

Kingform Health Hometextile Group Limited

ACN 153 801 766

Financial Report for the Half Year Ended 31 December 2011

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2011.

Directors

The names of directors who held office during or since the end of the half-year:

Jin Xikang	Appointed date: 13/11/2011
Yang Xun	Appointed date: 13/11/2011
Paul Desmond Nolan	Appointed date: 13/11/2011

Review of Operations

The profit of the consolidated group for the half-year after providing for income tax amounted to \$802,247.

During the latest half-year, we have concentrated on preparing our initial public offering to raise funds in anticipation of our listing on the Australian Stock Exchange. At the same time, we have focused on keeping existing customers and developing new customers. We have also concentrated on building our own brand. During this period, we have built five brand stores and laid the foundations for our future.

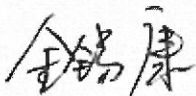
Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 3.

The report is signed in accordance with a resolution of the Board of Directors.

Director

Jin Xikang



Dated this Second day of April 2012

Kingform Health Hometextile Group Limited

ACN 153 801 766

AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 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 2011 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.



MDHC Audit Assurance Pty Ltd

Hawthorn



Kevin Adams

2 April 2012

Director

Kingform Health Hometextile Group Limited

ACN 153 801 766

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated Group 31.12.2011	Consolidated Group 31.12.2010
		\$	\$
Revenue		2,097,658	2,064,952
Cost of sales		(1,247,589)	(1,711,228)
Gross profit		850,069	353,724
Other revenue		475,362	5,530
Sales expenses		(137,248)	(75,360)
Administration expenses		(141,646)	(146,147)
Finance costs		(103,067)	(81,325)
Profit before income tax		943,470	56,422
Income tax expense		(141,223)	(14,105)
Profit for the period	2	802,247	42,317
Other comprehensive income / (loss):			
Net exchange differences on translation into a different presentation currency		586,050	(846,864)
Other comprehensive income / (loss) for the period, net of tax		586,050	(846,864)
Total comprehensive income / (loss) for the period		1,388,297	(804,547)
Profit attributable to member of the entity		802,247	42,317
Total comprehensive income / (loss) attributable to member of the entity		1,388,297	(804,547)

The accompanying notes form part of these financial statements.

Kingform Health Hometextile Group Limited

ACN 153 801 766

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	Consolidated Group 31.12.2011 \$	Consolidated Group 30.6.2011 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		413,570	662,269
Trade and other receivables		1,763,249	4,211,189
Inventories		1,337,050	591,652
TOTAL CURRENT ASSETS		3,513,869	5,465,110
NON-CURRENT ASSETS			
Other receivables		154,600	365,000
Property, plant and equipment		6,316,386	5,994,347
Intangible assets		1,525,527	3,271
TOTAL NON-CURRENT ASSETS		7,996,513	6,362,618
TOTAL ASSETS		11,510,382	11,827,728
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		403,897	649,495
Borrowings		2,473,600	2,336,000
TOTAL CURRENT LIABILITIES		2,877,497	2,985,495
NON-CURRENT LIABILITIES			
Deferred tax liabilities		903,027	739,024
TOTAL NON-CURRENT LIABILITIES		903,027	739,024
TOTAL LIABILITIES		3,780,524	3,724,519
NET ASSETS		7,729,858	8,103,209
EQUITY			
Registered capital	3	4,855,498	6,617,146
Reserves		2,619,008	2,032,958
Retained earnings / (accumulated losses)		255,352	(546,895)
TOTAL EQUITY		7,729,858	8,103,209

The accompanying notes form part of these financial statements.

Kingform Health Hometextile Group Limited

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Consolidated Group

	Registered Capital	Retained Earnings / (Accumulated Losses)	Revaluation Surplus	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2010	6,617,146	(550,854)	-	429,946	6,496,238
Comprehensive income					
Profit attributable to member of the entity	-	42,317	-	-	42,317
Other comprehensive loss for the period	-	-	-	(846,864)	(846,864)
Total comprehensive income / (loss) for the period	-	42,317	-	(846,864)	(804,547)
Balance at 31 December 2010	6,617,146	(508,537)	-	(416,918)	5,691,691
Balance at 1 July 2011	6,617,146	(546,895)	2,558,383	(525,425)	8,103,209
Comprehensive income					
Profit attributable to member of the entity	-	802,247	-	-	802,247
Other comprehensive income for the period	-	-	-	586,050	586,050
Total comprehensive income for the period	-	802,247	-	586,050	1,388,297
Transactions with owners, in their capacity as owners and other transfers					
Capital reduction	(1,761,648)	-	-	-	(1,761,648)
Total transactions with owners and other transfers	(1,761,648)	-	-	-	(1,761,648)
Balance at 31 December 2011	4,855,498	255,352	2,558,383	60,625	7,729,858

The accompanying notes form part of these financial statements.

