Kingform Health Hometextile Group Limited
ACN 153 801 766
Financial Report for the Year Ended 30 June 2013

CORPORATE GOVERNANCE STATEMENT

Kingform Health Hometextile Group Limited's Corporate Governance Arrangements

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

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

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

Kingform Heath Hometextile Group Limited is listed on the Australian Securities Exchange (ASX). Accordingly, unless stated otherwise in this document, the Board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council (including the 2010 amendments) as well as current standards of best practice for the entire financial year ended 30 June 2013.

Board Composition

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

- Xun Yang
- Paul Desmond Nolan

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

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

A complete listing of the Board's directors for the year ended 30 June 2013, along with their biographical details, is provided in the directors' report.

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

CORPORATE GOVERNANCE STATEMENT

Board Composition (Continued)

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

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

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

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

Ethical Standards

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

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

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

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

Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Group is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent.

CORPORATE GOVERNANCE STATEMENT

Diversity Policy (Continued)

This diversity policy outlines requirements for the Board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. Accordingly, the Board has developed the following objectives regarding gender diversity.

	2013		2014	
	No.	%	No.	%
Women on the Board	-	-	-	-
Women in senior management roles	2	25	2	25
Women employees in the Group	60	71	60	71

Share Ownership and Share Trading Policy

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

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

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

Board Committees

To facilitate achieving its objectives, the Board has established four sub-committees comprising board members; the audit committee, nomination committee, remuneration committee and risk committee. Each of these committees has formal terms of reference that outline the committee's roles and responsibilities, and the authorities delegated to it by the Board.

Audit Committee

The role of the audit committee is to assist the Board in monitoring the processes and controls associated with the financial reporting function that ensure the integrity of the Group's financial statements. Specifically, the audit committee oversees:

- the appointment, independence, performance and remuneration of the external auditor;
- the integrity of the audit process;
- the effectiveness of the internal controls; and
- compliance with applicable regulatory requirements.

The audit committee comprises 2 directors. Paul Desmond Nolan is the independent chairman of the committee and Yang Xun is the member of the committee. They are both non-executive/independent directors. This is consistent with the ASX's Corporate Governance Principles and Recommendations, which requires the Chair of the audit committee is independent and does not hold the position of Chair of the Board.

During this financial year, the company did not arrange audit committee meeting.

Nomination Committee

The role of the nomination committee is to assist the Board in ensuring that the Board comprises directors with a range and mix of attributes appropriate for achieving its objective. The committee assists the Board by:

- reviewing the skills and expertise of directors and identifying potential deficiencies;

CORPORATE GOVERNANCE STATEMENT

Nomination Committee (Continued)

- identifying suitable candidates for the Board, with the assistance of independent recruiting agencies;
- overseeing board and director reviews; and
- establishing succession planning arrangements.

The nomination committee comprises 2 directors. Paul Desmond Nolan is the independent chairman of the committee and Yang Xun is the member of the committee. They are both non-executive/independent directors.

Remuneration Committee

The role of the remuneration committee is to assist the Board in the general application of the remuneration policy. In doing so, the remuneration committee is responsible for:

- developing remuneration policies for directors and KMP, with the assistance of independent external consultants;
- reviewing KMP remuneration packages annually and, based on these reviews, making recommendations to the Board on remuneration levels for KMP; and
- assisting the Chair in reviewing KMP performance biannually and reporting to the Board on KMP performance.

During the year ended 30 June 2013, the remuneration committee comprises 2 directors. Paul Desmond Nolan is the independent chairman of the committee and Yang Xun is the member of the committee. They are both non-executive/independent directors.

The qualifications of the remuneration committee members and their attendance at meetings of the committee are included in the directors' report.

There are no schemes for retirement benefits for directors other than statutory superannuation arrangements for non-executive/independent directors.

Risk Committee

The role of the risk committee is to assist the Board with the identification and management of business operational risks faced by the Group. The risk committee responsibilities include overseeing our risk management systems, practices and procedures.

The Board has received assurance from Mr Xikang Jin (CEO) and Ms Li Chen (CFO) provided in accordance with section 295A of the Act that the financial records are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The risk committee comprises 2 directors and 1 senior executive of the Group. Paul Desmond Nolan is the independent chairman of the committee and Yang Xun is the member of the committee. They are both non-executive/independent directors.

The qualifications of the remuneration committee members and their attendance at meetings of the committee are included in the directors' report.

Weiping Zhu, the Chief Operating Officer, is the senior executive member of the risk committee.

CORPORATE GOVERNANCE STATEMENT

Performance Evaluation

The Board assesses its performance, the performance of individual directors and the performance of its committees annually through a combination of internal peer review and externally facilitated evaluation processes. Directors' individual performances are also evaluated each year against their performance plans, which are reviewed annually. The Board also formally reviews its governance arrangements on a similar basis annually.

Performance evaluations for individual directors, the Board and all of its committees were conducted during the reporting period ending 30 June 2013 in accordance with the above process. Further details regarding the Board's remuneration policy for non-executive/independent directors is provided in the remuneration report.

The performance of KMP is reviewed on a biannual basis by the Chair, with the assistance of the remuneration and finance and operations committees.

The performance of each member of KMP is assessed against their individual performance plans, which comprise target performance indicators. Performance indicators for each KMP are set annually in consultation with KMP. Consideration is also given to the contribution each member of KMP makes to board meetings. Further details regarding the Board's remuneration policy for KMP is provided in the remuneration report.

Performance evaluations for each member of KMP were conducted during the reporting period ending 30 June 2013 in accordance with the process described above.

Board Roles and Responsibilities

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

The Board's responsibilities include:

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

CORPORATE GOVERNANCE STATEMENT

Board Roles and Responsibilities (Continued)

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

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

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

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

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

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

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

Shareholder Rights

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

Risk Management

The Board considers identification and management of key risks associated with the business as vital to creating and delivering long-term shareholder value.

The Board is committed to the identification, monitoring and management of risks associated with our business activities and have established a Risk Committee to have responsibility for identifying and overseeing major risk areas and ensuring that systems are in place to manage them, and report to the Board as and when appropriate. The Risk Management Policy sets out a detailed risk management process, including, review the environment, identify risks and triggers, understand risk exposure, evaluate risk, mitigate risk and review and monitor.

