**ACN 008 675 803**

## **Target's Statement**

of Kresta Holdings Limited  
in response to the offer by Suntarget (Hong Kong) Trading Co Ltd, a wholly owned  
subsidiary of Ningbo Xianfeng New Material Co., LTD,  
to acquire all the fully paid ordinary shares in Kresta Holdings Limited

The Non-associated Directors of Kresta unanimously  
recommend that you **ACCEPT** the Offer, in the absence of a  
Superior Proposal

This is an important document and requires your immediate attention. If you are in doubt as to how to deal with this document, you should consult your financial or other professional adviser immediately.

# Important Notice

## Nature of this document

This Target's Statement is dated 21 July 2014 and is given by Kresta Holdings Limited ACN 008 675 803 (**Kresta**) under Part 6.5 of the Corporations Act in response to the Bidder's Statement dated 14 July 2014 issued by Suntarget (Hong Kong) Trading Co Ltd (**Suntarget**), a wholly owned subsidiary of Ningbo Xianfeng New Material Co., LTD (**APLUS**), in respect of its takeover bid for Kresta. Kresta Shareholders should read this Target's Statement in its entirety.

## Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 9.1 (Definitions). Section 9.2 also sets out some rules of interpretation which apply to this Target's Statement.

## No account of personal circumstances

This Target's Statement does not take into account the individual objectives, financial situation and particular needs of any Kresta Shareholder. It does not contain personal advice. You may wish to seek independent financial, taxation and legal advice before making a decision as to whether or not to accept the Offer.

## Disclaimer regarding forward-looking statements

This Target's Statement may contain forward-looking statements, which include statements other than statements of historical fact. Such statements are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of Kresta. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward-looking statement.

None of Kresta, its Directors, officers or advisers, or any other person, gives any representation, warranty, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Target's Statement will actually occur. Accordingly, you are cautioned not to place undue reliance on any forward-looking statements.

The forward-looking statements in this Target's Statement only reflect views held as at the date of this Target's Statement.

## ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC and provided to ASX on 21 July 2014. Neither ASIC nor ASX, nor any of their respective officers, take any responsibility for the content of this Target's Statement.

## Information about Suntarget

The information about Suntarget contained in this Target's Statement has been prepared by Kresta from publicly available information, and has not been independently verified by Kresta. Accordingly, Kresta does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

## Additional Shareholder information

Kresta Shareholders requiring additional information should contact the Kresta Information Line at [shareholder@khl.com.au](mailto:shareholder@khl.com.au), or should consult their stockbroker or other professional adviser.

Announcements relating to Kresta and the Offer can be obtained from Kresta's website at [www.kresta.com.au](http://www.kresta.com.au) or ASX's website at [www.asx.com.au](http://www.asx.com.au).

## Privacy statement

Kresta has collected your information from the register of Kresta Shareholders. The Corporations Act requires the name and address of Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to Kresta's related bodies corporate and external service providers, and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by Kresta, please contact us.

## Currency

All references in this document to "\$", "AUD" or "dollar" are references to Australian currency unless otherwise indicated.

## References to time

All references in this document to time and WST relate to Western Standard Time, being the time in Perth, Western Australia.

## Letter from the Chairman

21 July 2014

**Dear Kresta Shareholder**

On 9 June 2014, Ningbo Xianfeng New Material Co LTD announced its intention that its wholly-owned subsidiary Suntarget (Hong Kong) Trading Co Ltd make an on-market takeover bid for all of the shares in Kresta, subject to the satisfaction of certain conditions (since satisfied) (**Offer**).

Suntarget formally announced its Offer on 14 July 2014. Since that date, Suntarget has been acquiring Kresta Shares on-market at \$0.23.

Suntarget is a company associated with Kresta's managing director Mr Xianfeng Lu.

Under the Offer, which formally opens on 29 July 2014, Kresta Shareholders are being offered \$0.23 for each Kresta Share held.

Following receipt of the Offer, the Non-associated Directors (being John Murphy, Sean Shwe, Andrew Tacey and myself) commissioned KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) to prepare an Independent Expert's Report to assist the Non-associated Directors in formulating their recommendation to Shareholders and to assist Shareholders in considering whether or not to accept the Offer.

A copy of the Independent Expert's Report is enclosed with this Target's Statement. The Non-associated Directors encourage Shareholders to consider its contents carefully.

The Non-associated Directors unanimously recommend that, in the absence of a Superior Proposal, you accept the Offer, unless a competing bid at a higher price is received.

Suntarget's bidder's statement dated 14 July 2014 (**Bidder's Statement**) sets out the detailed terms of the Offer. A copy of the Bidder's Statement is available from the website of the Australian Securities Exchange at [www.asx.com.au](http://www.asx.com.au).<sup>1</sup>

This Target's Statement sets out your Non-associated Directors' formal response to the Offer, including the reasons why we unanimously recommend that you accept the Offer.

In summary, the Non-associated Directors recommend you accept the Offer for the following reasons:

- The \$0.23 cash offer per Kresta Share is at a premium to the share price that existed in the 3 months prior to the announcement by the Bidder of its intention to make an on-market takeover bid for Kresta.
- We consider the \$0.23 price per Kresta Share to be fair in that it is greater in value than the value range of the securities subject to the Offer as valued by the Independent Expert.

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<sup>1</sup> The Corporation Act requires that the Bidder's Statement be despatched to Shareholders within 14 days after the announcement of the Offer. Shareholders should receive their copies of the Bidder's Statement by no later than 31 July 2014.

- There remains significant work to be done to restructure Kresta's business to improve its profitability and as such there is risk that this may not be done effectively and in a timely manner.
- We consider it likely that additional capital will need to be raised to complete the restructure process and Shareholders who do not participate in any equity capital raising would have their percentage ownership in Kresta diluted.
- In the event that APLUS gains control of Kresta, Shareholders who have not accepted the Offer, and later wish to sell their Kresta Shares, may face a market for Kresta Shares with reduced liquidity and no control premium.
- The Offer is currently the only option available for Shareholders to realise value in excess of recently traded prices, and after the Offer closes the price of Kresta Shares may fall.

Each of these reasons is explained in greater detail in Section 1.

I intend to accept the Offer in respect of the Kresta Shares that I own.

The Offer is scheduled to close at 2.00 pm (WST) on Friday, 29 August 2014 (unless extended or withdrawn). No action is required if you decide not to accept the Offer. To accept the Offer, you will need to instruct your Broker to accept the Offer on-market.

I encourage you to read this document and the accompanying Independent Expert's Report carefully and if you need any more information I recommend that you seek professional advice.

Yours sincerely

Richard Taylor  
**Chairman**

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## Key dates

<b>Date APLUS announced its intention that Suntarget make the Takeover Bid, subject to satisfaction of certain conditions</b>	Tuesday, 9 June 2014
<b>Date the Takeover Bid was formally announced</b>	Monday, 14 July 2014
<b>Date of Bidder's Statement</b>	Monday, 14 July 2014
<b>Date of this Target's Statement</b>	Monday, 21 July 2014
<b>Date of the Offer in the Bidder's Statement</b>	Tuesday, 29 July 2014*
<b>Date the Offer closes (unless the Offer is extended or withdrawn)</b>	Friday, 29 August 2014

\* The Offer is set out in the Bidder's Statement and formally opens on 29 July 2014. However, as announced by Argonaut Securities Pty Ltd (**Argonaut**) on 14 July 2014, from that date until the close of trading on ASX on 29 August 2014, Argonaut (on behalf of Suntarget) will purchase at the Offer Price every Kresta Shares offered for sale to Argonaut on-market, up to a maximum of 120,381,308 Kresta Shares (being all the Kresta Shares not already owned by Suntarget and its Associates).

## **1. Reasons to Accept**

### **1.1 Recommendation of Non-associated Directors**

The Non-associated Directors comprise Richard Taylor, John Murphy, Sean Shwe and Andrew Tacey.

The Non-associated Directors recommend that, in the absence of a Superior Proposal, Kresta Shareholders accept the Offer of \$0.23 for each Kresta Share, unless a competing bid at a higher price is received.

They have made this recommendation for the following reasons:

#### ***The Offer allows Shareholders to realise their investment in Kresta at a premium to the recently traded prices of Kresta Shares***

The \$0.23 cash offer per Kresta Share is at a premium to the share price that existed in the 3 months prior 9 June 2014, being the date APLUS announced its intention that Suntarget make an on-market takeover bid for Kresta.

We consider the \$0.23 price per Kresta Share to be fair in that it is greater in value than the value range of the securities subject to the Offer as valued by the Independent Expert.

#### ***Restructuring is incomplete***

There remains significant work to be done to restructure Kresta's business to improve its profitability and as such there is risk that this may not be done effectively and in a timely manner.

#### ***Potential capital requirements***

We consider it likely that additional capital will need to be raised to complete the restructure process. Non-accepting Shareholders who do not participate in any equity capital raising would have their percentage ownership in Kresta diluted.

#### ***The Offer provides certainty of outcome for Shareholders***

In the event that APLUS gains control of Kresta, Shareholders who have not accepted the Offer, and later wish to sell their Kresta Shares, may face a market for Kresta Shares with reduced liquidity and no control premium.

The Offer is unconditional and provides Shareholders with an opportunity to immediately realise their investment in Kresta Shares. This provides certainty in relation to the amount Shareholders will receive for their Kresta Shares, as opposed to the potential benefits of maintaining their shareholding interest in Kresta or selling their Kresta Shares at some point in the future at an uncertain value.

#### ***The Offer is currently the only option available for Shareholders to realise value in excess of recently traded prices, and after the Offer closes the price of Kresta Shares may fall***

The Non-associated Directors are not aware of any circumstances suggesting that a Superior Proposal might emerge and have no reason to believe that a Superior Proposal is likely to emerge.



As at the date of this Target's Statement, Suntarget and its Associates hold 22.77% of Kresta.<sup>2</sup> The Non-associated Directors consider that the existence of this strategic holding makes receipt of a Superior Proposal less likely.

Whilst it is not possible to predict the prices at which Kresta Shares may trade once the Offer closes (which will occur on 29 August 2014, unless the Offer is withdrawn or extended), the Non-associated Directors:

- (a) consider it more likely than not that the traded price of Kresta Shares will return to the levels experienced prior to the date (9 June 2014) that APLUS first announced its intention that the Takeover Bid be made; and
- (b) note that Kresta Shares last traded at \$0.23 on 19 December 2011.

## **1.2 Disclosure of Directors' interests**

The Directors' interests in Kresta Shares are set out in Section 5.3.

The interests of Kresta's executive Directors, Sean Shwe and Andrew Tacey, include 700,000 Kresta Shares issued to each of them under the Company's employee incentive scheme (known as the LTI Scheme). The rules of the LTI Scheme provide that they may only accept the Offer in respect of the Scheme Shares if a majority of Directors recommend acceptance of the Offer. The effect of Messrs Shwe and Tacey recommending with the other Non-associated Directors that Shareholders accept the Offer is that under the LTI Scheme they may accept the Offer in respect of the Kresta Shares issued to them under the LTI Scheme.

## **1.3 No recommendation from Mr Lu**

Kresta's Managing Director, Mr Xianfeng Lu, is associated with Suntarget as the chairman and major shareholder of APLUS (see Sections 4.4 and 4.5).

As a consequence, Mr Lu is a "participating insider" (as that term is defined in the Takeovers Panel's Guidance Note 19 - Insider Participation in Control Transactions) and has appropriately excused himself from any deliberations of the Kresta Board and the sub-committee of the Kresta Board with respect to any matters in relation to the Offer, given his association with Suntarget.

Mr Lu does not consider it appropriate to make any recommendation in relation to the Offer given his association with Suntarget. He has not participated in any discussions, Kresta Board meetings or Independent Board Committee (**IBC**) meetings with other Directors in relation to the Offer.

## **1.4 Opinion of Independent Expert**

Kresta engaged KPMG Corporate Finance to provide an independent expert's report in respect of the Offer.

The Independent Expert has concluded that the Offer is fair and reasonable because the cash consideration offered by Suntarget for each Kresta Share lies above the Independent Expert's assessed value range for a Kresta Share.

A copy of the Independent Expert's Report accompanies this Target's Statement.

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<sup>2</sup> As set out in Suntarget's substantial shareholder notice lodged with ASX on 15 July 2014.

## **2. Your choices as a Kresta Shareholder**

You have three choices as a Kresta Shareholder in responding to the Offer.

### **2.1 Accept the Offer**

You may accept the Offer. If you choose to accept the Offer, you will need to instruct your Broker to accept the Offer on-market.

- If your Kresta Shares are held in a CHESS Holding (your HIN starts with "X"), you must instruct your Controlling Participant to accept the Offer.
- If your Kresta Shares are held in an Issuer Sponsored Holding (your SRN starts with "I"), you may instruct any Broker to accept the Offer. If you do not have a Broker, you will need to appoint a Broker to accept the Offer.
- If you are a Broker or an ASTC Participant, you will need to initiate acceptance in accordance with the requirements of the ASTC Settlement Rules.
- If you are a beneficial owner whose Kresta Shares are held in the name of a stock broker, investment dealer, bank, trust company or other nominee, you should contact that nominee for assistance in accepting the Offer.

If you want to accept the Offer and do not have a Broker, you can contact the Company on (08) 9249 0733 for information about Brokers who will be able to assist. Brokerage will apply.

### **2.2 Not accept (i.e. reject) the Offer**

You need not accept the Offer. If you do not want to accept the Offer, simply do nothing with the documentation sent to you by Suntarget.

If you do not accept the Offer, you should be aware that:

- if Suntarget acquires at least 90% of Kresta Shares, Suntarget may become entitled to compulsorily acquire the balance of the Kresta Shares;
- if Suntarget acquires more than 50% but less than 90% of Kresta Shares, you will be exposed to the risks associated with being a minority Shareholder in Kresta – refer to Section 6.9 for further details;
- subject to Suntarget not being entitled to proceed to compulsory acquisition, your rights and entitlements as a Kresta Shareholder will remain; and
- if you remain a Kresta Shareholder there are risks associated with an investment in Kresta, including the key risks identified in Section 4.6.

### **2.3 Sell your Kresta Shares on-market**

From 14 July 2014 until the end of the Offer Period, you may sell your Kresta Shares on-market through ASX for cash, provided you have not already accepted the Offer for those Shares.

If you sell your Kresta Shares on-market, you will receive cash for the sale of your Kresta Shares. If you sell your Shares on-market, you:

- will lose the ability to accept the Offer or benefit from any Superior Proposal (which may or may not eventuate);

- will lose the opportunity to receive future returns from Kresta;
- may incur a tax liability as a result of the sale; and
- may incur a brokerage charge.

(The effect of accepting the Offer will be the same as selling on-market unless there are buyers in the market bidding at a higher price than the Offer Consideration.)

### 3. Frequently asked questions

This Section answers some of the questions you may have regarding the Offer. It is not intended to address all relevant issues for Kresta Shareholders. This Section should be read together with all other parts of this Target's Statement.

If you have other questions, please contact the Kresta Information Line at [shareholder@khl.com.au](mailto:shareholder@khl.com.au).

Question	Answer
<b>What is the Offer?</b>	Suntarget has made an on-market offer of \$0.23 cash for each Kresta Share.
<b>What do the Non-associated Directors recommend?</b>	<p>The Non-associated Directors unanimously recommend that you accept the Offer, in the absence of a Superior Proposal.</p> <p>To not accept the Offer, take no action.</p> <p>The reasons for the Non-associated Directors' recommendation are set out in Section 1.</p>
<b>What do the Non-associated Directors intend to do with their Kresta Shares?</b>	Each Non-associated Director intends to accept the Offer in relation to those Shares held by him or which he controls.
<b>When does the Offer close?</b>	Suntarget has stated that the Offer will remain open until 2.00pm (WST) on 29 August 2014 unless it is extended or withdrawn.
<b>When will I be paid?</b>	If you accept the Offer, you will be paid three Trading Days after your acceptance (T+3), in accordance with usual rules for settlement of on-market transactions on ASX.
<b>What choices do I have as a Kresta Shareholder?</b>	<p>You have the following choices:</p> <ul style="list-style-type: none"> <li>(a) If you do not want to accept the Offer, then take no action.</li> <li>(b) If you want to accept the Offer, follow the instructions in section 1.2 of the Bidder's Statement.</li> </ul> <p>Further details of these choices are set out in Section 2 of this Target's Statement.</p>
<b>When do I have to decide?</b>	<p>If you want to accept the Offer, you must do so before the end of the Offer Period. You may wish to do this near the end of the Offer Period to ensure that you do not restrict your ability to accept any Superior Proposal in respect of your Shares and do not give up the voting rights to your Shares.</p> <p>Suntarget has stated that the Offer will remain open until 2.00pm (WST) on 29 August 2014, unless extended or withdrawn.</p>

	If you do not want to accept the Offer, then take no action.
<b>What are the consequences of accepting the Offer now?</b>	<p>If you accept the Offer while the Offer remains open, you will not be able to:</p> <ul style="list-style-type: none"> <li>(a) sell your Shares to any other party that may make a Superior Proposal; or</li> <li>(b) vote your Shares at any meeting of Kresta Shareholders.</li> </ul> <p>If you accept the Offer and Suntarget subsequently increases the Offer Consideration, you will NOT receive the higher price.</p>
<b>What happens if the Offer Consideration is increased or a superior offer is made by a third party or the price for Kresta Shares on ASX increases?</b>	<p>If the Offer Consideration is increased after you have accepted the Offer, you will NOT be entitled to the improved Offer Consideration.</p> <p>As at the date of this Target Statement, Suntarget has given no indication that it intends to increase the Offer Consideration.</p> <p>If a superior third party offer is made after you have accepted the Offer, you will NOT be able to accept the third party offer.</p> <p>If the price of Kresta Shares rises on ASX after you have accepted the Offer, you will NOT be able to sell your Shares on ASX.</p>
<b>What are the conditions of the Offer?</b>	None – the Offer is unconditional.
<b>What happens if I do nothing?</b>	<p>You will remain a Kresta Shareholder unless Suntarget or another bidder can compulsorily acquire your Shares.</p> <p>If you do nothing, but Suntarget receives acceptances of the Offer in respect of 90% or more of Kresta Shares, Suntarget has indicated its intention to compulsorily acquire your Shares.</p>
<b>Can I be forced to sell my Kresta Shares?</b>	You cannot be forced to sell your Shares to Suntarget unless Suntarget proceeds to compulsory acquisition of your Shares. Suntarget needs to acquire at least 90% of Kresta Shares to exercise compulsory acquisition rights. In this event, you will be paid the same consideration as is payable by Suntarget under the Offer.
<b>What happens if the conditions of the Offer are not satisfied or waived?</b>	There are no conditions – the Offer is unconditional.
<b>What are the tax consequences of accepting the Offer?</b>	Accepting the Offer may have significant tax consequences. Refer to Section 7 of this Target's Statement for further details and consult your tax adviser if necessary.

<b>Can Suntarget vary the Offer?</b>	Yes. Suntarget can vary the Offer by extending the Offer Period or increasing the Offer Consideration.
<b>If Suntarget acquires less than 90% of the Kresta Shares, will I still be able to sell my Kresta Shares on ASX?</b>	<p>Yes. If you do not accept the Offer, you will still be able to sell your Kresta Shares on ASX unless Kresta is delisted at some time in the future.</p> <p>If Kresta is removed from the official list of ASX, you will not be able to sell your Kresta Shares on ASX.</p>
<b>What is a Bidder's Statement?</b>	The documents sent to you by Suntarget include a document called a Bidder's Statement. It contains information about the Offer.
<b>What is a Target's Statement?</b>	This document is a Target's Statement and it contains information prepared by Kresta to help you decide whether or not to accept the Offer.
<b>What if I have other questions about the Offer?</b>	<p>If you have any questions, please contact the Kresta Information Line by email at <a href="mailto:shareholder@khl.com.au">shareholder@khl.com.au</a> or visit Kresta's website at <a href="http://www.kresta.com.au">www.kresta.com.au</a>.</p> <p>Announcements made to ASX by Kresta relating to the Offer can be obtained from Kresta's website at <a href="http://www.kresta.com.au">www.kresta.com.au</a> or the ASX website at <a href="http://www.asx.com.au">www.asx.com.au</a>.</p>

## **4. Important matters for Kresta Shareholders to consider**

### **4.1 Overview of Kresta's business**

The Kresta Group is a leading manufacturer and retailer of window furnishings in Australia and has traded for over 40 years.

The head office is based in WA and the Group's retail activities are spread across a national footprint of 65 stores in Australia and New Zealand where the Company specialises in made to measure window furnishings through the Kresta and Vista businesses and ready made and made to measure window furnishings and other home décor products through the Curtain Wonderland business. The Group services the wholesale and commercial market through the Mardo brand and run a boutique awnings business in Victoria called Ace of Shades.

The Group sources materials and components and some finished product from suppliers in Asia and Australia and assemble and manufacture the majority of the custom window furnishings from their head office in Malaga and the Curtain Wonderland operations in Brisbane.

