

Kingform Health Hometextile Group Limited
ACN 153 801 766
APPENDIX 4E - PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 June 2012

DETAILS OF REPORTING PERIODS

Current reporting period : Twelve (12) months to 30 June 2012
Previous corresponding period : Twelve (12) months to 30 June 2011

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	2012	2011	Change
	\$	\$	%
Revenue from ordinary activities	4,095,606	3,968,183	3
Profit / (loss) for ordinary activities after tax attributable to members	(124,982)	3,959	(3,257)
Profit / (loss) for the period attributable to members	(124,982)	3,959	(3,257)
Dividends	nil	nil	NA

SIGNIFICANT INFORMATION

The consolidated operating revenue of Kingform Health Hometextile Group Ltd (the "Group") increased by 3% to \$4,095,606 for the financial year compared to \$3,968,183 in the previous year.

The consolidated operating results after income tax of the Group changed from a profit of \$3,959 in the previous year to a loss of \$124,982 in current financial year. The loss is mainly due to the initial public offering expenses of \$870,498.

REVIEW OF OPERATIONS

During the year, the Group reviewed its business model and developed a five year business plan which includes the expansion of the Group's distribution channels in China and overseas as well as engaging in online and other forms of marketing campaigns to promote the sales and brand profile of its products. The Group's manufacturing facilities and methodologies were also reviewed by management to ensure efficiency and production of high quality products to meet market's need.

The Group was successfully listed on the Australian Securities Exchange on 5 June 2012. The public listing will enhance the Group's local and international profile and create world recognition of its brand and range of products.

The Group's marketing development during the year included the development and extension of online marketing and sale platforms. In addition, the management has been planning to expand the distribution channels by operating promotional outlets in major cities in China.

The Group's production technology has been secured by the acquisition of a "turned hand-free" patent during the year. The ownership of the patent will ensure the Group's silk fabric products remains soft after being used for many years and therefore professional care service will not be necessary.

In order to ensure consistent raw material supply in high quality, the Group has been in discussion with local governments and authorities regarding investment and establishment of a sericulture farm in China. The sericulture farm will allow the Group to control the entire business process from cultivating silk worms, to manufacturing and distribution.

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STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	2012	2011
	\$	\$
Continuing operations		
Revenue	4,095,606	3,968,183
Cost of Sales	(2,969,828)	(3,358,927)
Gross Profit	1,125,778	609,256
Other Revenue	473,903	8,428
Sales expenses	(294,054)	(200,925)
Administration expenses	(411,672)	(274,673)
Finance costs	(190,100)	(136,807)
Initial public offering expenses	(870,498)	-
Profit / (loss) before income tax	(166,643)	5,279
Income tax revenue / (expense)	41,661	(1,320)
Profit / (loss) for the year	(124,982)	3,959
Other comprehensive income:		
Net gain on revaluation of land use right and buildings	-	2,558,383
Net exchange differences on translation into a different presentation currency	593,524	(955,371)
Other comprehensive income for the year, net of tax	593,524	1,603,012
Total comprehensive income for the year	468,542	1,606,971
Profit / (loss) attributable to members of the entity	(124,982)	3,959
Total comprehensive income attributable to members of the entity	468,542	1,606,971
Continuing and discontinued operations		
Basic earnings / (loss) per share (cents per share)	(0.18)	0.01
Diluted earnings / (loss) per share (cents per share)	(0.18)	0.01
Continuing Operations		
Basic earnings / (loss) per share (cents per share)	(0.18)	0.01
Diluted earnings / (loss) per share (cents per share)	(0.18)	0.01

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Consolidated Group	
	2012	2011
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,653,077	662,269
Trade and other receivables	4,001,020	4,211,189
Inventories	1,426,427	591,652
TOTAL CURRENT ASSETS	7,080,524	5,465,110
NON-CURRENT ASSETS		
Other receivables	38,561	365,000
Property, plant and equipment	6,303,918	5,994,347
Intangible assets	1,502,866	3,271
TOTAL NON-CURRENT ASSETS	7,845,345	6,362,618
TOTAL ASSETS	14,925,869	11,827,728
CURRENT LIABILITIES		
Trade and other payables	2,398,652	649,495
Borrowings	2,756,244	2,336,000
TOTAL CURRENT LIABILITIES	5,154,896	2,985,495
NON-CURRENT LIABILITIES		
Deferred tax liabilities	754,138	739,024
TOTAL NON-CURRENT LIABILITIES	754,138	739,024
TOTAL LIABILITIES	5,909,034	3,724,519
NET ASSETS	9,016,835	8,103,209
EQUITY		
Issued capital	7,062,230	6,617,146
Reserves	2,626,482	2,032,958
Accumulated losses	(671,877)	(546,895)
TOTAL EQUITY	9,016,835	8,103,209

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital \$	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 for the year	-	3,959	-	-	3,959
Other comprehensive income for the year	-	-	2,558,383	(955,371)	1,603,012
Total comprehensive income 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
Balance at 1 July 2011	6,617,146	(546,895)	2,558,383	(525,425)	8,103,209
Comprehensive income					
Loss for the year	-	(124,982)	-	-	(124,982)
Other comprehensive income for the year	-	-	-	593,524	593,524
Total comprehensive income / (loss) for the year	-	(124,982)	-	593,524	468,542
Transactions with owners, in their capacity as owners, and other transfers					
Shares reduction	(1,761,648)	-	-	-	(1,761,648)
Shares issued – initial public offering	1,277,500	-	-	-	1,277,500
Shares issued – patents and trademarks	1,530,000	-	-	-	1,530,000
Initial public offering expenses	(600,768)	-	-	-	(600,768)
Total transactions with owners and other transfers	445,084	-	-	-	445,084
Balance at 30 June 2012	7,062,230	(671,877)	2,558,383	68,099	9,016,835