Kingform Health Hometextile Group Limited

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Consolidated Group 31.12.2011	Consolidated Group 31.12.2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,728,528	2,282,375
Payments to suppliers and employees	(2,218,911)	(2,411,184)
Grants received	475,362	5,530
Finance costs	(103,067)	(81,325)
Income tax paid	(55,237)	(32,947)
Net cash used in operating activities	<u>(173,325)</u>	<u>(237,551)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(59,590)	(29,799)
Loans to related parties – proceeds from repayments	1,575,374	288,847
Net cash provided by investing activities	<u>1,515,784</u>	<u>259,048</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital reduction	(1,761,648)	-
Net cash used in financing activities	<u>(1,761,648)</u>	<u>-</u>
Net increase / (decrease) in cash held	(419,189)	21,497
Cash and cash equivalents at beginning of period	662,269	658,576
Net exchange differences on translation into a different presentation currency	170,490	(75,084)
Cash and cash equivalents at end of period	<u>413,570</u>	<u>604,989</u>

The accompanying notes form part of these financial statements.

Kingform Health Hometextile Group Limited

ACN 153 801 766

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

These interim financial statements cover Kingform Health Hometextile Group Limited and its controlled entities ("Consolidated Group"). Kingform Health Hometextile Group Limited ("Company", "Holding Entity") 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 Ltd (ACN 151 709 027),

Hong Kong Kang Feng 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 Ltd (registered on 24 June 2011) have been formed specifically for the proposed listing of the Company's securities on the Australian Stock Exchange, while Hong Kong Kang Feng 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 acquisitions by Kingform Health Hometextile Group Limited of its legal subsidiaries were accounted for as capital transactions 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 comparative information from 1 July 2010 to 31 December 2010 presented in the consolidated financial statements is that of Kangbao.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Consolidated Group. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of Kangbao for the year ended 30 June 2011, together with any public announcements made during the following half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

a. **Depreciation and Amortisation**

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 depreciation rate for the buildings from 1 July 2011 is 2.25% (previously: 2010: 4.5%)

Patent and brands are recognised at cost of acquisition. Patent has a finite life and is carried at cost less any accumulated amortisation and any impairment loss. Patent is amortised over its useful life until the registration is expired in 2019. Brands are treated as having an indefinite useful life because they can be renewed indefinitely at little cost. Brands are not amortised but tested for impairment annually and whenever there is an indication that they may be impaired.

b. **New and Revised Accounting Requirements Applicable to the Current Half-Year Reporting Period**

For the half-year reporting period to 31 December 2011, a number of new and revised accounting standard requirements became mandatory for the first time. A discussion of these new and revised requirements and their impact on the Group is provided below.

- AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]

The amendments to some Australian Accounting Standards arising from AASB 2009-5 result in accounting changes for presentation, recognition or measurement purposes, while some amendments relate to terminology and editorial changes that have little or no effect on the relevant accounting requirements. A summary of the main reporting changes arising from AASB 2009-5 is provided below.

AASB 8: Operating Segments states that an entity is only required to report a measure of total assets for each reportable segment if such information is regularly provided to the chief operating decision maker. (Previously entities were required to report a measure of total assets for each reportable segment, irrespective of whether such amounts were regularly provided to the chief operating decision maker.)

AASB 101: Presentation of Financial Statements clarifies that the classification of a (current) liability for which the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date is not affected by the existence of any terms that could, at the option of the counterparty, result in the settlement of the liability by the issue of equity instruments by the entity.

AASB 107: Statement of Cash Flows clarifies that only expenditures that result in a recognised asset in the statement of financial position would be classified as cash flows from investing activities in the statement of cash flows.

- AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]

AASB 2009-10 amends AASB 132 to clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. It is relevant to note that this approach is contrary to the general principle in AASB 132.

Application of the amendments in AASB 2009-10 did not have a material impact on the financial statements of the Group.

Kingform Health Hometextile Group Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

– AASB 124: Related Party Disclosures (December 2009)

AASB 124 (December 2009) introduces a number of changes to the accounting treatment of related parties compared to AASB 124 (December 2005, as amended), including the following.

- the definition of a related party is simplified, clarifying its intended meaning and eliminating inconsistencies from the definition, including:
 - the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;
 - entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other;
 - the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other; and
 - the definition now clarifies that a post-employment benefit plan and an employer sponsor of such a plan are related parties of each other.
- A partial exemption is provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.