### **4.2 Outlook for the window furnishings industry**

There is forecast growth in real household disposable income and residential construction in the medium term to 2016, which is likely to provide some support to the window furnishings industry. However this growth may be impacted or negated by the existing volatility in consumer sentiment and interest rates in a highly competitive industry.

It appears the outlook for the window furnishings industry remains mixed. Demand in the short to medium term is likely to be driven by:

- the impact of current fiscal policy on the Australian economy and retail spending;
- changes in real household disposable income; and
- consumer confidence.

Further information about Kresta's industry profile and market conditions can be found in the Independent's Expert's Report accompanying this Target's Statement.

### **4.3 Financial information**

On 9 September 2013 Kresta released to ASX its 2013 Annual Report and Financial Statements for its financial year ended 30 June 2013.

On 26 February 2014 Kresta released its Half Yearly Report for the half year ended 31 December 2013.

These documents are available on Kresta's website at [www.kresta.com.au](http://www.kresta.com.au) and the ASX website at [www.asx.com.au](http://www.asx.com.au).

Financial performance for the Company shows a decline in sales over recent years. Following an underlying loss for the financial year ended 30 June 2012, the Company reported a modest underlying profit for the financial year ended 30 June 2013 and for the half year ended 31 December 2013.

Statutory profit in recent years has included substantial non-recurring profits relating to sales of surplus land and buildings and non-recurring losses relating to restructuring and store closure costs as the Company reduced its fixed cost base.

The Company's balance sheet is in a solid position. The Company currently has no bank debt, has land and buildings with a current market valuation of \$9.0 million and has a cash balance at 30 June 2014 of approximately \$5.7 million (unaudited).

#### **4.4 Information in relation to Suntarget**

Suntarget has not conducted any recent activities other than activities in relation to the Offer.

APLUS is the parent company and sole corporate director of Suntarget.

APLUS is the trading name for Hong Kong registered company Ningbo Xianfeng New Material Co Ltd which, through its wholly-owned subsidiary Suntarget, has made the Offer.

APLUS was founded in 2003 in the People's Republic of China by Mr Lu, the current managing director of Kresta. Since its inception, APLUS has been focused on the development and manufacture of screen fabrics, both for indoor and outdoor use, blackouts and other technical sun-shading materials.

APLUS became listed as a public company on the Shenzhen stock exchange in 2011. APLUS currently has a market capitalisation of approximately RMB1.4 billion (approximately A\$240 million).

#### **4.5 Role of Mr Lu**

As a consequence of Mr Lu's involvement in the Offer and his continuing role as managing director of Kresta, the Company has, in accordance with Takeovers Panel guidance, instituted an Insider Bid Policy (**Policy**), with associated protocols and procedures, whereby Mr Lu has been declared a Participating Insider. This status means Mr Lu is effectively insulated from any discussions regarding or consideration of the Company's response to the Offer.

Pursuant to the Policy, the IBC was created to ensure that the Company's response to the Offer by way of this Target's Statement was conducted in accordance with the Policy.

The Policy and associated protocols include requirements that Mr Lu will advise the IBC of:

- (a) all information relating to Kresta, its business and prospects that is reasonably considered by Mr Lu to be relevant to the Offer; and
- (b) all information relating to his interests in Kresta, his intentions in relation to Kresta if the Offer proceeds and all other information he is aware of which is required by law to be included in any target's statement to be sent to Shareholders to consider the Offer.

In accordance with the Policy, Mr Lu has confirmed that all information known by him relating to the Offer which is material to a Shareholder assessing the Offer has been disclosed to the IBC, regardless of the capacity in which Mr Lu obtained that information.



#### **4.6 Risk factors – risks associated with an investment in Kresta**

The following key risks have been identified in an investment in Kresta:

- Consumer confidence and its impact on retail sales continue to impact the window furnishings market.
- Low barriers to industry entry and low cost imports create increased pressure on margins and competition from an increasing pool of fragmented competition.
- Attraction and retention of key management and sales personnel.
- Kresta has conducted a significant reorganisation of its affairs over the past 3 years and will continue to do so. There is a risk the restructure may not be implemented successfully. It is anticipated additional capital will be required to complete the restructure process and there is a risk that a satisfactory return on capital may not be achieved.

## 5. Directors' intentions & interests

### 5.1 Details of Directors

<p><b>Richard Taylor</b> <b>Chairman</b></p>	<p>Mr Taylor joined Kresta Holdings Limited as a non-executive Director in March 2011 and is a member of the audit and risk committee of the Group. He is a chartered accountant and was formerly a tax partner for 20 years with Deloitte Australia and its antecedent firms. In this role, he advised on mergers and acquisitions, helping companies with initial public offers and structuring funding arrangements across a broad range of industries. He led the Deloitte Australia Private Equity Team and was a member of the National Tax Executive. During the past 3 years he also served as a director of the following ASX-listed companies:</p> <ul style="list-style-type: none"> <li>• Wintech Group Limited – appointed 7 October 2011; resigned 2 October 2012</li> <li>• Lamboo Resources Limited – appointed March 2002; resigned 14 June 2012</li> </ul>
<p><b>Xianfeng Lu</b> <b>Managing Director</b></p>	<p>Mr Lu is the current managing director of Kresta and the founder of APLUS. Mr Lu started his business in the field of international trading in 2000. He then founded Ningbo Yusheng Necessities Co., Ltd, in 2001, which is a business manufacturing sun-shading material and products.</p> <p>Mr Lu is Chairman of APLUS which in 2003 began the manufacture and sales of sun-screening material and products.</p>
<p><b>John Murphy</b> <b>Non-executive Director</b></p>	<p>John Murphy joined the Kresta Holdings Limited Board as a non-executive director in February 2014 and is the chairman of the Audit Committee. John spent 26 years in the accounting profession and was a global partner of Arthur Andersen for 16 years specialising in mergers and acquisitions and corporate reconstruction.</p> <p>He was the founder of the Investec Wentworth Private Equity Funds and was the chief executive of those funds from 1999 to 2012.</p> <p>John has extensive public company experience and is currently a director of:</p> <ul style="list-style-type: none"> <li>• Investec Bank Australia Limited</li> <li>• Vocus Communications Limited</li> <li>• Ariadne Australia Limited</li> <li>• Redflex Holdings Limited</li> <li>• Gale Pacific Limited</li> </ul> <p>He was previously a director of:</p> <ul style="list-style-type: none"> <li>• Clearview Wealth Limited</li> </ul>

	<ul style="list-style-type: none"> <li>• Specialty Fashion Group Limited</li> <li>• Southcorp Limited</li> <li>• Australian Pharmaceutical Industries Limited</li> </ul>
<b>Sean Shwe Executive Director</b>	<p>Sean joined Kresta in 2008 and undertook various senior managerial roles within the Group, including General Manager of Operations, Operations and Strategy Manager and Group Commercial Manager. In 2014, he was appointed Executive Director and Chief Operating Officer for the Group. He holds a Bachelor of Commerce (BComm) degree from Curtin University and a Master of Business Administration (MBA) from the University of Western Australia. He is also an Associate Fellow of the Australian Institute of Management (AFAIM). As a result of his brilliant body of work in the field of management, Sean was nominated one of the national winners for esteemed 30 Under 30.</p>
<b>Andrew Tacey Executive Director</b>	<p>Andrew is a member of the family that established the Curtain Wonderland Business and has worked this with the business for 23 years, the last 10 years as General Manager. He has autonomously managed all areas of the Curtain Wonderland business including sales, procurement and strategy.</p>

## 5.2 Intentions of Non-associated Directors

The Non-associated Directors have considered the advantages and disadvantages of the Offer and unanimously recommend that Kresta Shareholders accept the Offer.

Mr Richard Taylor intends to accept the Offer in relation to the Kresta Shares held by him.

Mr John Murphy does not hold any Kresta Shares.

Mr Sean Shwe intends to accept the Offer in relation to the Kresta Shares held and/or controlled by him.

Mr Andrew Tacey intends to accept the Offer in relation to the Kresta Shares held and/or controlled by him.

### 5.3 Directors' interests in Kresta Shares

As at the day before the date of this Target's Statement, the Directors had the following direct and indirect interests in Kresta Shares:

Director	Direct interest in Kresta Shares	Indirect interest in Kresta Shares	Total interest in Kresta Shares
Richard Taylor	31,156	-	31,156
Xianfeng Lu	-	34,215,352 <sup>1</sup>	34,215,352
Sean Shwe	700,000 <sup>2</sup>	4,000,000 <sup>3</sup>	4,700,000
Andrew Tacey	700,000 <sup>2</sup>	3,700,000 <sup>3</sup>	4,400,000
John Murphy	-	-	-

Notes:

1. Mr Lu's indirect interest is comprised of 32,661,210 Shares held by his Associate Suntarget and 1,554,142 Shares held by his Associate Peifei Lu.
2. Messrs Shwe and Tacey's direct interests are comprised of Kresta Shares issued under the LTI Scheme during the year ending 30 June 2013 and are 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 terms of the LTI Scheme provide that holders of Shares issued under the LTI Scheme may accept a takeover offer with respect to those Shares provided that the takeover offer has been recommended by a majority of the Directors or where the Shares are the subject of compulsory acquisition.
3. Mr Shwe and Mr Tacey each have an indirect interest in 3,700,000 Kresta Shares held by Mirage Capital Pty Ltd as trustee for Synergy Investment Fund. Mr Shwe and Mr Tacey are both directors and shareholders of Mirage Capital Pty Ltd and are beneficiaries of the Synergy Investment Fund trust. Mr Shwe also has an indirect interest in 300,000 Kresta Shares held by Siesta Investment Group Pty Ltd, a company of which Mr Shwe is a director and shareholder.

### 5.4 Recent dealings in Kresta Shares by Directors

During March and April 2014, Siesta Investment Group Pty Ltd, of which Sean Shwe is a director and a shareholder, purchased 300,000 Kresta Shares on-market at prices between 16 cents and 17 cents. This was prior to Mr Shwe becoming a Director of Kresta.

In May 2014, Mirage Capital Pty Ltd as trustee for Synergy Investment Fund acquired 3,700,000 Kresta Shares at 16.5 cents. These Shares were acquired via an off-market trade. Mr Shwe and Mr Tacey are both directors and shareholders of Mirage Capital Pty Ltd and are beneficiaries of the Synergy Investment Fund trust.

Other than as set out above, there have been no acquisitions or disposals of Kresta Shares by Directors or any of their respective Associates in the four months preceding the date of this Target's Statement.

### 5.5 Directors' interests in Suntarget Securities

As at the day immediately before the date of this Target's Statement, Mr Xianfeng Lu holds an interest of approximately 45.87% in APLUS with his wife, Peifei Xu holding an additional interest of approximately 3.67% in APLUS.

### 5.6 Recent dealings in Suntarget Securities by Directors

There have been no dealings in Suntarget Securities by the Non-associated Directors.

## **5.7 No benefits and agreements**

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from the Kresta Board or from the board of a related body corporate of Kresta.

There are no agreements made between a Director and another person in connection with, or conditional upon, the outcome of the Offer, other than in a Director's capacity as a holder of Kresta Shares.

Other than Mr Lu, no Director has an interest in any contract entered into by Suntarget.

## **6. Important information about the Offer**

### **6.1 Offer Consideration**

Suntarget is offering \$0.23 cash for each Kresta Share.

### **6.2 Offer Period**

The Offer Period closes at 2.00pm WST on Friday, 29 August 2014 (unless extended or withdrawn).

### **6.3 Possible extension of the Offer Period**

Suntarget may extend the Offer Period at any time before the end of the Offer Period.

The extension must be announced to ASX at least five Trading Days before the end of the Offer Period. However, the announcement may be made up to the end of the Offer Period if during the five Trading Days before the end of the Offer Period:

- (a) another person lodges with ASIC a bidder's statement for a takeover bid for Kresta Shares;
- (b) another person announces a takeover bid for Kresta Shares;
- (c) another person makes offers under a takeover bid for Kresta Shares; or
- (d) the consideration for offers under another takeover bid for Kresta Shares is improved.

The Offer Period is extended by having the extension announced to ASX.

### **6.4 No conditions**

The Offer is not subject to any conditions.

### **6.5 No rights to withdraw your acceptance**

Once you have accepted the Offer by selling your Shares on-market, you have no rights to withdraw your acceptance of the Offer.

### **6.6 Withdrawal of the Offer**

The Offer can only be withdrawn in limited circumstances, and only in respect of offers which have not yet been accepted. Those circumstances are:

- (a) with the consent in writing of ASIC, which consent may be given subject to such conditions (if any) as are specified in the consent;
- (b) if Suntarget's Voting Power in Kresta is at or below 50 per cent when the following events happen during the Offer Period:
  - (i) Kresta converts all or any of its shares into a larger or smaller number of shares;
  - (ii) Kresta or a Subsidiary resolves to reduce its share capital in any way;
  - (iii) Kresta or a Subsidiary enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement;

- (iv) Kresta or a Subsidiary issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;
- (v) Kresta or a Subsidiary issues, or agrees to issue, convertible notes;
- (vi) Kresta or a Subsidiary disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (vii) Kresta or a Subsidiary charges, or agrees to charge, the whole, or a substantial part, of its business or property; or
- (viii) Kresta or a Subsidiary resolves to be wound up; or
- (c) if one of the following happens during the Offer Period:
  - (i) a liquidator or provisional liquidator of Kresta or of a Subsidiary is appointed;
  - (ii) a court makes an order for the winding up of Kresta or of a Subsidiary;
  - (iii) an administrator of Kresta, or of a Subsidiary, is appointed under sections 436A, 436B or 436C of the Corporations Act;
  - (iv) Kresta or a Subsidiary executes a deed of company arrangement; or
  - (v) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Kresta or of a Subsidiary.

## **6.7 Effect of accepting the Offer**

If you accept the Offer:

- (a) you will be unable to accept any higher takeover bid that may be made by a third party or any alternative transaction that may be recommended by the Non-associated Directors; and
- (b) you will relinquish control of your Shares to Suntarget.

Additionally, by accepting the Offer you will forgo the benefit of any higher price offered by Suntarget at a later date. As at the date of this Target's Statement, Suntarget has given no indication that it intends to increase the Offer Consideration.

## **6.8 Effect of acceptance on voting rights**

If you accept the Offer then Suntarget will acquire voting control over your Shares.

## **6.9 Minority ownership consequences**

Suntarget will have a majority shareholding in Kresta if it has a relevant interest in more than 50% of the Shares when the Offer closes.

In the event Suntarget acquires a majority shareholding in Kresta, Shareholders who do not accept the Offer will become minority Shareholders in Kresta. This has a number of possible implications, including:

- Suntarget will be in a position to cast the majority of votes at a general meeting of Kresta. This will enable it to control the composition of Kresta's board of

directors and senior management, determine Kresta's dividend policy and control the strategic direction of the businesses of Kresta and its subsidiaries.

- The Kresta Share price may fall immediately following the end of the Offer Period and it is unlikely that Kresta's share price will contain any takeover premium.
- Liquidity of Kresta Shares may be lower than at present.
- Suntarget has indicated that it will seek to maintain Kresta's listing on ASX as long as it meets ASX's requirements for maintaining a listing.
- If Suntarget acquires 75% or more of the Kresta Shares it will be able to pass a special resolution at a general meeting of Kresta. This will enable Suntarget to, among other things, change Kresta's constitution.

In the event Suntarget acquires effective control but less than 90% of Kresta's Shares, Suntarget has indicated that it intends to:

- (a) maintain Kresta's listing on the official list of the ASX;
- (b) maintain the current structure of the Kresta Board;
- (c) in respect of Kresta's business, assets and employees, attempt to procure that the Kresta board implements the intentions of Suntarget outlined in Section 6.11 below to the extent possible and appropriate;
- (d) continue Kresta's policy of paying dividends (subject to Kresta's financial performance);
- (e) review the ongoing capital requirements of Kresta and, subject to the operational needs of Kresta going forward, may undertake fundraising activities; and
- (f) consider acquiring additional Kresta Shares under the "creep" provisions of the Corporations Act. Under item 9 of section 611 of the Corporations Act, Suntarget and its Associates may acquire up to 3% of Kresta's Shares every 6 months. Suntarget has not yet decided whether it will acquire further Kresta Shares under the "creep" provisions in the future as that will be dependent on (amongst other things) the extent of Voting Power of Suntarget in Kresta and the condition of the market at the time.

#### **6.10 When you will receive the Offer Consideration if you accept the Offer**

If you accept the Offer, you will receive your Offer Consideration on T+3 in accordance with standard settlement procedures on ASX.

Further details of when you will receive your Offer Consideration, should you accept the Offer, are set out in section 1.1 of the Bidder's Statement.

#### **6.11 Suntarget's intentions upon acquisition of 90% or more of Kresta Shares**

Suntarget has indicated that, in the event it acquires a relevant interest in 90% or more of Kresta Shares and is entitled to proceed to compulsory acquisition of the outstanding Kresta Shares, it intends to do the following:



(a) Compulsory Acquisition

If it becomes entitled to do so under the Corporations Act, Suntarget intends to:

- (i) give notices to Kresta Shareholders to compulsorily acquire outstanding Kresta Shares in accordance with section 661B of the Corporations Act; and/or
- (ii) if necessary, give notices to Kresta Shareholders to compulsorily acquire all outstanding Kresta Shares in accordance with section 664C of the Corporations Act.

If it is required to do so under section 662A of the Corporations Act, Suntarget will give notice to Kresta Shareholders offering to acquire their Kresta Shares in accordance with sections 662B of the Corporations Act.

(b) ASX Listing

At the conclusion of the compulsory acquisition process, Suntarget intends to arrange for Kresta to be removed from the official list of ASX (subject to any required approvals on the part of ASX), thereby eliminating corporate administrative costs associated with maintaining Kresta as a listed company.

(c) Directors

With the exception of Mr Xianfeng Lu, Suntarget may replace all members of the board of Kresta, its subsidiaries and any company in respect of which Kresta has nominated directors with its own nominees. Replacement directors, if required, have not been identified by Suntarget and their identity will depend on the circumstances at the relevant time.

(d) Kresta's business, assets and employees

Based on the information concerning Kresta and the circumstances affecting the business of Kresta that are known to Suntarget at the date of the Bidder's Statement, it is the present intention of Suntarget, subject to the operational needs of Kresta going forward:

- (i) to continue the business of Kresta;
- (ii) not to make any major changes to the business of Kresta nor to redeploy any of the fixed assets of Kresta;
- (iii) to continue the employment of Kresta's employees; and
- (iv) to continue to maintain Kresta's manufacturing operations in Australia.

**6.12 Suntarget's intentions if it acquires less than 50.1% of Kresta Shares**

Suntarget has indicated that if it acquires less than 50.1% of Kresta Shares:

- (a) it will not seek to obtain further representation on the board of directors of Kresta; and
- (b) it may in the future acquire further Kresta Shares in accordance with the Corporations Act.

## **7. Taxation considerations**

### **7.1 Introduction**

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances, including the entity holding the Kresta Shares.

The Bidder's Statement does not include any substantive disclosure of the tax consequences of accepting the Offer.

This Section is a general outline only, and you should consult your own taxation adviser in connection with the taxation consequences of accepting the Offer.

### **7.2 Disposal of Kresta Shares – Australian resident Shareholders**

The following comments are applicable only to Kresta's Australian resident Shareholders who do not hold their shares on a revenue or trading account, or who acquired their shares for resale at a profit. Such Shareholders are advised to consult their own taxation adviser to determine the specific taxation consequences arising from acceptance of the Offer.

#### **(a) General CGT consequences**

In broad terms, for those Kresta Shareholders who are Australian residents and who hold their shares on capital account, any disposal of shares occurring as a result of acceptance of the Offer will give rise to a CGT event. The CGT event will result in a capital gain for Kresta Shareholders if the capital proceeds (being the value of the Offer Consideration) received on disposal of the Kresta Shares is greater than the cost base of those shares and a capital loss will result if the reduced cost base of the Kresta Shares is greater than the capital proceeds.

Under the terms of the Offer, Kresta Shareholders who accept the Offer will receive \$0.23 for each Kresta Share sold under the Offer. The value of the Offer Consideration received by Kresta Shareholders will generally be the capital proceeds amount for the purposes of calculating any capital gain or loss that arises on disposal of Kresta Shares under the Offer.

The cost base or reduced cost base of Kresta Shares should include the acquisition cost of Kresta Shares and certain incidental costs. There are special rules in the Australian tax law that affect how the cost base and reduced cost base of assets are determined in particular circumstances and this could affect the cost base or reduced cost base of Kresta Shares.

Any capital gain or loss that arises as a result of the disposal of Kresta Shares will arise in the income year in which the CGT event occurs. The time of the CGT event should be the date on which the Offer is accepted by the Kresta Shareholder (i.e. the day on which the Kresta Shares are sold on-market).

#### **(b) Pre-CGT Shareholders**

If a Kresta Shareholder has acquired (or is deemed to have acquired) their Kresta Shares prior to 20 September 1985, they are generally exempt from any Australian CGT consequences on any gain or loss arising from the disposal of those shares.

