# Kingform Health Hometextile Group Limited
# ACN 153 801 766
# Annual Report for the Year Ended 30 June 2016

# CORPORATE GOVERNANCE STATEMENT

## Kingform Health Hometextile Group Limited's Corporate Governance Arrangements

The objective of the Board of Kingform Heath Hometextile Group Limited is to create and deliver long-term shareholder value through a range of diversified but interrelated manufacturing and retailing activities. While each area of the Group's business activities holds significant value and makes a substantial contribution towards achieving the Board's objective, management of the synergies arising from the interrelations between the various business activities is critical to achieving the objective of creating and delivering long-term shareholder value.

The Board considers there to be an unambiguous and positive relationship between the creation and delivery of long-term shareholder value and high-quality corporate governance. Accordingly, in pursuing its objective, the Board has committed to corporate governance arrangements that strive to foster the values of integrity, respect, trust and openness among and between board members, management, employees, customers and suppliers.

Kingform Heath Hometextile Group Limited and its subsidiaries operate as a single economic entity with a unified Board and management. As such, the Board's corporate governance arrangements apply to all entities within the economic group.

## Board Composition

The Board comprises 3 directors, 2 of whom are non-executive and meet the Board's criteria to be considered independent. The names of the non-executive/independent directors are:

- Xun Yang
- Paul Desmond Nolan

An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonable be perceived to materially interfere with, the independent exercise of their judgment. For a director to be considered independent, they must meet all of the following materiality thresholds:

- not hold, either directly or indirectly through a related person or entity, more than 10% of the Group's outstanding shares;
- not benefit, either directly or through a related person or entity, from any sales to or purchases from the Group or any of its related entities; and
- derive no income, either directly or indirectly through a related person or entity, from a contract with the Group or any of its related entities.

A complete listing of the Board's directors for the year ended 30 June 2016, along with their biographical details, is provided in the directors' report.

The Board considers that the current board composition reflects an appropriate balance between executive and non-executive directors that promotes both the generation of shareholder value and effective governance.

**CORPORATE GOVERNANCE STATEMENT**

**Board Composition (Continued)**

The Board also considers that the current board composition reflects an appropriate balance of skills, expertise and experience to achieve its objective of creating and delivering long-term shareholder value. The diverse range of business activities the Group is involved in necessitates the Board having a correspondingly diverse range of skills, experience and expertise. As manufacturing and retail trade constitute a significant part of the Group's overall operations, directors are required to have detailed knowledge and understanding of these industries.

Nevertheless, directors need to have a strong understanding of a range of other areas, including finance, contract law and occupational health and safety requirements.

Notwithstanding the fact that the Board considers its current composition to be appropriate, it has in place an active program for assessing whether individual directors and the Board as a whole have the skills and knowledge necessary to discharge their responsibilities in accordance with the Board's governance arrangements. Any deficiencies identified by this program can be addressed in a number of ways, including training and the employment of specialist staff. Details of the skills, expertise and experience of each director are provided in the directors' report.

ASX Corporate Governance Council Recommendation 2.2 requires that the chairperson should be an independent director. Recommendation 2.3 states that the roles of chairperson and chief executive officer should not be exercised by the same individual. Recommendations 2.2 and 2.3 were not followed by the Group during the reporting period. The Board considers specific personal expertise and industry experience to be important attributes of Board members and mindful of the resources available to the Group, believes that the composition of the Board is appropriate given the size and business development of the Group at the present stage. However, the Board, as a whole, reviewed succession requirements taking into account the range of skills, experience and expertise of the current members, and the resources available to and required by the Group.

**Ethical Standards**

The Board is committed to its core governance values of integrity, respect, trust and openness among and between board members, management, employees, customers and suppliers. These values are enshrined in the Board's Code of Conduct policy.

The Code of Conduct policy requires all directors, management and employees to at all times:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of office;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with both the letter and spirit of the law;
- encourage the reporting and investigation of unlawful and unethical behaviour; and
- comply with the share trading policy outlined in the Code of Conduct.

Directors are obliged to be independent in judgment and ensure all reasonable steps are taken to ensure that the Board's core governance values are not compromised in any decisions the Board makes.

**Gender Diversity**

The Group is committed to gender diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent.

| | 2015 | | 2016 | |
|---|---|---|---|---|
| | **No.** | **%** | **No.** | **%** |
| Women on the Board | - | - | - | - |
| Women in senior management roles | 0 | 0 | 0 | 0 |
| Women employees in the Group | 87 | 77 | 87 | 77 |

**Share Ownership and Share Trading Policy**

Details of directors' individual shareholdings in Kingform Heath Hometextile Group Limited are provided in the remuneration report.

The Board's policy regarding directors and employees trading in Kingform Heath Hometextile Group Limited shares restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the Group's share price.

Directors and key management personnel (KMP) are prohibited from limiting risk attached to incentives paid in the form of options or rights by use of derivatives or other means.

**Board Roles and Responsibilities**

The Board monitors our progress, governance and performance on behalf of our Shareholders, by whom it is elected and to whom it is accountable. The Board charter, which is summarised below, seeks to ensure that the Board discharges its responsibilities in an effective and capable manner.

The Board's responsibilities include:

- providing strategic direction to Kingform Health Hometextile Group Limited and monitoring management's performance;
- appointing and removing the CEO and approving succession plans for the senior executive team;
- approving senior management remuneration policies and practices;
- reporting to shareholders and ensuring that all regulatory requirements are met;
- ensuring that Kingform Health Hometextile Group Limited has appropriate corporate governance and compliance frameworks in place and that Kingform Health Hometextile Group Limited's business is conducted ethically and transparently;
- approving policies governing the operations of Kingform Health Hometextile Group Limited;
- approving and monitoring financial performance, capital management and the determination of dividend payments;
- approving and monitoring the progress of business objectives;
- risk management of the Group;
- advising the senior management of the Group regularly and as needed;
- making decision on initiatives or matters that are not business strategy related, such as major acquisitions and disposal of property;
- ensuring that the Board is and remains appropriately skilled to meet the changing needs of the Group; and
- comply with governance guidelines of the Group

**CORPORATE GOVERNANCE STATEMENT**

**Board Roles and Responsibilities (Continued)**

The Board has delegated to the Chief Executive Officer (CEO), Xikang Jin, all authorities appropriate and necessary to achieve the Board's objective to create and deliver long-term shareholder value. A complete description of the functions reserved to the Board and those it has delegated to the CEO is available from the Board Governance Document. The document also provides guidance on the relationship between the Board and the CEO.

Notwithstanding these delegations of authority by the Board, the CEO remains accountable to the Board for the authority delegated to him and for the performance of the Group's business activities at all times. As noted above, the Board regularly monitors the decisions and actions of the CEO as well as the performance of the Group's business activities.

A key plank of the Board Governance Document is the requirement for all directors to demonstrate honesty, integrity, and preparedness to critically evaluate all aspects of the Group's operations. Inherent in all of this is the expectation that directors:

- commit the necessary time and energy to fulfil their responsibilities as directors; and
- place the interests of the Group before their personal interests

The Chair is responsible for ensuring individual directors, the Board as a whole and KMP comply with both the letter and spirit of the Board's governance arrangements. The Chair discharges their responsibilities in a number of ways, primarily through:

- setting agendas in collaboration with other directors and KMP;
- encouraging critical evaluation and debate among directors;
- managing board meetings to ensure that all critical matters are given sufficient attention; and
- communicating with stakeholders as and when required.

Independent directors have the right to seek independent professional advice on any matter connected with the discharge of their responsibilities as directors at the Group's expense. Written approval must be obtained from the Chair prior to incurring any expense on behalf of the Group

**Shareholder Rights**

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements. The Board actively encourages shareholders to attend and participate in the Annual General Meetings of Kingform Heath Hometextile Group Limited, to lodge questions to be responded by the Board and/or the CEO, and are able to appoint proxies.

## DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2016.

### Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated group during the financial year were the manufacture of home textile products including quilt, carpet, bed sets and mattresses.

There were no significant changes in the nature of the consolidated group's principal activities during the financial year.

### Operating Results

The consolidated operating revenue of Kingform Health Hometextile Group Ltd (the "Group") increased by 12% to $6,252,722 for the financial year compared to $5,605,538 in the previous year.

The Group incurred a net loss of $324,852 for the financial year an decrease of 95% compared to a net loss of $5,647,415 in the previous year.

### Review of Operations

The Company's operations in the year ended 30 June 2016 have primarily involved the production of household textiles including a wide range of quilts, cushions, bed covers, sewing materials and other textile products. The company is operated in accordance with high standards and scientific decision-making process, also follows the basic requirements of steady development, and constantly improve the governance structure, rules and regulations. Sales from 1 July 2015 to 30 June 2016 were 12% higher than last year. Total expenses also decreased 82% during this period, which is mainly due to the decrease of the impairment expenses. These are the main factors which have contributed towards the profit incurred in the year.

The internal procedures of the Company continue to be developed to ensure there is adequate governance and adherence to relevant rules and regulations. All employees are required to comply with these procedures and be conscious and responsible when dealing with the Company issues. These policies will be important in improving the efficiency of the management team and the overall stability of the Company.

The Company has assembled a high quality and technical management team and has implemented a fair and transparent staff rewards system. This incentive based program rewards employee performance and enhances the company's overall cohesion by cultivating a team environment.