CORPORATE GOVERNANCE STATEMENT

Remuneration Policy

The remuneration policy, which sets the terms and conditions for executive and non-executive directors, and KMP, was developed by the remuneration committee and was approved by the Board. All executives receive a base salary and retirement benefit. The remuneration committee reviews executive packages annually by reference to Group performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of executives is measured against criteria agreed half-yearly which are based on the forecast growth of the Group's profits and shareholders' value. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

The amount of remuneration for all KMP for the Group, including all monetary and non-monetary components, is detailed in the remuneration report under the heading "Details of remuneration". All remuneration paid to executives is valued at the cost to the Group and expensed.

The Board expects that the remuneration structure implemented will result in the Group being able to attract and retain high-calibre executives to manage the Group and its business activities. It will also provide executives with the necessary incentives to work to achieve long-term shareholder value.

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2013.

Principal Activities and Significant Changes in Nature of Activities

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

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

Operating Results

The consolidated operating revenue of Kingform Health Hometextile Group Ltd (the "Group") increased by 21% to $6,026,004 for the financial year compared to $4,981,929 in the previous year.

The consolidated operating profit after income tax of the Group decreased to $104,746 for the financial year compared to $520,776 in the previous year.

Review of Operations

During the year, the Group had 13 newly opened direct retail outlets and expanded its business via an ecommerce platform running an online store. The management has been planning to expand the distribution channels by operating more promotional outlets in major cities in China.

To ensure efficiency and production of high quality products to meet the market's need, the management team reviewed and monitored manufacturing facilities and methodologies employed on a daily basis. The Group's production technology has been secured by the previous acquisition of a "turned hand-free" patent which has contributed to the Group achieving what the Directors' believe to be a competitive advantage in the Groups' products. 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.

The public listing has been beneficial to the company's brand promotion, has enhanced brand awareness, and increased sales volume. The Group is winning more orders due to the expansion and strong marketing. During this year, the Group has built up a supply and marketing relationship with K-mart, which is now one of the Group's key customers in Australia. The Group also supplied its products to other overseas countries and with continued focus on overseas marketing and distribution, is well positioned to further increase brand awareness and sales growth.

Financial Position

The net assets of the Consolidated Group have increased by $415,721 from the prior year to $9,791,422 in 2013. This increase is largely due to the increase of Inventory $2,144,324.

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

Significant Changes in State of Affairs

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

Dividends Paid or Recommended

No dividends were paid or declared during the financial year.

DIRECTORS' REPORT

Events after the Reporting Period

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

Future Developments, Prospects and Business Strategies

To further improve the Consolidated Group's profit and maximise shareholder wealth, the following developments are intended for implementation in the near future:

i. Continually improve and maintain the e-commerce platform to boost direct sales and further integrate value added activities into the whole business process;
ii. Establish more promotional outlets in major metropolitan centres or capital cities in various provinces in China;
iii. Establish employee education and incentive training programs to develop employee skills and abilities and to increase productivity; and
iv. Investing in branding and market campaigns, to increase and strengthen brand awareness through traditional mass media and internet.

These developments, together with the current strategy of continuous improvement and adherence to quality control in existing markets, are expected to assist in the achievement of the Consolidated Group's long-term goals and development of new business opportunities. Due to the present uncertainty in world markets, it is not possible at this stage to predict future results of these operations.

Environmental Issues

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

Information on the Directors

Xikang Jin	• Executive Director • Chief Executive Officer
Qualifications	• Bachelor of Management in Tongxiang Zhongyang Dang School
Experience	• More than twenty years' experience in the textile industry • Founder of Zhejiang Kangbao Hometextile Co. Ltd and is the president of Kangbao • Member of the China Hometextile Association, the China Textile Association, and a member of Tongxiang People's Congress • Patent inventor of "turned hand-free" silk manufacturing method
Interest in Shares and Options	• 39,900,525 ordinary shares in Kingform Health Hometextile Group Limited.
Special Responsibilities	• Chief Executive Officer
Directorships held in other listed entities during the three years prior to the current year	• Nil

DIRECTORS' REPORT

Information on the Directors (Continued)

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

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

Company Secretary

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

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

DIRECTORS' REPORT

Meetings of Directors

During this financial year, one formal director meeting was held by the board. The following directors attended the meeting:

- Xun Yang
- Paul Desmond Nolan
- Xikang Jin

Indemnifying Officers or Auditor

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

Options

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

Proceedings on Behalf of Company

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

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

Non-audit Services

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on the Page 14 of the financial report.

REMUNERATION REPORT

Directors and Senior Management

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

Xikang Jin	Chairman of the Board, Chief Executive Officer
Xun Yang	Independent director
	Company Secretary (appointed on 5 September 2012)
Paul Desmond Nolan	Independent director
Thomas Rowe	Company Secretary (resigned on 5 September 2012)

Engagement of Remuneration Consultants

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

Principles used to determine the nature and amount of remuneration

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

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

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

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

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

Terms of service

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

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

REMUNERATION REPORT

Details of remuneration

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

2013	**Short-term Benefits**			**Post-employment Benefits**	**Long-term Benefits**	**Total**
Name	Salary, Fees and Leave **$**	Cash bonus **$**	Non-monetary benefits **$**	Super-annuation or retirement benefits **$**	Housing Fund, Medical, Unemployment Insurance **$**	**$**
Xikang Jin	12,742	-	-	2,500	148	15,390
Xun Yang	5,000	-	-	-	-	5,000
Paul Desmond Nolan	5,000	-	-	-	-	5,000
Thomas Rowe *	-	-	-	-	-	-
Total	22,742	-	-	2,500	148	25,390

2012	**Short-term Benefits**			**Post-employment Benefits**	**Long-term Benefits**	**Total**
Name	Salary, Fees and Leave **$**	Cash bonus **$**	Non-monetary benefits **$**	Super-annuation or retirement benefits **$**	Housing Fund, Medical, Unemployment Insurance **$**	**$**
Xikang Jin	10,558	-	-	699	1,584	12,841
Xun Yang	5,000	-	-	-	-	5,000
Paul Desmond Nolan	5,000	-	-	-	-	5,000
Thomas Rowe *	25,000	-	-	-	-	25,000
Total	45,558	-	-	699	1,584	47,841

* resigned as Company Secretary on 5 September 2012.