(c) CGT discount

Kresta Shareholders, other than Shareholders which are companies, who dispose of their Kresta Shares under the Offer may be eligible for the CGT discount concession in respect of any capital gain arising on the disposal of Kresta Shares where the Kresta Shares have been held for not less than 12 months prior to the time of the CGT event, excluding the days of acquisition and disposal.

The CGT discount percentage is applied to the amount of the capital gain after offsetting any current year or carried forward capital losses. The CGT discount percentage is 50% for individuals and trusts, and 33<sup>1/3</sup>% for complying superannuation funds.

Where Kresta Shares are held on revenue or trading account, any profit on sale will be ineligible for the CGT discount.

The CGT discount is not available for companies.

(d) Indexation

If a Kresta Shareholder has acquired (or is deemed to have acquired) their Kresta Shares at or before 11.45am on 21 September 1999, but after 19 September 1985, the cost base of the Kresta Shares may be indexed for inflation, by reference to changes in the Consumer Price Index from the calendar quarter in which the Kresta Shares were acquired (or deemed to be acquired) until the calendar quarter ended 30 September 1999. It must be noted that indexation adjustments are taken into account only for the purposes of calculating a capital gain, not a capital loss.

A Kresta Shareholder who is an individual, complying superannuation entity or a trust and has held their Kresta Shares for at least 12 months will have the option of applying either the indexation method or the CGT discount (refer above) in calculating the capital gain from the disposal of Kresta Shares, but cannot apply both.

Whether any given Kresta Shareholder should use the indexation method will depend upon the particular circumstances of the Kresta Shareholder. Kresta Shareholders should consult their own tax advisors in this regard.

### **7.3 Disposal of Kresta Shares – non-resident Shareholders**

Generally, a Kresta Shareholder who is not a resident for Australian tax purposes and who holds their Kresta Shares on capital account will not be subject to CGT on the disposal of their Kresta Shares unless, broadly:

- (a) the non-resident Shareholder acquired the Kresta Shares whilst a resident of Australia, and elected to continue treating the Kresta Shares as taxable Australian real property upon ceasing to be a resident of Australia; or
- (b) the non-resident Shareholder holds a “non-portfolio interest” in Kresta and the Kresta Shares pass the “principal asset” test.

Broadly a non-resident Kresta Shareholder will hold a “non-portfolio” interest in the company if they own, or owned throughout a 12 month period during the two years preceding disposal of their Kresta Shares, at least 10% of Kresta's share capital.

Kresta Shares will pass the “principal asset test” if, at the time the Offer is accepted, the market value of Kresta’s direct and indirect interests in Australian land is more than the market value of its other assets. This may require detailed calculations. If you hold a “non-portfolio interest”, you should contact Kresta to determine whether its interests in land exceed that threshold.

Even if these criteria are satisfied, the CGT treatment of the disposal may be affected by any Double Tax Agreement (**DTA**) between Australia and the Kresta Shareholder’s country of residence.

Where a non-resident Kresta Shareholder buys and sells shares in the ordinary course of business, or acquired their Kresta Shares for resale at a profit, any gain could be taxed in Australia as ordinary income and not as a capital gain (subject to any relief under a DTA in force between Australia and the country of residence of the non-resident Kresta Shareholder). It is recommended that non-resident Kresta Shareholders seek their own advice in this regard.

The 50% CGT discount referred to in Section 7.2(c) for residents has generally been removed for non-residents; however, this is subject to complex transitional rules and specific advice should be sought.

#### **7.4 Goods & Services Tax consequences of disposal of Shares**

No GST will be payable by Kresta Shareholders in respect of their sale of Kresta Shares to the Bidder pursuant to the Offer.

Kresta Shareholders may be charged GST on costs (such as brokerage and advisor fees) that relate to their participation in the Offer. Kresta Shareholders may be restricted from claiming input tax credits for such costs, but should seek independent advice in relation to their individual circumstances.

## 8. Additional information

### 8.1 Issued securities

As at the date of this Target's Statement, the issued securities of Kresta comprise 150,258,518 fully paid ordinary shares.

### 8.2 Substantial shareholders

According to substantial shareholder notices lodged with ASX up to and including the date of the Target's Statement, the substantial shareholders in Kresta are:

Shareholder	Shares	%
Xiaoyang Lu	29,900,000	19.9
Suntarget (Hong Kong) Trading Co Limited & associates (reflecting Mr Xianfeng Lu's and Suntarget's interest)	34,215,352	22.77
Fiesta Design Pty Ltd	28,276,030	18.82
Tian Yuan (Mel) Pty Ltd	8,530,469	5.68

### 8.3 Notice of Suntarget's Voting Power

As at 15 July 2014 (being the date of the most recent substantial shareholder notice lodged by Suntarget before the date of this Target's Statement), Suntarget held a Relevant Interest of 22.77% in Kresta Shares. Suntarget is required to notify ASX and Kresta before 9.30am on each trading day during the Offer Period where there is a movement of at least 1% in its holding of Kresta Shares.

### 8.4 Transaction expenses

The Offer has resulted in Kresta incurring transaction related expenses that would not otherwise have arisen. Expenses include fees and costs payable to legal and financial advisers and other transaction-related expenses which will have a negative impact on Kresta's cash position of approximately \$120,000.

### 8.5 Consents

#### (a) Non-associated Directors

This Target's Statement contains statements made by, or said to be based on statements made by, the Non-associated Directors. Each of the Non-associated Directors has given and has not, before the date of issue of this Target's Statement, withdrawn his consent to be named in this Target's Statement in the form and context in which he is named.

#### (b) Mr Xianfeng Lu

Mr Lu has given and has not, before the date of issue of this Target's Statement, withdrawn his consent to:

- (i) being named in the Target's Statement in the form and context in which he is named;
- (ii) the inclusion of the statement set out in Section 1.3; and

- (iii) the references to him in Sections 4.4 and 4.5.

Mr Lu does not make, or purport to make, any statement in the Target's Statement other than those statements referred to in (ii) and (iii) above, to which he gives his consent. To the maximum extent permitted by law, he expressly disclaims and takes no responsibility other than references to his name in the form and context in which it appears.

(c) Other persons

Each of the other persons to whom a statement is attributed in this Target's Statement, or whose statement is included in this Target's Statement, or on which a statement in this Target's Statement is said to be based, has:

- (i) consented to the relevant statement being included in this Target's Statement in the form and context in which it is included; and
- (ii) has not withdrawn that consent before this Target's Statement was lodged with ASIC.

Each such person having given its consent to the inclusion of a statement or being named in this Target's Statement:

- (iii) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than those statements which have been included in this Target's Statement with the consent of that person; and
- (iv) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and any statements or report which have been included in this Target's Statement with the consent of that person.

(d) Public information

As permitted by ASIC Class Order 01/1543, this Target's Statement contains statements which are made, or are based on statements made, in documents lodged by Suntarget with ASIC. Pursuant to the Class Order, the consent of Suntarget is not required for the inclusion of such statements in this Target's Statement.

In addition, as permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- (i) fairly representing a statement by an official person; or
- (ii) from a public official document or a published book, journal or comparable publication.

(e) References to Bidder's Statement

This Target's Statement includes references to the Bidder's Statement. Suntarget has not consented to these references being included in, or referred to in, this Target's Statement in the form and context in which they are included.

## **8.6 Disclosing entity**

Kresta is a disclosing entity and as such is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

Copies of the documents lodged by Kresta with ASX, including its 2013 Annual Financial Statements, may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au) and from Kresta's website at [www.kresta.com.au](http://www.kresta.com.au) or can be obtained by contacting the Kresta Information Line at [shareholder@khl.com.au](mailto:shareholder@khl.com.au).

Copies of documents lodged with ASIC in relation to Kresta may be obtained from, or inspected at, an ASIC office. Kresta Shareholders may obtain a copy of:

- (a) the 2013 Annual Financial Report of Kresta;
- (b) Kresta's constitution; and
- (c) any document lodged by Kresta with ASX between the release of the 2013 Annual Financial Report to ASX and the date of this Target's Statement from Kresta,

free of charge upon request by contacting Kresta.

## **8.7 Material litigation**

There is currently no litigation that Kresta is involved in that is of a material nature.

## **8.8 No other material information**

This Target's Statement is required to include all the information that Kresta Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether or not to accept the Offer, but only to the extent to which it is reasonable for Kresta Shareholders and their respective professional advisers to expect to find this information in this Target's Statement, and only if the information is known to any Director.

The Non-associated Directors are of the opinion that the information that Kresta Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the Offer is in:

- the Bidder's Statement;
- Kresta's annual reports and releases to ASX before the date of this Target's Statement;
- documents lodged by Kresta with ASIC before the date of this Target's Statement;
- this Target's Statement; and
- the Independent Expert's Report.

The Non-associated Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate. However, the Non-associated Directors and their advisers do not take any responsibility for the contents of the Bidder's Statement, and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Non-associated Directors have had regard to:

- the nature of the Kresta Shares;
- the matters that Kresta Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers of Kresta Shareholders; and
- the time available to Kresta to prepare this Target's Statement.



## **9. Definitions & interpretation**

### **9.1 Definitions**

<b>APLUS</b>	means Ningbo Xianfeng New Material Co., LTD, the parent company of Suntarget.
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>Associate</b>	has the meaning given in section 9 of the Corporations Act.
<b>ASTC Settlement Rules</b>	means the settlement rules of ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532 (the body which administers the CHESS system in Australia), a copy of which is available at <a href="http://www.asx.com.au">www.asx.com.au</a> .
<b>ASX</b>	means ASX Limited ACN 008 624 691 or the financial market known as the Australian Securities Exchange operated by ASX Limited, as the context requires.
<b>Bidder's Statement</b>	Suntarget's bidder's statement dated 14 July 2014 for the Offer and any supplementary bidder's statement issued by Suntarget.
<b>Broker</b>	means a person who is a share broker and a participant in CHESS.
<b>Business Day</b>	means a day on which banks are open for business in Perth and Sydney, excluding a Saturday, Sunday or public holiday.
<b>CGT</b>	means capital gains tax.
<b>CHESS</b>	means the Clearing House Electronic Subregister System, which provides for electronic share transfer in Australia.
<b>Competing Transaction</b>	<p>means a transaction or arrangement which, if completed, would mean a person (other than Suntarget or its related bodies corporate or any person acting for or on behalf of them including any director, officer, employee, agent, contractor or professional advisor of Suntarget and or its related bodies corporate) would:</p> <p>(a) directly or indirectly:</p> <p>(i) acquire, or agree to acquire, an interest (legal or beneficial) or a Relevant Interest in or become the holder of 25 per cent or more of the Kresta Shares (but not as a custodian, nominee or bare trustee); or</p> <p>(ii) acquire, or agree to acquire, an interest in (including an economic interest) or become the holder of all, or a substantial or a material part of, the business conducted by Kresta,</p>

including by way of takeover bid, scheme of arrangement, reverse takeover or other acquisition of shares, capital reduction, share buy-back, amalgamation, restructuring, sale of assets, sale of shares or joint venture or other synthetic merger or any other transaction or arrangement;

- (b) acquire control of Kresta, within the meaning of section 50AA of the Corporations Act; or
- (c) otherwise acquire or merge (including by a reverse takeover bid or dual listed company structure) with Kresta.

**Controlling Participant** means the Broker or non-Broker participant who is designated as the controlling participant for shares in a CHES holding in accordance with the ASTC Settlement Rules.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Director** means a director of Kresta.

**IBC** means the Independent Board Committee of Kresta.

**Independent Expert or KPMG Corporate Finance** means KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division).

**Independent Expert's Report or IER** means the report prepared for Kresta by the Independent Expert for the purpose of determining whether the Offer is fair and reasonable, enclosed with this Target's Statement.

**Insider** means either or both of:

- (a) any officer, adviser or employee of Kresta who is in a position to influence Kresta's consideration of the Takeover Bid; and
- (b) any person with significant non-public information in relation to Kresta or its business obtained through that person's role as an officer, adviser, employee or former officer, adviser or employee of Kresta.

**Kresta or Company** means Kresta Holdings Limited ACN 123 821 929.

**Kresta Board** means the board of Directors.

**Kresta Group or Group** means Kresta and its Subsidiaries.

**Kresta Share or Share** means a fully paid ordinary share in Kresta, and all the rights attaching to that share.

**Kresta Shareholder or Shareholder** means a holder of a Kresta Share.

<b>Listing Rules</b>	means the listing rules of ASX, as amended from time to time.
<b>LTI Scheme</b>	means the Kresta long-term incentive scheme.
<b>Non-associated Directors</b>	<p>means:</p> <ul style="list-style-type: none"><li>(a) Mr Richard Taylor;</li><li>(b) Mr John Murphy;</li><li>(c) Mr Sean Shwe; and</li><li>(d) Mr Andrew Tacey,</li></ul> <p>each of which are “non-associated” in the sense that they do not have an association with Suntarget or APLUS.</p>
<b>Offer</b>	means Suntarget’s offer to acquire Shares on the terms and conditions contained in the Bidder’s Statement.
<b>Offer Consideration</b>	means the consideration under the Offer, being \$0.23 cash for each Kresta Share.
<b>Offer Period</b>	means the period for which the Offer remains open for acceptance.
<b>Participating Insider</b>	<p>means an Insider who is given an understanding by, or enters or proposes to enter into an agreement with, a potential Bidder, that the Insider will gain or benefit from the Bidder making a successful Takeover Bid, for example, by:</p> <ul style="list-style-type: none"><li>(a) acquiring or holding equity in, or options or other derivatives or like interests over such equity in:<ul style="list-style-type: none"><li>(i) Kresta;</li><li>(ii) the Bid vehicle or a related entity;</li><li>(iii) the Bidder or a related entity;</li><li>(iv) another entity whose performance is related to the performance of Kresta; or</li><li>(v) funds managed by the Bidder or related entities; or</li></ul></li><li>(b) agreeing to enter into, or forming an understanding about entering into, employment or other agreements that will apply if the Bid is successful and which are reasonably likely to cause a real or perceived conflict of interest for the Insider because of their value, for example significant levels of compensation, or cash or fee incentives, based on the performance of Kresta or elements of Kresta.</li></ul>
<b>Relevant Interest</b>	has the meaning given in section 9 of the Corporations Act.
<b>Subsidiary</b>	has the meaning given in section 9 of the Corporations Act.

<b>Suntarget</b>	means Suntarget (Hong Kong) Trading Co Limited, a wholly-owned subsidiary of APLUS.
<b>Suntarget Securities</b>	means Shares or other securities issued by Suntarget.
<b>Superior Proposal</b>	means a publicly announced Competing Transaction which the Non-associated Directors, acting in good faith, and after taking advice from their legal and financial advisers, determine is: <ul style="list-style-type: none"> <li>(a) reasonably capable of being completed taking into account all aspects of the Competing Transaction; and</li> <li>(b) if completed substantially in accordance with its terms would result in a transaction more favourable to Kresta Shareholders than the Offer.</li> </ul>
<b>T+3</b>	means settlement occurs on the third Business Day (except where that day is a non-settlement day) after the date of a transaction in accordance with ASX practice.
<b>Takeover or Takeover Bid</b>	means the proposed takeover of Kresta by Suntarget by way of the Offer.
<b>Target's Statement</b>	means this document.
<b>Trading Day</b>	has the meaning given to that term in the Listing Rules.
<b>Voting Power</b>	has the meaning given to that term in section 610 of the Corporations Act.
<b>VWAP</b>	means volume-weighted average price.
<b>WST</b>	means Western Standard Time, being the time in Perth, Western Australia.
<b>\$ or A\$ or AUD</b>	means Australian dollars.

## 9.2 Interpretation

In this Target's Statement, unless the context requires otherwise:

- (a) all words and phrases in this Target's Statement have the meaning given to them, if any, in the Corporations Act;
- (b) the singular includes the plural and vice versa;
- (c) a gender includes all genders;
- (d) a reference to a person includes a corporation, other body corporate, unincorporated body, partnership, joint venture or association and vice versa;
- (e) headings are for ease of interpretation and do not affect meaning or interpretation;
- (f) where a term is defined, its other grammatical forms have a corresponding meaning; and

- (g) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

## 10. Approval of Target's Statement

This Target's Statement that is to be lodged with ASIC has been approved by a resolution of the Directors on ~~21<sup>st</sup>~~ July 2014.

Signed for and on behalf of Kresta Holdings Limited:

A handwritten signature in black ink, appearing to read 'R Taylor', with a long horizontal stroke extending to the right.

**Richard Taylor**  
**Chairman**

## **11. Corporate directory**

### **Directors**

Richard Taylor (Non-executive Chairman)  
John Murphy (Non-executive Director)  
Xianfeng Lu (Managing Director)  
Sean Shwe (Executive Director)  
Andrew Tacey (Executive Director)

### **Company Secretary**

Brendan Cocks

### **Registered & Principal Office**

380 Victoria Road  
Malaga WA 6090  
Tel: +61 (0) 8 9249 0777

### **Solicitors**

Jackson McDonald  
Level 25, 140 St George's Terrace  
Perth WA 6000  
Tel: +61 (0) 8 9426 6611  
Fax: +61 (0) 8 9254 3438

### **Share Registry**

Computershare Investor Services Pty Ltd  
Level 2, 45 St George's Terrace  
Perth WA 6000  
Tel: +61 (0) 8 9323 2059  
Fax: +61 (0) 8 9323 2033

**KPMG Corporate Finance**

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The Non-Associated Directors  
Kresta Holdings Limited  
380 Victoria Road  
Malaga WA 6090

18 July 2014

Dear Directors

## **PART ONE – INDEPENDENT EXPERT’S REPORT**

### **1 Introduction**

On 10 June 2014, (the Announcement Date), Kresta Holdings Limited (Kresta or the Company), announced that it had received notice from Ningbo Xianfeng New Material Co., Ltd (APlus) that it, via its wholly owned subsidiary, Suntarget (Hong Kong) Trading Co Limited (Suntarget<sup>1</sup>), intended to make an on-market takeover bid to acquire all the issued ordinary shares in Kresta that it does not already own, for a cash consideration of \$0.23<sup>2</sup> for each Kresta share on issue (the Proposed Offer). As at the Announcement Date, Suntarget (and its associates) held a relevant interest of approximately 19.9% in Kresta’s issued ordinary shares.

The Proposed Offer was subject to the satisfaction of each of the following conditions:

- the shareholders of APlus approving APlus acquiring the shares of Kresta under the Proposed Offer (Condition A)
- the acquisition of shares of Kresta by APlus under the Proposed Offer being filed with Ningbo Development and Revolution Committee (Condition B); and
- the China Securities Regulatory Commission approving the acquisition of Kresta shares by APlus under the Proposed Offer (Condition C).

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<sup>1</sup> Reference in this report to the offer to acquire and/or acquisition of shares in Kresta by APlus should be read as referring to the acquisition of shares by Suntarget

<sup>2</sup> All amounts are denominated in Australian dollars (\$) unless otherwise stated



On 14 July 2014 (the Offer Date), following the satisfaction of Conditions A and B and the waiving of Condition C, Suntarget released to ASX Ltd (ASX) and gave to Kresta its Bidder's Statement containing an unconditional on-market takeover offer to acquire all the issued ordinary shares in Kresta it and its associates did not already own, for a cash consideration of \$0.23 for each Kresta share (the Offer). The Offer will open on 29 July 2014 and will close at 2.00pm (Perth, Western Australian time) on 29 August 2014, unless extended or withdrawn.

Kresta is one of the largest manufacturers and retailers of window furnishings in Australia and New Zealand. Kresta employs approximately 700 people and has an operating history spanning more than 40 years. Kresta is listed on the Official List of ASX and had a market capitalisation of approximately \$23.8 million as at 6 June 2014, being the last trading day on ASX prior to the Announcement Date.

APlus is a Chinese developer and manufacturer of screen fabrics with more than 800 employees. APlus exports its products to approximately 70 countries. APlus is listed on the Shenzhen Stock Exchange and had a market capitalisation of approximately \$260.6<sup>3</sup> million as at 9 June 2014.

Further details in relation to the Offer and APlus are set out in the Bidder's Statement which has been sent to Kresta shareholders and in the Target's Statement to which this report is attached. We recommend that Kresta shareholders read the Bidder's Statement and Target's Statement in their entirety in conjunction with this report.

## **2 Requirement for our report**

Under Section 640 of the Corporations Act (the Act), a target company must commission an Independent Expert Report (IER) setting out whether the relevant offer is "fair and reasonable" to the relevant parties when the target and the bidder are connected, that is

- the bidder's voting power in the target is at least 30% or
- the bidder and the target have common directors.

The Chairman of APlus, Mr Xianfeng Lu, is also a Director of Kresta, and as such, there is a legal requirement for an IER to be prepared in the present circumstances.

### **2.1 Basis of assessment**

RG 111 "Content of expert reports", issued by the Australian Securities and Investments Commission (ASIC), indicates the principles and matters which it expects a person preparing an IER to consider.

RG 111 notes:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer

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<sup>3</sup> Converted to \$ based on the spot exchange rate as at 6 June 2014

- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison
- an offer is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

Accordingly, the principal matter we were required to consider is whether the offer of \$0.23 cash for each Kresta share on issue is at or exceeds the market value of a Kresta share on a 100% control basis.