The Company has identified the importance of training and has actively encouraged employee participation in internal training programs. In these more difficult operating conditions, the reputation of the company is a direct representation of employee dedication and spirit.

Subsequent to year-end the Company has gradually closed down its domestic retail stores and focus on the overseas sales and have developed a number of new customers in Europe and Australia which contributed additional sales in 2016 & 2017. The inventory levels have also reduced as a result of this. At the end of April 2017 the Company's cash balance was improved to approximate $ 650k. In addition, the Company successfully refinanced its existing borrowing facilities with new repayment date now being between June 2017 and May 2018.

## DIRECTORS' REPORT

### Financial Position

The net assets of the Consolidated Group have decreased by $1,094,023 from the prior year to $ 4,275,510 in 2016.

The directors believe the Group is in a strong and stable financial position to expand and grow its current operations.

### Significant Changes in State of Affairs

There were no significant changes in the nature of the consolidated group's principal activities during the financial year.

### Dividends Paid or Recommended

No dividends were paid or declared during the financial year.

### Events after the Reporting Period

Subsequent to year-end the Company has gradually closed down its domestic retail stores and focus on the overseas sales and have developed a number of new customers in Europe and Australia which contributed additional sales in 2016 & 2017.

In addition, the Company successfully refinanced its existing borrowing facilities with new repayment date now being between June 2017 and May 2018.

No other matter or circumstances have arisen since the end of financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### Future Developments, Prospects and Business Strategies

The future plan of the Company is to continue development, look for new projects and discover potential growth opportunities.

The textile industry is still the Company's primary focus. With the Chinese market consisting of a population of 1.4 billion, consumption of textiles will increase as living standards increase. This is a very large market to be exposed to and the future prospects are bright. Considering the gap between domestic and foreign consumption and the developing trend of hometextile products, the industry has huge potential for development. As demand for textile products increases it will give rise to a variety of future opportunities.

In the coming year the Company will focus on existing customer service, maintenance of relationships and an increase in marketing with a core objective to develop high quality, long term and direct customers. We plan to increase work efficiency and product quality which will hopefully increase our market competitiveness.

The Company will make the most of potential opportunities to increase brand awareness and promote our products and business, while simultaneously stabilizing and expanding our existing sales network and distribution channels.

### Environmental Issues

The Consolidated Group's operations are not regulated by any significant environmental regulations under the laws of the P.R. China.

**DIRECTORS' REPORT**

**Information on the Directors**

| | |
|---|---|
| **Xikang Jin** | • Executive Director<br>• Chief Executive Officer |
| Age | 54 |
| Qualifications | • Bachelor of Management in Tongxiang Zhongyang Dang School |
| Experience | • More than twenty years' experience in the textile industry<br>• Founder of Zhejiang Kangbao Hometextile Co. Ltd and is the president of Kangbao<br>• Member of the China Hometextile Association, the China Textile Association, and a member of Tongxiang People's Congress<br>• Patent inventor of "turned hand-free" silk manufacturing method |
| Interest in Shares and Options | • 39,780,525 ordinary shares in Kingform Health Hometextile Group Limited. |
| Special Responsibilities | • Chief Executive Officer |
| Directorships held in other listed entities during the three years prior to the current year | • Nil |

| | |
|---|---|
| **Xun Yang** | • Non-executive Director |
| Age | 48 |
| Qualifications | • Bachelor of Business (Accountancy) from RMIT |
| Experience | • Sales executive at Vinetex & Co Pty Ltd, an indent agent in Australia which represents Chinese textile exporters<br>• Finance manager at Provincial Clothing Pty Ltd which is an importer and wholesaler of men's clothing<br>• Owner and director of Advancetex Agencies which is a sourcing agent on behalf of a number of importing companies<br>• Director of Madison Skye Pty Ltd which is an importer and wholesaler of menswear and work wear products |
| Interest in Shares and Options | • Nil |
| Special Responsibilities | • Member of Audit Committee<br>• Member of Risk Committee<br>• Member of Remuneration Committee<br>• Member of Nomination Committee |
| Directorships held in other listed entities during the three years prior to the current year | • Nil |

**DIRECTORS' REPORT**

**Information on the Directors (continued)**

| | |
|---|---|
| **Paul Desmond Nolan** | • Independent Director |
| Age | 55 |
| Qualifications | • Extensive textiles and retails trade experience |
| Experience | • Textiles Buying Consultant for the Reject Shop<br>• National Sales and Marketing Manager of Smithtex Pty Ltd |
| Interest in Shares and Options | • Nil |
| Special Responsibilities | • Chairman of Audit Committee<br>• Chairman of Risk Committee<br>• Chairman of Remuneration Committee<br>• Chairman of Nomination Committee |
| Directorships held in other listed entities during the three years prior to the current year | • Nil |

**Company Secretary**

The following person held the position of company secretary at the end of the financial year:

Mr Xun Yang was appointed as company secretary on 5 September 2012.

**Meetings of Directors**

During the financial year, no meetings of directors (excluding committees of directors) were held.

**Indemnifying Officers or Auditor**

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Group.

**Options**

At the date of this report, there are no unissued ordinary shares or interests under option of Kingform Health Hometextile Group Limited.

## DIRECTORS' REPORT

### Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

### Non-audit Services

During the financial year, no non-audit services were paid or payable to the auditor, ShineWing Australia.

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on the Page 12 of the financial report.

## REMUNERATION REPORT

### Directors and Senior Management

The following persons were key management personnel ("KMP") of the Group during the financial year:

| | |
|---|---|
| Xikang Jin | Chairman of the Board, Chief Executive Officer |
| Xun Yang | Non-executive director<br>Company Secretary |
| Paul Desmond Nolan | Independent director |

### Engagement of Remuneration Consultants

During the financial year, the Group did not engage in any remuneration consulting service.

### Principles used to determine the nature and amount of remuneration

The principle objectives of the Group's executive reward policies are to ensure reward for performance is competitive and appropriate for the results delivered. The policies seek to align reward with the achievement of strategic targets and the growth of shareholder value. The criteria being used include competitiveness, equitable to shareholders and employees, performance linkage, transparency and capital management. The policies provide for a mix of fixed and variable rewards, blended with long term incentives.

The Constitution of the Group provides that the Directors' remuneration must not exceed the maximum aggregate sum determined by the Group in a general meeting. At present that sum is fixed at a maximum of $30,000, in aggregate per annum. This maximum sum cannot be increased without members' approval by ordinary resolution at a general meeting.

***Payment of expenses and for extra services***
All Directors of the Group are entitled to receive reimbursement of travel and other related expenses that they properly incur in attending Directors' meetings, attending any general meeting of the Company or in connection with the Group's business generally.

Any Director called upon to perform extra services or undertake any executive or other work for the Group beyond his or her general director's duties, may be remunerated either by a fixed sum or a salary as determined by the Board. This may be in addition to or in substitution for the Director's share in the usual remuneration provided.

## REMUNERATION REPORT

***Superannuation and other retirement contributions***
To the extent the Group is required to make any superannuation and other retirement benefit contributions to any officers, the Group may pay the contributions of an amount necessary to meet the minimum level of superannuation and other retirement benefit contributions required under any applicable legislation to avoid any penalty, charge, tax or impost.

**Terms of service**

Each Director has entered into contracts for services with the Group dated 18 October 2011. The contract for services between the independent directors and the Group contain terms customary for such agreements.

The Independent Directors have the same responsibilities as other directors of the Company. Specific responsibilities of Independent Directors include review of business strategy, supervision of management, financial risk control and the determination of remuneration of other executive directors.

**Details of remuneration**

Details of the remuneration of each key management personnel in the Group are set out in the following tables.

| **2016** | **Short-term Benefits** | | | **Post-employment Benefits** | **Long-term Benefits** | **Other benefits** | **Total** |
|---|---|---|---|---|---|---|---|
| | Salary, Fees and Leave | Cash bonus | Non-monetary benefits | Super-annuation or retirement benefits | Housing Fund, Medical, Unemployment Insurance | Loan forgiveness | |
| **Name** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Xikang Jin | 17,733 | - | - | 851 | 1,984 | - | 20,568 |
| Xun Yang | 5,000 | - | - | - | - | - | 5,000 |
| Paul Desmond Nolan | 5,000 | - | - | - | - | - | 5,000 |
| ***Total*** | 27,733 | - | - | 851 | 1,984 | - | 30,568 |

| **2015** | **Short-term Benefits** | | | **Post-employment Benefits** | **Long-term Benefits** | **Other benefits** | **Total** |
|---|---|---|---|---|---|---|---|
| | Salary, Fees and Leave | Cash bonus | Non-monetary benefits | Super-annuation or retirement benefits | Housing Fund, Medical, Unemployment Insurance | Loan forgiveness | |
| **Name** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Xikang Jin | 13,484 | - | - | 891 | 2,049 | 881,001 | 897,425 |
| Xun Yang | 5,000 | - | - | - | - | - | 5,000 |
| Paul Desmond Nolan | 5,000 | - | - | - | - | - | 5,000 |
| ***Total*** | 23,484 | - | - | 891 | 2,049 | 881,001 | 907,425 |

**Shareholdings**

| **Ordinary Shares** | **Balance at the start of the year** | **Received during the year on the exercise of options** | **Received on vesting of rights to deferred shares** | **Other changes during the year** | **Balance at the end of the year** |
|---|---|---|---|---|---|
| Xikang Jin | 39,780,525 | - | - | - | 39,780,525 |
| Xun Yang | - | - | - | - | - |
| Paul Desmond Nolan | - | - | - | - | - |

**Loans given to key management personnel**

| Name | Balance at the start of the year | Loans advanced | Loan repayments received | Loan forgiveness | Exchange rate difference | Balance at end of the year |
|---|---|---|---|---|---|---|
| Xikang Jin | 160,452 | 1,165,808 | (1,046,545) | - | (14,232) | 265,483 |
| Pan Jianwen | - | 1,420,630 | (1,422,252) | - | 80 | (1,542) |
| Tongxiang Kangkang Household Textiles Co., Ltd | - | - | - | - | - | - |
| Pan Jianxing | 133,299 | - | (4,726) | (128,073) | (500) | - |

For the terms or conditions of loan to Key management personnel, please refer to Note 20.

