COMBEST HOLDINGS LIMITED
康佰控股有限公司*

(formerly known as Goldmond Holdings Limited (金望控股有限公司*))
(incorporated in the Cayman Islands with limited liability)
(Stock code: 8190)

2010 ANNUAL REPORT

* For identification purposes only

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of the Combest Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Lim Merng Phang (appointed on 1 April 2010)
Mr. Huang Boqi (resigned on 31 March 2010)
Mr. Lee Man To

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ngai Sang, Kenny
Mr. Xing Fengbing
Mr. Chan Kin Sang

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat M-N, 24/F,
Houston Industrial Building,
32-40 Wang Lung Street,
Tsuen Wan, N.T. Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lee Man To, CPA, FCCA

AUTHORISED REPRESENTATIVES

Mr. Lim Merng Phang
Mr. Lee Man To

COMPLIANCE OFFICER

Mr. Lim Merng Phang

AUDITORS

Grant Thornton
Certified Public Accountants
Hong Kong

PRINCIPAL BANKERS

Bank of Communications

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman
KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDIT COMMITTEE

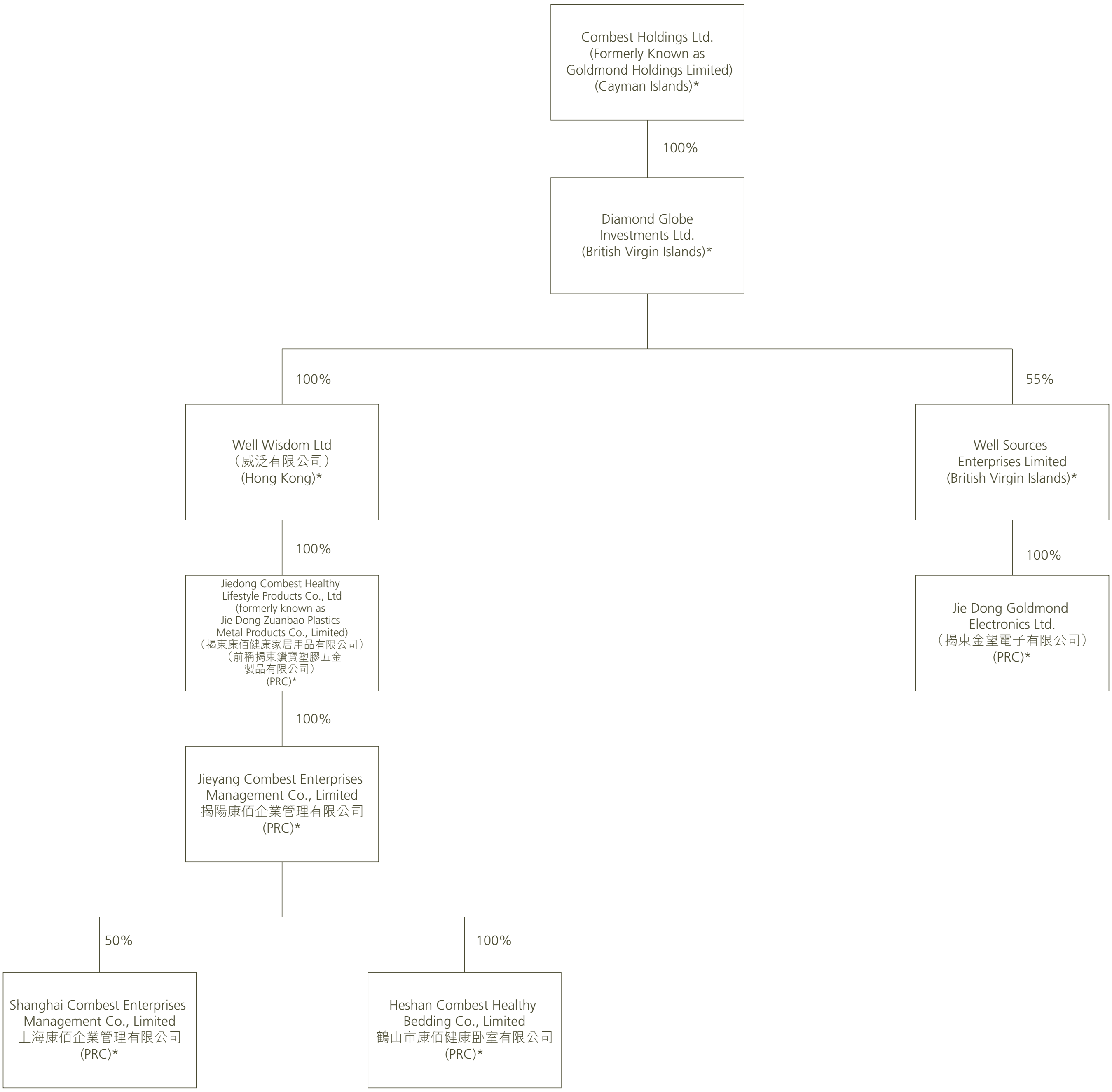
Mr. Chan Ngai Sang, Kenny
Mr. Xing Fengbing
Mr. Chan Kin Sang

STOCK CODE

8190

GROUP STRUCTURE

The following chart sets out the structure of the Company and its principal subsidiaries as at 30 June 2010:



* *place of incorporation*

Note:

As at 11 August 2010, the Group has acquired the entire equity interests in (i) 北京康佰夢之源企業管理有限公司 (Beijing Combest Corporate Management Co., Ltd); (ii) 北京永青世紀投資諮詢有限公司 (Beijing Century Investment Advisory Co., Limited) and its wholly owned subsidiary 臨沂康佰巴馬夢家紡有限公司 (Linyi Combest Co., Ltd); (iii) 廣西巴馬夢健康家紡有限公司 (Guangxi Health Co., Ltd) and (iv) the remaining 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) which are not included in the above group Chart.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Combest Holdings Limited (the "Company"), I hereby present to our shareholders the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2010.

FINANCIAL AND BUSINESS HIGHLIGHTS

The financial and business highlights of the Group for the year ended 30 June 2010 are presented as follows:

	Continuing operations		**Discontinued operations**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)		
Revenue	**45,331**	30,444	**146,720**	707,507	**192,051**	737,951
Profit/(Loss) for the year attributable to owners of the Company	**(6,431)**	(17,326)	**(267,406)**	38,988	**(273,837)**	21,662
(Loss)/Earnings per share						
– basic	**(0.26) cent**	(0.71) cent	**(10.79) cent**	1.61 cent	**(11.05) cent**	0.90 cent
– diluted	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A

With effect from 28 June 2010, the Company changed its name from Goldmond Holdings Limited to Combest Holdings Limited. No dividends have been paid or declared by the Company during the two financial years ended 30 June 2010 and 2009.