REMUNERATION REPORT

Securities Received that Are Not Performance Related

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

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

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

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

Xikang Jin, Director

30th September 2013

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AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF KINGFORM HEALTH HOMETEXTILE GROUP LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 there have been:

a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Advantage Advisors

James Ridley

ADVANTAGE ADVISORS AUDIT PTY LTD
CHARTERED ACCOUNTANTS

JAMES RIDLEY
DIRECTOR

Dated in Melbourne on this 30th day of September 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013	2012
		$	**$**
Revenue	2	5,972,942	4,381,834
Cost of Sales		(4,491,068)	(3,124,387)
Gross Profit		1,481,874	1,257,447
Other Income	2	53,062	600,095
Administration Expenses		(749,685)	(565,084)
IPO Costs		-	(76,159)
Sales Expenses		(385,703)	(302,272)
Results from Operating Activities		399,548	914,027
Finance Expenses		(231,834)	(173,092)
Profit before Income Tax	3	167,714	740,935
Income Tax Expense	4	(62,968)	(220,159)
Profit for the Year		104,746	520,776
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss:			
Exchange Differences on Translating Foreign Operations		310,975	641,806
Other Comprehensive Income		310,975	641,806
Total Comprehensive Income for the year		415,721	1,162,582
Profit for the year attributable to :			
Owners of the Company		104,746	520,776
Non-Controlling Interest		-	-
Total Comprehensive Income attributable to:			
Owners of the Company		415,721	1,162,582
Non-Controlling Interest		-	-
Earnings Per Share:			
Basic Earnings per share(cents)	7	0.13	0.74
Diluted Earnings per share(cents)	7	0.13	0.74

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013	2012
		$	**$**
CURRENT ASSETS			
Cash and Cash Equivalents	8	868,903	1,636,601
Trade and Other Receivables	9	3,088,708	3,240,888
Inventories	10	3,230,846	1,086,522
TOTAL CURRENTS ASSETS		**7,188,457**	**5,964,011**
NON-CURRENT ASSETS			
Property, Plant & Equipment	12	6,324,206	6,349,073
Intangible Assets	13	1,451,409	1,503,650
TOTAL NON-CURRENTS ASSETS		**7,775,615**	**7,852,723**
TOTAL ASSETS		**14,964,072**	**13,816,734**
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	14	1,064,186	751,055
Current Tax Liability	16	1,046	36,685
Borrowings	15	3,066,893	2,727,811
TOTAL CURRENT LIABILITIES		**4,132,125**	**3,515,551**
NON-CURRENT LIABILITIES			
Deferred Tax Liabilities	16	1,040,525	925,482
TOTAL NON-CURRENT LIABILITIES		**1,040,525**	**925,482**
TOTAL LIABILITIES		**5,172,650**	**4,441,033**
NET ASSETS		**9,791,422**	**9,375,701**
EQUITY			
Issued Capital	17	6,727,056	6,727,056
Reserves	23	2,985,739	2,674,764
Retained Earnings/(Accumulated losses)		78,627	(26,119)
TOTAL EQUITY		**9,791,422**	**9,375,701**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Issued Capital	Accumulated Losses	Revaluation Surplus	Foreign Currency Translation reserve	Total
Balance at 1 July 2011	6,617,146	(546,895)	2,558,383	(525,425)	8,103,209
	-	-	-	-	
Profit for the year	-	520,776	-	-	520,776
Other Comprehensive Income for the year	-	-	-	641,806	641,806
Total Comprehensive Income for year	-	520,776	-	641,806	1,162,582
Share Reduction	(1,761,648)	-	-	-	(1,761,648)
Shares Issued - Initial Public offering	1,278,425	-	-	-	1,278,425
Shares Issued - patent and trademarks	1,530,000	-	-	-	1,530,000
Initial Public Offering Expense	(936,867)	-	-	-	(936,867)
Transactions with owners and other transfers	109,910	-	-	-	109,910
Balance at 30 June 2012	6,727,056	(26,119)	2,558,383	116,381	9,375,701
Profit for the year	-	104,746	-	-	104,746
Other Comprehensive Income for the year	-	-	-	310,975	310,975
Transactions with owners and other transfers	-	-	-	-	-
Total Comprehensive Income for year		104,746	-	310,975	415,721
Share Reduction	-	-	-	-	-
Shares Issued - Initial Public offering	-	-	-	-	-
Shares Issued - patent and trademarks	-	-	-	-	-
Initial Public Offering Expense	-	-	-	-	-
Transactions with owners and other transfers	-	-	-	-	-
Balance at 30 June 2013	6,727,056	78,627	2,558,383	427,356	9,791,422

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013	2012
Cash Flows from Operating Activities		**$**	**$**
Receipts from customers		5,711,831	3,194,836
Payment to suppliers and employees		(6,831,460)	(4,024,789)
Grants received		-	477,784
Interest received		9,096	5,024
Interest paid		(231,834)	(175,592)
Income tax paid		(98,607)	(55,023)
Net cash used in operating activities	20	(1,440,974)	(577,760)
Cash Flows from Investing Activities			
Purchase of property , plant and equipment		(209,404)	(153,785)
Proceeds from disposal of property, plant and equipment		-	7,104
Net cash used in investing activities		(209,404)	(146,681)
Cash Flows from Financing Activities			
Proceeds from borrowings		3,066,893	2,727,811
Repayment of borrowings		(2,727,811)	(2,336,000)
Capital reduction		-	(1,761,648)
Proceeds from shares issued		-	1,278,425
Payments for initial public offering		-	(881,928)
Loans to related parties - payments made		(88,065)	(1,532,386)
Loans to related parties - proceeds from repayments		579,672	4,152,054
Loans from related party – proceeds from borrowings		983,158	-
Loans from related party – repayment of borrowings		(983,158)	-
Net cash provided by financing activities		830,689	1,646,328
Net (decrease)/increase in cash held		(849,924)	921,887
Cash and cash equivalents at beginning of financial year		1,636,601	662,269
Effect of exchange rate on cash holdings in foreign currencies		82,226	52,445
Cash and cash equivalents at end of financial year	8	868,903	1,636,601

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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

The consolidated group includes:
Kingform Health Hometextile Group Limited (ACN 153 801 766);
Kingform Health Hometextile Pty Limited (ACN 151 709 027);
Hong Kong Keng 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 Limited (registered on 24 June 2011) have been formed specifically for the listing of the Company's securities on the Australian Stock Exchange, while Hong Kong Keng 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 acquisition by Kingform Health Hometextile Group Limited of its legal subsidiaries was accounted for as a capital transaction of the legal acquiree. Accordingly, the consolidated financial statements of Kingform Health Hometextile Group Limited have been prepared as a continuation of the consolidated financial statements of Zhejiang Kangbao Household Textiles Limited Co.