**Securities Received that Are Not Performance Related**

No members of KMP are entitled to receive securities which are not performance-based as part of their remuneration package.

**Cash Bonuses, Performance-related Bonuses and Share-based Payments**

No options and performance-related bonuses granted as remuneration during the financial year.

Cash bonuses granted during the financial year was $nil (2015: nil).

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

**Xikang Jin**, Director

30 August 2017

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**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Kingform Health Hometextile Group Limited**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2016 there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review, and

(ii) No contraventions of any applicable code of professional conduct in relation to the review.

ShineWing Australia

**ShineWing Australia**
Chartered Accountants

M Schofield

Matthew Schofield
Partner

Melbourne, 30 August 2017

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Revenue | 2 | 6,252,722 | 5,605,538 |
| Cost of Sales | | (5,327,957) | (4,259,732) |
| Gross Profit | | 924,765 | 1,345,806 |
| Other Income | 2 | 84,997 | 37,363 |
| Administration Expenses | | (461,908) | (948,061) |
| Sales Expenses | | (690,833) | (447,486) |
| Realized foreign exchange gain / (loss) | | 101,462 | (37,383) |
| Finance Expenses | | (185,619) | (235,912) |
| Impairment Expense | 3 | (76,819) | (5,361,742) |
| Loss before Income Tax | | (303,955) | (5,647,415) |
| Income Tax Expense | 4 | (20,897) | - |
| **Loss for the Year** | 3 | **(324,852)** | **(5,647,415)** |
| **Other Comprehensive Income** | | | |
| *Items that may be subsequently reclassified to profit or loss when specific conditions are met:* | | | |
| Loss on revaluation of land and buildings, net of tax | | (529,881) | - |
| Foreign currency translation differences | | (239,291) | 1,775,903 |
| Total other comprehensive (loss) / Income | | (769,172) | 1,775,903 |
| **Total Comprehensive Loss for the year** | | **(1,094,024)** | **(3,871,512)** |
| **Loss attributable to member of entity:** | | | |
| **Members of the entity** | | **(324,852)** | **(5,647,415)** |
| **Total Comprehensive Loss attributable to:**<br>**Member of the entity:** | | **(1,094,024)** | **(3,871,512)** |
| **Earnings Per Share:** | | | |
| Basic Loss per share (cents) | 7 | (0.41) | (7.21) |
| Diluted Loss per share (cents) | 7 | (0.41) | (7.21) |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2016**

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and Cash Equivalents | 8 | 509,193 | 61,816 |
| Guarantee Deposit with Maturity over Three Months | 9 | - | 240,700 |
| Trade and Other Receivables | 10 | 1,182,714 | 1,222,186 |
| Inventories | 11 | 1,651,287 | 2,268,383 |
| **TOTAL CURRENTS ASSETS** | | **3,343,194** | **3,793,085** |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, Plant and Equipment | 13 | 2,306,455 | 3,299,357 |
| Intangible Assets | 14 | 4,484,949 | 4,836,020 |
| **TOTAL NON-CURRENTS ASSETS** | | **6,791,404** | **8,135,377** |
| **TOTAL ASSETS** | | **10,134,598** | **11,928,462** |
| | | | |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and Other Payables | 15 | 1,506,235 | 1,782,341 |
| Borrowings | 16 | 3,343,872 | 3,527,752 |
| **TOTAL CURRENT LIABILITIES** | | **4,850,107** | **5,310,093** |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred Tax Liabilities | 17 | 1,008,981 | 1,248,836 |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,008,981** | **1,248,836** |
| **TOTAL LIABILITIES** | | **5,859,088** | **6,558,929** |
| | | | |
| **NET ASSETS** | | **4,275,510** | **5,369,533** |
| | | | |
| **EQUITY** | | | |
| Issued Capital | 18 | 6,727,056 | 6,727,056 |
| Reserves | 24 | 4,794,726 | 5,563,897 |
| Accumulated losses | | (7,246,272) | (6,921,420) |
| **TOTAL EQUITY** | | **4,275,510** | **5,369,533** |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 30 JUNE 2016**

| | Issued Capital | Accumulated Losses | Revaluation Surplus | Foreign Currency Translation Reserve | Total |
|---|---|---|---|---|---|
| Balance at 30 June 2014 | 6,727,056 | (1,274,005) | 2,558,383 | 1,229,611 | 9,241,045 |
| Loss for the year | - | (5,647,415) | - | - | (5,647,415) |
| Other Comprehensive Income for the year | - | - | - | 1,775,903 | 1,775,903 |
| **Total Comprehensive Income/(Loss) for year** | **-** | **(5,647,415)** | **-** | **1,775,903** | **(3,871,512)** |
| Transactions with owners and other transfers | - | - | - | - | - |
| **Balance at 30 June 2015** | **6,727,056** | **(6,921,420)** | **2,558,383** | **3,005,514** | **5,369,533** |
| Loss for the year | - | (324,852) | - | - | (324,852) |
| Other Comprehensive Loss for the year | - | - | (529,881) | (239,290) | (769,171) |
| **Total Comprehensive Loss for year** | **-** | **(324,852)** | **(529,881)** | **(239,290)** | **(1,094,023)** |
| Transactions with owners and other transfers | - | - | - | - | - |
| **Balance at 30 June 2016** | **6,727,056** | **(7,246,272)** | **2,028,502** | **2,766,224** | **4,275,510** |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 30 JUNE 2016**

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | $ | $ |
| Receipts from customers | | 6,489,455 | 8,075,540 |
| Payment to suppliers and employees | | (6,081,096) | (8,682,443) |
| Government grants received | | 17,884 | 13,266 |
| Interest received | | 2,274 | - |
| Interest paid | | (211,418) | (108,520) |
| Income tax paid | | - | (10,686) |
| Net cash provided by/(used in) operating activities | 21 | 217,099 | (712,843) |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment | | (5,539) | (14,304) |
| Decrease in guarantee deposits with maturity over three months | | 239,975 | 89,117 |
| Loan repayments received by related parties | | 6,348 | 126,296 |
| Net cash provided by investing activities | | 240,784 | 201,109 |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from borrowings | | 3,343,872 | 4,184,101 |
| Repayment of borrowings | | (3,343,872) | (3,989,492) |
| Net cash provided by financing activities | | - | 194,609 |
| Net increase/(decrease) in cash held | | 457,883 | (317,125) |
| Cash and cash equivalents at beginning of financial year | | 61,816 | 343,334 |
| Effect of exchange rate on cash holdings in foreign currencies | | (10,506) | 35,607 |
| Cash and cash equivalents at end of financial year | 8 | 509,193 | 61,816 |

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

These consolidated financial statements and notes represent those of Kingform Heath Hometextile Group Limited and Controlled Entities (the “consolidated group” or “group”). Kingform Health Hometextile Group Limited (“company” or “holding company”) is an Australian public company, limited by shares, incorporated and domiciled in Australia.

The consolidated group includes:
Kingform Health Hometextile Group Limited (ACN 153 801 766);
Kingform Health Hometextile Pty Limited (ACN 151 709 027);
HongKong KangFeng Int’l Group Limited; and
Zhejiang Kangbao Household Textiles Limited Co. (“Kangbao”)

Both Kingform Health Hometextile Group Limited (registered on 18 October 2011) and Kingform Health Hometextile Pty Limited (registered on 24 June 2011) have been formed specifically for the listing of the Company’s securities on the Australian Stock Exchange, while Hong Kong KangFeng Int’l Group Limited is the entity that owns 100% of the shares in Kangbao.

Kangbao is the only trading entity of the consolidated group. The legal acquisition by Kingform Health Hometextile Group Limited of its legal subsidiaries was accounted for as a capital transaction of the legal acquiree. Accordingly, the consolidated financial statements of Kingform Health Hometextile Group Limited have been prepared as a continuation of the consolidated financial statements of Zhejiang Kangbao Household Textiles Limited Co.

The financial statements were authorised for issue on 30th August 2017 by the directors of the company.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

These financial statements are general purpose financial statements that have been prepared in accordance the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the group comply with International Financial Reporting Standards (‘IFRS’).

### Going Concern

For the year ended 30 June 2016, the Group recorded a loss after tax of $324,852, incurred net cash inflows from operations of $217,099 and had a working capital deficiency of $1,506,913.

