

Zhejiang Kangbao Household Textiles Limited Co.
Financial Report for the Year Ended 30 June 2011

Zhejiang Kangbao Household Textiles Limited Co.

DIRECTOR'S REPORT

Your director presents his report on the company for the financial year ended 30 June 2011.

Director

The name of the director in office at any time during, or since the end of, the year is:

Jin Xikang

Director has been in office since the start of the financial year to the date of this report unless otherwise stated.

Review of Operations

The profit of the company for the financial year after providing for income tax amounted to \$3,959.

A review of the operations of the company during the financial year and the results of those operations found that we focused on building a stronger brand, improving after-sale service and adding product value. The business continues to grow.

Significant Changes in the State of Affairs

No significant changes in the company's state of affairs occurred during the financial year.

Principal Activities

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

No significant change in the nature of these activities occurred during the year.

Events Subsequent to the End of the Reporting Period

a. Registered Capital Reduction

Approved by Tong Xiang Economic Development Zone Management Committee on 19 August 2011, the company's registered capital was reduced from USD 5,010,000 to USD 3,330,000. Up to 19 August 2011, the ultimate parent company, Hong Kong Kangfeng Int'l Group Limited, has decreased its investment in the company by USD 1,680,000.

b. Collection of loans to related parties

On 31 August 2011, the company acquired a patent (registration No. 99113948.8) from the 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, the company acquired two brands, Kangfeng (registration No. 767825) and Fengkang (registration No. 67826) from Tongxiang Kangkang Quilt and Clothing Factory controlled by the 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 patent 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 the company. The director and other related parties also repaid the loans from the company RMB 7,800,000 in cash (equivalent to AU\$ 1,146,600 at the foreign exchange rate at 31 August 2011).

The director has provided a guarantee to the company for the repayment of loans to Pan Jianxing and Tongxiang Kangkang Household Textiles Co., Ltd. At 30 September 2011, the director had repaid the full balance of RMB 890,000 owed by Pan Jianwen (equivalent to AU\$142,133 at the foreign exchange rate at 30 September 2011).

Likely Developments and Expected Results of Operations

Likely developments in the operations of the company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

Zhejiang Kangbao Household Textiles Limited Co.

DIRECTOR'S REPORT

Environmental Regulation

The company's operations are not regulated by any significant environmental regulation under a law of P.R. China.

Dividends

No dividends were paid or declared during the financial year.

Options

No options over interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No capital was raised during or since the end of the year as a result of the exercise of an option over interests.

Indemnification of Officers

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 company.

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.

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 4.

Signed in accordance with a resolution of the Director:

Director

Jin Xikang



Dated this Tenth day of October 2011

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To: The Directors of Zhejiang Kangbao Household Textiles Limited Co.

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



MDHC Audit Assurance Pty Ltd



Kevin P Adams
Director

Hawthorn
10 October 2011

Zhejiang Kangbao Household Textiles Limited Co.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

| | Note | 2011 \$ | 2010 \$ |
|--|------|-------------|-------------|
| Revenue | 2 | 3,968,183 | 4,589,081 |
| Cost of sales | | (3,358,927) | (3,804,333) |
| Gross profit | | 609,256 | 784,748 |
| Other revenue | 2 | 8,428 | 29,686 |
| Sales expenses | | (200,925) | (214,323) |
| Administration expenses | | (274,673) | (259,128) |
| Finance costs | | (136,807) | (142,399) |
| Profit before income tax | 3 | 5,279 | 198,584 |
| Income tax expense | 4 | (1,320) | (49,646) |
| Profit for the year | | 3,959 | 148,938 |
| Other comprehensive income / (loss): | | | |
| Net gain on revaluation of land use right and buildings | | 2,558,383 | - |
| Net exchange differences on translation into a different presentation currency | | (955,371) | (356,984) |
| Other comprehensive income / (loss) for the year, net of tax | | 1,603,012 | (356,984) |
| Total comprehensive income / (loss) for the year | | 1,606,971 | (208,046) |
| | | | |
| Profit attributable to member of the entity | | 3,959 | 148,938 |
| | | | |
| Total comprehensive income / (loss) attributable to member of the entity | | 1,606,971 | (208,046) |

The accompanying notes form part of these financial statements.