When assessing the full underlying value of Kresta, we have considered those synergies and benefits that would be available to more than one potential purchaser (or a pool of potential purchasers) of Kresta. As such, we have not included the value of special benefits that may be unique to APlus, if any. Accordingly, our valuation of Kresta has been determined regardless of the bidder and any special benefits have been considered separately.

### ***Reasonableness***

An offer is deemed by RG111 to be "reasonable" if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer. In considering whether the Offer is reasonable, we have therefore also considered the following factors:

- recent trading prices and liquidity of Kresta shares on the securities exchange of ASX
- the extent of the implied premium for control, if any, being received by Kresta shareholders
- the level of any special value available to APlus
- the likelihood of an alternative Offer
- the consequences of not accepting the Offer
- the implications of the Offer including financial, tax and liquidity issues
- advantages, disadvantages and other considerations in relation to the Offer.

This report is a summary of KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) opinion on the Offer, and is included in the Target's Statement. This report should be considered in conjunction with, and not independently of, the information set out in the Target's Statement.

### 3 Summary of opinion

In forming our opinion on the fairness of the Offer, the principal matter considered by us was whether the consideration to be paid, being \$0.23 for every ordinary Kresta share on issue, exceeds the market value of a Kresta share on a 100% control basis.

**We have assessed the market value of a Kresta share, inclusive of a full premium for control, to lie in the range of \$0.20 to \$0.22. Accordingly, in our opinion, the offer of \$0.23 cash for each share is fair.**

The consideration of \$0.23 for each Kresta share also represents a premium to the trading price of a Kresta share in the period leading up to the Announcement Date as set out in the table below.

**Table 1: Comparison of recent trading prices to the Offer Price**

Period up to and including 6 June 2014	Offer price	Low price	High price	Implied premium (Low)	Implied premium (High)
	\$	\$	\$	%	%
1 week	0.23	0.17	0.17	39.4	39.4
1 month	0.23	0.16	0.20	43.8	15.0
3 months	0.23	0.16	0.22	43.8	7.0
<i>Notes:</i>					
<i>1. Figures may not add exactly due to rounding</i>					

*Source: KPMG Corporate Finance analysis*

Whilst we consider our range of assessed market values for a Kresta share to be reasonable at the date of this report, we note that the Company is part way through a restructuring plan, which is aimed at increasing sales, improving procurement costs and improving general operating efficiency. Accordingly, the future value of the Company will change, either positively or negatively, as the success or otherwise of the current performance initiatives crystallises over time. Consequently, it is conceivable that individual Kresta shareholders not associated with APlus (Non-Associated Shareholders) could form a different view to us as to the future prospects of Kresta and, in particular, the inherent risks attaching to the successful implementation of the current performance improvement initiatives being pursued, and, in turn, could potentially form a different view in relation to fairness.

As such, whilst the Offer has been assessed by us as being fair at the date of this report and therefore pursuant to the operation of RG111 is deemed also to be reasonable, Non-Associated Shareholders may wish to consider, in addition to the issue of value, other qualitative matters that might impact them should they decide not to accept the Offer.

Essentially, the principal assessment required to be made by Non-Associated Shareholders is whether the benefit of receiving of a certain cash amount, free of transaction costs, now exceeds the benefit of continuing to hold a share in Kresta in the hope that financial benefits over and above those already assessed by us emerge in the future.

In considering this, we would highlight to Non-Associated Shareholders that:

- Kresta shares have exhibited a low level of liquidity in recent times and liquidity is likely to further reduce in the event APlus is successful in increasing its stake in the Company
- whilst following completion of the Offer, individual Non-Associated Shareholders will continue to hold the same pro rata interest in the Company and its assets, the directors of Kresta not associated with APlus (Non-Associated Directors) have indicated that it is possible the Company may need to seek additional funding to complete current restructuring initiatives. Whilst no decision has been made at this time, this funding could be sourced through debt finance, an equity raising or a mixture of both

To the extent that any funding requirement is to be satisfied wholly or in part by future equity raisings, the interests of existing Non-Associated Shareholders may be diluted in the event Non-Associated Shareholders are not provided an opportunity, or elect not, to participate in any equity raisings

- in the event the Offer lapses, Non-Associated Shareholders not accepting the offer will, in the absence of another offer emerging, be required to realise their shares on-market without the benefit of a full control premium and may incur transaction costs.

Mitigating these points somewhat is the fact that, with an increased equity position in Kresta, APlus will be further incentivised to work towards the future success of Kresta. Non-Associated Shareholders will participate pro-rata in any benefits that may be realised from the relationship with APlus.

### 3.1 Fairness

We have valued the equity in Kresta in the range of \$29.8 million to \$33.3 million, which corresponds to a value of \$0.20 to \$0.22 per Kresta share. Our valuation assumes 100% ownership of Kresta and incorporates a premium for control. Our valuation is summarised in the table below.

**Table 2: Valuation summary**

	Assessed Values	
	Low \$000	High \$000
<b>Assessed enterprise value</b>	<b>28,000</b>	<b>31,500</b>
Net cash	1,870	1,870
Net surplus liabilities	(101)	(101)
<b>Assessed equity value</b>	<b>29,769</b>	<b>33,269</b>
Number of ordinary shares (thousands) <sup>2</sup>	150,259	148,159
<b>Value per share, inclusive of a premium for control - \$</b>	<b>0.20</b>	<b>0.22</b>
<i>Notes:</i>		
1. Figures may not add exactly due to rounding		
2. Number of ordinary shares on issue under our low scenario assumes 2.1 million 'in-substance options' currently on issue are fully exercised and converted into ordinary shares		

Source: KPMG Corporate Finance analysis

A comparison of the offer price to our assessed value per Kresta share on a control basis is outlined in the table below.

**Table 3: Comparison of our assessed value to the Offer**

	Low	High
Offer price per Kresta share - \$	0.23	0.23
Assessed value per Kresta share -\$	0.20	0.22
<b>Premium</b>	<b>16.9%</b>	<b>3.2%</b>
<i>Notes:</i>		
<i>1. Figures may not add exactly due to rounding</i>		

*Source: KPMG Corporate Finance analysis*

We note the premium set out in the table above is in addition to the full premium for control already included in our range of assessed markets values for a Kresta share.

According to RG 111, the Offer should be considered fair if the consideration offered to Kresta shareholders is equal to or higher than our assessed value of a Kresta share. **As the cash consideration offered per Kresta share lies above our assessed value range for a Kresta share, we consider the Offer to be fair.**

## 3.2 Reasonableness

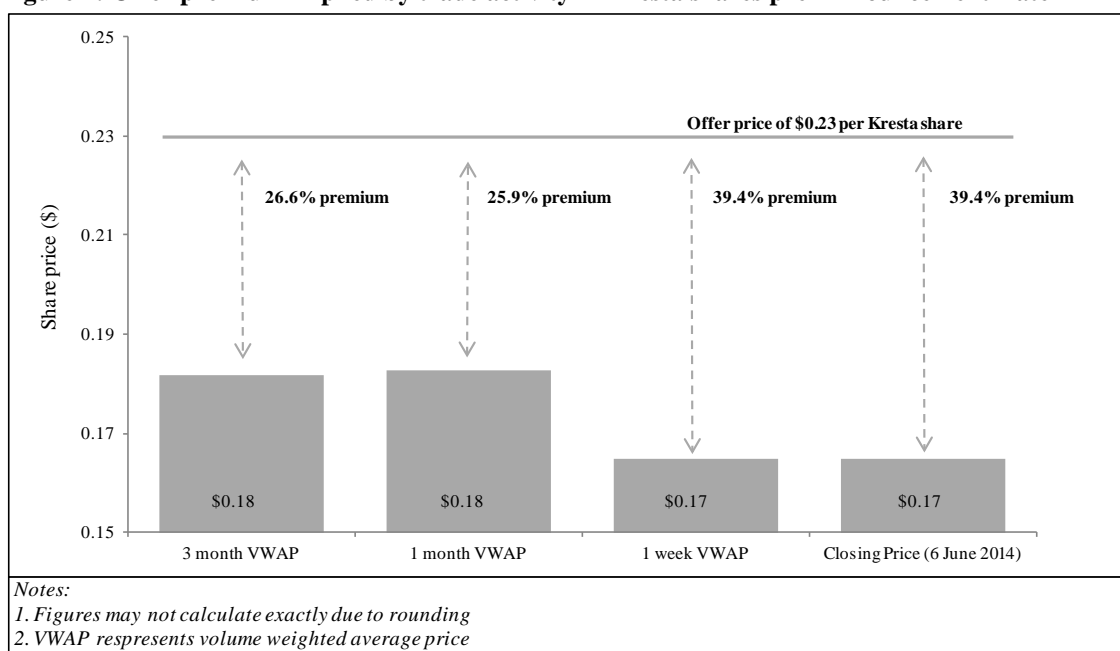
In accordance with RG111, an offer is reasonable if it is fair. However, irrespective of the statutory obligation to conclude that the Offer is reasonable because it is fair, we have considered a range of other factors Non-Associated Shareholders may wish to consider in assessing the Offer.

## 3.3 Advantages of the Offer

*The consideration allows Non-Associated Shareholders to realise their investment in Kresta at a premium to recently traded share prices*

The consideration offered represents a premium to Kresta shares prior to the Announcement Date, as set out in the figure below.

**Figure 1: Offer premium implied by trade activity in Kresta shares pre-Announcement Date**



Source: KPMG Corporate Finance analysis, Capital IQ

It is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading price of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. The range of premia set out above falls within the range typically observed in control transactions in Australia over the past decade.

We also note that given APlus's existing 19.9% interest in Kresta and that it already has a seat on Kresta's Board of Directors it therefore already has some influence over Kresta's affairs. As such from a commercial perspective it is arguable that APlus should not be required to pay a full premium for control.

We also note that the Offer represents a value that is higher than any price at which Kresta shares have traded in the 12 month period prior to the Announcement Date.

***The Offer provides certainty of outcome for Non-Associated Shareholders***

The Offer is unconditional and provides Non-Associated Shareholders an opportunity to immediately realise their interest in Kresta. Under the Offer, Non-Associated Shareholders can achieve certainty in relation to the pre-tax amount they will receive for their shares, as compared to the potential benefit of maintaining their interest in Kresta or selling same at some point time in the future, the value of which is likely to fluctuate in line with the Company's expected financial performance as the results of its restructuring initiatives crystallise over time.

***The Offer is currently the only option available for Kresta shareholders to realise value in excess of recently traded prices and in the absence of the Offer Kresta's share price may fall***

In assessing the merits of the Offer, we have considered the likelihood of an alternative offer emerging and we consider this to be unlikely due to:

- APlus' existing 19.9% shareholding
- no alternative proposal has emerged since the announcement of APlus' intention to make the Offer.

We note Kresta traded at a one month VWAP and a three month VWAP of \$0.18 per share in the period immediately prior to the Announcement Date. Following the Announcement Date Kresta shares have traded as high as \$0.22 per share and closed at \$0.21 per share on 11 July 2014. Despite limited liquidity, Kresta's share price is likely to have been influenced by the announcement of Offer, although it has consistently traded below the Offer since the Announcement Date.

We note Kresta shares last traded at \$0.23 per share on 19 December 2011.

Whilst it is not possible to accurately predict the price at which Kresta shares might trade post the Offer and having regard to limited liquidity exhibited in Kresta's shares, we consider it is possible that Kresta's share price may trade below the current price and may revert back to the trading levels prior to the Offer.

### **3.4 Disadvantages of the Offer**

***Loss of exposure to Kresta***

Acceptance of the Offer will mean that Non-Associated Shareholders will no longer have any exposure to Kresta, including any potential future upside or downside following the implementation of the current restructuring initiatives and general performance of the overall windows furnishing industry.

Our range of assessed fair values for Kresta is sensitive to a number of assumptions including future maintainable earnings. Kresta's historical earnings have exhibited a significant degree of volatility in recent times and depending on the success of Kresta's restructuring initiatives a wide range of assumptions could credibly be adopted, which could impact the assessed range of market values either positively or negatively. In our view, and acknowledged by the Non-Associated Directors, there remains significant risks associated with achieving the full benefit of Kresta's restructuring initiatives.

#### ***Transaction costs incurred by Kresta***

Irrespective of whether the Non-Associated Shareholders accept the Offer Kresta will incur transaction costs associated with the Offer. In the event APlus fails to acquire 100% of Kresta, costs associated with the Offer are expected to be borne by Kresta and indirectly pro-rata by Kresta's Non-Associated Shareholders through the diminution in the Company's net assets.

### **3.5 Other considerations**

#### ***APlus acquires a controlling interest but less than 90% of Kresta***

The Offer is unconditional and it is unclear what level of acceptances will be received for the Offer. As such, the ultimate level of acceptances will influence the free float available for trading on the ASX. In the event APlus acquires a controlling interest but less than full control, Kresta will remain a listed company but APlus will acquire practical control of the future strategic direction of Kresta. However we note that in these circumstances the Board of Directors will still have a fiduciary duty to act in the best interests of all shareholders.

#### ***The Offer does not provide any additional funding to Kresta***

The funds being expended by APlus to increase its stake in Kresta will remain outside of the Company and paid to accepting Non-Associated Shareholders.

The Non-Associated Directors have indicated that it is possible the Company may need to seek additional funding to complete current restructuring initiatives. Whilst no decision has been made at this time, this funding could be sourced from debt finance, an equity raising or a mixture of both.

To the extent that any funding requirement is to be satisfied wholly or in part by debt finance the Company would be subjected to increased financial leverage or in the case of future equity raisings, the interests of existing Non-Associated Shareholders may be diluted in the event Non-Associated Shareholders are not provided an opportunity, or elect not, to participate in any equity raisings.

#### ***Kresta may be more valuable to APlus***

We note that as a supplier to Kresta it may be that APlus is able to extract synergies and special value over and above that available to a pool of general purchasers. However, as noted previously APlus is paying a premium over and above that which reflects a full premium for control and also that which we would normally expect to be paid by a shareholder with a pre-existing 19.9% interest.

#### ***Taxation***

Depending upon individual Non-Associated Shareholders taxation position, acceptance of the Offer may give rise to Capital Gains Tax consequences. Non-Associated Shareholders are strongly encouraged to read the outline of the taxation implications of the Offer prepared by APlus, which is included in the Bidder's Statement at Section 8 and, if in any doubt, should seek their own independent taxation advice regarding the taxation consequences of the Offer.



***Non-Associated Directors have indicated they intend to recommend accepting the Offer***

The Non-Associated Directors have indicated that, in the absence of a better offer they intend to recommend Non-Associated Shareholders accept the Offer.

**4 Other matters**

In forming our opinion, we have considered the interests of Kresta shareholders other than those associated with APlus as a whole (the Non-Associated Shareholders). This advice therefore does not consider the financial situation, objectives or needs of individual Non-Associated Shareholders. It is not practical or possible to assess the implications of the Offer on individual Non-Associated Shareholders as their financial circumstances are not known. The decision of Non-Associated Shareholders as to whether or not to accept the Offer is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Non-Associated Shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to accept the Offer may be influenced by his or her particular circumstances, we recommend that individual Non-Associated Shareholders, including residents of foreign jurisdictions, seek their own independent professional advice.

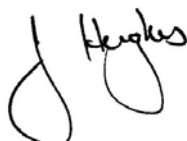
Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Non-Associated Shareholders in considering the Offer. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Target's Statement to be sent to Non-Associated Shareholders in relation to the Offer, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Target's Statement.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 5 of this report.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully



Jason Hughes  
Authorised Representative



Bill Allen  
Authorised Representative

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## **5 Scope of the report**

### **5.1 Limitations and reliance on information**

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Kresta for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of Kresta's management. In addition, we have also had discussions with Kresta's management and Non-Associated Directors in relation to the nature of the Company's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Kresta has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of Kresta. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Kresta remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to

update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

## **5.2 Disclosure of information**

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Kresta has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Kresta and its subsidiaries, including its projections of future financial performance and specific business strategies. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising Kresta. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by Kresta.

## **6 Industry overview**

Kresta is engaged in the manufacture and sale of window furnishings and home décor products in Australia and New Zealand. In order to provide a context for assessing the prospects of Kresta, we have included at Appendix 5 an overview of historical and expected trends in the window furnishings industry in Australia.

## **7 Profile of Kresta**

### **7.1 Company overview**

Kresta is an Australian-based company specialising in the manufacture, distribution and retail of window covering treatments and components. Kresta has an operational history spanning more than 40 years and offers a range of custom-made and off-the-shelf products including blinds, curtains, shutters and awnings. Kresta is listed on the official list of ASX and is headquartered in Malaga, Western Australia.

Historically, the Kresta group has largely operated as two distinct business units, Kresta Vista and Curtain Wonderland. However, as a result of various strategic initiatives currently being implemented by management with the view to realising, among other things, economies of scale, procurement savings and operating efficiencies, along with information technology and finance synergies, the businesses have and are expected to continue to become increasingly integrated over time.

#### ***Kresta Vista***

Kresta Vista's principal focus is custom-made window coverings targeted at the residential property market, in particular second or subsequent homebuyers and home renovators. As part of its custom made product offering, Kresta Vista provides complimentary in-home measurements and quotes. Kresta Vista's domestic manufacturing operations are located in Western Australia and are supplemented by offshore product sourcing. Kresta Vista has established marketing and distribution channels throughout Australia and New Zealand and offers its products via the following brands:

#### ***Kresta Blinds***

Kresta Blinds is considered to be one of the largest blind and curtain manufacturers and retailers in Australia and Kresta Vista's flagship brand. Kresta Blinds features an extensive network of sales

showrooms throughout Australia and New Zealand and operates as a vertically integrated business, ranging from the initial manufacture of window covering materials through to sale and installation.

#### *Vista Window Coverings*

Vista Window Coverings engages predominantly in the manufacture and sale of custom-made blinds, curtains, shutters and awnings. Vista Window Coverings targets the lower-cost segment of the window furnishings market and its products are offered throughout Australia.

#### *Ace of Shades*

Ace of Shades is a specialist outdoor blind, canopy and awning manufacturer. Ace of Shades offers a variety of custom-made and ready-made products designed to enhance shade, privacy, weatherproofing and security in both residential and commercial settings. Ace of Shades operates exclusively in the Melbourne market.

#### *Mardo*

Mardo engages in the manufacture and sale of designer window coverings including blinds, shutters and curtains. Mardo's products are targeted at the wholesale market via an Australia-wide distribution network.

#### *Curtain Wonderland*

Curtain Wonderland was acquired by Kresta in 2006. Curtain Wonderland has historically operated largely autonomously of Kresta Vista, featuring an independent Queensland-based management structure. Curtain Wonderland's primary focus is ready-made retail window coverings with its traditional stronghold being the Queensland market. Curtain Wonderland offers a variety of curtains, blinds, eyelets, various other retail furnishings and home décor products. Curtain Wonderland stores in Western Australia currently trade as Curtain Wonderland Decor2Go.

## **7.2 Strategic developments**

In recent years Kresta's financial performance has come under pressure due to a number of internal and external factors. These factors include:

- a challenging Australian retail landscape in the wake of the Global Financial Crisis (GFC)
- a strong Australian dollar and resulting competition from imported substitute goods, coupled with increasing competition from online suppliers of lower-cost substitute products
- a reduction in domestic retail spending following the winding-up the Federal Government Stimulus Package
- the Queensland Floods from late 2010 to early 2011 adversely impacting consumer sentiment and Curtain Wonderland's Queensland operations in the immediate aftermath. We understand the restoration of flood affected homes during the subsequent recovery period from the Queensland Floods had a positive impact on Curtain Wonderland
- an unsolicited, hostile takeover approach received from Wild Web Enterprises Pty Ltd in 2011 distracting Kresta management from the day-to-day operations of the Company

- poor operational management practices, in particular relating to domestic manufacturing and inventory management
- a high fixed-cost structure and associated operating leverage
- considerable management instability, with the Company's Board and senior management team undergoing significant change
- significant turnover of senior sales staff resulting in lost sales and higher recruitment and training costs.