The financial statements were authorised for issue on 30th September 2013 by the directors of the company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

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

Basis of Preparation

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

Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Kingform Heath Hometextile Group Limited at the end of the reporting period. A controlled entity is any entity over which Kingform Heath Hometextile Group Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 11 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

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. Zhejing Kangbao Household Textiles Co Ltd is identified as the 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 3 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 profit or loss and other comprehensive income.

Income Tax

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

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

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

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

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

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

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

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

Inventories

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

Property, Plant and Equipment

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

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 directors conduct directors' valuations to ensure the land use right and buildings' carrying amount is not materially different to the fair value.

Increases in the carrying amount arising on revaluation of 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 revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

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

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

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

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

Depreciation

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

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

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

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

Class of Fixed Asset	Depreciation Rate
Land use rights and buildings	2% - 8.5%
Plant and equipment	9%
Electronic equipment & motor vehicles	18%

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

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

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.

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

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

Financial assets are classified as "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 amount 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. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification and subsequent measurement (Continued)

(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 Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) Available-for-sale investments

Available-for-sale investments 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 any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. 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.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(v) Financial liabilities

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

Impairment

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

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (Continued)

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

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

Derecognition

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

Impairment of Assets

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Assets (Continued)

Trademarks and Patent

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

Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transactions and balances

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

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

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

Group Companies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Benefits

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

Provisions

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

Cash and Cash Equivalents

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

Revenue and Other Income

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

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

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

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

Trade and Other Receivables

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

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

Trade and Other Payables

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Operating leases

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

Comparative Figures

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

Critical Accounting Estimates and Judgments

The directors evaluate estimates and 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 Group.

Key Estimates – Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the cash generating unit is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Refer Note 13 for key estimates used in the assessment of intangible assets.

Key judgement

Provision for impairment of receivables

Included in trade receivables at the end of the reporting period is an amount receivable from sales made to a customer in 2006 amounting to $36,803. After all efforts taken to collect the money, the directors believe to recover the amount is unlikely and therefore a provision for impairment has been made.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New and Revised Accounting Standards

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

Amendments to AASB 101 'Presentation of Financial Statements'	The amendment (part of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income' introduces new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (January 2015) and the relevant amending standards (applicable for annual reporting periods commencing on or after 30 June 2016).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards for Application in Future Periods (Continued)

- 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 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127 (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The association has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the company.

• AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

• AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards for Application in Future Periods (Continued)

AASB 119 (September 2011) also includes changes to:

- require only those benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service to be classified as short-term employee benefits. All other employee benefits are to be classified as either other long-term employee benefits, post-employment benefits or termination benefits, as appropriate; and

- the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

  (i) where for an offer that may be withdrawn – when the employee accepts;

  (ii) where for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

  (vi) where the termination is associated with a restructuring of activities under AASB 137 and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 2: REVENUE AND OTHER INCOME

a: Revenue and other income from continuing operations

		2013 $	2012 $
Operating activities			
Sales Revenues			
Sale of goods		5,972,942	4,381,834
Interest income		53,062	121,100
Government grants		-	477,784
Gain on disposal of property, plant and equipment		-	506
Other		-	705
Total revenue and other income		6,026,004	4,981,929

NOTE 3: PROFIT FOR THE YEAR

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

		2013 $	2012 $
Interest expense on financial liabilities not at fair value through profit or loss:			
– other persons		9,096	175,592
Salary and wages		576,011	363,743
Employee benefits expense:			
– contribution to defined contribution superannuation funds and other retirement benefits		24,985	16,665
– contributions to medical insurance		16,030	6,911
– contributions to housing fund		25,191	4,431
– contributions to unemployment insurance		3,435	2,214
Depreciation		214,190	198,600
Amortisation		49,913	58,617
Foreign currency translation losses/ (gains)		(12,712)	(9,826)

NOTE 4: INCOME TAX EXPENSE

The components of tax expense comprise:

		2013 $	2012 $
Current tax		(52,075)	91,708
Deferred tax	16	115,043	128,451
		62 968	220,159

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 4: INCOME TAX EXPENSE (CONTINUED)

	Consolidated Group 2013 $	2012 $
The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 25% (2012: 25%)		
– consolidated group	41,928	185,234
Add: deferred tax assets not recognised	26,558	27,545
other	(5,518)	7,380
Income tax attributable to entity	62,968	220,159
The applicable weighted average effective tax rates are:	37%	28%

The increase in the weighted average effective consolidated tax rate for 2012 is a result of the deferred tax assets not recognised for the tax losses incurred in the parent entity.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2013.
The totals of remuneration paid to KMP of the Group during the year are as follows:

Short-term employee benefits	22,742	45,558
Post-employment benefits	2,500	699
Other long-term benefits	148	1,584
Total KMP compensation	25,390	47,841

KMP Options and Rights Holdings

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

KMP Shareholdings

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

	Balance at Beginning of Year	Shares reduction	Other changes during the year	Shares issued in exchange for patent and trademarks	Initial Public Offering	Balance at End of Year
30 June 2013						
Xikang Jin	39,780,525	-	-	-	-	39,780,525
30 June 2012						
Xikang Jin	62,649,910	(16,678,956)	(13,823,434)	7,633,005	-	39,780,525

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP (including loans), refer to Note 19: Related Party Transactions.