Zhejiang Kangbao Household Textiles Limited Co.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

| | Note | 2011 \$ | 2010 \$ |
|--------------------------------------|------|-------------------|------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 7 | 662,269 | 658,576 |
| Trade and other receivables | 8 | 4,211,189 | 5,039,993 |
| Inventories | 9 | 591,652 | 485,372 |
| TOTAL CURRENT ASSETS | | 5,465,110 | 6,183,941 |
| NON-CURRENT ASSETS | | | |
| Other receivables | 10 | 365,000 | - |
| Property, plant and equipment | 11 | 5,994,347 | 3,206,479 |
| Deferred tax assets | 15 | - | 115,090 |
| Intangible assets | 12 | 3,271 | 3,847 |
| TOTAL NON-CURRENT ASSETS | | 6,362,618 | 3,325,416 |
| TOTAL ASSETS | | 11,827,728 | 9,509,357 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 649,495 | 781,019 |
| Borrowings | 14 | 2,336,000 | 2,232,100 |
| TOTAL CURRENT LIABILITIES | | 2,985,495 | 3,013,119 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 15 | 739,024 | - |
| TOTAL NON-CURRENT LIABILITIES | | 739,024 | - |
| TOTAL LIABILITIES | | 3,724,519 | 3,013,119 |
| NET ASSETS | | 8,103,209 | 6,496,238 |
| EQUITY | | | |
| Registered capital | 16 | 6,617,146 | 6,617,146 |
| Reserves | 22 | 2,032,958 | 429,946 |
| Accumulated losses | | (546,895) | (550,854) |
| TOTAL EQUITY | | 8,103,209 | 6,496,238 |

The accompanying notes form part of these financial statements.

Zhejiang Kangbao Household Textiles Limited Co.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

| | Registered Capital | Accumulated Losses | Revaluation Surplus | Foreign Currency Translation Reserve | Total |
|---|-----------------------|-----------------------|------------------------|---|-----------|
| | \$ | \$ | | \$ | \$ |
| Balance at 1 July 2009 | 6,617,146 | (699,792) | - | 786,930 | 6,704,284 |
| Comprehensive income | | | | | |
| Profit attributable to member of the entity | - | 148,938 | - | - | 148,938 |
| Other comprehensive loss for the year | - | - | - | (356,984) | (356,984) |
| Total comprehensive income / (loss) for the year | - | 148,938 | - | (356,984) | (208,046) |
| Balance at 30 June 2010 | 6,617,146 | (550,854) | - | 429,946 | 6,496,238 |
| Balance at 1 July 2010 | 6,617,146 | (550,854) | - | 429,946 | 6,496,238 |
| Comprehensive income | | | | | |
| Profit attributable to member of the entity | - | 3,959 | - | - | 3,959 |
| Other comprehensive income / (loss) for the year | - | - | 2,558,383 | (955,371) | 1,603,012 |
| Total comprehensive income / (loss) for the year | - | 3,959 | 2,558,383 | (955,371) | 1,606,971 |
| Balance at 30 June 2011 | 6,617,146 | (546,895) | 2,558,383 | (525,425) | 8,103,209 |

The accompanying notes form part of these financial statements.

Zhejiang Kangbao Household Textiles Limited Co.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

| | Note | 2011 | 2010 |
|--|------|-------------|-------------|
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 4,318,100 | 5,371,108 |
| Payments to suppliers and employees | | (4,361,031) | (6,244,929) |
| Interest received | | 625 | 8,537 |
| Finance costs | | (119,301) | (124,904) |
| Net cash used in operating activities | 20a | (161,607) | (990,188) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (33,113) | (3,579) |
| Loans to related parties – payments made | | (3,836,473) | (3,812,424) |
| Loans to related parties – proceeds from repayments | | 3,674,461 | 4,334,883 |
| Net cash provided by / (used in) investing activities | | (195,125) | 518,880 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | 2,448,000 | 2,828,800 |
| Repayment of borrowings | | (1,989,000) | (2,828,800) |
| Net cash provided by financing activities | | 459,000 | - |
| Net increase / (decrease) in cash held | | 102,268 | (471,308) |
| Cash and cash equivalents at beginning of financial year | | 658,576 | 1,196,348 |
| Net exchange differences on translation into a different presentation currency | | (98,575) | (66,464) |
| Cash and cash equivalents at end of financial year | 7 | 662,269 | 658,576 |

The accompanying notes form part of these financial statements.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The financial statements cover Zhejiang Kangbao Household Textiles Limited Co. as an individual entity. Zhejiang Kangbao Household Textiles Limited Co. is a limited liability company, incorporated and domiciled in China.

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 Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial statements were authorised for issue on 10 October 2011 by the director of the company.

a. Income Tax

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income 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 as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the 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.

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.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

b. 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.

c. 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.

