



Corporate Governance Statement

The Board of directors of Kresta Holdings Limited (Company) is responsible for establishing the corporate governance framework of the Group having regard to the 3rd Edition of the Australian Securities Exchange's ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council (CGC).

The Board guides and monitors the business and affairs of Kresta Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

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

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

Kresta Holdings Limited's corporate governance practices were in place throughout the year ended 31 December 2018 and were compliant with the Council's best practice recommendations, except for there being no separate nomination committee.

Code of conduct

The Company is committed to the highest standards of business conduct. It is important that all staff members at Kresta observe the highest standards of ethics, integrity and behaviour. The Code outlines the standards of behaviour of staff members at Kresta including Directors, employees, consultants and contractors must meet.

Notwithstanding this Code, the ethical conduct of the affairs of the Company ultimately depends upon the understanding and judgement of its staff, having regard to their sense of honesty, fairness and decency.

Nevertheless, this Code sets out the Company's minimum standards of conduct and integrity to be observed by all staff members. The Code's focus is to ensure that all Directors, executives, and employees act with the utmost integrity and objectivity in carrying out their duties and responsibilities, striving at all times to enhance the reputation and performance of the Company.

Board responsibilities

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Group is delegated by the Board to the executive team. The Board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The executive team is responsible to the Board for the day to day management of the Company.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of board committees. Specialist board committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit and risk committee
- Remuneration committee

The roles and responsibilities of these committees are discussed throughout this corporate governance statement.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget — via the establishment and regular reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- Reporting to shareholders.

Structure of the board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the directors' report. Directors of Kresta Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with — or could reasonably be perceived to materially interfere with — the exercise of their unfettered and independent judgement.

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at the Company's expense.

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The structure of the Board is determined in accordance with the following policies and guidelines:

- The Chairman of the Audit and Risk Committee and the Chairman of the Remuneration Committee must both be independent;
- The Board should comprise directors with an appropriate range of qualifications and expertise; and
- The Board shall meet at least once every three months.

The directors in office at the date of this statement are:

Name	Position	Term in office	Independent
X. Lu	Managing Director	6.3 years	No ⁽ⁱ⁾
M. Zhang	Director	1.8 years	No
D. Li	Non-Executive Director	1.8 years	Yes
X. Liu	Non-Executive Director	0.1 years	Yes
W. Qian	Director	0.6 years	No

- (i) Mr Lu is an associate of Dream Curtain Holdings Co. Ltd which holds 84.35% shareholding in the Company.

The Company considers two out of the current 5 directors to be independent, the Board considers that the presence of these two independent directors provides the Board with sufficient independent presence.

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

The role of the Company secretary includes:

- (a) Advising the Board and its committees on governance matters;
- (b) Monitoring that Board and committee policy and procedures are followed;
- (c) Coordinating the timely completion and despatch of Board and committee papers;
- (d) Ensuring that the business at Board and committee meetings is accurately captured in the minutes; and
- (e) Helping to organise and facilitate the induction and professional development of directors.

The mix of skills and diversity of the Board was reviewed during the listing process and is reviewed on at least an annual basis. The Board is considered to be of an appropriate size and structure, and to possess appropriate skills and knowledge to effectively and efficiently oversee the management and operations of the Company.

The Board does not consider it necessary to develop a Board skills matrix at this stage. The Board is aware of the skills and experience of each directors and the necessary skills and experience required to manage the Company and this is periodically evaluated.

Details of the Directors' skills, experience and meeting attendance will be set out in the Director's report in each year's Annual Report.

Audit and risk committee

The Board has established an audit and risk committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated responsibility for the establishment and maintenance of a framework of internal controls and ethical standards for the management of the Group to the audit and risk committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The Chairman of the audit and risk committee is a non-executive director.

The members of the audit and risk committee as at the date of this report:

- L. Ding (Chair)
- M. Zhang
- X. Liu

Nomination committee

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

The Company requires that a detailed letter of appointment or employment contract is agreed with each director and employee. The Company's officers and management have all entered into service contracts which outline the responsibilities of each of the Company's officers and of management personnel when performing their roles for the Company.