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group	
	2013	2012
	$	$
Remuneration of the auditor for:		
– auditing or reviewing the financial statements by current auditor	45,000	-
– auditing or reviewing the financial statements by previous auditor	-	83,570
– taxation services	-	3,150
Remuneration of other auditor for:		
– auditing or reviewing the financial statements	-	1,678
	45,000	88,398

The auditor of the Group is Advantage Advisors Audit Pty Ltd (2012: MDHC Audit Assurance Pty Ltd)

NOTE 7: EARNINGS PER SHARE

a. Reconciliation of earnings to profit or loss:

	2013	2012
Profit	104,746	520,776
Profit attributable to non-controlling equity interest	-	-
Redeemable and converting preference share dividends	-	-
Earnings used to calculate basic EPS	104,746	520,776
Dividends on converting preference shares	-	-
Earnings used in the calculation of dilutive EPS	104,746	520,776

	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	78,315,545	70,110,337
Weighted average number of dilutive options outstanding	-	-
Weighted average number of dilutive converting preference shares on issue	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	78,315,545	70,110,337

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 8: CASH AND CASH EQUIVALENTS

	Note	Consolidated Group 2013 $	2012 $
Cash on hand		724	889
Cash at bank		868,179	1,635,712
		868,903	1,636,601

The effective interest rate on short-term bank deposits was 0.73% (2012: 0.31%)
a. includes deposit held for security nit (2012: nil)

Reconciliation of cash

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

	Note	2013 $	2012 $
Cash and cash equivalents		724	889
Short-term bank deposits	22a	868,179	1,635,712
		868,903	1,636,601

NOTE 9: TRADE AND OTHER RECEIVABLES

	2013 $	2012 $
CURRENT		
Trade receivables – related parties	175,944	147,108
Trade receivables – other persons	905,552	1,219,438
Payment in advance	-	381,696
Provision for impairment	(36,803)	(32,734)
	1,044,693	1,715,508
Other receivables	722,397	144,719
Prepayment	354,248	-
Amounts receivable from director	73,255	557,220
Amounts receivable from related parties	894,115	823,441
	2,044,015	1,525,380
Total current trade and other receivables	3,088,708	3,240,888

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 9: TRADE AND OTHER RECEIVABLES (CONTINUED)

a. Provision for Impairment of Receivables

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

	Opening Balance	Net exchange differences on translation into a different presentation currency	Closing Balance
	$	$	$
	1 Jul 2012		**30 Jun 2013**
Consolidated Group			
Current trade receivables	32,734	4,069	36,803
	1 Jul 2011		**30 Jun 2012**
Consolidated Group			
Current trade receivables	30,660	2,074	32,734

b. Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned with Note 9. The class of assets described as “trade and other receivables” is considered to be the main source of credit risk related to the Group.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 9: TRADE AND OTHER RECEIVABLES (CONTINUED)

b. Credit risk (Continued)

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	
	$	$	$	$	$	$	$
2013							
Trade receivables	1,044,693	36,803	-	-	-	-	1,007,890
Payment in advance	-	-	-	-	-	-	-
Other receivables	1,689,765	-	-	-	-	807,101	882,664
Total	2,734,458	36,803	-	-	-	807,101	1,890,554
2012							
Trade receivables	1,366,546	32,734	-	-	-	-	1,333,812
Payment in advance	381,696	-	-	-	-	-	381,696
Other receivables	1,525,380	-	77,937	-	77,938	-	1,369,505
Total	3,273,622	32,734	77,937	-	77,938	-	3,085,013

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

c. Collateral Held as Security

No collateral is held over trade and other receivables.

d. Financial Assets Classified as Loans and Receivables

	Note	Consolidated Group 2013	2012
Trade and other receivables:		$	$
– total current		2,734,458	3,240,888
– total non-current		-	-
Less: VAT/GST refundable and others		(27,609)	(48,580)
	22	2,706,849	3,192,308

NOTE 10: INVENTORIES

	Note	Consolidated Group 2013	2012
		$	$
CURRENT			
At cost:			
Raw materials and stores		2,174,212	909,576
Finished goods		1,056,634	176,946
		3,230,846	1,086,522

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 11: CONTROLLED ENTITIES

Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2013	**2012**
Subsidiaries of Kingform Health Hometextile Group Ltd:			
Kingform Health Hometextile Pty Ltd	Australia	100	100
Hong Kong Kang Feng Int'l Group Ltd	Hong Kong	100	100
Zhejiang Kangbao Household Textiles Ltd Co.	P.R. China	100	100

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

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

LAND AND BUILDINGS			
Land use right and buildings at:			
Independent valuation 2012	a(i)	6,156,239	6,139,365
At cost		-	33,266
Accumulated depreciation		(286,064)	(131,863)
Total land and buildings		5,870,175	6,040,768
PLANT AND EQUIPMENT			
Plant and equipment:			
At cost		512,765	403,630
Accumulated depreciation		(218,348)	(184,386)
		294,417	219,244
Electronic equipment			
At cost		299,419	202,839
Accumulated depreciation		(139,805)	(113,778)
		159,614	89,061
Total plant and equipment		454,031	308,305
Total property, plant and equipment		6,324,206	6,349,073

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a. **Movements in Carrying Amounts**

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

	Land Use Right and Buildings $	Plant and Equipment $	Electronic Equipment and Motor Vehicles $	Total $
Consolidated Group:				
Balance at 1 July 2011	5,750,426	188,958	54,963	5,994,347
Additions	33,266	63,325	57,194	153,785
Revaluation increments	-	-	(6,092)	(6,092)
Depreciation expense	(131,863)	(45,354)	(21,383)	(198,600)
Net exchange differences on translation into a different presentation currency	388,939	12,315	4,379	405,633
Balance at 30 June 2012	6,040,768	219,244	89,061	6,349,073
Reclassification	-	(11,131)	11,131	-
Additions	-	120,286	89,118	209,404
Disposals	-	-	(2,433)	(2,433)
Depreciation expense	(154,201)	(33,962)	(26,027)	(214,190)
Net exchange differences on translation into a different presentation currency	(16,392)	(20)	(1,236)	(17,648)
Balance at 30 June 2013	5,870,175	294,417	159,614	6,324,206

(i) The Group's land use right and buildings were revalued at 30 June 2011 by Shanghai Zhonghua Assets Appraisal Co., Ltd, an independent valuer registered in China. Valuations were made on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to a revaluation surplus in shareholder's equity.