Property

Land use right and 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 land use right and buildings are not subject to an independent valuation, the director conducts director's 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 land use right and buildings are credited to a revaluation surplus in shareholder's equity. Decreases that offset previous increases of the same asset are recognised against fair value reserves 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 (refer to Note 1(e) for details of impairment).

The cost of fixed assets constructed 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 entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

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

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

| Class of Fixed Asset | Depreciation Rate |
|---------------------------------------|--------------------------|
| Land use right and buildings | 2%-4.5% |
| 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.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

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 or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

d. **Financial Instruments**

Initial recognition and measurement

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

Financial instruments are initially measured at fair value plus transactions 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 rate method or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is 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 exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through 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 value with a consequential recognition of an income or expense item in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) *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.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the company's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

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 is 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.

e. **Impairment of Assets**

At the end of each reporting period, the company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for intangible assets with indefinite lives.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

f. **Foreign Currency Transactions and Balances**

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 the statement of comprehensive income, 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 equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

The financial results and position of the company whose functional currency is different from its presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- 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 this translation are transferred directly to the foreign currency translation reserve in the statement of financial position.

g. **Employee Benefits**

Provision is made for the company'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 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.

h. **Cash and Cash Equivalents**

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

i. **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. Any consideration deferred is treated as the provision of finance 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.

Interest revenue is recognised using the effective interest rate 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).

j. **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 70 days of recognition of the liability.

k. **Value Added Tax (VAT)**

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

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT 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 components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the VAT are presented as operating cash flows included in receipts from customers or payments to suppliers.

l. Comparative Figures

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

m. Critical Accounting Estimates and Judgments

The director evaluates estimates and judgments 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 company.

Key estimates

(i) Impairment

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

n. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the company has decided not to early adopt. A discussion of those future requirements and their impact on the company is as follows:

- AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The company has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of 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. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the company.
- 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] (applicable for annual reporting periods commencing on or after 1 January 2011).

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;
 - adding an explicit statement to AASB 7 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;
 - amending AASB 101 to the effect 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;
 - adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
 - making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the company.
- 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] (applicable for annual reporting periods beginning on or after 1 January 2011).

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.
- AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

As noted above, the company has not yet determined any potential impact on the financial statements from adopting AASB 9.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: REVENUE AND OTHER INCOME

| | Note | 2011 | 2010 |
|---|------|---------------|---------------|
| | | \$ | \$ |
| Revenue | | | |
| Sales revenue: | | | |
| – sale of goods | | 3,968,183 | 4,589,081 |
| Other revenue: | | | |
| – interest received | 2a | 625 | 8,537 |
| – Government grants | | 7,803 | 21,149 |
| | | 8,428 | 29,686 |
| Total revenue | | 3,976,611 | 4,618,767 |
| a. Interest revenue from: | | | |
| – other persons | | 625 | 8,537 |
| Total interest revenue on financial assets not at fair value through profit or loss | | 625 | 8,537 |

NOTE 3: PROFIT BEFORE INCOME TAX

| | 2011 | 2010 |
|---|---------|---------|
| | \$ | \$ |
| Profit before income tax from continuing operations includes the following specific expenses: | | |
| Expenses | | |
| Interest expense on financial liabilities not at fair value through profit or loss: | | |
| – external | 119,301 | 124,904 |
| Salary and wages | 289,670 | 323,700 |
| Employee benefits expense: | | |
| – contributions to defined contribution superannuation funds | 14,676 | 15,620 |
| – contributions to medical insurance | 7,300 | 6,939 |
| – contributions to housing fund | 4,199 | 3,224 |
| – contributions to unemployment insurance | 1,915 | 1,418 |
| Depreciation | 214,425 | 192,700 |
| Amortisation | 381 | 414 |
| Other expenses: | | |
| Foreign currency translation losses | 6,081 | 3,573 |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: INCOME TAX EXPENSE

| | 2011 | 2010 |
|--|---------|----------|
| | \$ | \$ |
| a. The components of tax expense comprise: | | |
| Current tax | - | - |
| Deferred tax | (1,320) | (49,646) |
| | (1,320) | (49,646) |
| b. The prima facie tax on profit before income tax is reconciled to the income tax as follows: | | |
| Prima facie tax payable on profit before income tax at 25% (2010: 25%) | (1,320) | (49,646) |
| Add: tax effect of non assessable/deductible items | - | - |
| Income tax attributable to entity | (1,320) | (49,646) |
| The applicable weighted average effective tax rates are as follows: | 25% | 25% |

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

The totals of remuneration paid to key management personnel (KMP) of the company during the year are as follows:

| | 2011 | 2010 |
|------------------------------|--------|--------|
| | \$ | \$ |
| Short-term employee benefits | 14,346 | 15,602 |
| Post-employment benefits | 1,898 | 1,958 |
| | 16,244 | 17,560 |

Other KMP transactions

For details of other transactions and loans with KMP, refer to Note 18: Related Party Transactions.