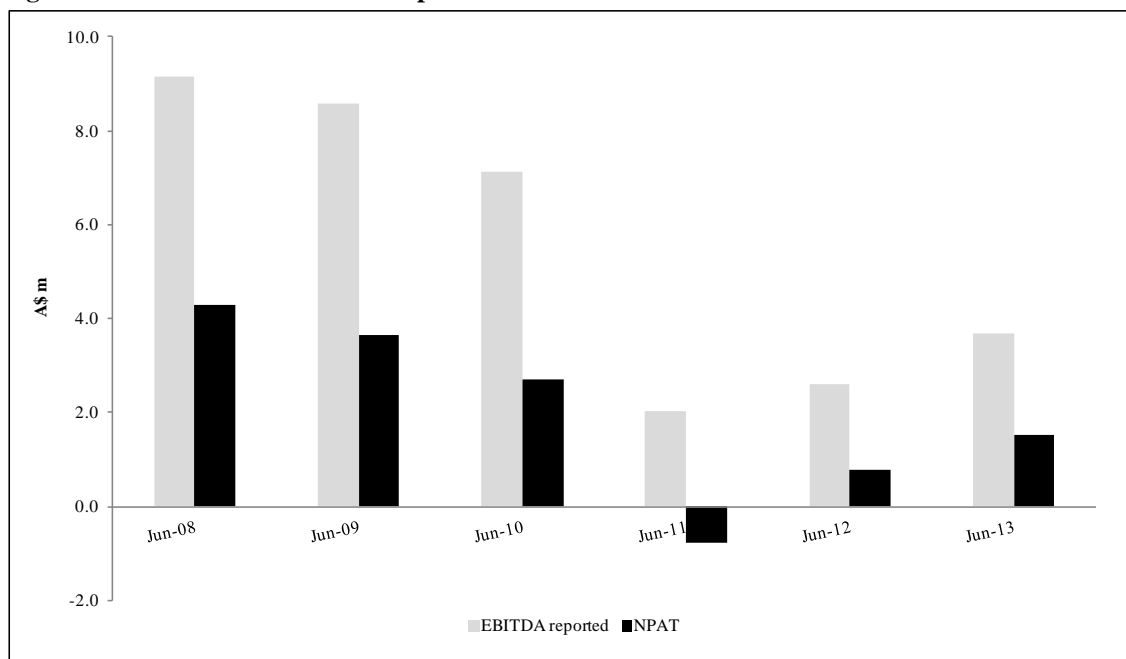
Kresta responded to these challenges by undertaking a major strategic review of its operations. Key objectives of the strategic review included reducing costs, in particular fixed overheads, improving product offerings and enhancing flexibility in responding to changing market demands. Subsequent to the review, the Company announced a number of initiatives that have and continue to be implemented, including:

- expanding the Company's supplier network and increasing the Company's focus on imported products from cost-efficient, high-quality suppliers to improve product mix
- the streamlining and rationalisation of Australian manufacturing operations, highlighted by the consolidation of Kresta Vista's Western Australian manufacturing operations at the Company's Malaga premises
- the disposal of property, plant and equipment that are surplus to the Company's streamlined operational requirements
- rationalisation of underperforming retail stores and regional distribution centres and associated reductions in headcount and fixed occupancy costs
- the introduction of new front-end technologies at retail stores and the implementation of new manufacturing machinery and inventory management systems to enhance operational efficiencies
- the refurbishment of selected stores and showrooms and the review of the Company's marketing and promotional strategies
- the introduction of extensive staff training programs targeted at the Company's manufacturing and sales employees.

The strategic review and changes to the Company's Board and senior management group have, in Kresta management's opinion, substantially changed the Company's operations and strategic direction since 2012, which have resulted in an improvement in the recent financial performance of Kresta, once non-recurring costs associated with the restructure, are excluded.

A summary of Kresta's statutory reported earnings before interest, tax, depreciation and amortisation (EBITDA) and net profit after tax (NPAT) since 2008 are summarised in the figure below.

**Figure 2: Kresta historical financial performance**



Source: Kresta 2008 through 2013 Annual Reports, KPMG Corporate Finance Analysis

Further discussion in relation to non-recurring costs associated with the restructure of the Kresta group is set out later in this report at section 9.

### 7.3 Company outlook

Whilst Kresta has achieved an improvement in its financial performance since the commencement of its strategic review of operations, its prospects remain significantly influenced by consumer sentiment and Australian retail conditions, both of which are somewhat subdued. In this regard, the slowdown in the resource sector and associated job losses, particularly in Western Australia and Queensland, coupled with the recently announced Federal Budget, appear to have dampened consumer confidence which, in turn, has adversely impacted upon Kresta's current year trading results. Notwithstanding this, Kresta management is forecasting a moderate level of growth in normalised profitability in FY15, driven by a number of key market and strategic initiatives, including:

- significant procurement cost savings expected to be derived from newly established direct relationships with overseas suppliers
- increased promotional and marketing activity targeted at penetrating key growth and under-represented States and expanding into other traditionally non-core markets and product sectors
- improved product mix designed to attract new customers and build market share
- significant investment in sales staff training to drive sales growth and enhance customer service

- continued consolidation and refurbishment of existing stores and showrooms and opening of new stores.

As indicated above, Kresta management expect significant cost savings to be derived from offshore product sourcing, in particular sourcing of input materials with a view to further process and manufacture finished products in Australia. Kresta management has indicated its commitment to domestic manufacturing is underpinned by a desire to enhance customer service by reducing manufacturing and product lead times, reaffirm product quality and the market recognition of being a company that produces 'Australian made' products. As part of the commitment to domestic manufacturing, Kresta is also pursuing a substantial up skilling of its manufacturing and installation workforce.

In considering this, readers should note however that the Company remains very much in a transitional phase and that the Kresta Board acknowledges achievement of the benefits expected from its current strategic initiatives are by no means certain. Further, the full impacts of these initiatives are not expected to be realised in the short term.

## 7.4 Historical financial performance

Kresta's historical audited consolidated financial performance for the years ended 30 June 2012 and 30 June 2013 and unaudited consolidated financial performance for the 11 months ended 31 May 2014 are summarised below.

**Table 4: Kresta's historical consolidated financial performance**

	Audited Year ended 30 Jun 12 \$000	Audited Year ended 30 Jun 13 \$000	Unaudited 11 months ended 31 May 14 \$000
Revenue and other income	114,860	105,156	90,053
Operating expenses	(112,270)	(101,482)	(87,819)
<b>EBITDA<sup>1</sup></b>	<b>2,590</b>	<b>3,674</b>	<b>2,234</b>
Depreciation and amortisation	(2,200)	(1,825)	(1,490)
<b>EBIT<sup>2</sup></b>	<b>390</b>	<b>1,849</b>	<b>744</b>
Interest income	249	193	87
Interest expense	(526)	(237)	(84)
<b>Profit before tax</b>	<b>113</b>	<b>1,805</b>	<b>747</b>
Income tax (expense) / benefit	678	(270)	(139)
<b>Profit after tax</b>	<b>791</b>	<b>1,535</b>	<b>608</b>
<i>Other comprehensive income, net of tax</i>			
Net foreign currency translation	(44)	(40)	
Change in fair value of cash flow hedges	(5)	23	
<b>Total comprehensive profit after tax</b>	<b>742</b>	<b>1,518</b>	
<i>EBITDA margin</i>	2.3%	3.5%	2.5%
<i>Undiluted weighted average ordinary shares on issue - 000</i>	144,158	144,158	
<i>Basic ordinary profit per share (cents per share)<sup>3</sup></i>	0.55	1.06	



	Audited Year ended 30 Jun 12 \$000	Audited Year ended 30 Jun 13 \$000	Unaudited 11 months ended 31 May 14 \$000
<i>Notes:</i>			
1.	<i>EBITDA is unadjusted earnings before interest, tax, depreciation and amortisation.</i>		
2.	<i>EBIT is unadjusted earnings before interest and tax.</i>		
3.	<i>Basic profit per share is calculated by dividing net profit attributable to the members of the parent entity by the weighted average number of ordinary shares outstanding during the year.</i>		

Source: Kresta 2013 Annual Report, Kresta unaudited management accounts for the 11 months ended 31 May 2014, KPMG Corporate Finance analysis

We make the following observations in relation to Kresta's financial performance over the 11 months to 31 May 2014:

- revenue and other income consists primarily of product sales revenue of \$89.8 million
- operating expenses include selling expenses of \$33.1 million, advertising expenses of \$7.6 million and head office expenses of \$7.3 million
- depreciation and amortisation expense of \$1.5 million has decreased relative to previous years in line with a rationalisation of manufacturing operations
- significant deleveraging, funded principally through proceeds from the sale of surplus property, plant and equipment, has resulted in Kresta's interest expense decreasing to approximately \$0.1 million.

## 7.5 Historical financial position

Kresta's historical audited consolidated financial position as at 30 June 2012 and 30 June 2013 and unaudited consolidated financial position as at 31 May 2014 are summarised below.

**Table 5: Kresta's historical consolidated financial position**

	Audited 30 Jun 12 \$000	Audited 30 Jun 13 \$000	Unaudited 31 May 14 \$000
Cash and cash equivalents	3,455	5,206	4,286
Trade and other receivables	2,931	2,338	2,486
Inventories	9,303	9,093	9,613
Other current assets	3,457	1,429	1,358
<b>Total current assets</b>	<b>19,146</b>	<b>18,066</b>	<b>17,743</b>
Trade and other receivables	26	50	41
Property, plant and equipment	13,788	12,220	11,234
Deferred tax assets	2,984	2,714	2,717
Intangible assets and goodwill	3,826	2,061	2,075
<b>Total non-current assets</b>	<b>20,624</b>	<b>17,045</b>	<b>16,067</b>
<b>Total assets</b>	<b>39,770</b>	<b>35,111</b>	<b>33,810</b>
Trade and other payables	8,128	7,310	6,445

	Audited 30 Jun 12 \$000	Audited 30 Jun 13 \$000	Unaudited 31 May 14 \$000
Interest-bearing loans and borrowings	5,549	1,315	419
Provisions	4,152	3,851	3,533
Other current liabilities	102	62	112
<b>Total current liabilities</b>	<b>17,931</b>	<b>12,538</b>	<b>10,509</b>
Interest-bearing loans and borrowings	1,001	150	-
Provisions	1,109	1,112	1,092
<b>Total non-current liabilities</b>	<b>2,110</b>	<b>1,262</b>	<b>1,092</b>
<b>Total liabilities</b>	<b>20,041</b>	<b>13,800</b>	<b>11,601</b>
<b>Net assets</b>	<b>19,729</b>	<b>21,311</b>	<b>22,209</b>
Shares on issue – 000s	144,158	149,258	150,259
Net asset backing per share – cents	13.7	14.3	14.8
Net tangible asset backing per share – cents	9.0	11.1	11.6
Gearing - % <sup>1</sup>	33%	7%	2%
Current ratio – times <sup>2</sup>	1.07	1.44	1.69
<b>Notes:</b>			
1. Gearing represents total loans and borrowings divided by net assets.			
2. Current ratio represents current assets divided by current liabilities.			
3. Amounts may not add exactly due to rounding.			

Source: Kresta 2013 Annual Report, Kresta unaudited management accounts as at 31 May 2014, KPMG Corporate Finance analysis

We make the following observations in relation to Kresta's financial position as at 31 May 2014:

- Kresta's cash holdings of \$4.3 million include approximately \$2.0 million in respect of customer deposits for future work
- Kresta's current asset position consists predominantly of inventories of \$9.6 million
- Kresta's property, plant and equipment is comprised of plant and equipment of \$5.4 million and property of \$5.8 million. Kresta's property was recently revalued by an independent property valuer at \$9.0 million. Had this revaluation been booked in Kresta's accounts this would have increased net assets to approximately \$25.4 million and net tangible asset backing per share to 13.7 cents
- Kresta's cash and receivables balance of \$6.8 million exceeds trade and other payables of \$6.4 million
- Kresta's gearing has decreased significantly over the period presented, with interest-bearing loans and borrowings falling from \$6.5 million as at 30 June 2012 to \$0.4 million as at 31 May 2014
- Kresta management has advised that as at the date of this report there were no known contingent liabilities
- Kresta's long-term share incentive plan (LTIP) including amounts receivable from eligible employees has been accounted for below the line in an equity reserves account and have been accounted as in-substance options. An expense is recognised on the date the shares are issued. No further gains or

losses are expected to be realised on the Company's statement of financial performance upon exercise or lapse of these in-substance options. As at the date of this report there are approximately 2.1 million shares issued and held in escrow under the LTIP.

## 7.6 Statement of cash flows

Kresta's historical audited consolidated cash flows for the years ended 30 June 2012 and 30 June 2013 and unaudited consolidated cash flows for the 11 months ended 31 May 2014 are summarised below.

**Table 6: Kresta's historical consolidated cash flow statement**

	Audited Year ended 30 Jun 12 \$000	Audited Year ended 30 Jun 13 \$000	Unaudited 11 months ended 31 May 14 \$000
Receipts from customers	122,358	112,407	97,543
Payments to suppliers and employees	(123,613)	(111,357)	(97,089)
Receipt of Government grants	-	104	-
Interest received	249	193	87
Interest paid	(526)	(237)	(84)
Income tax received (paid)	(24)	403	244
<b>Net cash provided by operating activities</b>	<b>(1,556)</b>	<b>1,513</b>	<b>701</b>
Proceeds from sale of property, plant and equipment	4,911	6,349	33
Purchase of property, plant and equipment	(1,531)	(958)	(85)
Purchase of intangibles	(1,004)	(19)	(790)
<b>Net cash provided by investing activities</b>	<b>2,376</b>	<b>5,372</b>	<b>(842)</b>
Proceeds from issue of shares	-	-	660
Dividends paid	-	-	(360)
Proceeds from borrowings	590	1,083	840
Repayment of borrowings	(2,818)	(6,085)	(1,793)
Payment of finance lease liabilities	(93)	(83)	(93)
<b>Net cash provided by financing activities</b>	<b>(2,321)</b>	<b>(5,085)</b>	<b>(746)</b>
<b>Net increase/(decrease) in cash held</b>	<b>(1,501)</b>	<b>1,800</b>	<b>(887)</b>
Net foreign exchange differences	(46)	(49)	(33)
Cash at beginning of period	5,002	3,455	5,206
<b>Cash at end of the period</b>	<b>3,455</b>	<b>5,206</b>	<b>4,286</b>

Source: Kresta 2013 Annual Report, Kresta unaudited management accounts for the 11 months ended 31 May 2014, KPMG Corporate Finance analysis

### Taxation

Kresta management has advised that as at the date of this report Kresta had carry forward capital losses of approximately \$97 million. Kresta sought independent advice as to whether it will be entitled to utilise these losses in future years however the position is not yet settled.

## 7.7 Share capital and ownership

As at 16 June 2014, Kresta had approximately 150.3 million ordinary shares on issue as summarised in the table below.

**Table 7: Equity ownership breakdown**

Shareholder	Number of shares held 000s	% of issued capital
Mr Xiaoyang Lu	29,900	19.9
Suntarget	28,323	18.9
Fiesta Design Pty Ltd	28,276	18.8
Tian Yuan (Mel) Pty Ltd	8,530	5.7
Mirage Capital Pty Ltd	3,700	2.5
Jasforce Pty Ltd	3,400	2.3
Citicorp Nominees Pty Limited	2,222	1.5
Mr Robert Keith Yorston	2,075	1.4
Pendomer Investments Pty Ltd	1,655	1.1
UBS Nominees Pty Ltd	1,574	1.1
<b>Total number of shares held by the top 10 shareholders</b>	<b>109,655</b>	<b>73.2</b>
Other shareholders	40,604	26.8
<b>Total number of shares on issue</b>	<b>150,259</b>	<b>100.0</b>

Source: Kresta's management

Substantial shareholder notices received by Kresta in the past 6 months are summarised below.

**Table 8: Substantial shareholder notifications**

Shareholder	Date of notice	Number of shares held pre 000s	Number of shares held post 000s	% of issued capital
Suntarget	29/01/2014	20,854	25,184	16.8
Suntarget	17/04/2014	25,184	27,376	18.2
Suntarget	02/05/2014	27,376	29,877	19.9
LD Com Pty Ltd	07/05/2014	12,402	8,530	5.7
Tian Yuan (Mel) Pty Ltd	23/05/2014	-	8,530	5.7
LD Com Pty Ltd	23/05/2014	8,530	-	-

Source: ASX announcements, KPMG Corporate Finance analysis

## 7.8 Long term incentive plan

At the 2011 Annual General Meeting (AGM), Kresta shareholders approved a long-term incentive share-based payment plan. Under the plan, eligible employees are invited to subscribe for fully paid ordinary shares in the Company, funded by a limited-recourse seven year loan from the Company the impact of which is akin to share options with a seven year maturity and accordingly Kresta accounted for these instruments as in-substance options. On the date of issuance, fully paid ordinary shares are issued by the

Company and held in a restricted account with a corresponding loan recorded in the equity reserves of Kresta's financial accounts. The issue price per share, and subsequent loan amount, is set by the five day VWAP prior to the offering of the shares.

The shares are not subject to any specific vesting conditions other than continuous employment. The shares are held in escrow by the Company with half of the shares released between one and a half and two years of continuous employment and the balance released between two and a half and three years of continuous employment.

The eligible employee's obligation for repayment of the loan is limited to dividends declared and capital returns made by the Company. Participants of the plan are allowed to make early repayments before the loan reaches maturity. Repayment of the loan constitutes exercise of the option, with the exercise price being the remaining loan balance per share. The employee reserved shares are held in escrow via a holding lock and once the loan is repaid in full the holding lock is removed from the shares.

In the event the loan is not repaid on maturity or the employee ceases employment and therefore fails to meet vesting conditions, Kresta may either:

- sell the shares on the market as security to partially or fully repay the loan, with any shortfall forgiven
- buyback the shares at market price and forgive any outstanding loan amount associated with the shares

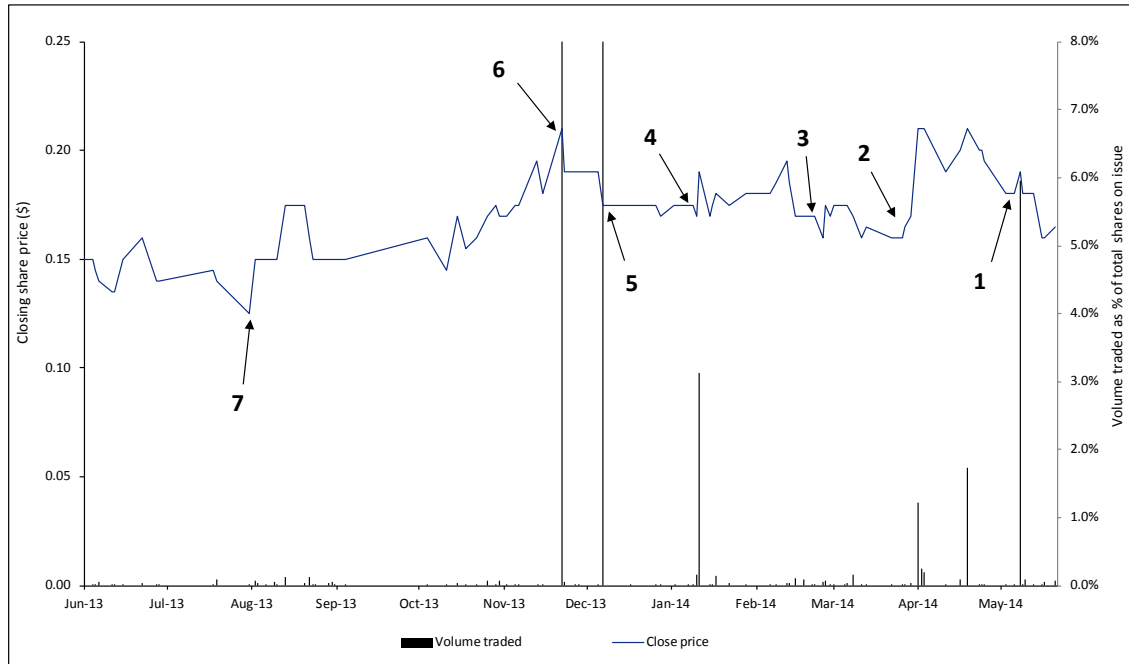
with any corresponding gain or losses accounted for in the Company's equity reserves account.

As at the date of this report, there were 2.1 million in-substance options over unissued ordinary shares of Kresta on issue.

## **7.9 Share price and volume trading history**

Kresta's daily closing share price on ASX over the twelve month period to 9 June 2014 along with the daily volume of shares traded on ASX as a percentage of total issued capital over the period is set out in the figure below.

**Figure 3: Kresta daily closing price and volume of shares traded on ASX**



Source: Capital IQ, KPMG Corporate Finance analysis and ASX announcements

As illustrated above, Kresta's share price has exhibited a significant degree of volatility over the 12 month period to 6 June 2014, closing in a relatively wide range of approximately \$0.13 to \$0.21 per share, but generally trending upwards. Kresta's last closing price prior to the Announcement Date was \$0.17 per share.

Other than normal half-year and full-year financial reporting, significant announcements by Kresta in the twelve months to 6 June 2014 and significant trades that may have had an impact on its recent share price include:

1. 23 May 2014 – Acquisition of approximately 8.5 million shares by Tian Yuan (Mel) Pty Ltd.
2. 17 April 2014 – Acquisition of approximately 1.5 million shares by Suntarget
3. 10 March 2014 – Appointment of Mr Xianfeng Lu as Managing Director
4. 29 January 2014 – Acquisition of approximately 4.3 million shares by Suntarget
5. 30 Dec 2013 – Acquisition of approximately 19.3 million shares by Suntarget
6. 11 Dec 2013 – Acquisition of approximately 29.9 million shares by Mr Xiaoyang Lu
7. 14 Aug 2013 – Election of Mr Peter Abery as Chairman of Kresta's board.