PROSPECTS

FY2010 was a transformational year for the Company as we completed the disposal of substantially most of our business of ODM manufacturing for consumer electronic products and satellite communication products in October 2009 and cemented our business collaboration with the Combest Group as announced in February and April 2010. As a result, the Group has successfully transformed itself to take advantage of the robust retail consumer industry in the PRC to principally engage in the design, manufacture, sales and marketing of own branded functional healthcare products and other accessories in the PRC. Our "Combest" brand was ranked the second most trustworthy brand of healthcare products in the PRC in 2009 by the China Healthcare Association. The Company also changed its name to Combest Holdings Limited on 28 June 2010 to reflect the change in our principal business.

We completed the acquisition of the southern part of the Combest Group on 24 June 2010 and incorporated only about seven days' results from this acquired business into our full-year results for the financial year ended 30 June 2010. The northern portion of the Combest Group was acquired by us on 11 August 2010. Shareholders will note that for the financial year ended 30 June 2010, we incurred a loss of about RMB270 million out of which about RMB260 million of losses were from one-off transaction in connection of our disposal of the discontinued operation. Going forward, our future results will much more accurately reflect the results of our Combest business.

CHAIRMAN'S STATEMENT

To mark our transformation, we have set our corporate mission to be the number one brand in the functional household healthcare products in the PRC. To achieve this mission, we have accomplished the following:

– we relocated the main production facilities to Jieyang, Guangdong province as a means to enhancing our operating efficiencies;

– our first self-managed customer service centre located in Beijing has commenced operation in late August 2010;

– the new customer service centres located in Shanghai and Guangzhou area are under renovation.

Going forward, we aim to:

– set up at least 200 customer service centres in the near term to provide more support and training to our independent franchise store owners and to align more clearly with their needs and help to enhance their sales volume, productivity level and business development. The self-operated customer service centre network also aims to enhance the Combest brand image and visibility amongst the consumers;

– as part of our brand building scheme, we also intend to place educational advertisements in major television channel to promote the Combest brand and our products' functions; we will also place advertisements in outdoor billboards in major airports and highways;

– invest in the research and development of new products so as to enrich our product lines and to blend functions with style and fashion in order to tap into a wider spectrum of demographic groups;

– establish a new sales force to explore the wholesale market through collaboration with property developers, hotel chains and spa centres for purchasing our products.

In summary, we are taking our collaboration with the independent franchise store owners to greater heights in terms of building our brand image, realizing our corporate mission in order to expand our sphere of influence of the Combest brand in the functional household healthcare market in the PRC.

APPRECIATION

On behalf of the Board, I am extending my gratitude to the management team and our staff for their dedication and hardwork to the independent franchise store owners for their commitment and loyalty for the Combest brand and to the Shareholders for their unceasing support. These were instrumental in enabling the Group to effect its transformation and break new ground in tapping into the robust retail consumer market in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

On 12 October 2009, the Company completed the disposal of 55% of the issued share capital of Highway Bright to Chinasing Investment Holdings Limited ("Chinasing").

On 24 June 2010, the Company completed its acquisition of (i) the entire equity interests in 鶴山市康佰健康卧室有限公司 (Heshan Combest Health Bedding Co., Limited); and (ii) 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) for manufacturing and trading of the functional healthcare bedroom products includes mattresses, pillows, blankets, other bedroom accessories and a range of functional healthcare clothes and accessories.

With effect from 28 June 2010, the Company changed its name from "Goldmond Holdings Limited" to "Combest Holdings Limited".

The following sections provide a detailed review and analysis of the results and segmental performance of the Group for the financial year ended 30 June 2010.

FINANCIAL REVIEW

Revenue and gross profit

Continuing operations

Continuing operations comprise of the manufacture and trading of functional healthcare bedroom products and OEM consumer electronic products.

In the continuing operations, the Group generated revenue of RMB45,331,000, representing an increase of approximately 48.9% as compared to that in previous year. This was attributable to the acquisition of new business completed on 24 June 2010 and the increase in sales of OEM consumer electronic products respectively. The gross profit margin ratio for the year ended 30 June 2010 was 17.4% while it was 12.7% in previous year. The increase in gross profit margin was mainly due to the higher profit margin generated by the newly acquired business during the 7-day period from 24 June 2010 to 30 June 2010.

The selling and distribution costs for the year were RMB3,330,000, representing an increase of approximately 112.4% from last year. The increase was mainly due to the increase in line with the revenue during the year.

The administrative expenses for the year were RMB8,350,000, representing an increase of approximately 64.6%. The increase was mainly due to the increase in staff salary and professional fees incurred for business transactions conducted during the financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses for the year were RMB32,600,000, representing an increase of 489.7% from the last financial year. The increase was mainly due to the inclusion of impairment of goodwill and property, plant and equipment incurred during the year.

Finance costs for the year were RMB3,070,000 (2009: RMB9,823,000). The decrease was mainly due to the decrease in the imputed interest expense after redemption of convertible bonds.

Discontinued operations

Discontinued operations comprise of four segments the manufacture and trading of (i) ODM, (ii) proprietary packed software, (iii) system solutions, and (iv) consumer electronic products and component, and satellite communication products other than OEM consumer electronic products.

In the discontinued operations, the Group generated revenue of RMB146,720,000, representing a decrease of approximately 79.3% as compared to that in previous year. This was mainly attributable to the disposal of 55% of the issued share capital of Highway Bright to Chinasing on 12 October 2009. The gross profit margin ratio for the year ended 30 June 2010 was 13.7% while the gross profit margin was 16.4% in previous year.

The selling and distribution costs for the year were RMB2,742,000 (2009: RMB18,918,000, as restated), representing a decrease of approximately 85.5% from last year. The decrease was mainly due to disposal of 55% of the issued share capital of Highway Bright to Chinasing on 12 October 2009.

The administrative expenses for the year were RMB3,696,000 (2009: RMB30,606,000, as restated), representing a decrease of approximately 87.9%. The decrease was mainly due to disposal of 55% of the issued share capital of Highway Bright to Chinasing on 12 October 2009.