NOTE 6: REMUNERATION OF AUDITOR

| | 2011 | 2010 |
|---------------------------------|--------|-------|
| | \$ | \$ |
| Remuneration of auditor: | | |
| – auditing the financial report | 56,000 | - |
| Remuneration of other auditor: | | |
| – auditing the financial report | 1,607 | 1,747 |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 7: CASH AND CASH EQUIVALENTS

| | Note | 2011 | 2010 |
|--------------|---------|---------|---------|
| | | \$ | \$ |
| Cash in hand | | 1,734 | 4,712 |
| Cash in bank | 7a, 21a | 660,535 | 653,864 |
| | 21 | 662,269 | 658,576 |

The effective interest rate on short-term bank deposits was 0.43% (2010: 0.36%).

a. includes deposit held for security \$39,712 (2010:\$0)

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:

| | | | |
|---------------------------|--|---------|---------|
| Cash and cash equivalents | | 1,734 | 4,712 |
| Short-term bank deposits | | 660,535 | 653,864 |
| | | 662,269 | 658,576 |

NOTE 8: TRADE AND OTHER RECEIVABLES

| | Note | 2011 | 2010 |
|---|------|-----------|-----------|
| | | \$ | \$ |
| CURRENT | | | |
| Trade receivables | | 474,100 | 406,913 |
| Payment in advance | | 84,365 | 171,510 |
| Provision for impairment | 8a | (30,660) | (36,057) |
| | | 527,805 | 542,366 |
| Other receivables | | | |
| Loans to director | 18 | 2,452,800 | 2,506,820 |
| Loans to other related parties | 18 | 861,546 | 1,786,299 |
| Others | | 369,038 | 204,508 |
| | | 3,683,384 | 4,497,627 |
| Total current trade and other receivables | | 4,211,189 | 5,039,993 |

a. **Provision for impairment of receivables**

A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses line item.

There has been no movement for the provision except for the foreign currency translation effect.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 8: TRADE AND OTHER RECEIVABLES (CONT'D)

Credit risk

The company does not have any material credit risk exposure to any single receivable or group of receivables, except for the loans to the director and other related parties. About 70% of the loans to the director and other related parties (including non-current) have been repaid by 31 August 2011. Refer to Note 19.

The following table details the company'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 company 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 company.

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 | |
| 2011 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade receivables | 474,100 | 30,660 | 14,726 | - | 4,811 | 70,298 | 353,605 |
| Payment in advance | 84,365 | - | - | - | - | - | 84,365 |
| Other receivables | 3,683,384 | - | - | - | - | - | 3,683,384 |
| Total | 4,241,849 | 30,660 | 14,726 | - | 4,811 | 70,298 | 4,121,354 |

| | Gross Amount | Past Due and Impaired | Past Due but Not Impaired (Days Overdue) | | | | Within Initial Trade Terms |
|--------------------|------------------|-----------------------------|---|----------|----------|---------------|-------------------------------------|
| | | | < 30 | 31-60 | 61-90 | > 90 | |
| 2010 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade receivables | 406,913 | 36,057 | - | - | - | 40,511 | 330,345 |
| Payment in advance | 171,510 | - | - | - | - | - | 171,510 |
| Other receivables | 4,497,627 | - | - | - | - | - | 4,497,627 |
| Total | 5,076,050 | 36,057 | - | - | - | 40,511 | 4,999,482 |

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

| | Note | 2011 \$ | 2010 \$ |
|--|------|------------------|------------------|
| b. Financial assets classified as loans and receivables | | | |
| Trade and other receivables: | | | |
| - total current | | 4,211,189 | 5,039,993 |
| - total non-current | | 365,000 | - |
| Less: VAT refundable and others | | (21,931) | (12,811) |
| Financial assets | 21 | <u>4,554,258</u> | <u>5,027,182</u> |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 8: TRADE AND OTHER RECEIVABLES (CONT'D)

c. Collateral held as security

No collateral is held over trade and other receivables.