NOTE 13: INTANGIBLE ASSETS

Trademarks and Patent		
Cost	1,558,750	1,558,750
Accumulated amortisation and impairment losses	(107,341)	(57,428)
Net carrying amount	1,451,409	1,501,322
Software		
Cost	-	3,881
Accumulated amortisation and impairment losses	-	(1,553)
Net carrying amount	-	2,328
Total intangibles	1,451,409	1,503,650

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 13: INTANGIBLE ASSETS (CONTINUED)

a. Movements in Carrying Amounts

	Trademarks & patent $	Software $
Consolidated Group:		
Year ended 30 June 2012		
Balance at the beginning of the year	-	3,271
Additions	1,558,750	-
Amortisation and impairment charge for the year	(57,428)	(1,189)
Net exchange differences on translation into a different presentation currency	-	246
Closing value at 30 June 2012	1,501,322	2,328
Year ended 30 June 2013		
Balance at the beginning of the year	1,501,322	2,328
Additions	-	-
Amortisation and impairment charge for the year	(49,913)	-
Written off for the year	-	(2,328)
Closing value at 30 June 2013	1,451,409	-

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

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

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

The cost of the acquisition of the patent and trademarks was settled by the issue of 7,633,005 shares to the director on 2 April 2012. Refer to Note 17(a).

Impairment Disclosures
Intangible assets have been allocated to the manufacturing segment's cash generating unit (CGU) for impairment testing. The recoverable amount of the CGU is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period adjusted for the estimated terminal value of the cash generating unit. The cash flows are discounted using a rate reflecting the Group's weighted average cost of capital plus an appropriate margin for risk factors at the beginning of the budget period. All discount rates are pre-tax.

Budgets using a weighted average growth rate to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the periods which are consistent with the inflation rate applicable to the location in which the business operates.

The following assumptions were used in the value-in-use calculations:

Growth Rate	5%
Discount Rate	25%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 14: TRADE AND OTHER PAYABLES

	Note	Consolidated Group 2013 $	2012 $
CURRENT			
Unsecured liabilities:			
Trade payables		399,802	313,319
Bills payables		277,688	31,175
Receipt in advance		162,826	90,773
Other payables		223,870	315,788
	14a	1,064,186	751,055

	Note	Consolidated Group 2013 $	2012 $
a. **Financial liabilities at amortised cost classified as trade and other payables**			
Trade and other payables:			
– total current		1,064,186	751,055
– total non-current		-	-
Financial liabilities as trade and other payables	22	1,064,186	751,055

NOTE 15: BORROWINGS

	Note	Consolidated Group 2013 $	2012 $
CURRENT			
Secured liabilities:			
Bank loans	15a, 22	3,066,893	2,727,811
a. The carrying amounts of non-current assets pledged as security are:			
First mortgage:			
– Property		5,870,175	6,040,768

NOTE 16: TAX

		2013	2012
CURRENT			
Income tax payable		1,046	36,685

Kangbao is entitled to a “two-years-free and three-year-half” income tax holiday. The tax rate applicable to 2013 is 25% (2012: 12.5%). The statutory tax rate is 25%.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 16: TAX (CONTINUED)

Deferred tax assets / (liabilities)	Opening Balance	Charged to Income	Charged Directly to Equity	Exchange Differences	Closing Balance
	$	$	$	$	$
Consolidated Group					
Future income tax benefits attributable to tax losses	113,770	(128,451)	-	(327)	(15,008)
Net gain on revaluation of land use rights and buildings	(852,794)	-	-	(57,680)	(910,474)
Balance at 30 June 2012	(739,024)	(128,451)	-	(58,007)	(925,482)
Future income tax benefits attributable to tax losses	(15,008)	-	-	-	(15,008)
Net gain on revaluation of land use rights and buildings	(910,474)	-	-	(115,043)	(1,025,517)
Balance at 30 June 2013	(925,482)	-	-	(115,043)	(1,040,525)

	Consolidated Group 2013	2012
	$	$
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:	216,415	110,180

NOTE 17: ISSUED CAPITAL

	Consolidated Group 2013	2012
	$	$
78,315,545 (2012: 78,315,545) fully paid ordinary shares	6,727,056	6,727,056
	6,727,056	6,727,056

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

a. **Ordinary Shares**	No.	No.
At the beginning of the reporting period:	78,315,545	87,622,251
Capital Reduction on 19 August 2011	-	(23,327,211)
Shares issued during the year		
- 2 April 2012	-	7,633,005
-14 May 2012	-	6,387,500
At the end of the reporting period	78,315,545	78,315,545

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 17: ISSUED CAPITAL (CONTINUED)

b. Capital Management

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

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

China Agriculture Bank Tong Xiang Sub-branch, set out the lending covenants for Kangbao as follows:
- Ratio of total liabilities/total assets<70%
- Ratio of total contingent liabilities/total equity<100%
- Not have negative cash flows from operating activities in consecutive 2 years

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratios for the years ended 30 June 2013 and 30 June 2012 are as follows:

		Consolidated Group	
		2013	**2012**
		$	**$**
Total borrowings	15	3,066,893	2,727,811
Trade and other payables	14	1,064,186	751,055
Less cash and cash equivalents	8	(868,903)	(1,636,601)
Net debt		3,262,176	1,842,265
Total equity		9,791,422	9,375,701
Total capital		13,053,598	11,217,966
Gearing ratio		25%	16%

NOTE 18: OPERATING SEGMENTS

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

NOTE 19: RELATED PARTY TRANSACTIONS

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

i. Entities exercising control over the Group:

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 19: RELATED PARTY TRANSACTIONS (CONTINUED)

ii. Key management personnel:

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

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

iii. Entities subject to significant influence by the Group:

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

iv. Other related parties:

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

b. Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	Consolidated Group	
	2013	**2012**
	$	**$**
i. Key management personnel:		
Interest revenue:		
Interest received from directors		
– Xikang Jin	-	44,152
ii. Other related parties:		
Sale of goods and services		
– Sales to Geelong Home Textiles Pty Ltd, a company controlled by Paul Desmond Nolan, a director	121,840	514,756
– Sales to Advancetex Agencies, a company controlled by Xun Yang, a director	-	58,026

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 19: RELATED PARTY TRANSACTIONS (CONTINUED)

c. Amount outstanding from related parties:

Trade and other receivables:

Unsecured loans are made to the ultimate parent entity, subsidiaries, directors and other related parties on an arm's length basis. Repayments are expected within 12 months. Intragroup loans are interest free; loans to directors and other related parties are charged interest at 6% (2012: 7.8%).