The Board and/or Managing Director is responsible for evaluating the performance of the senior executives. The evaluation procedure for senior executives is set out in the executives' formal job description or determined by the Managing Director based on relevant key performance indicators. Reviews were conducted during the year in accordance with this process.

Remuneration committee

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high-quality board and executive team by remunerating directors and executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of officers' remuneration to the Company's financial and operational performance.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the directors' report.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, and the executives. The Board has established a remuneration committee, comprising of at least two directors.

Members of the remuneration committee as at the date of this report:

- M. Zhang (Chair)
- X. Liu

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to the directors' report.

Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

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In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so the Board has taken the view that it is crucial for all Board members to be a part of this process. Furthermore, the Board has established an audit and risk committee which also has accountability for assessing the Company's risk profile.

The Board oversees the assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the MD, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management reports to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed. The reporting on risk by management occurs at board meetings in various ways including, through the review of key performance indicators measuring financial and other operational matters.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- A comprehensive annual insurance program; and
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.

For the purposes of assisting investors to understand better the nature of the risks faced by Kresta Holdings Limited, the Board has prepared a list of operational risks. These include the following:

- Fluctuations in exchange rates and demand volumes;
- The occurrence of force majeure events by significant suppliers; and
- Increasing costs of operations, including labour costs.
- Purchase arrangements with different suppliers in order to de-risk reliance on factory.

The Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events.

Diversity policy

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

The table below shows the proportion of female employees of the Group as at 31 December 2019.

Position	Number	Percent %
Board members	1	25.00%
Senior managers	12	63.16%
Managers	41	89.13%
Other employees	297	81.37%
	<u>351</u>	<u>80.88%</u>

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

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The Company has not adopted Recommendation 1.5 of the ASX's Corporate Governance Principles and Recommendations in that it did not set or disclose measurable objectives for achieving gender diversity in accordance with its Diversity Policy.

Trading policy

Under the Company's securities trading policy all KMP, officers and employees must not buy or sell the Company's securities whilst they are in possession of inside information. Inside information is that which is not generally available and if it was generally available, a reasonable person would expect it to have a material effect on the price or value of shares or other securities. Further, all KMP, officers and employees must not disclose any inside information to any other persons unless those persons have a need to know and confirm that they will comply with this policy.

Subject to the general prohibition clause, KMP, officers and employees are not permitted to trade in the Company's securities during the following blackout periods:

- From 30 June until the day after the release of the results for the half year;
- From 31 December until the day after the release of the results for the full year; and
- Any time frame determined by the Board once market sensitive information is considered, which may reasonably have a market impact.

KMP, officers and employees may be able to trade during black out periods in exceptional circumstances with the approval of the Chairman. In this instance the KMP, officer or employee needs to demonstrate that they don't hold unpublished price sensitive information.

As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

Managing director and chief financial officer declaration

In accordance with section 295A of the *Corporations Act 2001*, the Executive Chairman and CFO have provided a written statement to the Board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Executive Chairman and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Independence declaration

The *Corporations Act 2001* require external auditors to make an annual independence declaration, addressed to the Board, declaring that the auditors have maintained their independence in accordance with CLERP 9 amendments and the rules of the professional accounting bodies.

Bentleys Audit & Corporate (WA) Pty Ltd has provided such a declaration to the Board for the financial year ended 31 December 2019.

Continuous Disclosure and Shareholder communication policy

Pursuant to Principle 6, Kresta Holdings Limited's objective is to promote effective communication with its shareholders at all times.

Kresta Holdings Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about the Group's activities in a balanced and understandable way;
- Complying with continuous disclosure obligations contained in the ASX listing rules and the *Corporations Act 2001* in Australia; and
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Kresta Holdings Limited.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX;
- Through the distribution of the annual report and notices of annual general meeting;
- Through shareholder meetings and investor relations presentations; and
- Through letters and other forms of communications directly to shareholders by posting relevant information on Kresta Holdings Limited's website: www.kresta.com.au/shareholders

The Company's website has a dedicated investor relations section for the purpose of publishing all important Company information and relevant announcements made to the market.

The Continuous Disclosure and Shareholder communication policy will be reviewed by Directors on an annual basis.

The external auditors are required to attend the annual general meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report. Shareholders may submit questions for the external auditors to the Company Secretary no later than five business days before an annual general meeting.