NOTE 9: INVENTORIES

| | 2011 | 2010 |
|----------------------------|---------|---------|
| | \$ | \$ |
| CURRENT | | |
| At cost: | | |
| - raw materials and stores | 452,810 | 404,811 |
| - finished goods | 138,842 | 80,561 |
| | 591,652 | 485,372 |

NOTE 10: OTHER RECEIVABLE

| | 2011 | 2010 |
|-------------------------|---------|------|
| | \$ | \$ |
| NON CURRENT | | |
| Loan to related parties | 365,000 | - |
| | 365,000 | - |

A loan of \$657,000 was advanced to Pan Jianxing for his acquisition of 90% of shares of Zhejiang Laiteli Communication Technology Co., Ltd. The loan is interest free. \$292,000 is to be repaid to the company by 30 June 2012; the remaining (\$365,000) is to be repaid by instalments before 30 June 2013. The director has provided a personal guarantee to the company to repay the loan if it is in default.

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

| | 2011 | 2010 |
|---|-----------|-----------|
| | \$ | \$ |
| PROPERTY | | |
| Land use right and buildings: | | |
| At valuation – independent valuation 2011 (note a(i)) | 5,750,426 | - |
| At cost | - | 3,364,126 |
| Accumulated depreciation | - | (472,065) |
| Total property | 5,750,426 | 2,892,061 |
| PLANT AND EQUIPMENT | | |
| Plant and equipment: | | |
| At cost | 318,544 | 374,617 |
| Accumulated depreciation | (129,586) | (118,681) |
| | 188,958 | 255,936 |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Electronic equipment

| | | |
|-------------------------------------|-----------|-----------|
| At cost | 150,375 | 139,684 |
| Accumulated depreciation | (95,412) | (81,202) |
| | 54,963 | 58,482 |
| Total plant and equipment | 243,921 | 314,418 |
| Total property, plant and equipment | 5,994,347 | 3,206,479 |

a. Movements in carrying amounts

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

| | Land use right and buildings | Plant and Equipment | Electronic Equipment & Motor Vehicles | Total |
|--|---------------------------------|------------------------|---|------------------|
| | \$ | \$ | \$ | \$ |
| Balance at 1 July 2009 | 3,210,689 | 306,308 | 84,721 | 3,601,718 |
| Additions | - | 333 | 3,246 | 3,579 |
| Net exchange differences on translation into a different presentation currency | (182,701) | (18,045) | (5,372) | (206,118) |
| Depreciation expense | (135,927) | (32,660) | (24,113) | (192,700) |
| Carrying amount at 30 June 2010 | 2,892,061 | 255,936 | 58,482 | 3,206,479 |
| Additions | - | - | 33,113 | 33,113 |
| Revaluation increments | 3,411,177 | - | - | 3,411,177 |
| Net exchange differences on translation into a different presentation currency | (396,059) | (36,935) | (9,003) | (441,997) |
| Depreciation expense | (156,753) | (30,043) | (27,629) | (214,425) |
| Carrying amount at 30 June 2011 | 5,750,426 | 188,958 | 54,963 | 5,994,347 |

(i) The company'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.

b. Historical Cost

| | 2011 | 2010 |
|--|-----------|-----------|
| | \$ | \$ |
| If land use right and buildings were stated at historical cost, amounts would be as follows: | | |
| Cost | 2,860,584 | 3,364,126 |
| Accumulated depreciation | (521,335) | (472,065) |
| Net book value | 2,339,249 | 2,892,061 |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 12: INTANGIBLE ASSETS

| | 2011 | 2010 |
|--------------------------|-------|-------|
| | \$ | \$ |
| Software | | |
| Cost | 3,635 | 4,275 |
| Accumulated amortisation | (364) | (428) |
| Net carrying value | 3,271 | 3,847 |

| | Software | Total |
|--|----------|-------|
| Reconciliation of intangible assets | | |
| Balance at 1 July 2009 | 3,254 | 3,254 |
| Additions | 1,165 | 1,165 |
| Net exchange differences on translation into a different presentation currency | (158) | (158) |
| Amortisation | (414) | (414) |
| Balance at 30 June 2010 | 3,847 | 3,847 |
| Net exchange differences on translation into a different presentation currency | (195) | (195) |
| Amortisation | (381) | (381) |
| Balance at 30 June 2011 | 3,271 | 3,271 |

NOTE 13: TRADE AND OTHER PAYABLES

| | Note | 2011 | 2010 |
|------------------------|------|---------|---------|
| | | \$ | \$ |
| CURRENT | | | |
| Unsecured liabilities: | | | |
| Trade payables | | 443,259 | 508,463 |
| Receipt in advance | | 178,293 | 239,693 |
| Employee benefits | | 27,943 | 32,863 |
| | 13a | 649,495 | 781,019 |

a. Financial liabilities at amortised cost classified as trade and other payables

| | | | |
|---------------------------|---|---------|---------|
| Trade and other payables: | | | |
| – | total current | 649,495 | 781,019 |
| – | total non-current | - | - |
| | | 649,495 | 781,019 |
| | Financial liabilities as trade and other payables | 649,495 | 781,019 |