	Consolidated Group	
	2013	**2012**
	$	**$**
i. *Loans to key management personnel:*		
- Jin Xikang, director		
Beginning of the year	557,220	2,452,800
Loans advanced	73,255	1,532,386
Loans repayment received	(544,763)	(3,604,661)
Interest charged	-	44,152
Net exchange differences on translation into a different presentation currency	(12,457)	132,543
End of the year	73,255	557,220

No formal loan agreements are in place.

In May 2012, pursuant to an agreement between Mr Xikang Jin, the director, and 5G Investment Management Co. Ltd ("5G"), the Group's IPO Consultant, Mr Xikang Jin transferred 21.5% of his shares in Kangbao to 5G who paid on behalf of the Group part of the IPO costs. These IPO costs, amounting to $534,241 were subsequently recharged to the Group and treated as a repayment from Mr Xikang Jin of his borrowing from the Group.

On 30 November 2012, Mr Xikang Jin deposited RMB 3,574,788.35 (equivalent to AU$ 544,763 at the date of exchange at 30 November 2012) to Kangbao's bank account to repay his loan.

In June 2013, a further amount of RMB418,000 equating to $73,255 was borrowed by Mr Xikang Jin.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 19: RELATED PARTY TRANSACTIONS (CONTINUED)

c. Amount outstanding from related parties: (Continued)

	2013 $	2012 $
ii. *Trade receivable from other related parties outstanding at year end date:*		
Geelong Home Textiles Pty Ltd, a company controlled by Paul Desmond Nolan, a director	175,944	150,567
Advancetex Agencies, a company controlled by Xun Yang, a director	-	(3,459)
iii. *Loans to KMP and other related parties:*		
– *Pan Jianwen*		
Beginning of the year	2,857	129,940
Loans from related party	(983,158)	-
Repayment to related party	983,158	-
Loans repayment received	(2,857)	(135,704)
Interest charged	-	2,795
Net exchange differences on translation into a different presentation currency	-	5,826
End of the year	-	2,857
– *Tongxiang Kangkang Household Textiles Co., Ltd*		
Beginning of the year	309,277	439,606
Loans advanced	14,810	-
Loans repayment received	(32,052)	(182,971)
Interest charged	15,905	26,399
Net exchange differences on translation into a different presentation currency	32,361	26,243
End of the year	340,301	309,277
– *Pan Jianxing*		
Beginning of the year	511,307	657,000
Loans advanced	-	-
Loans repayment received	-	(228,714)
Interest charged	28,061	42,729
Net exchange differences on translation into a different presentation currency	14,446	40,292
End of the year	553,814	511,307

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 20: CASH FLOW INFORMATION

	2013 $	2012 $
Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after income tax	104,746	520,776
Non-cash flows in profit:		
– amortisation	49,913	58,617
– depreciation	214,190	198,600
– gain on sale of fixed assets	2,433	(506)
– initial public offering expenses	-	76,159
– Interest income from related party loans	(53,062)	(116,076)
– foreign currency translation movement	1,438	7,326
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
– increase in trade and term receivables	152,180	(963,384)
– increase in inventories	(2,144,324)	(494,870)
– decrease in trade payables and other payables	152,108	(29,538)
– increase in current tax liabilities	(35,639)	36,685
– increase in deferred tax liabilities	115,043	128,451
Cash flow from operations	(1,440,974)	(577,760)

NOTE 21: EVENTS AFTER THE REPORTING PERIOD

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

NOTE 22: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and bank loans.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 22: FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Note	Consolidated Group	
		2013	**2012**
		$	**$**
Financial assets			
Cash and cash equivalents	8	868,903	1,636,601
Trade and other receivables	9	2,706,849	3,192,308
Total financial assets		3,575,752	4,828,909
Financial liabilities			
Financial liabilities at amortised cost:			
– trade and other payables	14	1,064,186	751,055
– borrowings	15	3,066,893	2,727,811
Total financial liabilities		4,131,079	3,478,866

Financial Risk Management Policies

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

The main purpose of non-derivative financial instruments is to raise finance for the Group operations. The Group does not have any derivative instruments at 30 June 2013.

Specific Financial Risk Exposures and Management

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

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.
Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness.
Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating.

Credit risk exposures

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

The Group has no significant concentrations of credit risk with any single counterparty or group of counterparties except for the loans to the director and other related parties. Details with respect to credit risk of trade and other receivables are provided in Note 9.
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 9.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 22: FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Note	Consolidated Group 2013	Consolidated Group 2012
Cash in bank:			
– AAA rated		868,179	1,632,138
– AA rated			3,574
	8	868,179	1,635,712

b. Liquidity risk

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

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

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

Financial liability and financial asset maturity analysis

Consolidated Group	Within 1 Year 2013 $	Within 1 Year 2012 $	1 to 5 Years 2013 $	1 to 5 Years 2012 $	Over 5 Years 2013 $	Over 5 Years 2012 $	Total 2013 $	Total 2012 $
Financial liabilities due for payment								
Bank loans	3,066,893	2,727,811	-	-	-	-	3,066,893	2,727,811
Trade and other payables	1,064,186	751,055	-	-	-	-	1,064,186	751,055
Total expected outflows	4,131,079	3,478,866	-	-	-	-	4,131,079	3,478,866
Financial assets – cash flows realisable								
Cash and cash equivalents	868,903	1,636,601	-	-	-	-	868,903	1,636,601
Trade, term and loan receivables	2,706,849	3,192,308	-	-	-	-	2,706,849	3,192,308
Total anticipated inflows	3,575,752	4,828,909	-	-	-	-	3,575,752	4,828,909
Net inflow on financial instruments	(555,327)	1,350,043	-	-	-	-	(555,327)	1,350,043

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 22: FINANCIAL RISK MANAGEMENT (CONTINUED)

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. The Group is also exposed to earnings volatility on floating rate instruments.