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. The directors have considered and noted the following with agreed to the ability of the Group to continue as a going concern:

i) At 30 June 2016 the Group has a cash balance of 509,193;
ii) For the year ended 30 June 2016 the Group generated operating cash inflows of 217,099;
iii) The assets pledged as a security for the loan is mainly the building and the land use right. At 30 June 2016, the balance of the building and the land use right is 6,791,404, and the balance of loan is 3,343,872;
iv) Subsequent to year end, all bank borrowings have been successfully refinanced for 12 months.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**Going Concern (continued)**

In the event that the Group can not continue as a going concern, it may be required to realise its assets and discharge it liabilities other than in the normal course of business, and at amounts that differ from those stated in the financial statements.

**Basis of Preparation**

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

**Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Kingform Health Hometextile Group Limited and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 12.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

**Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss. Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

**Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property**

Buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less accumulated depreciation for land use right and buildings.

In the periods when the buildings are not subject to an independent valuation, the directors conduct directors' valuations to ensure the land use right and buildings' carrying amount is not materially different to the fair value.

Increases in the carrying amount arising on revaluation of buildings are credited to a revaluation surplus in shareholder's equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

**Plant and equipment**

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

The Board of Directors' reassessed the useful life of buildings in September 2011. This resulted in the useful life of buildings changing from 20 years to 40 years, effective from 1 July 2011.

The depreciable amount of all fixed assets, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**Plant and equipment (continued)**

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Buildings | 8.5% |
| Plant and equipment | 9% |
| Electronic equipment & motor vehicles | 18% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**Financial Instruments**

**Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**Financial Instruments (continued)**

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

*(ii) Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Trademarks, Patent and Land use right**

Trademarks and patent recognised at cost of acquisition. Trademarks can be renewed infinitely for minimal cost and are treated as having an indefinite life. Trademarks are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired. The patent has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. The patent is amortised over its useful life until the registration expires in 2019.

Land use right is recognised at the fair value and amortised at the rate of 2%.

**Foreign Currency Transactions and Balances**

**Functional and Presentation Currency**

The functional currency of each of the Group’s entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity’s functional currency.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

**Group Companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the Group's reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.

**Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

**Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, and other short-term highly liquid investments with original maturities of three months or less.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method, which, for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of value added tax (VAT) or goods and services tax (GST).

### Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

### Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 40 days of recognition of the liability.

### Value Added Tax (VAT) / Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of VAT/GST, except where the amount of VAT/GST incurred is not recoverable from the tax bureau.

Receivables and payables are stated inclusive of the amount of VAT/GST receivable or payable. The net amount of VAT/GST recoverable from, or payable to, the tax bureau is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The VAT/GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the tax bureau are presented as operating cash flows included in receipts from customers or payments to suppliers.

### Operating leases

Leases payments for operating leases, where substantially all the risks and benefits of the asset are retained by the lessor are recognised as expenses in the profit in which they are incurred, or on a straight line basis over the life of the lease where the lease contract includes fixed rate increases.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

*Impairment – general*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

**Adoption of New and Revised Accounting Standards**

New and revised Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period have been adopted.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2016
## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Accounting standards issued, not yet effective

The following new/amended accounting standards have been issued, but are not mandatory for financial year ended 30 June 2016. They have not been adopted in preparing the financial statements for the year ended 30 June 2016. These standards are expected to impact the Group in the period of initial application. In all cases the Group intends to apply these standards from the mandatory application date as indicated in the table below.

*Standards likely to have a financial impact*

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date: | Impact on Initial Application |
|---|---|---|---|---|
| AASB 9 (issued December 2009 and amended December 2010) | Financial Instruments | Amends the requirements for classification and measurement of financial assets.<br>The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to:<br>• Classification and measurement of financial liabilities; and<br>• Derecognition requirements for financial assets and liabilities.<br>However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. | Periods beginning on or after 1 January 2018 | Adoption of AASB 9 is only mandatory for the 31 December 2018 year end. The Group has not yet made an assessment of the<br>Impact of these amendments. |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting standards issued, not yet effective (Continued)**

*Standards likely to have a financial impact*

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date: | Impact on Initial Application |
|---|---|---|---|---|
| AASB 2013-9 (issued December 2013) | Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments | Makes three amendments to AASB 9:<br>•Adding the new hedge accounting requirements into AASB 9<br>•Deferring the effective date of AASB 9 from 1 January 2015 to 1 January 2018, and<br>•Making available for early adoption the presentation of changes in 'own credit' in other comprehensive income (OCI) for financial liabilities under the fair value option without early applying the other AASB 9 requirements.<br>Under the new hedge accounting requirements:<br>•The 80-125% highly effective threshold has been removed<br>•Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable<br>•An aggregated position (i.e. combination of a derivative and a non-derivative) can qualify for hedge accounting provided that it is managed as one risk exposure<br>•When entities designate the intrinsic value of options, the initial time value is deferred in OCI and subsequent changes in time value are recognised in OCI<br>•When entities designate only the spot element of a forward contract, the forward points can be deferred in OCI and subsequent changes in forward points are recognised in OCI. Initial foreign currency basis spread can also be deferred in OCI with subsequent changes be recognised in OCI<br>•Net foreign exchange cash flow positions can qualify for hedge accounting. | Annual reporting periods beginning on or after 1 January 2018 | Adoption of AASB 9 is only mandatory for the 31 December 2018 year end. The Group has not yet made an assessment of the impact of these amendments. |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**Accounting standards issued, not yet effective (Continued)**

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date: | Impact on Initial Application |
|---|---|---|---|---|
| AASB 16 | Leases | When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.<br>The main changes introduced by the new Standard are as follows:<br>• recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);<br>• depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;<br>• inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;<br>• application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and<br>• additional disclosure requirements.<br>The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.<br>Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact | applicable to annual reporting periods beginning on or after 1 January 2019 | Due to the recent release of this standard the company has not yet made an assessment of the impact of this standard. |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**
**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting standards issued, not yet effective (Continued)**

*Standards likely to have a disclosure impact only*

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date: | Impact on Initial Application |
|---|---|---|---|---|
| AASB 15 (issued December 2014) | Revenue from contracts with customers | An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. | Must be applied for annual reporting periods beginning on or after 1 January 2017. Therefore application date for the company will be 30 June 2018. | Due to the recent release of this standard the company has not yet made an assessment of the impact of this standard. |

All other pending Standards issued between the previous financial report and the current reporting dates have no application to the Group.

**NOTE 2: REVENUE AND OTHER INCOME**

**Revenue and other income from continuing operations**

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Sales Revenue: | | |
| Sale of goods | 6,252,722 | 5,605,538 |
| Other income: | | |
| Government grants | 17,884 | 13,266 |
| Other | 67,113 | 24,097 |
| | 84,997 | 37,363 |
| Total revenue and other income | 6,337,719 | 5,642,901 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 3: LOSS FOR THE YEAR**

Loss before income tax from continuing operations includes the following specific expenses:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Salary and wages | 780,931 | 900,717 |
| Employee benefits expense: | | |
| – contribution to defined contribution superannuation funds and other retirement benefits | 30,738 | 29,218 |
| – contributions to medical insurance | 16,010 | 16,646 |
| – contributions to housing fund | 6,194 | 5,655 |
| – contributions to unemployment insurance | 3,485 | 3,853 |
| -- contributions to work injury insurance | 6,153 | 5,218 |
| Depreciation | 125,874 | 166,138 |
| Amortisation | 104,129 | 181,104 |
| Foreign currency translation losses/ (gains) | (112,160) | 5,519 |
| Write-down of inventories to net realisable value | - | 1,933,707 |
| (Reversal) / write-down of trade debtors | (51,254) | 597,893 |
| Write-down of intangible assets | - | 1,616,282 |
| Write-down of receivable from related party | 128,073 | 332,859 |
| Write-down of receivable from Jin Xikang | - | 881,001 |

**NOTE 4: INCOME TAX EXPENSE**

The components of tax expense comprise:

| | | |
|---|---|---|
| Current tax | - | - |
| Deffered tax | - | - |
| Over provision in respect of prior year | 20,897 | - |
| | 20,897 | - |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 4: INCOME TAX EXPENSE (CONTINUED)

| | Consolidated Group 2016 $ | 2015 $ |
|---|---|---|
| The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax as follows: | | |
| Prima facie tax payable on loss from ordinary activities before income tax at 30% (2015: 30%) | | |
| – consolidated group | (91,187) | (1,694,225) |
| Add: deferred tax assets not recognised | 80,196 | 1,411,854 |
| -- over/under provision in prior years | 20,897 | - |
| -- Foreign tax rate differential | 10,991 | 282,371 |
| Income tax attributable to entity | 20,897 | - |
| | | |
| The applicable weighted average effective tax rates are: | 29% | Nil% |

## NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2016.
The totals of remuneration paid to KMP of the Group during the year are as follows:

| | 2016 | 2015 |
|---|---|---|
| Short-term employee benefits | 27,733 | 23,484 |
| Post-employment benefits | 851 | 891 |
| Other long-term benefits | 1,984 | 2,049 |
| Other benefits – loan forgiveness | - | 881,001 |
| Total KMP compensation | 30,568 | 907,425 |

### KMP Options and Rights Holdings

No options over ordinary shares held by KMP of the Group during the financial year.