Total other operating expenses for the year were RMB277,071,000 (2009: RMB9,556,000, as restated), representing an increase of approximately 2,799.4%. The increase was mainly due to the write off of the goodwill after disposal of 55% of the issued share capital of Highway Bright to Chinasing on 12 October 2009 and loss on disposal of subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group generally finances its operation with internally generated cash flow and loans from a shareholder. As at 30 June 2010, the cash and bank balances of the Group amounting to RMB5,045,000 (2009: RMB88,707,000) and the net current assets of the Group amounted to RMB20,137,000 (2009: RMB91,981,000). With such resources, the Company has adequate financial resources for its operations.

Charges on the Group's asset

As at 30 June 2010, none of the Group's assets were pledged to banks for the general banking facilities and bank loans granted to the Group (2009: NIL).

Gearing Ratio

The Group expresses its gearing ratio (if any) as a percentage of other borrowings and long term debts over total assets. As at 30 June 2010, the gearing ratio as a percentage of other borrowings, amount due to relevant parties and convertible bonds over total assets was approximately 26.6% (2009: 19.2%).

Material acquisition and disposals of subsidiaries and affiliated companies during the financial year ended 30 June 2010

(a) On 12 October 2009, the Company completed the disposal of 55% of the issued share capital of Highway Bright to Chinasing.

(b) On 24 February 2010, the Company entered into a conditional sale and purchase agreement to acquire (i) the entire equity interests in 鶴山市康佰健康臥室有限公司 (Heshan Combest Health Bedding Co., Limited); (ii) 67% equity interests in 廣東康佰健康臥室連鎖管理有限公司 (Guangdong Combest Health Bedding China Management Co., Ltd) ("Guangdong Combest"); and (iii) 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) for a total consideration of HK$92.1 million and the supplemental agreements dated 16 March 2010 and 23 June 2010. Of such consideration, HK$86.4 million has been satisfied by issue of 480 million consideration shares with the remaining balance of HK$5.7 million paid in cash. Completion of the sale and purchase agreement took place on 19 March 2010 while completion of the subsequent supplemental agreements took place on 24 June 2010.

(c) On 30 April 2010, the Company entered into a conditional sale and purchase agreement to acquire the entire equity interests in (i) 北京康佰夢之源企業管理有限公司 (Beijing Combest Corporate Management Co., Ltd); (ii) 北京永青世紀投資諮詢有限公司 (Beijing Century Investment Advisory Co., Limited) and its wholly owned subsidiary 臨沂康佰巴馬夢家紡有限公司 (Linyi Combest Co., Ltd); (iii) 廣西巴馬夢健康家紡有限公司 (Guangxi Health Co., Ltd) and (iv) 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) for a total consideration of HK$97.65 million. Of such consideration, HK$80 million has been satisfied by issue of 200 million consideration shares with the remaining balance of HK$17.65 million paid in cash. Completion of such agreement took place on 11 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

(d) On 23 July 2010, the Company entered into a conditional sale and purchase agreement to acquire the entire equity interests in 浙江安吉大華金辰保健用品有限公司 (Zhejiang Anji Da Hua Jin Cheng Healthcare Products Co., Ltd) and 杭州大華金辰保健用品有限公司 (Hangzhou Anji Da Hua Jin Cheng Healthcare Products Co., Ltd) for a total consideration of HK$7.08 million. Of such consideration, HK$4.2 million will be satisfied by issue of 16.8 million consideration shares with the remaining balance of HK$2.88 million paid in cash. Completion of such agreement is conditional upon, among other things, the Group being reasonably satisfied with the results of the due diligence review to be conducted on the target group as well as the Listing Committee of the Stock Exchange granting listing of and permission to deal in such consideration shares.

Treasury policies and capital structure

Any surplus fund derived from operating activities will be placed in savings accounts and short term time deposits with original maturity of less than three months which secures the Group's liquidity position in meeting its daily operating needs.

Exposure to exchange rate risks

For the year ended 30 June 2010, the Group's business in manufacturing and trading of functional healthcare bedroom products and electronic products and other borrowings were transacted in HK$, US dollar and RMB. The Directors consider that the Group did not have significant exposure to foreign exchange fluctuation as the management monitors the related foreign currency closely and will consider hedging significant foreign currency exposure.

Contingent liabilities

As at 30 June 2010, the Group and the Company did not have any significant contingent liabilities.

Employee information

For the year ended 30 June 2010, the staff cost, excluding directors' remuneration, amounted to RMB21,759,000 (including RMB7,243,000 and RMB14,516,000 from continuing and discontinued operations respectively) (2009: RMB55,906,000, including RMB3,659,000 and RMB52,247,000 from continuing and discontinued operations respectively) while the directors' remuneration amounted to approximately RMB1,526,000 (2009: RMB1,090,000). The directors' emolument was determined on the basis comparable with other GEM listed companies in similar size and business industry. The employee remuneration was commensurate with individual performance and experience and subject to the periodic review of the senior management of the Company.

In order to maintain the standard of the Group's services and for purpose of staff development, the Group provided comprehensive training programs for its staff.

The Group had adopted a share option scheme whereby certain employees may be granted options to acquire the shares of the Company. No options have been granted or agreed to be granted under the Scheme since its effective date on 24 January 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are currently principally engaged in two business segments, namely (i) manufacturing and trading of functional healthcare bedroom products and other accessories, and (ii) manufacturing and trading of OEM consumer electronic products and components. The current status of our business segments is shown as follows:

Manufacturing and trading of functional healthcare bedroom products

On 24 June 2010, the Company completed its acquisition of (i) the entire equity interests in 鶴山市康佰健康卧室有限公司 (Heshan Combest Health Bedding Co., Limited); and (ii) 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) for manufacturing and trading of the functional healthcare bedroom products includes mattresses, pillows, blankets, other bedroom accessories and a range of functional healthcare clothes and accessories.

Manufacturing and OEM trading of consumer electronic products

On 21 November 2007, the Group completed its acquisition of a 55% equity interest in Highway Bright Group whose products include three categories: (1) ODM for consumer electronic products, (2) OEM consumer electronic products, and (3) satellite communication products. On 12 October 2009, the Group completed its disposal of a 55% equity interest in Highway Bright Group whose products include two categories: (1) ODM for consumer electronic products, and (2) satellite communications products.

The Company retained the business of producing the OEM consumer electronic products including RS connectors, transmitters for consumer electronic products.