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 June 2012

	Consolidated Group	
	2012	2011
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	6,465,869	4,318,100
Payments to suppliers and employees	(2,720,510)	(4,361,031)
Interest received	616	625
Interest paid	(117,628)	(119,301)
Net cash provided by (used in) operating activities	3,628,347	(161,607)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(98,335)	(33,113)
Proceeds from disposal of property, plant and equipment	501	-
Loans to related parties – payments made	(2,401,292)	(3,836,473)
Loans to related parties – proceeds from repayments	1,146,498	3,674,461
Net cash used in investing activities	(1,352,628)	(195,125)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,873,034	2,448,000
Repayment of borrowings	(2,732,886)	(1,989,000)
Capital reduction	(1,761,648)	-
Proceeds from shares issued	1,277,500	-
Payments for initial public offering	(1,480,944)	-
Net cash provided by (used in) financing activities	(1,824,944)	459,000
Net increase/(decrease) in cash held	450,775	102,268
Cash and cash equivalents at beginning of financial year	662,269	658,576
Effect of exchange rates on cash holdings in foreign currencies	540,033	(98,575)
Cash and cash equivalents at end of financial year	1,653,077	662,269

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NOTE TO THE FINANCIAL STATEMENTS

The preliminary report has been prepared on an accruals basis and is based on historical costs modified, where appropriate, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The accounting policies applied in this preliminary report are consistent with applicable accounting standards.

Business combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. Business combinations are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Zhejiang Kangbao Household Textiles Co Ltd is identified as acquirer of the business. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rates.

Business combination involving entities under common control is scoped out under AASB 3: Business Combination. AASB provides no guidance on the accounting for these types of transactions; however requires an entity to develop an accounting policy. The two most common methods utilised are the purchase method and the predecessor values method. A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory.

Management have determined the predecessor values method to be most appropriate; and Zhejiang Kangbao Household Textiles Co Ltd is considered the predecessor. The predecessor method requires the financial statements to be prepared using the predecessor book values without any step up to fair value. The difference between any consideration given and the aggregate book value of the assets and liabilities of the acquired entity are recorded as an adjustment to equity. This may be recorded in retained earnings/reserve and no additional goodwill is created by the transaction. The comparatives have been presented as if the transaction took place at the beginning of the earliest comparative period.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

DETAILS OF DIVIDENDS / DISTRIBUTION

No dividends were paid or proposed for the financial year ended 30 June 2012.

DETAILS OF DIVIDENDS / DISTRIBUTION REINVESTMENT PLANS

No dividends / distribution reinvestment plans apply to the financial year ended 30 June 2012.

NET TANGIBLE ASSETS PER SECURITY

	2012	2011
Net tangible assets per security	9.59 cents	9.24 cents

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CHANGES IN CONTROL OVER ENTITIES

During the year, the following entities became subsidiaries of the company:

	Country of incorporation	Ownership	
		2012	2011
Kingform Health Hometextile Pty Ltd	Australia	100%	-
Hong Kong Kang Feng Int'l Group Ltd	Hong Kong	100%	-
Zhejiang Kangbao Household Textiles Co Ltd	China	100%	-

Both Kingform Health Hometextile Group Ltd and Kingform Health Hometextile Pty Ltd were formed specifically for the proposed of listing of the company's securities on the Australian Securities Exchange, while Hong Kong Kang Feng Int'l Group Ltd is the entity that owns 100% of the shares in Zhejiang Kangbao Household Textiles Co Ltd.

Zhejiang Kangbao Household Textiles Co Ltd is the only trading entity of the Consolidated Group.

ASSOCIATES AND JOINT VENTURES

The consolidated group had no associates and joint ventures during the year ended 30 June 2012.

EARNINGS PER SHARE

	2012	2011
Basic earnings / (loss) per share (a)	(0.18) cents	0.01 cents
Diluted earnings / (loss) per share (b)	(0.18) cents	0.01 cents
<u>(a) Basic earnings per share</u>		
Earnings / (loss) used to calculated earnings per share	\$ (124,982)	\$ 3,959
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	70,110,337	87,622,251
<u>(b) Diluted earnings per share</u>		
Earnings used to calculated earnings per share	\$ (124,982)	\$ 3,959
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	70,110,337	87,622,251

Before transferring ownership in Zhejiang Kangbao Household Textiles Co Ltd ("Kangbao") to Kingform Health Hometextile Group Ltd, owners of Kangbao participated in the earnings of Kangbao and any proceeds on winding up of Kangbao in proportion to the percentage of ownership. The comparative figures were calculated based on the assumption that the number of Kangbao's shares on issue during the year 2011 is the same as the number of shares issued by Kingform Health Hometextile Group Ltd to the owners for the transfer of ownership.

SEGMENT RESULTS

The consolidated group operates in one business and geographical segment, being manufacture of home textile products in China.

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STATUS OF AUDIT

The audit of the consolidated group has not been completed and to date there are a number of unresolved items that possibly could result in qualification of the audit report. These items include reconciliation of initial public offering expenses and equity transactions, reconciliation of director's loan balance, audit of other financial information not yet available or incomplete.

It is not possible at this time to quantify the impact of any adjustments to this preliminary financial report or to determine whether any qualification of the audit report will eventuate from these unresolved items.

By the order of the Board

Xikang Jin

Chairman

Dated this 31st day of August 2012