Application of AASB 124 (December 2009) did not have a material impact on the financial statements of the Group.

– AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]

This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- AASB 7 is amended to add an explicit statement that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- AASB 101 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- AASB 134 is amended by adding a number of examples to the list of events and transactions that require disclosure under AASB 134; and
- sundry editorial amendments to various Standards and interpretations.

Application of the amendments in AASB 2010–4 did not have a material impact on the financial statements of the Group.

Kingform Health Hometextile Group Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements. Accordingly, application of the amendments in AASB 2010-5 did not have a material impact on the financial statements of the Group.

The financial statements were authorised for issue on 2 April 2012 by the directors of the Company.

Kingform Health Hometextile Group Limited

ACN 153 801 766

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 2: PROFIT FOR THE PERIOD

	Consolidated Group	Consolidated Group
	31.12.2011	31.12.2010
	\$	\$
Revenue		
Sales revenue:		
– sale of goods	2,097,658	2,064,952
Other revenue:		
– Government grants	475,362	5,530

NOTE 3: REGISTERED CAPITAL

	Consolidated Group	Consolidated Group
	31.12.2011	31.12.2010
	\$	\$
Registered capital	4,855,498	6,617,146

a. Capital reduction

Approved by Tong Xiang Economic Development Zone Management Committee on 19 August 2011, Kangbao's registered capital was reduced from USD 5,010,000 to USD 3,330,000.

NOTE 4: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Consolidated Group has no material contingent liability.

NOTE 5: EVENTS AFTER THE REPORTING PERIOD

a. Listing on the Australian Stock Exchange

On 13 January 2012, the Australian Securities & Investments Commission approved the Company's use of the Replace Prospectus for its Initial Public Offering of up to 25,000,000 ordinary shares at an offer price of \$0.20 each to raise up to \$5 million.

The Company organised road shows in Australia to raise capital. Up to 26 March 2012, the Company had raised approximately \$1 million.

The Company expects its application for listing on the Australian Stock Exchange will be approved on or before 13 April 2012.

b. Issuing Shares to a Director

On 30 March, 31 March and 1 April 2012, Jin Xi Kang, the Director, repaid the consideration received of RMB 10,000,000 (equivalent to AU\$ 1,530,000 at the foreign exchange rate at 1 April 2012) for the patent and brands acquired on 31 August 2011 and received an equivalent amount in restricted securities in order to comply with ASX Listing Rules.

Kingform Health Hometextile Group Limited

ACN 153 801 766

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 6: HOLDING ENTITY INFORMATION

The Holding Entity was formed on 18 October 2011 specifically for the proposed listing of the Company's securities on the Australian Stock Exchange. The Company issued 1,000 shares to Kingform Health Hometextile Pty Ltd during the period.

No expenses were incurred by the Company.

NOTE 7: SEGMENT INFORMATION

The Consolidated Group operates in one business and geographical segment, manufacture of home textile products in China.

NOTE 8: ACQUISITION OF PATENT AND BRANDS

On 31 August 2011, Kangbao acquired a patent (registration No. 99113948.8) from its director. The proceeds, RMB 3,500,000 (equivalent to AU\$ 514,500 at the foreign exchange rate at 31 August 2011) were 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.

On 31 August 2011, Kangbao acquired two brands, Kangfeng (registration No. 767825) and Fengkang (registration No. 767826) from Tongxiang Kangkang Quilt and Clothing Factory controlled by Kangbao's director. The proceeds, RMB 6,500,000 (equivalent to AU\$ 955,500 at the foreign exchange rate at 31 August 2011) were based on the market value of the brands on that day. The market value of the brands was valued by Shanghai Zhonghua Assets Appraisal Co., Ltd, an independent valuer registered in China.

The proceeds from the acquisition of the patent and brands were set off against the director's loan payable to Kangbao. Refer to Note 5 (b).

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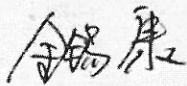
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 4 to 13, are in accordance with the Corporations Act 2001, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date.
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director



Jin Xi Kang

Dated this Second day of April 2012

Independent Auditor's Review Report To the members of Kingform Health Hometextile Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kingform Health Hometextile Group Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising both Kingform Health Hometextile Group Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Kingform Health Hometextile Group Limited and its controlled entities' financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kingform Health Hometextile Group Limited and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kingform Health Hometextile Group Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



MDHC Audit Assurance Pty Ltd



Kevin Adams
Director

Hawthorn
2 April 2012