Discontinued operations:

Manufacturing and trading of satellite communications products and ODM for consumer electronic products

There are two categories:

1. ODM for consumer electronic products include main structure parts for electronic products' console and high frequent modular for consumer electronic products.

2. Satellite communications products include low-noise block converters, transceivers and digital video broadcasting decoders which are used in satellite broadcasting, satellite telephone, satellite monitoring and GPS.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK

With the change of name to Combest Holdings Limited, the Group has officially embarked on its transformation into a retail consumer healthcare company. In light of the vivid economic development in China and the increased affluence level and health consciousness of the consumers, the management is confident of the long-term prospects of the functional healthcare products industry in China.

The management intends to grow the business by opening new customer service centres in various strategic cities in the PRC as part of the channel development plan of the Group. The functions of the customer service centre are:– firstly to enhance the brand visibility and brand equity to attract more potential franchise store owners and customers; secondly, to provide additional sales support to our independent franchise owners to grow their business volume and expand their network; thirdly, to organise product seminars to attract new customers to understand our products and to have more interaction with them; and fourthly, also as a regional hub to organise training and sales and marketing events within the region. We intend to open approximately 50 customer service centres throughout China in the coming financial year. With the customer service centre network in place, the management believes this will also expedite the enrollment and expansion of independent franchise stores. We will also step up brand building through other marketing campaigns in order to enhance brand trustworthiness among consumers.

We will also expand the sales force to develop the project sales market by collaborating with property developers and other hotel chains to install our functional healthcare bedroom products into their properties and hotel rooms. The management believes that this project sales market presents an important market segment with good potential for the Group to explore.

The management will strengthen its research and development efforts and innovation ability to launch new products to blend functions with style in order to tap into different demographic group of customers so as to increase the sales volume as well as to enhance the brand equity. Apart from growing the top-line of the business, the management will also work on enhancing the operational efficiency of the Group with an aim to maximise the returns to shareholders.

At present, the functional healthcare bedroom products market in China is quite fragmented. The management believes that with the Combest's established brand name and leading market position in the industry, the Group is able to identify suitable smaller local or regional players in the industry throughout China to merge with us with an aim to consolidate our market position and increase our market share.

The management believes that with the existing seasoned management and marketing team, our product design ability and our focused business expansion plan, the management is confident that the number of independent franchise stores will increase significantly in coming years, the project sales unit will generate promissory growth and that the Group shall continue to outperform other players in the industry.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. Lim Merng Phang（林孟方）, aged 42, is an executive Director. He was a graduate of the National University of Singapore, Faculty of Law and he graduated with LLB (Hons) in 1992. Mr. Lim is currently the non-executive director of Chinasing Investment Holdings Limited ("Chinasing") and Sunray Holdings Limited (both companies are listed on the main board of the Singapore Exchange Securities Trading Limited) and Mr. Lim has over 10 years of experience in law, primarily in corporate finance, mergers and acquisitions and commercial transactions and other corporate matters.

Mr. Lee Man To（李敏滔）, aged 37, is an executive Director, the financial controller, qualified accountant and company secretary of the Company. Mr. Lee joined the Group in June 2008. Mr. Lee is responsible for the overall financial control, accounting and company secretarial matters of the Group. Mr. Lee has over 14 years of experience in auditing, accounting and finance. Mr. Lee graduated in the Hong Kong Polytechnic University with Bachelor degree in accountancy in 1995. Mr. Lee is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Kin Sang（陳健生）, aged 58, is an independent non-executive director of the Company and is currently a sole proprietor of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries. Mr. Chan has been a practicing solicitor in Hong Kong since 1982. Mr. Chan graduated from the University of Hong Kong with a Bachelor of Laws degree in 1979. Mr. Chan was admitted as a Notary Public in 1997 and a China-appointed Attesting Officer in 2000. Mr. Chan is a fellow of Institute of Directors and acts as an independent non-executive director in 2 Singapore listed companies, namely People's Food Holdings Limited and Luxking Group Holdings Limited and 4 Hong Kong listed companies, namely the Company, China Precious Metal Resources Holdings Co., Limited, International Taifeng Holdings Limited and Pacific Plywood Holdings Limited. Mr. Chan is also a non-executive director of Pan Hong Property Group Limited listed in Singapore and Mayer Holdings Limited listed in Hong Kong. He was formerly an independent non-executive director of Sunray Holdings Limited, CHT (Holdings) Limited, Plus Holdings Limited, New Smart Energy Group Limited and Dynamic Energy Holdings Limited. Mr. Chan was appointed as an independent non-executive Director in September 2004.

Mr. Chan Ngai Sang Kenny（陳毅生）, aged 45, is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants. Mr. Chan has over twenty years experience in accounting, taxation, auditing and corporate finance and was involved in several merger and acquisition and initial public offering projects. Mr. Chan holds a Bachelor of Commerce degree from the University of New South Wales and is a member of the Institute of Chartered Accountants of New Zealand, The Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Chan served as the District Governor of Lions Clubs International District 303 – Hong Kong & Macao, China in the year 2009/2010. Mr. Chan also serves on several tribunals of the HKSAR Government which includes The Administration Appeals Board, The Registration of Persons Tribunal and The Solicitors Disciplinary Tribunal Panel. He also serves as a committee member of the Association of International Accountants Hong Kong Branch. Mr. Chan is also an independent non-executive director of TSC Offshore Group Limited and China Best Group Holding Limited, both of which are listed on the Main Board of the Hong Kong Exchange.

Mr. Xing Fengbing（邢鳳炳）, aged 70, is an independent non-executive Director of the Company. Mr. Xing has substantial experience in journalism in Hong Kong and mainland China and has worked in The People's Daily（人民日報）, Shenzhen Special Zone Daily（深圳特區報）and Hong Kong Commercial Daily. He holds a bachelor degree in journalism from Jinan University（暨南大學）in mainland China. Mr. Xing was appointed as an independent non-executive Director in January 2002.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SENIOR MANAGEMENT

Ms. Wong Hung Flavia Yuen Yee (黃洪琬貽女士), aged 43, is the Chief Investment Officer of the Company. Ms. Hung is responsible for assessing investment and merger and acquisition opportunities, managing corporate finance activities and investors' relationship of the Group. Ms. Hung has over 20 years of corporate finance experience relating to initial public offerings, mergers and acquisitions, takeovers and privatisations, debt restructuring, financial advisory and equity financing. Prior to joining the Company, Ms. Hung was an executive director of a public company whose shares are listed on the Main Board of the Stock Exchange, and before that, Ms. Hung also held senior management positions at a number of investment banks and brokerage houses in Hong Kong. Ms. Hung holds a Bachelor's degree in Business Administration from California State University, Los Angeles.