Further details in relation to all announcements made by Kresta to ASX can be obtained from either Kresta's website or ASX's website at [www.asx.com.au](http://www.asx.com.au).

### Trading liquidity on ASX

A summary of the volume of trade in Kresta's shares on the securities exchange of ASX in the 12 month period to 6 June 2014, being the last trading day on ASX prior to the Announcement Date, is set out below.

**Table 9: Trading liquidity in Kresta's shares on ASX pre-Announcement Date**

Period up to and including 6 June 2014	Share price low \$	Share price high \$	VWAP \$	Cumulative volume m	As a % of total issued capital
1 day	n/a	n/a	n/a	0.0	0.0
1 week	0.17	0.17	0.17	0.1	0.1
1 month	0.16	0.20	0.18	9.0	6.3
3 months	0.16	0.22	0.18	14.8	10.3
6 months	0.16	0.22	0.18	39.8	27.5
12 months	0.13	0.22	0.17	71.9	49.6
<i>Notes:</i>					
1. n/a implies no data available due to no trade volume					

Source: Capital IQ and KPMG Corporate Finance analysis

Kresta's shares have exhibited limited liquidity in recent times, with only approximately 49.6% of total shares on issue traded in the 12 months prior to 6 June 2014. We note however, that trading over this period included three significant 'bloc-trades', the details of which are outlined below:

- the purchase of approximately 8.5 million shares (5.7% of issued capital) by Tian Yuan (Mel) Pty Ltd announced on ASX on 23 May 2014
- the purchase of approximately 19.3 million shares (13.3% of issued capital) by Suntarget announced on ASX on 30 December 2013
- the purchase of approximately 29.9 million shares (19.9% of issued capital) by Mr Xiaoyang Lu announced on ASX on 11 December 2013.

In the absence of these three trades, the total percentage of Kresta's issued capital traded over the 12 month period to 6 June 2014 falls to just 10.7% which is more indicative of the underlying liquidity in the market for Kresta shares. Further, we note that in the three month period to 6 June 2014, Kresta shares traded on just 32 out of 63 total available trading days.

An analysis of the volume of trading in Kresta's shares post the Announcement Date to 11 July 2014 inclusive is set out in the table below.

**Table 10: Trading liquidity in Kresta's shares on ASX post-Announcement Date**

Period from 11 June 2014 to 11 July 2014	Share price low \$	Share price high \$	VWAP \$	Cumulative volume m	As a % of total issued capital
31 Days	0.20	0.22	0.21	1.2	0.8

*Source: Capital IQ and KPMG Corporate Finance analysis*

Kresta shares have continued to demonstrate a very low level of liquidity post the Announcement Date. In this regard, we note Kresta shares were only traded on ASX on 19 out of a total of 23 trading days, and, despite the Proposed Offer being \$0.23 cash per Kresta share, Kresta's closing share price on 11 July was \$0.21. We note that Kresta shares closed at \$0.20 on the Announcement Date, a premium of approximately 18% over the previous closing price.

## 8 Profile of APlus

APlus is based in the Ningbo district of the People's Republic of China and is primarily engaged in the manufacture and sale of screen fabrics. APlus was founded in 2003 by Mr Xianfeng Lu, the current managing director of Kresta, and is listed on the Shenzhen Stock Exchange. As at the date of the report, Mr Xianfeng Lu and his wife, Mrs Peifei Lu, collectively held approximately 49.5% of the equity in APlus. As at 9 June 2014, APlus had a market capitalisation of approximately \$260.6 million.

APlus has recently undertaken investment in new production plants, machinery and technology and its production facilities cover approximately 100,000 square meters. APlus has approximately 600 employees dedicated to the production of screen fabrics.

APlus offers environmentally-friendly, energy saving, anti-ultra violet, anti-bacterial, flame retardant and recyclable shading products made from a variety of polyester and fibreglass materials for use in indoor and outdoor products, blackouts and other technical sun-shading products. APlus operates a global manufacturing, sales and distribution network and exports its products to approximately 70 countries worldwide. For the 12 months ended 31 December 2013, APlus recorded total revenue of approximately \$40.9 million.



## 9 Valuation of Kresta

### 9.1 Summary

We have valued the equity in Kresta in the range of \$29.8 million to \$33.3 million, which corresponds to a value of \$0.20 to \$0.22 per Kresta share. Our valuation assumes 100% ownership of Kresta and incorporates a control premium.

Our valuation of Kresta has been prepared on the basis of 'market value', that is, the value that should be agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Our range of values has also had regard to the additional value resulting from estimated corporate cost savings that would generally be available to a pool of purchasers, both financial and trade. It does not include any other strategic or operational synergies that may be unique to APlus. Accordingly, our range of values has been prepared independent of the specific circumstances of any potential bidder.

Our valuation is summarised in the table below.

**Table 11: Summary of assessed market value of Kresta inclusive of a premium for control**

	Assessed Values	
	Low \$000	High \$000
Maintainable earnings (EBITDA)	3,500	3,500
EBITDA multiple (control basis)	8.0x	9.0x
<b>Total enterprise value</b>	<b>28,000</b>	<b>31,500</b>
Add: Net cash	1,870	1,870
Less: Net surplus liabilities	(101)	(101)
<b>Total equity value</b>	<b>29,769</b>	<b>33,269</b>
Number of ordinary shares (thousands) <sup>2</sup>	150,259	148,159
<b>Value per share, inclusive of a premium for control \$</b>	<b>0.20</b>	<b>0.22</b>
<i>Notes:</i>		
1. Figures may not add exactly due to rounding		
2. Number of ordinary shares on issue under our low scenario assumes 2.1 million 'in-substance options' currently on issue over Kresta ordinary shares are fully exercised.		

Source: KPMG Corporate Finance analysis

### 9.2 Methodology

Market value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of a sustainable level of earnings (Capitalised Earnings)
- the discounting of expected future cash flows to present value (DCF)
- the estimation of the net proceeds from an orderly realisation of assets (Net Assets)
- trading prices for the Company's shares on ASX.

These methodologies are discussed in greater detail at Appendix 3. Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is typically adopted as a cross-check to ensure reasonableness of outcome, with the valuation outcome ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as Capitalised Earnings and DCF are commonly used as they reflect 'going concern' values which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradable or asset rich, Net Assets is typically adopted as there tends to be minimal goodwill, if any.

### ***Selection of methodology***

We have valued Kresta on a consolidated basis. This approach reflects our understanding that Kresta's two operating units, Kresta Vista and Curtain Wonderland, are subject to substantially the same business risk factors and that the two operating units have and are expected to continue to become increasingly integrated over time.

For the valuation of Kresta we have adopted Capitalised Earnings as our primary methodology. This was based on the following considerations:

- Kresta operates as a going concern entity and accordingly is expected to have an indefinite life
- despite being in a transitional phase that has resulted in substantial changes to its business model, Kresta has an operational history exceeding 40 years
- Kresta operates in a relatively mature industry, notwithstanding the fact this industry is fragmented and will continue to face economic challenges in Australia for at least the medium term due to general economic conditions
- the availability of sufficient market evidence from which a meaningful earnings multiple can be derived
- management does not prepare long-term cash flow forecasts to facilitate the use of the DCF methodology
- given the transitional phase of the business, we do not consider there would be sufficient certainty in future forecasts to separately prepare/rely on long-term cash flow projections
- trading in Kresta shares is limited with insufficient volume and frequency to be considered reasonably representative of the underlying market value of Kresta shares.

We have cross-checked our Capitalised Earnings valuation of Kresta by applying the Net Assets methodology.

### ***Selection of earnings metric***

Application of the Capitalised Earnings approach involves the capitalisation of a business' earnings at a multiple that reflects the risks of the business and the future growth prospects of the income it generates. Application of this methodology requires the estimation of four key factors:

- an appropriate range of capitalisation multiples
- a level of real earnings expected to be able to be maintained in perpetuity into the future
- the level of existing net debt or cash
- the value of surplus assets and liabilities.

A capitalised earnings approach can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT and NPAT.

Given the relative capital intensity of firms operating in the residential and commercial furnishing, fixtures and fittings sectors, in particular those firms with manufacturing operations, we consider EBITDA to be an appropriate earnings metric as it removes differences in depreciation and amortisation policies adopted by market participants in various jurisdictions and therefore provides a better measure of earnings as it is not distorted by the impact of non-cash items.

### 9.3 Maintainable earnings

Maintainable earnings represent that level of earnings that a business can sustainably generate in the future. In our assessment of maintainable earnings it was necessary to adjust Kresta's historical reported EBITDA for various non-recurring and abnormal items not incurred in the ordinary course of business. Kresta's normalised EBITDA for financial years ending 30 June 2012 to 30 June 2014 is provided in the table below.

**Table 12: Kresta's normalised earnings profile**

<b>EBITDA</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual/Forecast<sup>1</sup></b>
<b>\$000</b>	<b>Jun-12</b>	<b>Jun-13</b>	<b>Jun-14</b>
<b>Unadjusted</b>	<b>2,590</b>	<b>3,674</b>	<b>2,709</b>
<i>Adjustments</i>	(1,755)	(2,187)	765
<b>Adjusted</b>	<b>835</b>	<b>1,487</b>	<b>3,474</b>
<i>Notes:</i>			
1. Consists of 11 months of actual results to 31 May 2014 and one month of forecast results to 30 June 2014			
2. Amounts may not add exactly due to rounding			

Source: Kresta 2012 and 2013 Annual Reports, Kresta management, KPMG Corporate Finance analysis

With respect to the normalisation adjustments in the table above, these have been made to reflect, inter-alia, the following principal non-recurring items:

#### 30 June 2012

- a gain on the sale of property (-\$3.6 million)
- various restructuring costs (+\$1.3 million)
- impairment of loans and receivables (+\$0.2 million)
- an inventory write-down (+\$0.2 million)
- other sundry adjustments (+\$0.1 million).

### **30 June 2013**

- a gain on the sale of property (-\$3.9 million)
- various restructuring costs (+\$0.6 million)
- various intangible asset write-downs (+\$1.7 million)
- an inventory write-back (-\$0.8 million)
- other sundry adjustments (+\$0.2 million).

### **30 June 2014**

- various restructuring costs (+\$0.9 million)
- an inventory write-down (+\$0.2 million)
- other sundry adjustments (-\$0.3 million).

In assessing an appropriate maintainable earnings level for Kresta we have had regard to:

- Kresta's historical financial performance. In this regard we note that Kresta has, and continues to, implement various strategic initiatives. This has resulted in substantial changes to Kresta's operating model over the past few years and accordingly we do not believe Kresta's historical performance prior to FY13 to be particularly meaningful when assessing the appropriate level of maintainable earnings. We are of the opinion that the expected FY14 financial performance is more reflective of Kresta's current business model
- Kresta's FY15 budget reflects management's expectations of recent improvements in profitability being sustained. Kresta's management has indicated key drivers of the FY15 budget include, among other items, procurement cost savings derived from new offshore supplier relationships, increased marketing and promotional activity targeted at penetrating underserved markets, mitigated somewhat by continuing subdued consumer sentiment
- Kresta acknowledges the expected benefits from the Company's ongoing strategic initiatives, in particular those referred to above, are by no means certain and have a significant degree of implementation risk and, even if these initiatives are successfully implemented, the full economic benefits are not likely to be realised for several years.

Accordingly, we consider Kresta's projected adjusted EBITDA for the 12 months to 30 June 2014 of approximately \$3.5m to provide a reasonable proxy for the Company's maintainable earnings.

## **9.4 EBITDA multiple**

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, and the selected multiple should reflect these factors, amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from recent transactions involving comparable businesses/assets and market trading in the equities of

listed comparable companies, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

### **Transaction evidence**

The price paid in transactions involving the exchange of significant ownership interests is widely considered to represent the market value of a controlling interest in the company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control. This premium can differ from transaction to transaction and is dependent on a range of factors, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target. The concept of control premium is discussed further below.

We note the number of recent directly comparable transactions involving listed companies operating in Kresta's industry segment, particularly in Australia, is limited. This is not unexpected given the highly fragmented nature of the Australian window furnishing industry and the principal industry participants are private firms. Consequently, we have also had regard to recent transactions involving firms operating in the wider residential and commercial furnishings, fixtures and fittings sectors in Australia and internationally.

The table below sets out the implied EBITDA multiples for selected transactions involving listed companies operating in the residential and commercial furnishings, fixtures and fittings sectors over the three year period to 17 June 2014.

**Table 13: Transaction evidence**

Date	Target	Transaction Value <sup>1</sup>	Percent Acquired	EBITDA multiple	
				LTM <sup>2</sup>	NTM <sup>3</sup>
<b>Australian</b>					
1 May 2012	Alesco Corporation Limited	276	80%	6.5	6.3
<b>International</b>					
28 June 2013	ASD America Holdings Corp	592	100%	16.6	n/a
1 May 2013	Truth Hardware	195	100%	8.9	n/a
19 June 2012	JF Household Furnishings Ltd	43	70%	11.4	n/a
9 May 2012	Cost Plus Inc	605	100%	11.7	9.5
7 October 2011	Craftmade International Inc	66	86%	54.3	n/a
<b>Notes:</b>					
1. Refers to enterprise value (\$m) of the target implied by the transaction consideration as at the transaction date. Where transaction consideration includes a scrip element we have used the last traded price prior to the announcement of the transaction in calculating the transaction value. Where appropriate, we have translated foreign currencies to Australian dollars based on the spot exchange rate as at the transaction announced date.					
2. Based on last twelve month (LTM) EBITDA using latest available information as at the transaction date					
3. Based on next twelve month (NTM) EBITDA broker forecasts as at the transaction date					

Source: Capital IQ, KPMG Corporate Finance analysis

Further details on these transactions are set out at Appendix 4.

Although the target companies are considered, to varying degrees, broadly comparable to Kresta, it is necessary to consider the specific attributes of the target companies as well as the prevailing economic conditions at the time of the transaction in assessing implied multiples.

In relation to the above transactions we note:

- the only broadly comparable recent Australian transaction relates to DuluxGroup's acquisition of Alesco Corporation in 2012. We note the EBITDA multiples implied by this transaction appear somewhat low compared to the implied trading multiples currently exhibited by the Australian peer group companies which may be attributable to Alesco's poor financial performance and uncertain growth prospects as a result of challenging conditions in the building products sector at the time of the transaction. In addition, Australia's general economic outlook could be considered to be generally more subdued than at the date of this report
- the LTM EBITDA multiples implied by the international transactions range from 8.9 times to 16.6 times (excluding the Craftmade International transaction which is considered to be an outlier) and are likely influenced by differing economic and sector specific conditions in the relevant countries as well as purchaser specific special value to varying degrees
- Litex Industries Limited's acquisition of Craftmade International Inc is considered to be an outlier. Whilst the implied LTM EBITDA multiple of 54.3 times reflects Craftmade International Inc's performance in the lead up to the transaction, we understand the company was undergoing a restructuring of its affairs at the time and therefore reference to its LTM may not have been representative of its perceived prospects to the bidder.

### ***Sharemarket evidence***

In selecting an appropriate comparable company peer group, we have had regard to the following:

- Kresta's principal activities involve the manufacture, distribution and sale of window coverings and components
- the window furnishing sector in Australia is highly fragmented and dominated by private firms, resulting in no directly comparable Australian listed companies
- whilst our review of the activities of current listed companies has not identified any companies with exactly the same business characteristics as Kresta, Kresta's business is subject to many of the same macroeconomic and sector specific factors that impact firms operating in the wider residential and commercial furnishings, fixtures and fittings sectors, particularly those companies with an Australian focus. As such, we consider firms operating in these sectors to provide a reasonable benchmark against which to assess an appropriate base multiple for Kresta.

The table below sets out EBITDA multiples implied by the trading activity of selected listed companies operating in the residential and commercial furnishings, fixtures and fittings sectors in Australia and internationally.

**Table 14: Sharemarket evidence**

Company	Market Cap <sup>1</sup>	Geographic Focus <sup>2</sup>	EBITDA multiple	
			LTM <sup>3</sup>	NTM <sup>4</sup>
<b>Australian</b>				
Reece Australia Limited	3,038	Australia	14.0	12.8
DuluxGroup Limited	2,098	Asia Pacific	12.0	11.5
GWA Group Limited	785	Australia	11.4	9.6
Nick Scali Limited	203	Australia	8.9	8.8
Fantastic Holdings Ltd	151	Australia	7.3	6.1
Gale Pacific Ltd	70	Global	5.1	4.1
Kresta	29	Australia	9.3	n/a
Joyce Corporation Limited	15	Australia	27.8	n/a
<b>Australian average (excl. outliers)</b>			<b>9.7</b>	<b>8.8</b>
<b>Australian median (excl. outliers)</b>			<b>9.3</b>	<b>9.2</b>
<b>International</b>				
Hunter Douglas NV	1,731	Global	7.5	n/a
Sangetsu Co. Ltd	1,082	Japan	8.3	n/a
Klil Industries Ltd	216	Israel	8.1	n/a
Tachikawa Corporation	119	Japan	2.0	n/a
Toso Company, Limited.	53	Japan	3.9	n/a
Ching Feng Home Fashions Co Ltd	40	Global	nmf	n/a
Decora S.A.	30	Poland	5.2	n/a
Baumal Group Spółka Akcyjna	14	Europe	7.3	n/a
<b>International average (excl. outliers)</b>			<b>6.2</b>	<b>n/a</b>
<b>International median (excl. outliers)</b>			<b>7.4</b>	<b>n/a</b>
<b>Notes:</b>				
1. Respective companies' closing market capitalisation as at 17 June 2014, converted to Australian dollars where relevant				
2. Refers to the principal geographic focus of the respective companies				
3. Refers to last twelve month (LTM) EBITDA using latest available information as at 17 June 2014				
4. Refers to next twelve month (NTM) EBITDA using broker forecasts as at 17 June 2014 on Capital IQ				
5. n/a implies NTM EBITDA not available				
6. nmf implies multiple is not meaningful due to negative EBITDA				

Source: Capital IQ, KPMG Corporate Finance analysis

A description of the companies selected for comparison purposes is set out at Appendix 4.

In relation to the above peer group companies and multiples we note the following:

- the multiples have been derived from share market prices which are typically reflective of trades in small parcels of shares. As such, these multiples reflect the prices at which portfolio interests change hands and therefore do not incorporate a premium for control. We note the above multiples have been

calculated post the Announcement Date and for this reason Kresta's market capitalisation may have been influenced by the announcement of the Offer and already reflect an element of control premium

- we have placed more emphasis on the multiples exhibited by the Australian peer group companies given Australia represents Kresta's principal market and, accordingly, we would expect the economic and sector specific factors impacting these companies to be most comparable to those facing Kresta
- whilst Hunter Douglas NV is considered to be the most comparable company in terms of its market share of the Australian window furnishing industry, Hunter Douglas NV is significantly larger and operates an internationally diversified business with Australia comprising only a small portion of its global operations
- Fantastic Holdings Ltd is considered the most comparable in terms of its exposure to the same business factors as Kresta and operates principally in Australia, but primarily in the furniture manufacturing and retailing sector
- Nick Scali Limited is comparable to Kresta to the extent that its principal focus is the Australian residential furnishings sector, however we note Nick Scali Limited does not offer window coverings or have Australian manufacturing operations
- whilst Gale Pacific Ltd and Joyce Corporation Limited (Joyce) are the most comparable Australian companies in terms of size, they operate in different segments to Kresta. Further, given the relativities between each company's implied EBITDA multiples, we consider Joyce is clearly an outlier
- a majority of the companies selected for comparison purposes, in particular the Australian peer group, are considerably larger than Kresta and accordingly we would expect these companies to trade at a higher multiple
- we note the multiples exhibited by the Australian companies generally exceed those of the international companies, which may reflect the current comparative strength of the Australian economy relative to the global economy
- as we have been unable to determine the extent of surplus cash carried on the balance sheets of the respective companies we have deducted the full amount from market capitalisation to determine the relevant EBITDA multiples. We note this approach will understate the relevant EBITDA multiples in the event current cash balances do not represent surplus cash.

### ***Control premium considerations***

With regard to the multiples applied in a capitalised earnings approach, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples observed in successful control transactions are usually considered to be inclusive of control premium. In contrast, the multiples derived for comparable listed companies are generally based on share prices reflective of the trades of portfolio interests and it is generally accepted that these trades do not include a premium for control.



Consistent with the requirements of RG 111, in valuing Kresta we have assumed 100% ownership, and therefore it is necessary to adjust observed trading multiples to include a premium for control when assessing the multiples implied by the comparable companies.

Takeover premiums can vary significantly between individual transactions as the final price paid will reflect to varying degrees:

- pure control premium in respect of the acquirer's ability to utilise full control over the cash flows of the target entity
- the level of synergies available to all purchasers, such as lower corporate costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- synergistic or special value that may be unique to a specific purchaser
- the nature of the bidder i.e. financial investor vs trade participant
- desire (or anxiety) for the acquirer to complete the transaction.
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation.