### KMP Shareholdings

The number of ordinary shares in Kingform Health Hometextile Group Limited held by each KMP of the Group during the financial year is as follows:

| | Balance at Beginning of Year | Shares reduction | Other changes during the year | Shares issued in exchange for patent and trademarks | Initial Public Offering | Balance at End of Year |
|---|---|---|---|---|---|---|
| **30 June 2016** | | | | | | |
| Xikang Jin | 39,780,525 | - | - | - | - | 39,780,525 |
| **30 June 2015** | | | | | | |
| Xikang Jin | 39,780,525 | - | - | - | - | 39,780,525 |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

### Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP (including loans), refer to Note 20: Related Party Transactions.

## NOTE 6: AUDITORS' REMUNERATION

| | Consolidated Group 2016 $ | 2015 $ |
|---|---|---|
| Remuneration of the auditor for: | | |
| – auditing or reviewing the financial statements by current auditor | 55,000 | 60,000 |
| – auditing or reviewing the financial statements by previous auditor | - | - |
| Remuneration of other auditor for: | | |
| – auditing or reviewing the financial statements | - | - |
| | 55,000 | 60,000 |

The auditor of the Group is ShineWing Australia (2015: BDO Audit (WA) Pty Ltd).

## NOTE 7: EARNINGS PER SHARE

a. Reconciliation of earnings to profit or loss:

| | 2016 $ | 2015 $ |
|---|---|---|
| Loss for the year | (324,852) | (5,647,415) |
| Redeemable and converting preference share dividends | - | - |
| Loss used to calculate basic EPS | (324,852) | (5,647,415) |
| Dividends on converting preference shares | - | - |
| Loss used in the calculation of dilutive EPS | (324,852) | (5,647,415) |

| | | No. | No. |
|---|---|---|---|
| b. | Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 78,315,545 | 78,315,545 |
| | Weighted average number of dilutive options outstanding | - | - |
| | Weighted average number of dilutive converting preference shares on issue | - | - |
| | Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | 78,315,545 | 78,315,545 |
| c. | Basic Loss per share(cents) | (0.41) | (7.21) |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 8: CASH AND CASH EQUIVALENTS**

| | Note | Consolidated Group 2016 $ | Consolidated Group 2015 $ |
|---|---|---|---|
| Cash on hand | | 2,432 | 1,990 |
| Cash at bank | | 506,761 | 59,826 |
| | | 509,193 | 61,816 |

The effective interest rate on short-term bank deposits was 0.03%-0.5% (2015: 0.03%-0.5%).

**Reconciliation of cash**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|
| Cash on hand | | 2,432 | 1,990 |
| Cash at bank | | 506,761 | 59,826 |
| | 23 | 509,193 | 61,816 |

**NOTE 9: GUARANTEE DEPOSIT WITH MATURITY OVER THREE MONTHS**

| | 2016 $ | 2015 $ |
|---|---|---|
| Guarantee deposit with maturity over three months | - | 240,700 |

**NOTE 10: TRADE AND OTHER RECEIVABLES**

| | 2016 $ | 2015 $ |
|---|---|---|
| **CURRENT** | | |
| Trade receivables | 1,382,050 | 1,350,130 |
| Provision for impairment | (558,168) | (656,861) |
| | 823,882 | 693,269 |
| Other receivables | 74,944 | 115,473 |
| Provision for impairment | (45,102) | - |
| | 29,842 | 115,473 |
| Prepayments | 63,507 | 119,693 |
| Amounts receivable from director | 265,483 | 160,452 |
| Amounts receivable from related parties | - | 133,299 |
| | 328,990 | 413,444 |
| Total current trade and other receivables | 1,182,714 | 1,222,186 |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 10: TRADE AND OTHER RECEIVABLES (CONTINUED)

### a. Provision for Impairment of Receivables

Movement in the provision for impairment of receivables is as follows:

| | Opening Balance | Addition/ (Reversal) of amounts provided | Net exchange differences on translation into a different presentation currency | Closing Balance |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| | 1 Jul 2015 | | | 30 Jun 2016 |
| **Consolidated Group** | | | | |
| Current trade receivables | 656,861 | (51,254) | (2,337) | 603,270 |
| | 1 Jul 2014 | | | 30 Jun 2015 |
| **Consolidated Group** | | | | |
| Current trade receivables | - | 597,893 | 58,968 | 656,861 |

### b. Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned with Note 10. The class of assets described as “trade and other receivables” is considered to be the main source of credit risk related to the Group.

The following table details the Group’s trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as “past due” when the debt has not been settled within the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group. The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

| | Gross Amount | Past Due and Impaired | Past Due but Not Impaired (Days Overdue) | | | | Within Initial Trade Terms |
|---|---|---|---|---|---|---|---|
| | | | < 30 | 31–60 | 61–90 | > 90 | |
| | $ | $ | $ | $ | $ | $ | $ |
| **2016** | | | | | | | |
| Trade receivables | 1,382,050 | 558,168 | 703,094 | 120,788 | - | - | - |
| Other receivables | 403,934 | 45,102 | - | 93,349 | - | 265,483 | - |
| Total | 1,785,984 | 603,270 | 703,094 | 214,137 | - | 265,483 | - |
| **2015** | | | | | | | |
| Trade receivables | 1,350,130 | 656,861 | 609,599 | 83,670 | - | - | - |
| Other receivables | 409,224 | - | - | 3,423 | 133,199 | 272,602 | - |
| Total | 1,759,354 | 656,861 | 609,599 | 87,093 | 133,199 | 272,602 | - |

The Group does not hold any financial assets whose terms have been renegotiated and would otherwise be past due or impaired.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 10: TRADE AND OTHER RECEIVABLES (CONTINUED)

### c. Collateral Held as Security

No collateral is held over trade and other receivables.

## NOTE 11: INVENTORIES

| | Note | Consolidated Group 2016 $ | 2015 $ |
|---|---|---|---|
| CURRENT | | | |
| Raw materials | | 217,361 | 275,954 |
| Finished goods | | 1,433,926 | 1,992,429 |
| | | 1,651,287 | 2,268,383 |

No write-downs of inventories to net realisable value during the current financial year (2015: $1,933,707 ).

## NOTE 12: CONTROLLED ENTITIES

**Controlled Entities Consolidated**

| | Country of Incorporation | Percentage Owned (%)* 2016 | 2015 |
|---|---|---|---|
| Subsidiaries of Kingform Health Hometextile Group Ltd: | | | |
| Kingform Health Hometextile Pty Ltd | Australia | 100 | 100 |
| HongKong KangFeng Int'l Group Ltd | Hong Kong | 100 | 100 |
| Zhejiang Kangbao Household Textiles Ltd Co. | P.R. China | 100 | 100 |

** Percentage of voting power is in proportion to ownership*

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT**

| | Note | Consolidated Group 2016 $ | 2015 $ |
|---|---|---|---|
| **BUILDINGS** | | | |
| Buildings at: | | | |
| Independent valuation 2012 | 13(a)(i) | - | 3,251,565 |
| Independent valuation 2017 | 13(a)(i) | 2,375,573 | - |
| Accumulated depreciation | | (401,855) | (361,326) |
| Total buildings | | 1,973,718 | 2,890,239 |
| **PLANT AND EQUIPMENT** | | | |
| Plant and equipment: | | | |
| At cost | | 613,715 | 660,095 |
| Accumulated depreciation | | (408,978) | (405,865) |
| | | 204,737 | 254,230 |
| Electronic equipment: | | | |
| At cost | | 400,563 | 404,417 |
| Accumulated depreciation | | (272,563) | (249,529) |
| | | 128,000 | 154,888 |
| Total plant and equipment | | 332,737 | 409,118 |
| **Total property, plant and equipment** | | **2,306,455** | **3,299,357** |

**Movements in Carrying Amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

| | Buildings $ | Plant and Equipment $ | Electronic Equipment and Motor Vehicles $ | Total $ |
|---|---|---|---|---|
| **Consolidated Group:** | | | | |
| Balance at 1 July 2014 | 2,619,804 | 247,666 | 159,950 | 3,027,420 |
| Additions | - | 4,507 | 1,031 | 5,538 |
| Depreciation expense | (77,351) | (48,039) | (40,748) | (166,138) |
| Net exchange differences on translation into a different presentation currency | 347,786 | 50,096 | 34,655 | 432,537 |
| Balance at 30 June 2015 | 2,890,239 | 254,230 | 154,888 | 3,299,357 |
| Reclassification | | | | |
| Additions | - | 17,321 | 17,225 | 34,546 |
| Revaluation | (706,508) | - | - | (706,508) |
| Disposals | - | (34,351) | (1,178) | (35,529) |
| Depreciation expense | (62,440) | (25,527) | (37,907) | (125,874) |
| Net exchange differences on translation into a different presentation currency | (147,573) | (6,936) | (5,028) | (159,537) |
| Balance at 30 June 2016 | 1,973,718 | 204,737 | 128,000 | 2,306,455 |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

The Group's land use right and buildings were revalued at 30 June 2011 by Shanghai Zhonghua Assets Appraisal Co., Ltd, an independent valuer registered in China. Valuations were made on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to a revaluation surplus in shareholder's equity. The land use right and buildings were revalued at 8 August 2017 by Zhe Jiang Lida Assets Appraisal Co., Ltd, an independent valuer registered in China. The value of building decreased by 706,508, according to the valuation report. The devaluation was debited to a revaluation surplus in shareholder's equity.