Sensitivity analysis

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

	Consolidated Group	
	Profit	**Equity**
Year ended 30 June 2013	**$**	**$**
+/-1% in interest rates	-/+ 21,987	-/+ 21,987
Year ended 30 June 2012		
+/-1% in interest rates	-/+ 10,913	-/+ 10,913

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

Fair Values

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 22: FINANCIAL RISK MANAGEMENT (CONTINUED)

FAIR VALUES (CONTINUED)

		2013		2012	
Consolidated Group	**Note**	**Carrying Amount $**	**Fair Value $**	**Carrying Amount $**	**Fair Value $**
Financial assets					
Cash and cash equivalents	(i)	868,903	868,903	1,636,601	1,636,601
Trade and other receivables	(i)	1,739,479	1,739,479	1,811,647	1,811,647
Loans and advances – related parties	(ii)	967,370	967,370	1,380,661	1,380,661
Total financial assets		3,575,752	3,575,752	4,828,909	4,828,909
Financial liabilities					
Trade and other payables	(i)	1,044,187	1,044,187	751,055	751,055
Bank loans	(i)	3,066,893	3,066,893	2,727,811	2,727,811
Total financial liabilities		4,111,080	4,111,080	3,478,866	3,478,866

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

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

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

NOTE 23: RESERVES

a. Foreign Currency Translation Reserve

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

b. Revaluation Surplus

The revaluation surplus records revaluations of non-current assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 24: PARENT INFORMATION

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

	2013 $	2012 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	2,407,073	2,427,161
TOTAL ASSETS	2,407,073	2,427,161
LIABILITIES		
Current liabilities	577,739	665,783
TOTAL LIABILITIES	577,739	665,783
EQUITY		
Issued capital	1,871,558	1,871,558
Accumulated losses	(42,224)	(110,180)
TOTAL EQUITY	1,829,334	1,761,378
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Total losses	(106,235)	(110,180)
Total comprehensive losses	(106,235)	(110,180)

NOTE 25: CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 June 2013 (30 June 2012: nil).

NOTE 26: COMPANY DETAILS

The registered office of the company is:

Kingform Heath Hometextile Group Limited
C/- AFS Capital Securities Ltd
Level 8 , 303 Collins Street
Melbourne, Victoria Australia

The principal place of business is:

Zhejiang Kangbao Household Textiles Limited Co.
180 Guang'An Road
3rd Part Economic Development Zone
Tong Xiang, Zhejiang, P.R.China

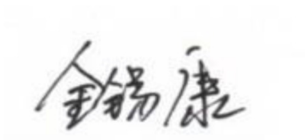
DIRECTORS' DECLARATION

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

1. the financial statements and notes, as set out on pages 15 to 53, are in accordance with the *Corporations Act 2001* and:
   a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
   b. give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the consolidated group;

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

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



Xikang Jin, Director

30th September 2013

Advantage Advisors Audit Pty Ltd

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
KINGFORM HEALTH HOMETEXTILE GROUP LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Kingform Health Hometextile Group Limited and its controlled entities, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
KINGFORM HEALTH HOMETEXTILE GROUP LIMITED (Continued)

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company'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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kingform Health Hometextile Group Limited on 30th September 2013, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
KINGFORM HEALTH HOMETEXTILE GROUP LIMITED (Continued)

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 12 and 13 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Kingform Health Hometextile Group Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001.*

Advantage Advisors

James Ridley

ADVANTAGE ADVISORS AUDIT PTY LTD
CHARTERED ACCOUNTANTS

JAMES RIDLEY
DIRECTOR

Dated in Melbourne on this 30th day of September 2013.

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 30 June 2013:

1. **Shareholding**

a. **Distribution of Shareholders:**
Holding Type: Issuer

Category (size of holding):	Number Ordinary	Number Redeemable
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	84	-
10,001 – 100,000	10	-
100,001 and over	7	-
	101	-

b. **Distribution of Shareholders:**
Holding Type: CHESS

Category (size of holding):	Number Ordinary	Number Redeemable
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	15	-
10,001 – 100,000	37	-
100,001 and over	14	-
	66	-

a. **Total of Security Code KFG:**

Category (size of holding):	Number Ordinary	Number Redeemable
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	99	-
10,001 – 100,000	47	-
100,001 and over	21	-
	167	

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

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

Shareholder:	Number Ordinary	Number Preference
MR XIKANG JIN	39,900,525	Nil
MS JIANWEN PAN	12,889,008	Nil
MS LINGYAN JIN	5,531,078	Nil
MR NAN CHEN	3,214,752	Nil
WISDOMORE LIMITED	3,214,752	Nil

f. **Voting Rights**
The voting rights attached to each class of equity security are as follows:
Ordinary shares
– Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and converting preference shares

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

– These shares have no voting rights.

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

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	MR NAN CHEN	2,072,878	13.55%
2	WISDOMORE LIMITED	2,072,878	13.55%
3	MR CHENGWEI WU	1,036,439	6.77%
4	XIAOMIN ZHU	1,036,439	6.77%
5	MR FENGXIANG WU	966,539	6.32%
6	MR HUALONG ZHANG	829,151	5.42%
7	MR FUCHANG CAO	807,151	5.28%
8	MS LINGYAN JIN	670,000	4.38%
9	MR HONGBEN TANG	390,000	2.55%
10	MS XUEFEN XU	220,000	1.44%
11	MR WEIHUA QIAN	210,000	1.37%
12	MR RULIU CHEN	190,000	1.24%
13	MS LAN JIN	190,000	1.24%
14	MS CHEN LI	190,000	1.24%
15	MR JINGPU LI	190,000	1.24%
16	MR LIXIN TONG	190,000	1.24%
17	MR GUOQIANG XU	190,000	1.24%
18	MS WEIPING ZHU	190,000	1.24%
19	MR LIN XIONG	140,000	0.91%
20	MR XIKANG JIN	120,000	0.78%
		11,901,475	77.78%

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

h. 10 Largest Shareholders – 24 MTHS ESCROW (EXPIRED 18/05/2014)

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	MR XIKANG JIN	39,780,525	63.13%
2	MS JIANWEN PAN	12,859,008	20.41%
3	MS LINGYAN JIN	5,465,078	8.67%
4	MR NAN CHEN	1,141,874	1.81%
5	WISDOMORE LIMITED	1,141,874	1.81%
6	MR CHENGWEI WU	570,937	0.91%
7	MR FENGXIANG WU	570,937	0.91%
8	XIAOMIN ZHU	570,937	0.91%
9	MR FUCHANG CAO	456,750	0.72%
10	MR HUALONG ZHANG	456,750	0.72%
		63,014,670	100.00%

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

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

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

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

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