Mr. Au Yeung Cheuk Nam (歐陽卓楠先生), aged 42, is the chairman of the Board of Combest (China) Group Limited, a subsidiary of the Group. He is responsible for the overall strategic planning and business development. He has over 20 years of experience in the functional healthcare bedding products business and over 17 years of experience in the sales and marketing of healthcare bedding products. He founded the "Combest" brand in 1999. Mr. Au Yeung is a renowned industry expert in sales and marketing, being highly experienced in marketing planning and network marketing, and highly knowledgeable about the operations of the healthcare products market in the PRC. The team which he has led has nurtured over 1,000 marketing elites. He is a council member of China Health Care Association and was named the Top 50 for "Promoting PRC Franchise Sales", and the first runner-up for the Science and Technology Award by the China General Chamber of Commerce.

Mr. Wang Wei Jun (王衞軍先生), aged 42, is the Chief Executive Officer of Combest (China) Group Limited. He is responsible for the overall strategic planning, management and business development. He has over 18 years of experience in the functional healthcare bedding products business. Prior to the acquisition by the Group, Mr. Wang was the legal representative of Beijing Combest and Guangxi Combest, and the sole director of Combest (China) Group Limited and Perfect Crown Enterprises Limited.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are in two business segments, (i) manufacturing and trading of functional healthcare bedroom products and (ii) manufacturing and trading of OEM consumer electronic products.

On 12 October 2009, the Company completed its disposal of 55% of the issued share capital of Highway Bright to Chinasing. On 24 June 2010, the Company completed its acquisition of (i) the entire equity interests in 鶴山市康佰健康卧室有限公司 (Heshan Combest Health Bedding Co., Limited) and (ii) 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) for manufacturing and trading of the functional healthcare bedroom products includes mattresses, pillows, blankets, other bedroom accessories and a range of functional healthcare clothes and accessories. On 11 August 2010, the Company completed its acquisition of the remaining business of Combest on PRC. We believe that the Group could concentrate on the development of remaining business.

RESULTS AND DIVIDENDS

The results of the Group for the year and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 29 to 103.

The Directors did not recommend the payment of any dividend in respect of the year ended 30 June 2010 (2009: nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 104. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 19 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands (being the jurisdiction in which the Company was incorporated), which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively. Details of the distributable reserves of the Company are set out in note 31 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to major customers and suppliers, respectively, during the year is as follows:

	Percentage of the Group's total %
The largest customer	54
Five largest customers in aggregate	86
The largest supplier	22
Five largest suppliers in aggregate	59

At no time during the year have the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's major largest customers or suppliers referred to above.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year were:

Executive directors:

Mr. Lim Merng Phang (appointed at 1 April 2010)
Mr. Lee Man To
Mr. Huang Boqi (resigned on 31 March 2010)

Independent non-executive directors:

Mr. Xing Fengbing
Mr. Chan Ngai Sang, Kenny
Mr. Chan Kin Sang

In accordance with article 108(A) of the Company's articles of association, Mr. Chan Ngai Sang, Kenny and Mr. xing Fengbing, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 13 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lim Merng Phang has entered into a service contract as a chairman an executive Director with the Company for an initial term of three year commencing from 1 April 2010, which will continue thereafter until terminated by either party giving not less than three month's notice in writing to the other.

Mr. Lee Man To has entered into a service contract as an executive Director with the Company for an initial term of three year commencing from 18 February 2009, which will continue thereafter until terminated by either party giving not less than three month's notice in writing to the other.

Mr. Chan Ngai Sang, Kenny and Mr. Xing Fengbing were appointed as independent non-executive Directors for a term of one year expiring on 5 February 2007. Each of the two Directors has renewed a service agreement with the Company for a period commencing from 6 February 2010 to 5 February 2011.

Mr. Chan Kin Sang was appointed as an independent non-executive Director for an initial a term of one year expiring on 27 September 2005 and has renewed a service agreement with the Company for one year expiring on 27 September 2010.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those disclosed in note 36 to the financial statements and Mr. Lim Merng Phang being a director of Chinasing (the Group sold its 55% equity interest in Highway Bright to Chinasing on 12 October 2009), no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2010, none of the Directors or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the required standards of dealings by Directors of the Company.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

A. Substantial shareholders

So far as is known to the Directors, as at 30 June 2010, the persons, other than a director or chief executive of the Company, who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and who were, directly or indirectly, interested in 10% or more of the shares were as follows:

Name	Number and class of securities	Capacity	Approximate percentage to the issued share capital of the Company
Shing Lee Holding Limited ("Shing Lee") *(Note 2)*	450,000,000 ordinary shares	Beneficial owner	15.54%
Diamond Highway Limited ("Diamond Highway") *(Note 2)*	39,714,286 ordinary shares	Beneficial owner	1.37%
Mr. Zeng Pei Hui ("Mr. Zeng") *(Note 2)*	489,714,286 ordinary shares	Interest of controlled corporation	16.91%
Dream Star International Limited ("Dream Star") *(Note 1)*	474,285,714 ordinary shares	Beneficial owner	16.37%

REPORT OF THE DIRECTORS

Name	Number and class of securities	Capacity	Approximate percentage to the issued share capital of the Company
Mr. Hong Yuexiong ("Mr. Hong") *(Note 1)*	524,765,714 ordinary shares	Interest of controlled corporation	18.12%
Glory Path Management Limited ("Glory Path") *(Note 3)*	480,000,000 ordinary shares	Beneficial owner	16.57%
Mr. Au Yeung Cheuk Nam ("Mr. Au Yeung") *(Note 3)*	480,000,000 ordinary shares	Interest of controlled corporation	16.57%

Notes:

1. The 474,285,714 shares are registered in the name of Dream Star which is wholly owned by Mr. Hong. Accordingly, Mr. Hong is deemed to be interested in all the shares in which Dream Star is interested pursuant to the SFO.

2. The 450,000,000 and 39,714,286 shares were registered in the name of Shing Lee Holding Limited ("Shing Lee") and Diamond Highway Limited (the "Diamond Highway") respectively. Shing Lee and Diamond Highway are wholly owned by Mr. Zeng. Accordingly, Mr. Zeng is deemed to be interested in all the shares in which each of Shing Lee and Diamond Highway is interested pursuant to the SFO.