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Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14: BORROWINGS

| | Note | 2011 \$ | 2010 \$ |
|---|---------|------------|------------|
| CURRENT | | | |
| Bank loan secured | 14a, 21 | 2,336,000 | 2,232,100 |
| | | | |
| a. The carrying amounts of non-current assets pledged as security are: | | | |
| First mortgage: | | | |
| – Property | | 5,750,426 | 2,892,061 |

NOTE 15: TAX

| | 2011 \$ | 2010 \$ |
|--------------------|------------|------------|
| CURRENT | | |
| Income tax payable | - | - |

The company is entitled to a “two-years-free and three-years-half” income tax holiday. The tax rate applicable to 2011 is 12.5% (2010: 12.5%). The statutory tax rate is 25%. The company has unused tax losses carried forward and need not to pay income tax this year.

Deferred tax Assets / (liabilities)

| | Opening balance \$ | Charged to income \$ | Charged Directly to Equity \$ | Closing Balance \$ |
|---|-----------------------|----------------------------|-------------------------------------|-----------------------|
| Future income tax benefits attributable to tax losses | 164,736 | (49,646) | - | 115,090 |
| Balance at 30 June 2010 | 164,736 | (49,646) | - | 115,090 |
| | | | | |
| Future income tax benefits attributable to tax losses | 115,090 | (1,320) | - | 113,770 |
| Net gain on revaluation of land use right and buildings | - | | (852,794) | (852,794) |
| Balance at 30 June 2011 | 115,090 | (1,320) | (852,794) | (739,024) |

NOTE 16: REGISTERED CAPITAL

| | 2011 \$ | 2010 \$ |
|--------------------|------------|------------|
| Registered capital | 6,617,146 | 6,617,146 |

a. Capital management

Management controls the capital of the company in order to maintain a good debt to equity ratio, provide the shareholder with adequate return and to ensure that the company can fund its operations and continue as a going concern.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: REGISTERED CAPITAL (CONT'D)

The company's debt and capital include registered capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company'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 company since the prior year. The gearing ratios for the years ended 30 June 2011 and 30 June 2010 are as follows:

| | Note | 2011 | 2010 |
|--------------------------------|------|------------|-----------|
| | | \$ | \$ |
| Total borrowings | 14 | 2,336,000 | 2,232,100 |
| Trade and other payables | 13 | 649,495 | 781,019 |
| Less cash and cash equivalents | 7 | (662,269) | (658,576) |
| Net debt | | 2,323,226 | 2,354,543 |
| Total equity | | 8,103,209 | 6,496,238 |
| Total capital | | 10,426,435 | 8,850,781 |
| Gearing ratio | | 22% | 27% |

NOTE 17: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2011, the company provided a guarantee for its related party, Tongxiang Kangkang Household Textiles Co., Ltd, for its loan of RMB 3,000,000 (equivalent to AU\$ 438,000 at 30 June 2011 exchange rate) from Jiaxing Commercial Bank. (2010: RMB 3,000,000 equivalent to AU\$ 515,100 at 30 June 2010 exchange rate) There is no other contingent liability or asset that has not been reported.

NOTE 18: RELATED PARTY TRANSACTIONS

Related Parties

The company's main related parties are as follows:

a. Entities exercising control over the company

The ultimate parent entity, which exercises control over the company, is Hong Kong Kangfeng Int'l Group Limited.

b. 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, is considered key management personnel.

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

c. Entities subject to significant influence by the company

An entity which 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.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 18: RELATED PARTY TRANSACTIONS (CONT'D)

d. Other related parties

Other related parties include immediate family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel, individually or collectively with their immediate family members.

e. Transactions with related parties

The following transactions occurred with related parties:

| | Note | 2011 \$ | 2010 \$ |
|---|------|------------|------------|
| <i>i. Trade and other receivables</i> | | | |
| Key management personnel: | | | |
| Loans to director: | | | |
| - Jin Xikang | 8 | 2,452,800 | 2,506,820 |
| Personal loans are made to the director free of interest. | | | |
| Other related parties: | | | |
| Loans to other related parties: | | | |
| - Pan Jianwen | | 129,940 | 759,636 |
| - Pan Meiwen | | - | 84,133 |
| - Pan Jianxing | 10 | 657,000 | - |
| - Jin Lingyan | | - | 84,133 |
| - Tongxiang Kangkang Household Textiles Co., Ltd | | 439,606 | (103) |
| - Zhejiang Laiteli Communication Technology Co., Ltd | | - | 858,500 |
| | | 1,226,546 | 1,786,299 |
| Unsecured loans are made to other related parties free of interest. | | | |
| <i>ii. Guarantee (refer to Note 17)</i> | | | |
| - Tongxiang Kangkang Household Textiles Co., Ltd | | 438,000 | 515,100 |
| <i>iii. Purchase of Motor Vehicle</i> | | | |
| Purchase from Tongxiang Kangkang Household Textiles Co., Ltd of a used motor vehicle on 13 July 2010. The transaction was on normal commercial terms and conditions no more favourable than those available to other parties. | | | |
| | | 30,600 | - |