**NOTE 14: INTANGIBLE ASSETS**

| | Note | Consolidated Group 2016 $ | 2015 $ |
|---|---|---|---|
| **Trademarks and Patent** | | | |
| Cost | | 1,722,623 | 1,722,623 |
| Accumulated amortisation and impairment losses | | (1,722,623) | (1,722,623) |
| Net carrying amount | | - | - |
| | | | |
| **Land use right** | | | |
| Land use right at Independent valuation | 13(a)(i) | 4,949,974 | 5,222,173 |
| Accumulated amortisation and impairment losses | | (465,025) | (386,153) |
| Net carrying amount | | 4,484,949 | 4,836,020 |
| | | | |
| Total intangibles | | 4,484,949 | 4,836,020 |

**Movements in Carrying Amounts**

| | Trademarks & patent $ | Land use right $ | Total $ |
|---|---|---|---|
| **Consolidated Group:** | | | |
| **Year ended 30 June 2015** | | | |
| Balance at the beginning of the year | 1,506,842 | 3,757,905 | 5,264,747 |
| Amortisation and impairment charge for the year | (1,702,319) | (95,067) | (1,797,386) |
| Net exchange differences on translation into a different presentation currency | 195,477 | 1,173,182 | 1,368,659 |
| Closing value at 30 June 2015 | - | 4,836,020 | 4,836,020 |
| | | | |
| **Year ended 30 June 2016** | | | |
| Balance at the beginning of the year | - | 4,836,020 | 4,836,020 |
| Amortisation and impairment charge for the year | - | (104,129) | (104,129) |
| Net exchange differences on translation into a different presentation currency | - | (246,942) | (246,942) |
| Closing value at 30 June 2016 | - | 4,484,949 | 4,484,949 |

Intangible assets, other than trademarks, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of profit or loss and other comprehensive income. Trademarks have an indefinite useful life.

On 31 August 2011, Kangbao acquired a patent (registration No. 9913948.8) from its director. The cost of RMB 3,500,000 was based on the market value of the patent on that day. The market value of the patent was valued by Shanghai Zhonghua Assets Appraisal Co., Ltd, an independent valuer registered in China.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 14: INTANGIBLE ASSETS (CONTINUED)**

On 31 August 2011, Kangbao acquired two trademarks, Kangfeng (registered No. 767825) and Fengkang (registration No. 767826) from Tongxiang Kangkang Quilt and Clothing Factory controlled by Kangbao's director. The cost of RMB 6,500,000 was based on the market value of the trademarks on that day. The market value of the trademarks was valued by Shanghai Zhonghua Assets Appraisal Co., Ltd, an independent valuer registered in China.

The cost of the acquisition of the patent and trademarks was settled by the issue of 7,633,005 shares to the director on 2 April 2012.

During the current financial period a decline in the market resulted in revenue and gross profit margin being lower than originally forecast or anticipated. These changes have had a significant impact over the five year project period resulting in an impairment charge of $1,702,319 in the year of 2015. The impairment charge recognised resulted in the carrying value of trademarks being nil as at 30 June 2015.

**NOTE 15: TRADE AND OTHER PAYABLES**

| | Consolidated Group 2016 $ | Consolidated Group 2015 $ |
|---|---|---|
| CURRENT | | |
| Unsecured liabilities: | | |
| Trade payables | 407,941 | 737,043 |
| Bills payables | 325,875 | 545,540 |
| Receipt in advance | 421,199 | 224,312 |
| Other payables | 349,678 | 275,446 |
| Amounts payable to related party | 1,542 | - |
| | 1,506,235 | 1,782,341 |

**NOTE 16: BORROWINGS**

| | Note | Consolidated Group 2016 $ | Consolidated Group 2015 $ |
|---|---|---|---|
| CURRENT | | | |
| Secured liabilities: | | | |
| Bank loans | 23 | 3,343,872 | 3,527,752 |

The above loan is to be repaid in accordance with the following schedule:

| Repayment Amount | Repayment Date | Interest Rate |
|---|---|---|
| 506,647 | 10/6/2017 | 8.10% |
| 810,636 | 10/12/2016 | 4.57% |
| 810,636 | 19/11/2016 | 4.57% |
| 1,013,294 | 06/04/2017 | 4.61% |
| 202,659 | 09/05/2017 | 4.57% |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 16: BORROWINGS (CONTINUED)

Subsequent to year-end the loan has been successfully refinanced with new repayment date as follows:

| Repayment Amount (RMB) | Repayment Date | Interest Rate |
|---|---|---|
| 1,000,000 | 11/05/2018 | Floating rate |
| 5,000,000 | 06/04/2018 | Floating rate |
| 4,000,000 | 13/06/2017 | Floating rate |
| 4,000,000 | 20/11/2017 | Floating rate |
| 2,500,000 | 10/06/2017 | 8.10% |

The carrying amounts of non-current assets pledged as security are:

| | | |
|---|---|---|
| – Property, plant and equipment | 2,306,455 | 3,299,357 |
| – Intangible asssets | 4,484,949 | 4,836,020 |
| | 6,791,404 | 8,135,377 |

## NOTE 17: TAX

| | | |
|---|---|---|
| CURRENT | | |
| Income tax payable | - | - |

The tax rate applicable to 2016 is 30% (2015: 30%). The tax rate applicable to the subsidiary in China is 25%.

| **Deferred tax assets / (liabilities)** | **Opening Balance** | **Charged to Income** | **Credit directly to Equity** | **Exchange Differences** | **Closing Balance** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Consolidated Group** | | | | | |
| Net gain on revaluation of land use rights and buildings | (1,006,194) | - | | (165,902) | (1,172,096) |
| Depreciation | (2,926) | 2,926 | | - | - |
| Amortisation | 101,685 | 33,895 | | 20,199 | 155,779 |
| Inventory | 31,577 | (31,577) | | - | - |
| Other | (196,829) | (5,244) | | (30,446) | (232,519) |
| **Balance at 30 June 2015** | (1,072,687) | - | | (176,149) | (1,248,836) |
| | | | | | |
| Net gain on revaluation of land use rights and buildings | (1,172,096) | | 183,816 | 52,039 | (936,241) |
| Amortisation | 155,779 | - | - | (8,120) | 147,659 |
| Other | (232,519) | - | - | 12,120 | (220,399) |
| **Balance at 30 June 2016** | (1,248,836) | - | 183,816 | 56,039 | (1,008,981) |

| | **Consolidated Group** | |
|---|---|---|
| | **2016** | **2015** |
| | **$** | **$** |
| Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur: | 1,387,106 | 2,081,382 |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 18: ISSUED CAPITAL

| | Consolidated Group | |
|---|---|---|
| | 2016 | 2015 |
| | $ | $ |
| 78,315,545 (2015: 78,315,545) fully paid ordinary shares | 6,727,056 | 6,727,056 |
| | 6,727,056 | 6,727,056 |

The company has authorised share capital amounting to 78,315,545 ordinary shares.

| a. **Ordinary Shares** | **No.** | **No.** |
|---|---|---|
| At the end of the reporting period | 78,315,545 | 78,315,545 |

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**b. Capital Management**

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratios for the years ended 30 June 2016 and 30 June 2015 are as follows:

| | | Consolidated Group | |
|---|---|---|---|
| | | 2016 | 2015 |
| | | $ | $ |
| Borrowings | 16 | 3,343,872 | 3,527,752 |
| Trade and other payables | 15 | 1,506,235 | 1,782,341 |
| Less cash and cash equivalents | 8 | (509,193) | (61,816) |
| Less guarantee deposit with maturity over three months | 9 | - | (240,700) |
| Net debt | | 4,340,914 | 5,007,577 |
| Total equity | | 4,275,510 | 5,369,533 |
| Total capital | | 8,616,424 | 10,377,110 |
| Gearing ratio | | 50% | 48% |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 19: OPERATING SEGMENTS

The consolidated group operates in one business being the manufacture of hometextile products in China. These sales and the associated gross profits are spread across the following geographic segments:

**Revenue and Gross Profit**

| | Sales Revenue | Gross Profit |
|---|---|---|
| | $ | $ |
| Australia | 2,565,091 | 342,034 |
| Korea | 340,678 | 71,989 |
| United States | 9,804 | 2,072 |
| China | 3,315,833 | 504,155 |
| Others | 21,366 | 4,515 |
| **Total** | **6,252,722** | **924,765** |

**Non-Current Assets**

| | $ |
|---|---|
| Australia | - |
| China | 6,791,404 |
| **Total** | **6,791,404** |

**Major Customers**

| | $ |
|---|---|
| Kmart Australia Limited | 2,436,651 |
| Shanghai Hao Run Hometextile Co., Ltd | 722,169 |
| Others | 3,632,584 |
| **Total** | **6,791,404** |

## NOTE 20: RELATED PARTY TRANSACTIONS

**a. The Group's main related parties are as follows:**

i. Entities exercising control over the Group:

The ultimate parent entity that exercises control over the Group is Kingform Heath Hometextile Group Limited, which is incorporated in Australia.

ii. Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 5: Key Management Personnel Compensation.

iii. Entities subject to significant influence by the Group:

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 20: RELATED PARTY TRANSACTIONS (CONTINUED)**

iv. Other related parties:

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

**b. Transactions with related parties:**

The loan with related parties is interest free, and no terms or conditions are made.