3. The 480,000,000 shares were registered in the name of Glory Path Management Limited ("Glory Path"). Glory Path is wholly owned by Mr. Au Yeung. Accordingly, Mr. Au Yeung is deemed to be interested in all the shares in which each of Glory Path is interested pursuant to the SFO.

REPORT OF THE DIRECTORS

B. Other persons whose interests are recorded in the register required to be kept under Section 336 of the SFO

As at 30 June 2010, the Company has not been notified of any other person (other than a director or the chief executive of the Company) having an interest or short position in the shares or the underlying shares of Company representing 5% or more of the issued share capital of the Company save as below:

Name	Number and class of securities *(Note 1)*	Capacity	Approximately percentage to the issued share capital of the Company
Cytech Investment Limited ("Cytech Investment") *(Note 3)*	164,500,000 ordinary shares	Beneficial owner	5.68%
Benep Management Limited ("Benep") *(Note 3)*	164,500,000 ordinary shares	Interest of controlled corporation	5.68%
Chinasing *(Note 3)*	164,500,000 ordinary shares	Interest of controlled corporation	5.68%
Pioneer Idea Finance Limited ("Pioneer") *(Note 4)*	164,500,000 ordinary shares	Interest of controlled corporation	5.68%
Mr. Huang Quan ("Mr. Huang") *(Note 4)*	164,500,000 ordinary shares	Interest of controlled corporation	5.68%
Treasure Focus Enterprises Limited ("Treasure") *(Note 5)*	200,000,000 ordinary shares	Beneficial owner	6.90%
Mr. Wang Weijun ("Mr. Wang") *(Note 5)*	200,000,000 ordinary shares	Interest of controlled corporation	6.90%

Name	Number and class of securities *(Note 1)*	Capacity	Approximately percentage to the issued share capital of the Company
Mr. Li Jiahui	196,110,000 ordinary shares	Beneficial owner	6.77%
Brow Crown International Limited ("Brow Crown") *(Note 2)*	200,000,000 ordinary shares	Beneficial owner	6.90%
Mr. Qian Shiyu ("Mr. Qian") *(Note 2)*	200,000,000 ordinary shares	Interest of controlled corporation	6.90%

Notes:

1. It represents the interests in the shares or the underlying shares of the Company.

2. The 200,000,000 shares are registered in the name of Brow Crown, which is wholly owned by Mr. Qian. Accordingly, Mr. Qian is deemed to be interested in all the shares in which Brow Crown is interested pursuant to the SFO.

3. The 164,500,000 shares are registered in the name of Cytech Investment. Cytech Investment is a wholly-owned subsidiary of Benep, which is in turn a wholly-owned subsidiary of Chinasing, a company whose shares are listed on the Main Board of the Singapore Exchange Securities Trading Limited. Accordingly, each of Chinasing and Benep is deemed to be interested in all the shares in which Cytech Investment is interested pursuant to the SFO.

4. The issued share capital of Chinasing is owned as to approximately 21.25% and 36.52% by Hebe Finance Limited and Pioneer respectively. The issued share capitals of Hebe Finance Limited and Pioneer are wholly-owned by Mr. Huang. Accordingly, each of Pioneer and Mr. Huang is deemed to be interested in all the shares in which Chinasing is interested pursuant to the SFO.

5. The 200,000,000 shares are registered in the name of Treasure, which is wholly owned by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in all the shares in which Treasure is interested pursuant to the SFO.

CORPORATE GOVERNANCE REPORT

OVERVIEW

Corporate governance has always been a key concern and thus is essential to the success of the Company. The Company believes that improvement of corporate governance not only can help monitor and regulate its business activities effectively, but also can attract more institutional investors to invest in the Company, and thus shareholders' interests will be protected.

CORPORATE GOVERNANCE PRACTICES

The following documents form the framework for the code of corporate governance practice of the Company:

1. Code on the Corporate Governance;
2. Code of Conduct for Securities Transactions by Directors of the Company;
3. Duties of the Board of Directors (the "Board");
4. Segregation of Duties between the Chairman and the Chief Executive Officer;
5. Disciplinary Rules of the Company;
6. Term of Reference on the Audit Committee;
7. Term of Reference on the Remuneration Committee; and
8. Written guidelines for relevant employees in respect of their dealings in the securities of the Company.

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules during the year ended 30 June 2010.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Conduct for Securities Transactions by Directors of the Company ("Code of Conduct") on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries, all the Directors have confirmed that they have complied with such Code of Conduct regarding securities transaction by the Directors throughout the year ended 30 June 2010.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Code of Conduct. No incident of noncompliance was noted by the Company for the year ended 30 June 2010.

THE BOARD

Composition of the Board

The Company's Board of Directors is responsible for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

The second session of the Board currently comprises of two executive Directors and three independent non-executive Directors and all Directors served for the year ended 30 June 2010. Their terms of office are disclosed in the Director's Report on page 17. The biographical details of the Directors are set out on page 13 to 14 of this annual report.

CORPORATE GOVERNANCE REPORT

During the year, Board meetings were held and the attendance record of the Board meeting is set out below:

	Attendance/ Number of meetings
Executive Directors	
Lim Merng Phang *(Chairman)* (appointed on 1 April 2010)	3/13
Huang Boqi *(Chairman* (resigned on 31 March 2010) *& Chief Executive Officer)*	4/13
Lee Man To	13/13
Independent non-executive Directors	
Chan Kin Sang	6/13
Chan Ngai Sang, Kenny	6/13
Xing Fengbing	12/13

In compliance with Rules 5.01 and 5.02 of the GEM Listing Rules, the Company has three independent non-executive Directors (the "INED(s)"), namely Mr. Chan Kin Sang, Mr. Chan Ngai Sang, Kenny and Mr. Xing Fengbing. These INEDs can help the management to formulate the Group's development strategies, ensure the Board prepares its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintains appropriate system to protect the interests of the Company and its shareholders. The Board has received the annual confirmation in respect of their independence from each of the INEDs, and believes that their independence is in compliance with the GEM Listing Rules as at the date of this annual report.

The Board has established two sub-committees: Audit Committee and Remuneration Committee. Both have terms of reference which accord with the principles set out in the CG Code. More details of these two sub-committees are set out in separate sections in this report.