NOTE 19: EVENTS AFTER THE REPORTING PERIOD

a. Registered Capital Reduction

Approved by Tong Xiang Economic Development Zone Management Committee on 19 August 2011, the company's registered capital was reduced from USD 5,010,000 to USD 3,330,000. Up to 19 August 2011, the ultimate parent company, Hong Kong Kangfeng Int'l Group Limited, has decreased its investment in the company by USD 1,680,000.

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19: EVENTS AFTER THE REPORTING PERIOD (CONT'D)

b. Collection of loans to related parties

On 31 August 2011, the company acquired a patent (registration No. 99113948.8) from the 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, the company acquired two brands, Kangfeng (registration No. 767825) and Fengkang (registration No. 67826) from Tongxiang Kangkang Quilt and Clothing Factory controlled by the 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 patent 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 the company. The director and other related parties also repaid the loans from the company by RMB 7,800,000 in cash up to 31 August 2011 (equivalent to AU\$ 1,146,600 at the foreign exchange rate at 31 August 2011). At 30 September 2011, the director had repaid the full balance of RMB 890,000 owed by Pan Jianwen (equivalent to AU\$142,133 at the foreign exchange rate at 30 September 2011).

The director has provided a guarantee to the company for the repayment of loans to Pan Jianxing and Tongxiang Kangkang Household Textiles Co., Ltd.

NOTE 20: CASH FLOW INFORMATION

| | 2011 | 2010 |
|--|-----------|-------------|
| | \$ | \$ |
| a. Reconciliation of cash flow from operations with profit after income tax | | |
| Profit after income tax | 3,959 | 148,938 |
| Non-cash flows in profit: | | |
| – depreciation | 214,425 | 192,700 |
| – amortisation | 381 | 414 |
| – foreign currency translation losses | 6,081 | 3,573 |
| Changes in assets and liabilities: | | |
| – decrease/(increase) in trade and other receivables | (149,969) | 87,031 |
| – decrease in other assets | - | 754 |
| – increase in inventories | (106,280) | (82,087) |
| – decrease in deferred tax assets | 1,320 | 49,646 |
| – decrease in trade and other payables | (131,524) | (1,391,157) |
| Net cash used in operating activities | (161,607) | (990,188) |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: FINANCIAL RISK MANAGEMENT

The company's financial instruments consist mainly of deposits with banks, accounts receivable and 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 | 2011 \$ | 2010 \$ |
|--|------|------------|------------|
| Financial assets | | | |
| Cash and cash equivalents | 7 | 662,269 | 658,576 |
| Loans and receivables | 8b | 4,554,258 | 5,027,182 |
| Total financial assets | | 5,216,527 | 5,685,758 |
| Financial liabilities | | | |
| Financial liabilities at amortised cost: | | | |
| – trade and other payables | 13a | 649,495 | 781,019 |
| – borrowings | 14 | 2,336,000 | 2,232,100 |
| Total financial liabilities | | 2,985,495 | 3,013,119 |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: FINANCIAL RISK MANAGEMENT (CONT'D)

Financial Risk Management Policies

The director's overall risk management strategy seeks to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the director 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 company operations. The company does not have any derivative instruments at 30 June 2011.

Specific Financial Risk Exposures and Management

The main risks the company 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 company.

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.

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 company 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 8.

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 8.

Credit risk related to balances with banks and other financial institutions is managed by the director. The following table provides information regarding the credit risk relating to cash and money market securities based on counterparty credit ratings.

| | Note | 2011 | 2010 |
|---------------|------|----------------|----------------|
| | | \$ | \$ |
| Cash in bank: | | | |
| – AAA rated | | 642,503 | 652,113 |
| – AA rated | | 18,032 | 1,751 |
| | 7 | <u>660,535</u> | <u>653,864</u> |

b. Liquidity risk

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

- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: FINANCIAL RISK MANAGEMENT (CONT'D)

- 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 tables below reflect 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.