**c. Amounts outstanding from related parties:**

Trade and other receivables:

Unsecured loans are made to the ultimate parent entity, subsidiaries, directors and other related parties on an arm's length basis. Repayments are expected within 12 months. Intragroup loans, loans to directors and other related parties are interest free (2015: nil%).

| | Consolidated Group 2016 $ | 2015 $ |
|---|---|---|
| i. *Loans to director:* | | |
| - Jin Xikang, director | | |
| Beginning of the year | 160,452 | 718,553 |
| Loans advanced | 1,165,808 | 805,735 |
| Loans repayment received | (1,046,545) | (659,710) |
| Forgiveness of loan | - | (881,001) |
| Net exchange differences on translation into a different presentation currency | (14,232) | 176,875 |
| End of the year | 265,483 | 160,452 |

No formal loan agreements are in place.

| | 2016 $ | 2015 $ |
|---|---|---|
| ii. *Loans to/(from) other related parties:* | | |
| – *Pan Jianwen* | | |
| Beginning of the year | - | (237,722) |
| Loans from related party | 1,420,630 | 1,687,263 |
| Repayment to related party | (1,422,252) | (1,535,468) |
| Net exchange differences on translation into a different presentation currency | 80 | 85,927 |
| End of the year | (1,542) | - |
| – *Tongxiang Kangkang Household Textiles Co., Ltd* | | |
| Beginning of the year | - | 294,637 |
| Forgiveness of loan | - | (332,859) |
| Net exchange differences on translation into a different presentation currency | - | 38,222 |
| End of the year | - | - |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 20: RELATED PARTY TRANSACTIONS (CONTINUED)**

| | Consolidated Group 2016 $ | 2015 $ |
|---|---|---|
| – *Pan Jianxing* | | |
| Beginning of the year | 133,299 | 348,487 |
| Loans advanced | (4,726) | 100 |
| Loans repayment received | - | (272,453) |
| Write off loan | (128,073) | - |
| Net exchange differences on translation into a different presentation currency | (500) | 57,165 |
| End of the year | - | 133,299 |

**NOTE 21: CASH FLOW INFORMATION**

| | 2016 $ | 2015 $ |
|---|---|---|
| **Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | |
| Profit/(Loss) after income tax | (324,852) | (5,647,415) |
| Non-cash flows in profit: | | |
| – Amortisation and impairment of intangible assets | 104,129 | 1,797,386 |
| – Depreciation | 125,874 | 166,138 |
| – Impairment of inventories | - | 1,933,707 |
| – Impairment of trade debtors | (51,254) | 597,893 |
| – Impairment of receivable from Mr Xikang Jin | - | 881,001 |
| – Impairment of receivable from Jianxing Pan | 128,073 | 332,859 |
| – Foreign currency translation movement | (145,333) | 6,083 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: | | |
| – Decrease in trade and other receivables | 39,472 | 641,229 |
| – Decrease /(increase) in inventories | 617,096 | (1,377,170) |
| – Decrease in trade payables and other payables | (276,106) | (256,490) |
| – Increase in current tax liabilities | - | 35,787 |
| – Increase in deferred tax liabilities | - | 176,149 |
| Cash flow provided by / (used in) operating activities | 217,099 | (712,843) |

**NOTE 22: EVENTS AFTER THE REPORTING PERIOD**

Subsequent to year-end the Group has gradually closed down its domestic retail stores and focus on the overseas sales and have developed a number of new customers in Europe and Australia which contributed additional sales in 2016 & 2017.

In addition, the Group successfully refinanced its existing borrowing facilities with new repayment date now being between June 2017 and May 2018.

No other matter or circumstances have arisen since the end of financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 23: FINANCIAL RISK MANAGEMENT**

The Group's financial instruments consist mainly of bank deposits, trade and other receivable, trade and other payable and bank loans.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

| | Note | Consolidated Group | |
|---|---|---|---|
| | | **2016** **$** | **2015** **$** |
| **Financial assets** | | | |
| Cash and cash equivalents | 8 | 533,195 | 61,816 |
| Guarantee deposit with maturity over three months | 9 | - | 240,700 |
| Related party receivables | 10 | 279,240 | 160,552 |
| Trade and other receivables | 10 | 982,027 | 941,941 |
| **Total financial assets** | | 1,794,462 | 1,405,009 |
| | | | |
| **Financial liabilities** | | | |
| Financial liabilities at amortised cost: | | | |
| Trade and other payables | 15 | 1,506,235 | 1,782,341 |
| Borrowings | 16 | 3,343,872 | 3,527,752 |
| **Total financial liabilities** | | 4,850,107 | 5,310,093 |

**Financial Risk Management Policies**

The directors' overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the directors on a regular basis. These include the credit risk policies and future cash flow requirements.

The main purpose of non-derivative financial instruments is to raise finance for the Group operations. The Group does not have any derivative instruments at 30 June 2016.

**Specific Financial Risk Exposures and Management**

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk.

**a. Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)**

*Credit risk exposures*

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentrations of credit risk with any single counterparty or group of counterparties except for the loans to the director and other related parties. Details with respect to credit risk of trade and other receivables are provided in Note 10.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 10.

Credit risk related to balances with banks and other financial institutions is managed by dealing only with reputable global banks or financial institutions.

**b. Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)**

Financial asset and financial liability maturity analysis

| Consolidated Group | Within 1 Year 2016 $ | Within 1 Year 2015 $ | 1 to 5 Years 2016 $ | 1 to 5 Years 2015 $ | Over 5 Years 2016 $ | Over 5 Years 2015 $ | Total 2016 $ | Total 2015 $ |
|---|---|---|---|---|---|---|---|---|
| **Financial Assets – cash flows realisable** | | | | | | | | |
| Cash and cash equivalents | 509,193 | 61,816 | - | - | - | - | 509,193 | 61,816 |
| Guarantee deposit | - | 240,700 | - | - | - | - | - | 240,700 |
| Trade and other receivables | 1,182,714 | 1,222,186 | - | - | - | - | 1,182,714 | 1,222,186 |
| Total expected inflows | 1,691,907 | 1,524,702 | - | - | - | - | 1,691,907 | 1,524,702 |
| **Financial liabilities due for payment** | | | | | | | | |
| Bank loans | 3,515,405 | 3,527,752 | - | - | - | - | 3,515,405 | 3,527,752 |
| Trade and other payables | 1,506,235 | 1,782,341 | - | - | - | - | 1,506,235 | 1,782,341 |
| Total expected outflows | 5,021,640 | 5,310,093 | - | - | - | - | 5,021,640 | 5,310,093 |

**c. Market risk**

*Interest rate risk*
Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is not exposed to earnings volatility on floating rate instruments, since there is no floating rate borrowings as of 30 June 2016.

*Sensitivity analysis*
The following table illustrates sensitivities to the Group's exposures to changes in interest. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Consolidated Group Profit $ | Consolidated Group Equity $ |
|---|---|---|
| **Year ended 30 June 2016** | | |
| +/-1% in interest rates | – | - |
| **Year ended 30 June 2015** | | |
| +/-1% in interest rates | +/- 3,025 | - |

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 23: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Fair Values**
The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments, which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities), are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

Recurring and Non-recurring Fair Value Measurement Amounts and the Level of the Fair Value Hierarchy within which the Fair Value Measurements Are Categorised

| | | **2016** | | **2015** | |
|---|---|---|---|---|---|
| **Consolidated Group** | **Note** | **Carrying Amount $** | **Fair Value $** | **Carrying Amount $** | **Fair Value $** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | (i) | 509,193 | 509,193 | 61,816 | 61,816 |
| Guarantee deposit with maturity over three months | | - | - | 240,700 | 240,700 |
| Trade and other receivables | (i) | 1,182,714 | 1,182,714 | 1,222,184 | 1,222,184 |
| **Total financial assets** | | 1,691,907 | 1,691,907 | 1,524,700 | 1,524,700 |
| **Financial liabilities** | | | | | |
| Trade and other payables | (i) | 1,506,235 | 1,506,235 | 1,782,341 | 1,782,341 |
| Bank loans | (ii) | 3,343,872 | 3,343,872 | 3,527,752 | 3,527,752 |
| **Total financial liabilities** | | 4,850,107 | 4,850,107 | 5,310,093 | 5,310,093 |

The fair values disclosed in the above table have been determined based on the following methodologies:

(i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is outside the scope of AASB 139.

(ii) Discounted cash flow models are used to determine the fair values of loans and advances. Discount rates used on the calculations are based on interest rates existing at the end of the reporting period for similar types of loans and advances. Differences between fair values and carrying amounts largely represent movements in the effective interest rate determined on initial recognition and current market rates.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 24: RESERVES

### a. Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation into a different presentation currency.

### b. Revaluation Surplus

The revaluation surplus records revaluations of non-current assets.