In forming our view on the range of appropriate control premiums we have analysed a set of historical transaction data and calculated acquisition premiums implied by this data set over the past decade. A sample set of 582 takeovers was sourced from Connect 4, constituting successful bids, where data on implied market values and two, five and 20-day premia was available. The average takeover value over this period was \$756 million after excluding transactions considered to be outliers based on the size of their premium relative to others and those with negative premia.

Our analysis indicated average and median 20-day acquisition premia of approximately 42% and 33% respectively, after excluding outliers based on the size of their premia relative to others and those with negative premia. The majority of those takeovers reviewed, excluding outliers, had premiums less than 40%.

It is apparent from a review of these transactions that there is a wide dispersion of observed acquisition premiums. Having considered these factors and the nature of the distribution of our observed data, we consider, on balance, that it is reasonable to suggest that in Australia, successful transactions are typically likely to complete within an acquisition premium range of 25% to 40%.

We have also considered those synergies and benefits that would be available to a pool of potential purchasers of Kresta. Having regard to:

- the fragmented nature of the Australian window furnishing market which is characterised by a large number of competitors most of which are smaller than Kresta and privately held
- there is no publicly listed Australian company with operations in Australia that is directly comparable to Kresta
- prior to the involvement of APlus, previous bidders and the majority of substantial shareholders in Kresta have not had a significant direct linkage to the window furnishing industry

- the level of pre-existing ownership by the successful bidder

we consider a general pool of purchasers for Kresta could comprise of trade buyers (Trade Purchaser) or an investor from the financial sector (Financial Purchaser).

Based on our discussion with Kresta's Non-Associated Directors and management we have considered the potential corporate cost savings available to both a Trade Purchaser and a Financial Purchaser.

Having regard to historical takeover premiums observed from market transactions and the quantum and nature of synergistic costs savings estimated by Kresta's management to be available to both a Trade Purchaser and a Financial Purchaser, we do not consider there to be any compelling reason to expect a purchaser would be prepared to pay a control premium outside of the 25% to 40% range typically observed in successful takeovers in Australia.

### ***Selection of an appropriate multiple***

The above sharemarket and transaction evidence provides a useful benchmark for the assessment of an appropriate EBITDA multiple for Kresta.

However, it is also necessary to incorporate business characteristics specific to Kresta. In this regard, we note:

- the majority of the companies selected for comparison purposes are considerably larger than Kresta. The company we consider to be most comparable to Kresta, Fantastic Holdings Ltd, has a market capitalisation five times that of Kresta<sup>4</sup>. Smaller firms by their nature are generally considered inherently riskier than their larger peers, attributed to, among other factors, greater dependence on key management personnel, reduced access to capital markets and reduced ability to offset and withstand external risk factors such as economic shocks
- whilst the successful implementation of the strategic initiatives being pursued by Kresta is by no means certain, should Kresta successfully extract future economic benefits from these initiatives we would expect the impact of this to be value accretive for Kresta shareholders, and may provide the opportunity for stronger growth prospects relative to the more mature companies selected for comparison.

Having regard to each of the above considerations, and after incorporating a premium for control, we consider an EBITDA multiple for Kresta to in the range of 8.0 times to 9.0 times to be reasonable.

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<sup>4</sup> Based on closing market capitalisation as at 17 June 2014

## 9.5 Net cash

As at 31 May 2014, Kresta's net cash position was \$1.9 million as set out in the table below.

**Table 15: Net cash**

As at \$000	31-May-14
Cash and cash equivalents	2,289
Debt	(419)
<b>Net cash</b>	<b>1,870</b>
<i>Notes:</i>	
1. Cash and cash equivalents exclude customer deposits for future work	

*Source: Kresta unaudited management accounts as at 31 May 2014, Kresta management, KPMG Corporate Finance analysis*

In order to ensure consistency with the previous calculation of capitalisation multiples for the comparable companies, we have included the entire cash and cash equivalent balance excluding prepaid deposits from customers in our assessment of the market value of a Kresta share.

## 9.6 Net surplus liabilities

Surplus assets and liabilities are those assets and liabilities not required to sustain the adopted level of maintainable earnings. As at 31 May 2014, Kresta had net surplus liabilities of \$0.1 million comprising derivative assets and income tax payable liabilities.

## 9.7 Other considerations

Kresta management has advised that as at the date of this report Kresta had carry forward capital losses of approximately \$97.4 million. Kresta has sought independent advice as to whether it will be entitled to utilise these losses in future years however the position is not yet settled. We also note that these losses would only be available to offset any future capital gain from the sale of assets rather than against tax on profits from trading activities. Accordingly, we have not included any value in respect of the potential future utilisation, if at all, of these capital losses.

## 9.8 Valuation cross-check

As a cross-check to our primary Capitalisation of Earnings approach, we have considered the reasonableness of our valuation of Kresta by applying the Net Assets methodology.

Under the Net Assets approach, we have assessed the marked-to-market values of tangible assets and liabilities on (and off) the Company's balance sheet as at 31 May 2014.

**Table 16: Net tangible assets valuation cross-check**

	Unaudited 31 May 14 \$000	Market value adjustment \$000	Market value 31 May 14 \$000
Cash and cash equivalents	4,286	(1,997)	2,289
Trade and other receivables	2,486	-	2,486
Inventories	9,613	-	9,613
Other current assets	1,358	-	1,358
<b>Total current assets</b>	<b>17,743</b>		<b>15,746</b>
Trade and other receivables	41	-	41
Property, plant and equipment	11,234	3,250	14,484
Deferred tax assets	2,717	(2,717)	-
Intangible assets and goodwill	2,075	(2,075)	-
<b>Total non-current assets</b>	<b>16,067</b>		<b>14,525</b>
<b>Total assets</b>	<b>33,810</b>		<b>30,271</b>
Trade and other payables	6,445	(1,997)	4,448
Interest-bearing loans and borrowings	419	-	419
Provisions	3,533	-	3,533
Other current liabilities	112	-	112
<b>Total current liabilities</b>	<b>10,509</b>		<b>8,512</b>
Interest-bearing loans and borrowings	-	-	-
Provisions	1,092	-	1,092
<b>Total non-current liabilities</b>	<b>1,092</b>		<b>1,092</b>
<b>Total liabilities</b>	<b>11,601</b>		<b>9,604</b>
<b>Net assets</b>	<b>22,209</b>		<b>20,667</b>
<i>Notes:</i>			
1. Cash and equivalents exclude customer deposits for future work			

Source: Kresta unaudited management accounts as at 31 May 2014, Kresta Management, KPMG Corporate Finance analysis

As illustrated in the table above, we have assessed the market value of Kresta's net tangible assets to be \$20.7 million. In this regard we note:

- Cash and equivalents has been revised down by \$2.0 million representing customer deposits for products and services yet to be rendered with a corresponding decrease in trade and other payables of this amount
- Property, plant and equipment has been increased by approximately \$3.2 million representing the recently independently assessed market value of Kresta's Malaga premises of \$9.0 million compared to the carrying value in the books of Kresta of \$5.8 million as at 31 May 2014
- we have excluded deferred tax assets, intangible assets and goodwill for the purposes of calculating net tangible asset value

- the net asset approach inherently assumes the ability to control the realisation of the businesses assets and accordingly no additional premium for control is required
- it is likely that an orderly realisation of Kresta's assets would incur various holding and selling costs. It is not possible to estimate these costs at this time. We note however that these costs would act to reduce the net proceeds available to shareholders.

The market value of Kresta's net tangible assets of \$20.7 million lies below Kresta's assessed equity value range of \$29.8 million to \$33.3 million under our primary Capitalised Earnings approach and represents an implied price to net tangible assets multiple in the order of 1.4 times to 1.6 times which sits within the range exhibited by the comparable companies as illustrated at Appendix 4 after adjustment for inclusion of a control premium. Based on the above, we believe the premium implied by our assessed valuation range over Kresta's net tangible asset position and Kresta's implied price to net tangible asset ratios compared to those of the comparable companies to be reasonable and the premium to net tangible asset value likely reflects factors including:

- the strength and longevity of Kresta's brands and customer relationships
- Kresta's national distribution and sales network
- Kresta's established manufacturing and sales workforce
- Goodwill accrued during an operational history spanning more than 40 years.

## **Appendix 1 – KPMG Corporate Finance Disclosures**

### ***Qualifications***

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Jason Hughes and Bill Allen. Both Jason and Bill have a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Jason Hughes is an Authorised Representative of KPMG Corporate Finance and a Partner in the KPMG Partnership. Jason is a Fellow of the Institute of Chartered Accountants in Australia, a Senior Fellow of the Financial Services Institute of Australasia and holds a Bachelor of Commerce and a Graduate Diploma in Applied Finance. Jason has extensive experience in the preparation of independent expert reports and corporate valuations.

Bill Allen is an Authorised Representative of KPMG Corporate Finance and a Partner in the KPMG Partnership. Bill is an Associate of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce degree and a Graduate Diploma in Applied Finance. Bill has significant experience in the provision of corporate financial advice, including specific advice on valuations and the preparation of expert reports.

### ***Disclaimers***

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Offer is fair and reasonable to Non-Associated Shareholders. KPMG Corporate Finance expressly disclaims any liability to any non-associated shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Target's Statement or any other document prepared in respect of the Offer. Accordingly, we take no responsibility for the content of the Target's Statement as a whole or other documents prepared in respect of the Offer.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation in Australia. Future taxation changes are unable to be reliably determined at this time.

### ***Independence***

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Kresta for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

KPMG has provided ad hoc professional services to Kresta over time. In the past two years fees for professional services have totalled approximately \$13,000. The quantum of these fees is not material to

KPMG and we do not believe this has impacted our independence. Neither KPMG or KPMG Corporate Finance has provided any strategic or other advice to Kresta in relation to the structure of the Offer or its terms.

### ***Consent***

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Target's Statement to be issued to the shareholders of Kresta. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

### ***Professional standards***

Our report has been prepared in accordance with professional standard Accounting Professional & Ethical Standard (APES) 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

## **Appendix 2 – Sources of information**

In preparing this report we have been provided with and considered the following sources of information:

### ***Publicly available information:***

- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- various reports published by IBISWorld Pty Ltd
- financial information from S&P Capital IQ, Connect 4, Thomson Reuters
- Kresta Annual Reports for financial years 2008 through 2013.

### ***Non-public information***

- Kresta unaudited management accounts for the 11 months ended 31 May 2014
- Kresta budget and strategic documentation for the 2015 financial year
- property valuation report prepared by an independent property valuer
- list of one-off or non-recurring items for the 2012 and 2013 financial years and 11 months to 31 May 2014 prepared by Kresta management
- list of top 20 shareholders as at 16 June 2014
- draft expert opinion in relation to carry forward capital losses.

In addition, we have had discussions with the management and Non-Associated Directors of Kresta.



## Appendix 3 – Overview of valuation methodologies

### *Capitalisation of earnings*

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) using trading multiples, adjustment to the multiple must be made to reflect the premium associated with ownership on a control basis. Regard is also had to the multiples achieved in recent mergers and acquisitions, where a control premium is implied in the purchase consideration.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

### *Discounted cash flow*

Under a DCF approach, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the weighted-average cost of capital (WACC), reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to

apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

### ***Net assets***

Under a net assets approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

A net asset methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

### ***Trading prices***

Prices at which a company's shares have traded on ASX are often considered to provide an objective measure of the value of that company on the basis that market prices are assumed to incorporate the influence of all publicly available information on the company, its future prospects, future earnings and risk.

In order to be a meaningful indicator of value, trading in a company's shares is required to be deep and active.

### ***Enterprise or equity value***

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

## Appendix 4 – Market evidence

### Transaction evidence

The table below sets out the implied EBITDA multiples for selected transactions involving listed companies operating in the residential and commercial furnishings, fixtures and fittings sectors over the three year period to 17 June 2014. We note the Australian retail furnishings sector, in particular window coverings sector, is highly fragmented and dominated by private firms and, accordingly, there is minimal recent Australian transaction evidence involving listed companies.

**Table A4-1: Transaction evidence**

Date	Target	Transaction Value <sup>1</sup>	Percent Acquired	EBITDA multiple LTM <sup>2</sup>	NTM <sup>3</sup>
<b>Australian</b>					
1 May 2012	Alesco Corporation Limited	276	80%	6.5	6.3
<b>International</b>					
28 June 2013	ASD America Holdings Corp	592	100%	16.6	n/a
1 May 2013	Truth Hardware	195	100%	8.9	n/a
19 June 2012	JF Household Furnishings Ltd	43	70%	11.4	n/a
9 May 2012	Cost Plus Inc	605	100%	11.7	9.5
7 October 2011	Craftmade International Inc	66	86%	54.3	n/a
<b>Notes:</b> 1. Refers to enterprise value (\$m) of the target implied by the transaction consideration as at the transaction date. Where transaction consideration includes a scrip element we have used the last traded price prior to the announcement of the transaction in calculating the transaction value. Where appropriate, we have translated foreign currencies to Australian dollars based on the spot exchange rate as at the transaction announced date. 2. Based on last twelve month (LTM) EBITDA using latest available information as at the transaction date 3. Based on next twelve month (NTM) EBITDA broker forecasts as at the transaction date					

Source: Capital IQ, KPMG Corporate Finance analysis

A brief description of each transaction is outlined below.

#### Australian transactions

##### **Alesco Corporation Limited**

On 1 May 2012, DuluxGroup Limited (DuluxGroup) announced an unsolicited, hostile offer to acquire the remaining 80.04 % of the issued share capital in Alesco Corporation Limited (Alesco) that it did not already own. The final consideration under the offer was \$2.05 cash per Alesco share, with Alesco shareholders also eligible to claim up to \$0.18 in franking credits attached to dividends announced by Alesco depending on their individual circumstances. Alesco's principal focus was on serving the building products markets in Australia and New Zealand and operated as three business units, Cabinets, Windows & Appliances; Construction Products & Equipment, and Garage Doors & Openers. DuluxGroup is engaged in the manufacture, marketing, sale and distribution of paints and other surface coatings and home improvement and garden care products throughout Asia Pacific.

### *International transactions*

#### ***ASD America Holdings Corp***

On 28 June 2013, LIXIL Corporation, a wholly owned subsidiary of LIXIL Group Corporation (LIXIL), announced an offer to acquire 100 % of ASD America Holdings Corp. for an implied enterprise value of approximately \$592 million. ASD America Holding Corp, which traded as American Standard Brands, had a primary focus on the manufacture of bath and kitchen products for residential, commercial, new construction, replacement and remodelling markets. LIXIL, through its subsidiaries, operates in the building materials and housing equipment industry in Japan and internationally. Its offers various building materials including, but not limited to, entrance doors, various types of shutters, curtain walls, and wooden interior furnishing materials, such as window frames, wooden furnishing materials, interior decorative materials.

#### ***Truth Hardware***

On 1 May 2013, Tyman plc announced an offer to acquire 100 % of the issued share capital of Truth Hardware for cash consideration of approximately \$195 million. Truth Hardware had a primary focus on the design and manufacture of window and door hardware in North America, offering hinged window hardware, such as operators, hinges, locks, skylights, and push-out hardware and sliding window hardware, including locks, lifts, latches, and rollers. Tyman plc is an international supplier of components to the door and window industry. Tyman plc offers products including window and door seals, locks, hinges which are offered throughout Europe, America and Asia Pacific.

#### ***JF Household Furnishings Ltd***

On 19 June 2012, Power Ocean Holdings Limited (Power Ocean) announced an offer to acquire approximately 70.09 % of the issued share capital of JF Household Furnishings Limited (JF Household) for consideration of approximately Hong Kong dollars 1.20 cash per JF Household share. JF Household primarily engaged in the manufacture and sale of stainless steel furnishings, home products, and accessories used in kitchens and bathrooms. Power Ocean is an investment holding company based in the British Virgin Islands.

#### ***Cost Plus Inc***

On 9 May 2012, Bed Bath & Beyond Inc (Bed Bath & Beyond) announced an offer to acquire all the issued ordinary share capital of Cost Plus, Inc (Cost Plus) for consideration of United States dollar (USD) 22.00 cash per Cost Plus share. Cost Plus's primary function was as a specialty retailer of casual home furnishings and entertainment products in the United States, operating a network of more than 250 retail stores. Bed Bath & Beyond is a chain of retail stores with a primary focus on the North American market. Bed Bath & Beyond sells a variety of domestic merchandise and home furnishings including bath items, kitchen textiles, basic house wares and general home furnishings and consumables.

#### ***Craft made International Inc***

On 7 October 2011, Litex Industries Limited (Litex) announced an offer to acquire all the outstanding shares of Craftmade International Inc (Craftmade) for USD 4.25 cash per Craftmade share. Craftmade's principal function was the design, manufacture and distribution of a broad range of home décor products

including ceiling fans, lighting products and outdoor furniture. Litex engages in the manufacture, importation and distribution of ceiling fans and lighting fixtures with a primary focus on serving the United States market.

### ***Sharemarket evidence***

The table below sets out the implied EBITDA multiples, exclusive of any premium for control, for selected listed companies operating in the residential and commercial furnishings, fixtures and fittings sectors. Whilst no company will ever be exactly comparable to the subject company being valued, in our view these companies provide a useful benchmark against which to assess Kresta as they are impacted by similar, but not identical, market factors.

**Table A4-2: Sharemarket evidence**

Company	Market Cap <sup>1</sup>	Geographic Focus <sup>2</sup>	EBITDA multiple		P/NTA <sup>5</sup>
			LTM <sup>3</sup>	NTM <sup>4</sup>	
<b>Australian</b>					
Reece Australia Limited	3,038	Australia	14.0	12.8	3.9
DuluxGroup Limited	2,098	Asia Pacific	12.0	11.5	54.5
GWA Group Limited	785	Australia	11.4	9.6	19.5
Nick Scali Limited	203	Australia	8.9	8.8	5.5
Fantastic Holdings Ltd	151	Australia	7.3	6.1	1.5
Gale Pacific Ltd	70	Global	5.1	4.1	1.1
Kresta	29	Australia	9.3	n/a	1.5
Joyce Corporation Limited	15	Australia	27.8	n/a	1.2
<b>Australian average (excl. outliers)</b>			<b>9.7</b>	<b>8.8</b>	<b>2.5</b>
<b>Australian median (excl. outliers)</b>			<b>9.3</b>	<b>9.2</b>	<b>1.5</b>
<b>International</b>					
Hunter Douglas NV	1,731	Global	7.5	n/a	2.0
Sangetsu Co. Ltd	1,082	Japan	8.3	n/a	0.9
Klil Industries Ltd	216	Israel	8.1	n/a	3.2
Tachikawa Corporation	119	Japan	2.0	n/a	0.4
Toso Company, Limited.	53	Japan	3.9	n/a	0.5
Ching Feng Home Fashions Co Ltd	40	Global	nmf	n/a	1.6
Decora S.A.	30	Poland	5.2	n/a	0.8
Baumal Group Spółka Akcyjna	14	Europe	7.3	n/a	5.0
<b>International average (excl. outliers)</b>			<b>6.2</b>	<b>n/a</b>	<b>1.8</b>
<b>International median (excl. outliers)</b>			<b>7.4</b>	<b>n/a</b>	<b>1.3</b>
<i>Notes:</i>					
1. Respective companies' closing market capitalisation as at 17 June 2014, converted to Australian dollars where relevant					
2. Refers to the principal geographic focus of the respective companies					
3. Refers to last twelve month (LTM) EBITDA using latest available information as at 17 June 2014					
4. Refers to next twelve month (NTM) EBITDA using broker forecasts as at 17 June 2014 on Capital IQ					
5. Refers to market capitalisation as at 17 June 2014 divided by latest reported net tangible assets					
6. n/a implies NTM EBITDA not available					
7. nmf implies multiple is not meaningful due to negative EBITDA					

Source: Capital IQ, KPMG Corporate Finance analysis

A brief description of each company is outlined on the following pages.

#### **Reece Australia Limited**

Reece Australia Limited supplies plumbing and bathroom products to customers in the trade, retail, professional and commercial markets in Australia and New Zealand. It is engaged in the import, wholesale, distribution, marketing and retail of bathroom products and accessories, plumbing products and laundry and kitchen products; heating, ventilation, air conditioning, and refrigeration products; and irrigation products. In addition, the company offers civil products including infrastructure products, pipes, fittings, hardware and consumables, work wear and safety gear and fire service products to water,

gas, sewer, fire service and telecommunications sectors. It primarily serves commercial plumbers and volume home builders through approximately 400 stores. The company was formerly known as H.J. Reece Limited and changed its name to Reece Australia Limited in 1987. Reece Australia Limited was founded in 1919 and is based in Burwood, Australia

#### ***DuluxGroup Limited***

DuluxGroup Limited is engaged in the manufacture, marketing, sale and distribution of paints and other surface coatings and home improvement and garden care products in Australia, New Zealand, Papua New Guinea, China and South East Asia. The company offers decorative paints, textures and protective and wood care coatings products; powder and industrial coatings; and home improvement and garden care products. In addition, it provides construction products and equipment; garage doors and automatic openers for residential, commercial and industrial markets; and hardware and components to the cabinet and furniture making industry, as well as window, door and glazing fabricators. The company was founded in 1918 is headquartered in Clayton, Australia.