Financial liability and financial asset maturity analysis

| | Within 1 Year | | 1 to 5 Years | | Total | |
|---|------------------|------------------|----------------|----------|------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial liabilities due for payment | | | | | | |
| Bank loans | 2,336,000 | 2,232,100 | - | - | 2,336,000 | 2,232,100 |
| Trade and other payables | 649,495 | 781,019 | - | - | 649,495 | 781,019 |
| Total expected outflows | 2,985,495 | 3,013,119 | - | - | 2,985,495 | 3,013,119 |
| Financial assets – cash flows realisable | | | | | | |
| Cash and cash equivalents | 662,269 | 658,576 | - | - | 662,269 | 658,576 |
| Trade and other receivables | 4,189,258 | 5,027,182 | 365,000 | - | 4,554,258 | 5,027,182 |
| Total anticipated inflows | 4,851,527 | 5,685,758 | 365,000 | - | 5,216,527 | 5,685,758 |
| Net inflow on financial instruments | 1,866,032 | 2,672,639 | 365,000 | - | 2,231,032 | 2,672,639 |

c. **Market risk**

i. *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.

Sensitivity analysis

The following table illustrates sensitivities to the company'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.

| | Profit | Equity |
|--------------------------------|------------|------------|
| | \$ | \$ |
| Year ended 30 June 2011 | | |
| +/- 1% in interest rates | -/+ 16,737 | -/+ 16,737 |
| Year ended 30 June 2010 | | |
| +/- 1% in interest rates | -/+ 15,735 | -/+ 15,735 |

Zhejiang Kangbao Household Textiles Limited Co.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: FINANCIAL RISK MANAGEMENT (CONT'D)

Net Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts 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.

Differences between fair values and carrying values 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 company. Most of these instruments which are carried at amortised cost (ie trade receivables, loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the company.

| | Note | 2011 | | 2010 | |
|--------------------------------------|------|--------------------|------------------|--------------------|------------------|
| | | Net Carrying Value | Net Fair Value | Net Carrying Value | Net Fair Value |
| | | \$ | \$ | \$ | \$ |
| Financial assets | | | | | |
| Cash and cash equivalents | (i) | 662,269 | 662,269 | 658,576 | 658,576 |
| Trade and other receivables | (i) | 874,912 | 874,912 | 734,063 | 734,063 |
| Loans and advances – related parties | (ii) | 3,679,346 | 3,679,346 | 4,293,119 | 4,293,119 |
| Total financial assets | | <u>5,216,527</u> | <u>5,216,527</u> | <u>5,685,758</u> | <u>5,685,758</u> |
| Financial liabilities | | | | | |
| Trade and other payables | (i) | 649,495 | 649,495 | 781,019 | 781,019 |
| Short term borrowings | (i) | 2,336,000 | 2,336,000 | 2,232,100 | 2,232,100 |
| Total financial liabilities | | <u>2,985,495</u> | <u>2,985,495</u> | <u>3,013,119</u> | <u>3,013,119</u> |

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 and short-term borrowings are short-term instruments in nature whose carrying value is equivalent to fair value.
- (ii) Related party loan and advances are interest free whose carrying value is equivalent to fair value.

NOTE 22: RESERVES

Foreign Currency Translation Reserve

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

Revaluation Surplus

The revaluation surplus records revaluations of non-current assets.

Zhejiang Kangbao Household Textiles Limited Co.

NOTE 23: COMPANY DETAILS

The registered office and principal place of the company is:

Zhejiang Kangbao Household Textiles Limited Co.

180 Guang'An Road

3rd Part Economic Development Zone

Tong Xiang, Zhejiang

P.R. China

Zhejiang Kangbao Household Textiles Limited Co.

DIRECTOR'S DECLARATION

The director of the company declares that:

1. the financial statements and notes, as set out on pages 5 to 32, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company.
2. in the director's 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 Director.

Director 

Jin Xi Kang

Dated this Tenth day of October 2011

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ZHEJIANG KANGBAO HOUSEHOLD TEXTILES LIMITED CO.**

Report on the Financial Report

We have audited the accompanying financial report of Zhejiang Kangbao Household Textiles Limited Co. ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and 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.

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 is free from material misstatement, whether due to fraud or error. In Note 1, 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 judgment, 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ZHEJIANG KANGBAO HOUSEHOLD TEXTILES LIMITED CO.**

Opinion

In our opinion:

- (a) the financial report of Zhejiang Kangbao Household Textiles Limited Co. is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



MDHC Audit Assurance Pty Ltd



Kevin P Adams
Director

Hawthorn
10 October 2011