## NOTE 25: FAIR VALUE MEASUREMENTS

The Group measures and recognise land use rights and buildings on a recurring basis after initial recognition. The Group does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

### Fair Value Hierarchy

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

| **Level 1** | **Level 2** | **Level 3** |
|---|---|---|
| Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. | Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. | Measurements based on unobservable inputs for the asset or liability. |

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

### Valuation techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

– *Market approach:* valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

– *Income approach:* valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

– *Cost approach:* valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 25: FAIR VALUE MEASUREMENTS (CONTINUED)**

**Valuation techniques (continued)**

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The fair value of freehold land and buildings is determined at least every three years based on valuations by an independent valuer. At the end of each intervening period, the directors review the independent valuation and, when appropriate, update the fair value measurement to reflect current market conditions using a range of valuation techniques, including recent observable market data and discounted cash flow methodologies.

| | Fair Value Measurements at 30 June 2016 Using: | | |
|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets $ | Significant Observable Inputs Other than Level 1 Inputs $ | Significant Unobservable Inputs $ |
| **Description** | **(Level 1)** | **(Level 2)** | **(Level 3)** |
| Land use right | - | 4,949,974 | - |
| Buildings | - | 2,375,573 | - |
| **Non-recurring fair value measurements** | - | 7,325,547 | - |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 25: FAIR VALUE MEASUREMENTS (CONTINUED)**

**Valuation techniques and Input used to measure Level 2 Fair Values**

| Description | Fair Value at 30 June 2016 $ | Valuation Technique(s) | Inputs Used |
|---|---|---|---|
| Land use right | 4,949,974 | Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology | Price per square metre; market borrowing rate |
| Buildings | 2,375,573 | Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology | Price per square metre; market borrowing rate |

**NOTE 26: PARENT INFORMATION**

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards:

| | 2016 $ | 2015 $ |
|---|---|---|
| **STATEMENT OF FINANCIAL POSITION** | | |
| ASSETS | | |
| Current assets | 689,439 | 754,915 |
| Non-current assets | 4,047,077 | 4,047,077 |
| TOTAL ASSETS | 4,736,516 | 4,801,992 |
| LIABILITIES | | |
| Current liabilities | 154,146 | 114,589 |
| TOTAL LIABILITIES | 154,146 | 114,589 |
| EQUITY | | |
| Issued capital | 14,729,567 | 14,729,567 |
| Accumulated losses | (10,147,197) | (10,042,164) |
| TOTAL EQUITY | 4,582,370 | 4,687,403 |
| **STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** | | |
| Total losses | (105,032) | (4,251,363) |
| Total comprehensive losses | (105,032) | (4,251,363) |

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2016**

## NOTE 27: CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 June 2016 (30 June 2015: nil).

## NOTE 28: COMPANY DETAILS

The registered office of the company is:
Kingform Heath Hometextile Group Limited
C/- AFS Capital Securities Ltd
Level 8 , 303 Collins Street
Melbourne, Victoria Australia

The principal place of business is:
Zhejiang Kangbao Household Textiles Limited Co.
180 Guang'An Road
3rd Part Economic Development Zone
Tong Xiang, Zhejiang, P.R.China

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Kingform Health Hometextile Group Limited, the directors of the Group declare that:

1. the financial statements and notes, as set out on pages 13 to 50, are in accordance with the *Corporations Act 2001* and:
    a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
    b. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the consolidated group;

2. in the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

**Xikang Jin**

Director

30 August 2017

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Accountants and Advisors
Level 8, 167 Macquarie Street
Sydney NSW 2000
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shinewing.com.au

# INDEPENDENT AUDITOR'S REPORT

# TO THE MEMBERS OF KINGFORM HEALTH HOMETEXTILE GROUP LIMITED

## Report on the Financial Report

We have audited the accompanying financial report of Kingform Health Hometextile Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 13 to 52.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair review and is free from material misstatement, whether due to fraud or error. In Note 1 a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

ShineWing AUSTRALIA

*Opinion*

In our opinion:

a) the financial report of Kingform Health Hometextile Group Limited is in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b) the consolidated financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Note 1 a).

*Report on the Remuneration Report*

We have audited the Remuneration Report included in pages 9 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion, the Remuneration Report of Kingform Health Hometextile Group Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

ShineWing Australia

**ShineWing Australia**
Chartered Accountants

M. Schofield

Matthew Schofield
Partner

Melbourne, 30 August 2017

**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

The following information is current as at 21 July 2017:

1. **Shareholding**

a. **Distribution of Top holders**

| | Securities | % |
|---|---|---|
| Top 20 holders | 76,527,145 | 97.72 |
| Balance of register | 1,788,400 | 2.28 |
| | **78,315,545** | **100.00** |

b. **Distribution of CHESS/Issuer**

| | Securities | % | No. of Holders | % |
|---|---|---|---|---|
| CHESS | 5,451,900 | 6.96 | 65 | 38.92 |
| Issuer | 72,863,645 | 93.04 | 102 | 61.08 |
| | **78,315,545** | **100.00** | 167 | **100.00** |

c. **Distribution of Total Holding**

| | Securities | % | No. of Holders | % |
|---|---|---|---|---|
| 1 – 1,000 | - | - | - | - |
| 1,001 – 5,000 | - | - | - | - |
| 5,001 – 10,000 | 960,000 | 1.23 | 96 | 57.49 |
| 10,001 – 100,000 | 2,299,400 | 2.94 | 47 | 28.14 |
| 100,001 and over | 75,056,145 | 95.84 | 24 | 14.37 |
| | **78,315,545** | **100.00** | **167** | **100.00** |

d. None of the shareholdings held in less than marketable parcels.

e. The names of the substantial shareholders listed in the holding company's register are:

| | **Number** | |
|---|---|---|
| Shareholder: | **Ordinary** | **Preference** |
| MR XIKANG JIN | 39,780,525 | Nil |
| MS JIANWEN PAN | 12,859,008 | Nil |
| MS LINGYAN JIN | 5,465,078 | Nil |
| MR NAN CHEN | 3,214,752 | Nil |
| WISDOMORE LIMITED | 3,214,752 | Nil |

f. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and converting preference shares

– These shares have no voting rights.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

1. **Shareholding (continued)**

   g. **20 Largest Shareholders – Ordinary Shares**

| Name | | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1 | MR XIKANG JIN | 39,900,525 | 50.95% |
| 2 | MS JIANWEN PAN | 12,869,008 | 16.43% |
| 3 | MS LINGYAN JIN | 5,465,078 | 6.98% |
| 4 | MR NAN CHEN | 3,214,752 | 4.10% |
| 4 | WISDOMORE LIMITED | 3,214,752 | 4.10% |
| 5 | XIAOMIN ZHU | 1,607,376 | 2.05% |
| 5 | MR CHENGWEI WU | 1,607,376 | 2.05% |
| 6 | MR FENGXIANG WU | 1,598,476 | 2.04% |
| 7 | MR HUALONG ZHANG | 1,285,901 | 1.64% |
| 8 | MR FUCHANG CAO | 1,263,901 | 1.61% |
| 9 | MS LINGYAN JIN | 710,000 | 0.91% |
| 10 | MR HONGBEN TANG | 400,000 | 0.51% |
| 11 | MS XUEFEN XU | 230,000 | 0.29% |
| 11 | MR LIXIN TONG | 230,000 | 0.29% |
| 11 | MR RULIU CHEN | 230,000 | 0.29% |
| 12 | MR WEIHUA QIAN | 225,000 | 0.29% |
| 13 | MR GUOQIANG XU | 200,000 | 0.26% |
| 13 | MR JINGPU LI | 200,000 | 0.26% |
| 13 | MS CHEN LI | 200,000 | 0.26% |
| 13 | MS WEIPING ZHU | 200,000 | 0.26% |
| 14 | MS LAN JIN | 190,000 | 0.24% |
| 15 | MR LIN XIONG | 150,000 | 0.19% |
| 16 | MR JIANXING PAN | 130,000 | 0.17% |
| 17 | MR XIUZHONG QIU | 115,000 | 0.15% |
| 18 | MR XIKANG JIN | 110,000 | 0.14% |
| 18 | MR XIQUAN JIN | 110,000 | 0.14% |
| 18 | MR ZHIBAO XIONG | 110,000 | 0.14% |
| 18 | MS XIUYING WANG | 110,000 | 0.14% |
| 19 | MS ZHONGJUAN DING | 100,000 | 0.13% |
| 19 | MS ZHIYU XU | 100,000 | 0.13% |

**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

1. **Shareholding (continued)**

g. **20 Largest Shareholders – Ordinary Shares (continued)**

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 19 | MR ZHEYU WEI | 100,000 | 0.13% |
| 19 | MR ZEYUAN FENG | 100,000 | 0.13% |
| 19 | MR XIAOFENG JIN | 100,000 | 0.13% |
| 19 | MR JIAQI DENG | 100,000 | 0.13% |
| 19 | MR LING ZHUGE | 100,000 | 0.13% |
| 19 | MR JIANXIN MO | 100,000 | 0.13% |
| 19 | MR BIN HE | 100,000 | 0.13% |
| 20 | MS JUFEN JIANG | 90,000 | 0.11% |
| | | 76,867,145 | 98.16% |

**2. The name of the company secretary is Mr Xun Yang.**

3. The address of the principal registered office in Australia is
C/- AFS Capital Securities Ltd
Level 8 , 303 Collins Street
Melbourne, Victoria Australia

4. **Share Registry**
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

5. **Stock Exchange Listing**
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited.

6. **Unquoted Securities**
The Group has no issued converting preference shares and options.