OPERATION OF THE BOARD

Matters that need to be determined or considered by the Board include overall group strategies, substantial acquisitions, annual, interim and quarterly results, recommendations on the appointment or re-election of Directors, distribution of dividends and other substantial operating and financial matters. General daily and routine operating decision-makings are handled by the management.

The Board meets regularly at least four times a year at approximately quarterly intervals. Such regular meetings will normally involve the active participation, either in person or through other electronic means of communication, of a majority of Directors entitled to be present.

Notice of a regular Board meeting is usually given at least 14 days in advance to give all Directors an opportunity to attend. An agenda for each Board Meeting will be prepared and normally distributed to the Directors together with necessary Board materials papers at least 4 days before the Board Meeting. Directors are free to add items on the agenda as they may think fit. The Company Secretary is responsible for recording the matters considered and decisions reached by the Board including any concerns or dissenting views expressed raised by Directors. Minutes of Board Meetings and the Board Committed Meetings will be sent to all Directors for their comments and records as soon as after the Board meeting.

CORPORATE GOVERNANCE REPORT

Before each Board meeting, the Directors are provided with a detailed agenda, sufficient relevant information and a reasonable notice period by the Company, so as to enable the Directors to attend the Board meeting and make appropriate decision in relation to the matters to be discussed. All Directors are entitled to include matters of their concern in the agenda of a Board meeting.

Minutes of Board Meetings and meetings of Board Committees are kept by the Company Secretary and such minutes are open for inspection within reasonable advance notice.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will not be dealt with by way of written resolutions or by a committee (except an appropriate Board Committee set up for that purpose pursuant to a resolution passed in a Board Meeting) but will be resolved in a Board Meeting. Directors who, and whose associates, have no material interest in the transaction will be present at such Board meetings.

All Directors are free to access all the corporate information for the purpose of discharging their duties and responsibilities as Directors. The Directors may seek independent professional advice, if it is deemed necessary, at the Company's expenses. In addition, all Directors may have unrestricted access to the senior management of the Company.

Chairman and Chief Executive Officer

The Company has not yet adopted A.2.1. Under the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and would not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The Company does not presently have any officer with the title CEO. At present, Mr. Lim Merng Phang, being the Chairman and Chief Executive Director of the Company, is responsible for the strategic planning, formulation of overall corporate development policy and running the business of the Group as well as the duties of Chairman. The Board considers that, due to the nature and extent of the Group's operations, Mr. Lim is the most appropriate chief executive because he is experienced in management as well as merger and acquisition and other key corporate matter and will be able to help the sustainable development of the Group. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make the necessary amendments.

Nomination of Directors

The Board has not established a nomination committee at the moment. The appointment of new director is therefore a matter for consideration and decision by the shareholders' meeting. The shareholder(s) considers that the new director is expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company.

AUDIT COMMITTEE

The Company's audit committee (the "Audit Committee") has terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control and corporate governance issues of the Company and make relevant recommendations to the Board.

CORPORATE GOVERNANCE REPORT

The Audit Committee comprises three members, Mr. Chan Kin Sang, Mr. Chan Ngai Sang, Kenny and Mr. Xing Fengbing, all are independent non-executive Directors. Mr. Chan Ngai Sang, Kenny has the appropriate financial and accounting experience required by the GEM Listing Rules and acts as the chairman of the Audit Committee.

During the year ended 30 June 2010, the Audit Committee held a total of four meetings, at which it reviewed the internal and external audit findings, the accounting principles and practices adopted by the Group, the listing and statutory compliance, and discussed the audit and internal control system, risk management and financial reporting matters (such as recommendations made to the Board to approve the quarterly, interim and annual results for the year).

The Audit Committee reports to the Board after each meeting and suggests the matters which need close attention of the Board, and reports any matter which it considers an action or improvement is needed and makes relevant recommendations.

The attendance record of the Audit Committee for the year is set out below:

Committee members	Attendance/ No. of meetings
Mr. Chan Ngai Sang, Kenny	5/5
Mr. Chan Kin Sang	5/5
Mr. Xing Fengbing	5/5

REMUNERATION COMMITTEE

During the year, the remuneration committee of the Company (the "Remuneration Committee") was established with effective from 1 July 2005, which is mainly responsible for making recommendations to the Board in respect of the remuneration policy and structure of all Directors' and senior management. It annually reviews the existing remuneration policy and recommend to the Board changes to the Company's remuneration policy and structure.

The Remuneration Committee comprises three members. The Chairman of the Remuneration Committee is Mr. Chan Ngai Sang, Kenny, an independent non-executive Director, and the other members are Mr. Chan Kin Sang and Mr. Xing Fengbing, both of them being independent non-executive Directors.

During the year ended 30 June 2010, the Remuneration Committee held one meeting in which matters concerning the determination of remuneration of the Directors and senior management were discussed.

The attendance record of the Remuneration Committee for the year is set out below:

Committee members	Attendance/ No. of meetings
Mr. Chan Ngai Sang, Kenny	1/1
Mr. Chan Kin Sang	1/1
Mr. Xing Fengbing	1/1

CORPORATE GOVERNANCE REPORT

REMUNERATION OF THE AUDITORS

For the year ended 30 June 2010, the Audit Committee of the Company had reviewed the performance of Grant Thornton as the external auditors of the Company and proposed to re-appoint Grant Thornton as the external auditors. For the year ended 30 June 2010, the Company agreed auditing fees of HK$480,000 (equivalent to RMB418,000) payable to Grant Thornton. Grant Thornton also charged non-audit fees in total of HK$450,000 (equivalent to RMB392,000) for acting as the reporting accountants in respect of the major and connected transaction of the Group during the year.

RESPONSIBILITY FOR PREPARATION OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company and of the Group which give a true and fair view of the state of affairs of the Company and the Group on a going concern basis. As at 30 June 2010, the Directors were not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as an on-going concern. Accordingly, the Directors have prepared the financial statements of the Company on an on-going concern basis.

INTERNAL CONTROL

The Board recognises that a sound and effective internal control system will contribute to the effectiveness and efficiency of operations, the reliability of financial reporting and the Group's compliance with applicable laws and regulations.

Management has established the Group's Internal Control Policies and Guidance for monitoring the internal control system.

The Board has delegated to management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. Qualified personnel and individual business unit head throughout the Group maintain and monitor the compliance to these controls on an ongoing basis and report variance to senior management.