#### ***GWA Group Limited***

GWA Group Limited is engaged in the research, design, manufacture, import, marketing and distribution of building fixtures and fittings to households and commercial premises primarily in Australia. It offers domestic and commercial bathroom and kitchen and laundry products under Australian brands, including Caroma, Dorf, Fowler, Stylus, Clark, Epure, Radiant and Irwell, as well as international brands, such as Hansa, Schell, KWC, EMCO and Virtu. The company also provides a range of domestic and commercial door hardware and access systems under various brands. In addition, it offers heating and cooling systems, including ducted gas furnaces, evaporative coolers and refrigeration based heating and cooling systems for the residential and commercial markets. The company is headquartered in Fortitude Valley, Australia.

#### ***Nick Scali Limited***

Nick Scali Limited engages in sourcing and retailing household furniture and related accessories in Australia. The company offers dining chairs and tables; regular, modular and recliner lounges; entertainment and TV Units; coffee tables; side tables; occasional chairs; TV recliner chairs; and bar stools. It operates 33 Nick Scali Furniture stores across the east coast and 5 Sofas2Go stores in Sydney and Melbourne. Nick Scali Limited is headquartered in Lidcombe, Australia.

#### ***Fantastic Holdings Ltd.***

Fantastic Holdings Limited manufactures, retails and imports household furniture in Australia. The company manufactures sofas, lounges and mattresses. Its stores offer home furnishing products, including sofas, dining, entertainment, bedroom, occasional, storage and home office furniture; spring, latex and visco mattresses; and lounge, bedding, office, storage, outdoor and soft furnishings, as well as floor coverings, plasma/LCD televisions and home theatre systems. The company markets its products under the Fantastic Furniture, Plush, Original Mattress Factory, Le Cornu and Dare Gallery brands. As of June 30, 2013, it operated 136 retail stores comprising 75 Fantastic Furniture stores, 33 Plush stores, 11 Dare Gallery stores, 15 Original Mattress Factory stores and 2 Le Cornu stores. The company was founded in 1989 and is based in Chullora, Australia.



### ***Gale Pacific Ltd***

Gale Pacific Limited manufactures, markets, sells and distributes screening, shading and home improvement products primarily in Australia, the United States, Europe, the Middle East and New Zealand. The company offers shade cloths, shade sails, gazebos, umbrellas, exterior window furnishings, pet products, garden products and spare parts and accessories for various domestic applications. The company also provides advanced polymer fabrics, such as shade cloth, polyolefin fabrics, PVC coated fabrics and commercial knitted fabrics for various commercial and industrial applications. Gale Pacific Limited also exports its products. The company was founded in 1951 and is based in Braeside, Australia.

### ***Joyce Corporation Limited***

Joyce Corporation Limited franchises the Bedshed chain of retail bedding stores in Australia. The company also owns and operates Bedshed stores in Western Australia, Victoria, New South Wales and Queensland, as well as leases a commercial property in New South Wales. Joyce Corporation Limited was founded in 1886 and is based in Osborne Park, Australia.

### ***Hunter Douglas NV***

Hunter Douglas NV manufactures and markets window coverings and architectural products worldwide. It offers fabric window coverings, as well as integrated line of fashion forward window coverings, including venetian and vertical blinds; Roman, roller and woven wood shades; pleated shades; wood and alternative wood blinds; custom shutters; exterior venetian blinds; screen products; shutters and awnings. The company also provides honeycomb shades, window shadings and draperies. Its architectural products comprise sun-control solutions, suspended ceilings, ventilated façade systems and translucent materials. In addition, Hunter Douglas NV supplies production equipment for fabric, wood and aluminum window coverings. The company offers its products under the HunterDouglas, Luxaflex, Duette, Silhouette, Vignette, Pirouette, Luminette, Enduris, Nano, Platinum, Facette, QuadroClad, Luxalon and 3form brands. Further, it engages in trading metals. The company sells, assembles and distributes its products through a network of independent and company-owned fabricators. Hunter Douglas NV was founded in 1919 and is headquartered in Rotterdam, the Netherlands.

### ***Sangetsu Co. Ltd.***

Sangetsu Co. Ltd. engages in the development and sale of interior decorating products in Japan. The company's products include wall papers, curtains, flooring materials, upholstery and other products. Sangetsu Co., Ltd. operates showrooms in Tokyo, Nagoya, Osaka, Okayama, Hiroshima and Fukuoka. The company was formerly known as Sangetsudoshoten Co., Ltd. and changed its name to Sangetsu Co., Ltd. in 1970. Sangetsu Co., Ltd. was founded in 1850 and is headquartered in Nagoya, Japan.

### ***Klil Industries Ltd.***

Klil Industries Ltd. designs, develops, produces and markets aluminum systems for the construction and industrial applications in Israel. The company's products include windows and doors, blinds and shades systems and curtain walls and aluminum panels. It also distributes wall claddings, as well as produces and sells rolling shutter systems. The company also exports its products to various countries. Klil Industries Ltd. was founded in 1950 and is based in Karmiel, Israel.



### ***Tachikawa Corporation***

Tachikawa Corporation is engaged in the design, manufacture, marketing, sale and installation of various window covering products and room partitions primarily in Japan. The company offers venetian blinds, vertical blinds, roller blinds, roman shades, pleated shades, curtain rails and other window coverings and interior finishing products for residences and offices, as well as public facilities. Tachikawa Corporation was founded in 1938 and is headquartered in Tokyo, Japan.

### ***Toso Company, Limited***

Toso Company, Limited develops, manufactures and markets interior products in Japan and internationally. The company offers decorative curtain tracks, functional curtain tracks, motorized curtain tracks, roller blinds, Roman shades, vertical blinds, pleated blinds and panel trucks; venetian blinds, including aluminum, wood, leather taste and fabric blinds; and peripheral parts motorized products, such as FM remote-control receivers/transmitters and terminal control units. Its products are used in hotels, offices, stores and showrooms, hospitals and schools. The company was founded in 1949 and is headquartered in Tokyo, Japan.

### ***Ching Feng Home Fashions Co. Ltd.***

Ching Feng Home Fashions Co. Ltd. designs, develops, manufactures, markets and sells home decor solutions. It offers window covering products, including venetian and vertical blinds, cordless blinds/shades, roller/roll up shades, panel track and soft shades and curtains, as well as pleated, cellular and roman shades; and home fashions comprising tablecloth, placemat, runner, kitchen set, chair pad, chair cover, décor pillow, throw/blanket and TV throw. The company also provides bath accessories consisting of shower curtains; and pet accessories, such as pad, bed and sofa. Ching Feng Home Fashions Co., Ltd. was founded in 1974 and is based in Changhua City, Taiwan.

### ***Decora S.A.***

Decora S.A. manufactures and sells decorating products in Poland and internationally. It provides window décor products, such as metal curtain rods and roller blinds; ceiling décor products comprising ceiling molding and rosettes; interior finishing and decorating products, including ceiling tiles, wall insulation and skirting boards; and floor finishing products, such as flooring profiles and underlays. The company markets its products under the Arbiton, Vidella, Carlo Conte and Fix Prix brands. Decora S.A. was founded in 1994 and is based in Sroda Wielkopolska, Poland.

### ***Baumal Group Spółka Akcyjna***

Baumal Group Spółka Akcyjna manufactures and sells windows and doors in Poland. Its products include PVC joinery, aluminum joinery and fire joinery products; roller shutters; and decorative panels. It also provides accessories comprising window sills, fabric roller blinds, mosquito nets, aluminum door handles and ventilation systems, as well as ornamental glass and latticed glazing windows, doors and glass walls and colour PVC profiles. The company exports its products to Belgium, France, Italy, Switzerland and Germany. Baumal Group Spółka.

## Appendix 5 – Overview of the Australian window furnishing industry

### Industry overview

Companies in the window furnishing industry manufacture and distribute products such as blinds, shutters, curtains, awnings, various draperies, venetians, outdoor blinds and other related fixtures for residential, industrial and commercial buildings. The products are distributed through physical retail stores, online and via sales representatives from the commercial and wholesale distribution channels.

The window furnishing industry is also closely related to and/or influenced by similar demand and supply drivers of a number of other industries, including:

- textile, fabric and furniture manufacturing and retailing
- Australian building and construction.

### Demand drivers

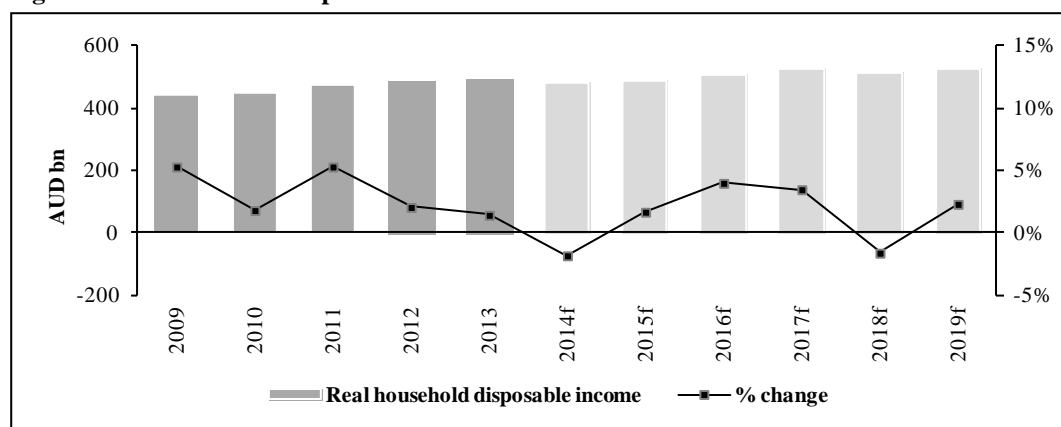
Demand for window furnishings arises from the construction, refurbishment or upgrade of residential, commercial and industrial properties.

A number of factors, including household disposable income, residential construction, consumer sentiment and interest rates, drives demand for window furnishings. Each of these factors are discussed further below:

- **Household disposable income:** The level of discretionary spending on window furnishing products is influenced by the growth/level of household income. Accordingly, it is an important driver of demand for window furnishing products. An increase in income may increase consumer's propensity to spend on discretionary items, leading to greater demand for window furnishing products.

The following figure, sourced from IBISWorld, illustrates historical and forecast real household disposable income. Australian households experienced compounded growth of 1.7% in real household discretionary income from 2009-14. The strong Australian dollar and booming mining industries contributed to this period of real household discretionary income growth.

**Figure A5-1: Household disposable income**

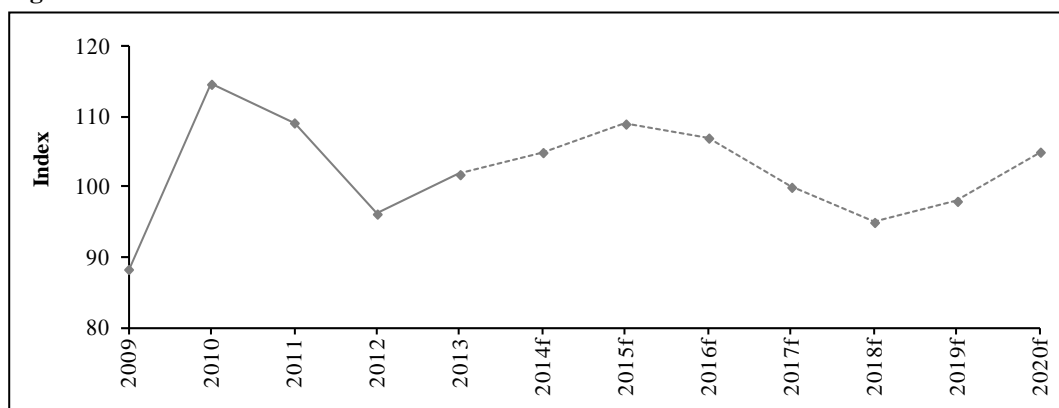


Source: IBISWorld, Real household discretionary income, July 2013

IBISWorld has a positive outlook on economic growth from 2014-19 and has estimated compound growth in real household disposable income of 2.0% over this period. Further, according to IBISWorld, a stronger Australian dollar relative to currencies of trading partners will reduce the cost of essential imported goods, supporting the increase in real household disposable income. However, IBISWorld expects 2017-18 to coincide with the end of the current economic cycle, which will put pressure on wages, leading to a 1.6 % decline in discretionary income in this period.

- **Consumer sentiment:** Consumer confidence is a key driver of retail demand for window furnishing products. The level of discretionary spending on products such as window furnishing is positively correlated to consumer sentiment. Rising unemployment in non-mining industries led to a fall in consumer sentiment from 2010-12. Over the same period, natural disasters such as the flood and cyclone Yasi in the Queensland region also contributed to the decline in consumer sentiment. The figure below shows consumer sentiment as estimated by IBISWorld is expected to be volatile over the coming years through to 2020 and will have a similar effect on consumer spending patterns.

**Figure A5-2: Consumer sentiment index**



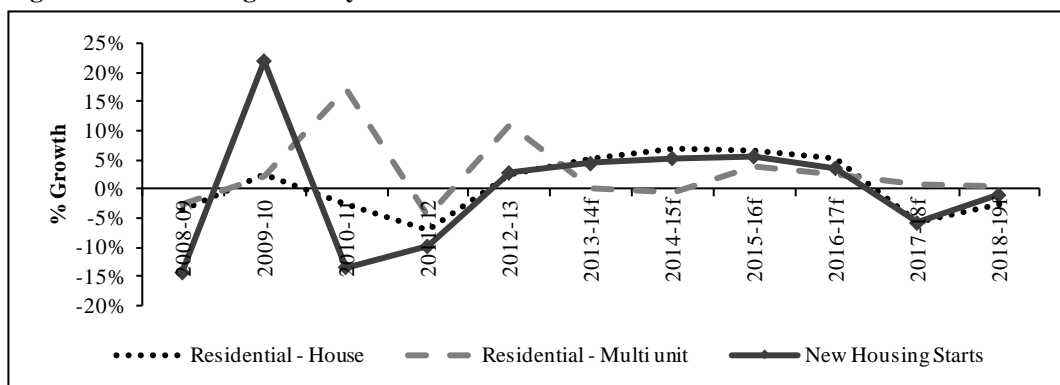
Source: IBISWorld, Furniture retailing in Australia, March 2014

- **Construction:** The demand for new housing as well as home improvements, renovations and remodelling impact upon the demand for the window furnishing products. Given Kresta's principal target market is residential housing, its current performance and outlook are discussed below:

*Multi-unit apartment and townhouse construction:* growth in the residential construction sector has fluctuated over the period 2009-14. In 2012-13, this sector experienced growth of 11%. According to IBISWorld, the pace of expansion in this sector is projected to slow over the next five years as a result of saturation and higher comparable returns of investment in the single-unit housing market.

*House and new start construction:* growth in the housing construction industry has been subdued over the past few years as a result of the phasing out of the State and Federal government homebuyer subsidies, crisis in the builders warranty insurance market and tight lending conditions. However IBISWorld forecasts an upswing in activities over the next three years through to 2016-17 underpinned by a combination of pent up demand for new housing from population growth before declining in 2017-18 in line with the forecast economic cycle.

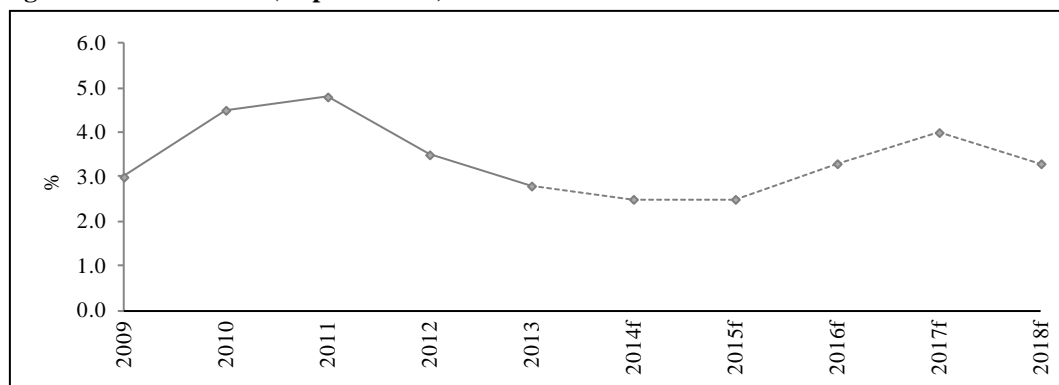
**Figure A5-3: Building industry outlook**



Source: IBISWorld, *House Construction Report* (March 2014), *Multi-Unit Apartment and Townhouse Construction* (May 2014)

- **Interest rates:** Discretionary spending is also influenced by the level of prevailing interest rates in the market. The higher the level of interest rates, the greater the burden of servicing loans (such as household mortgages) leading to lower discretionary spending. Fluctuations and uncertainties in interest rate movements would hamper the industry's performance. BIS Shrapnel forecasts a gradual increase in the cash rate over the period through to 2017 before declining in 2018.

**Figure A5-4: Cash rate (% per annum)**



Source: BIS Shrapnel

Australian window furnishing manufacturers have experienced difficult conditions in the last few years due to growing competition from the online segment and low cost imports. Further, contraction in the construction industry due to unfavourable housing affordability and low consumer sentiment have had a negative impact on the performance of the industry. Related industries growth over the five-year period from 2009-14 are as follows:

- Furniture retailing 0.5 %
- Fabric retailing 0.9 %
- Textile product manufacturing -3.4 %

According to IBISWorld, in the past five years the demand for blinds and awnings has increased as favoured products relative to curtains. The popularity of outdoor rooms has also underpinned demand for awnings.

## **Supply**

The industry is not subject to significant supply constraints. The primary determinant of supply is demand.

### ***Basis of competition***

The Australian window furnishing market is highly fragmented with most industry participants being small private businesses. Leading national Australian players include Hunter Douglas and Kresta. Manufacturers compete on all facets of production and sale, including style and design, marketing, price, quality and selling and distribution. This industry is highly competitive, with local companies facing strong competition, in particular from imports from low cost countries, such as China, Malaysia and Vietnam and online retailers. These factors may likely place pressure on profitability of the window furnishing companies in the near future.

### ***Barriers to entry***

The barriers to entry in the Australian window furnishing market are moderate. New firms face strong competition from industry incumbents with established brand strengths and high start-up costs relating to establishing show rooms. Further, entry into the industry is deterred by the small, fragmented and competitive nature of the Australian market.

## **Key success factors**

Key success factors in the Australian window furnishing market include the following:

- **Strong brand names** – important in maintaining market position and helps attract new customers
- **Product design and innovation** – to cater to the changing needs of customers and changing design trends in the industry
- **Access to niche markets** – companies may benefit from offering consumers differentiated goods to avoid outright price competition from low cost suppliers (i.e. importers and online retailers), for example, through product specialisation or access to particular fabrics
- **Product quality** – to attract consumers through differentiation and avoid direct price competition with low-cost suppliers
- **Experienced sales team** – ensures the delivery of quality customer service pre and post purchase
- **Robust inventory management** – important in reducing costs and improving efficiency
- **Location** – showrooms should be ideally located in high volume traffic areas to ensure visibility and accessibility
- **Product visibility** – product positioning and display should be clear and consistent and engage consumers

- **Low cost sourcing** – through imports or offshore manufacturing unit in order to maintain competitiveness in the industry.

### **Overall industry outlook**

We note forecast growth in real household disposable income and residential construction in the medium term period to 2016 is likely to provide support for the window furnishing industry.

However, at the same time, volatility in consumer sentiment and interest rates, coupled with a highly competitive market, may dampen or counteract the above expected industry growth drivers.

In the future, the Australian window furnishing industry is likely to continue to face the challenge of the higher input costs compared with imported goods and mounting competition from external players are expected to erode industry profits.

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## PART TWO – FINANCIAL SERVICES GUIDE

Dated 15 July 2014

**What is a Financial Services Guide (FSG)?**

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) and Jason Hughes and Bill Allen as authorised representatives of KPMG Corporate Finance (**Authorised Representatives**), Authorised Representative numbers 484183 and 405336 respectively.

**This FSG includes information about:**

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representatives are authorised to provide
- how KPMG Corporate Finance and its Authorised Representatives are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representatives
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representatives has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

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KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representatives are authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

**KPMG Corporate Finance and the Authorised Representatives' responsibility to you**

KPMG Corporate Finance has been engaged by Kresta (Client) to provide general financial product advice in the form of a Report to be included in the Target's Statement (Document)

prepared by Kresta in relation to the Offer (Transaction) by APlus (Bidder).

You have not engaged KPMG Corporate Finance or the Authorised Representatives directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representatives are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representatives are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

**General Advice**

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

**Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives**

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance \$60,000 for preparing the Report. KPMG Corporate

Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report. KPMG Corporate Finance officers and representatives (including the Authorised Representatives) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representatives) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report. Further details may be provided on request.

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### Complaints resolution

#### Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please

telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint. Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

#### External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399 Email: [info@fos.org.au](mailto:info@fos.org.au).

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

### Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

### Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

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