Based on the assessment and review made by the board and senior management on the effectiveness of the internal control system, the Audit Committee is satisfied that:

- The internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the accounts are reliable for publication; and

- There is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. Updated and key information of the Group is also available on the Company's website. The Company also replied the enquires from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Combest Holdings Limited
(Formerly known as Goldmond Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Combest Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 103, which comprise the consolidated and company statements of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

26 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
Continuing operations:			
Revenue	5	**45,331**	30,444
Cost of sales		**(37,438)**	(26,579)
Gross profit		**7,893**	3,865
Other income and gains	5	**23,938**	1,715
Selling and distribution costs		**(3,330)**	(1,568)
Administrative expenses		**(8,350)**	(5,074)
Other expenses		**(32,600)**	(5,528)
Operating loss		**(12,449)**	(6,590)
Finance costs	7	**(3,070)**	(9,823)
Share of profit of an associate		**176**	–
Loss before income tax	8	**(15,343)**	(16,413)
Income tax credit	9	**5,497**	247
Loss after income tax from continuing operations		**(9,846)**	(16,166)
Discontinued operations:	35		
(Loss)/Profit for the year from discontinued operations		**(260,476)**	69,021
(Loss)/Profit for the year		**(270,322)**	52,855
Other comprehensive income for the year			
Release of exchange fluctuation reserve upon disposal of subsidiaries	34(a)	**(5,954)**	–
Exchange gain on translation of financial statements of foreign operations		**477**	426
Total comprehensive income for the year		**(275,799)**	53,281
(Loss)/Profit for the year attributable to:			
Owners of the Company		**(273,837)**	21,662
Non-controlling interests		**3,515**	31,193
		(270,322)	52,855
Total comprehensive income attributable to:			
Owners of the Company		**(274,758)**	21,834
Non-controlling interests		**(1,041)**	31,447
		(275,799)	53,281
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company during the year	12		
– Basic (RMB cent(s))			
From continuing and discontinued operations		**(11.05)**	0.90
From continuing operations		**(0.26)**	(0.71)
– Diluted (RMB cent(s))			
From continuing and discontinued operations		**N/A**	N/A
From continuing operations		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**3,000**	113,825
Land use rights	14	**–**	45,620
Investment properties	15	**–**	10,900
Interests in an associate	16	**21,535**	–
Intangible assets	17	**86,600**	–
Goodwill	18	**15,993**	291,436
		127,128	461,781
Current assets			
Financial assets at fair value through profit or loss	20	**–**	10,303
Inventories	21	**14,095**	15,644
Trade receivables	22	**6,621**	114,228
Prepayments, deposits and other receivables		**30,006**	39,887
Due from a related company	23	**7,237**	–
Cash and cash equivalents	24	**5,045**	88,707
		63,004	268,769
Current liabilities			
Trade payables	25	**3,145**	93,733
Other payables, deposits and accruals		**6,630**	57,309
Due to a shareholder	26	**1,744**	–
Due to a related company	27	**30,573**	130
Other borrowings	28	**–**	18,350
Taxes payable		**775**	7,266
		42,867	176,788
Net current assets		**20,137**	91,981
Total assets less current liabilities		**147,265**	553,762

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Due to a shareholder	26	**18,273**	–
Convertible bonds	38	**–**	121,430
Deferred tax liabilities	39	**21,650**	17,474
		39,923	138,904
Net assets		**107,342**	414,858
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	**28,216**	23,992
Reserves	31	**77,516**	303,634
		105,732	327,626
Non-controlling interests		**1,610**	87,232
Total equity		**107,342**	414,858

LIM MERNG PHANG
Director

LEE MAN TO
Director

STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Notes	**2010** **RMB'000**	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	19	**1**	1
Current assets			
Financial assets at fair value through profit or loss	20	**–**	10,301
Due from subsidiaries	19	**97,937**	352,798
Due from a related company	23	**1,486**	–
		99,423	363,099
Current liabilities			
Other payables and accruals		**2,424**	1,951
Net current assets		**96,999**	361,148
Total assets less current liabilities		**97,000**	361,149
Non-current liabilities			
Convertible bonds	38	**–**	121,430
Deferred tax liabilities	39	**–**	6,397
		–	127,827
Net assets		**97,000**	233,322
EQUITY			
Share capital	29	**28,216**	23,992
Reserves	31	**68,784**	209,330
Total equity		**97,000**	233,322

LIM MERNG PHANG
Director

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Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2010

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from operating activities			
Profit/(Loss) before income tax			
from continuing operations		**(15,343)**	(16,413)
from discontinued operations		**(259,110)**	78,575
		(274,453)	62,162
Adjustments for:			
Interest expense		**242**	1,995
Amortisation of land use rights		**268**	1,068
Depreciation		**3,317**	8,240
Interest income		**(54)**	(526)
Gain on disposals of property, plant and equipment		**–**	(104)
Provision for impairment of other receivables		**–**	650
Imputed interest on convertible bonds		**2,885**	9,513
Fair value (gain)/loss on the derivative component of the convertible bonds		**(22,979)**	5,434
Fair value (gain)/loss on investment properties		**(100)**	1,700
Loss/(Gain) on disposal of subsidiaries		**7,877**	(2,281)
Impairment of property, plant and equipment		**8,664**	–
Impairment of goodwill		**291,936**	–
Share of profit of an associate		**(176)**	–
Operating profit before working capital changes		**17,427**	87,851
(Increase)/Decrease in inventories		**(3,270)**	34,456
Decrease in trade receivables		**13,390**	16,504
Decrease/(Increase) in prepayments, deposits and other receivables		**10,456**	(7)
(Increase)/Decrease in amount due from a related company		**(7,237)**	53
Decrease in trade payables		**(2,437)**	(61,829)
Increase in other payables, deposits and accruals		**15,158**	1,053
Decrease in amount due to a former director of a subsidiary		**–**	(38,957)
Increase in amount due to a shareholder		**20,017**	–
(Decrease)/Increase in amount due to a related company		**(6,388)**	931
Cash generated from operations		**57,116**	40,055
Interest received		**54**	526
Income taxes paid		**(1,050)**	(8,069)
Net cash generated from operating activities		**56,120**	32,512

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2010

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(1,427)**	(11,145)
Proceeds from disposals of property, plant and equipment		**–**	673
Acquisition of land use rights		**(3,422)**	–
Acquisition of subsidiaries, net of cash acquired	37	**6,498**	–
Decrease in pledged time deposits		**–**	2,986
Net cash (outflow)/inflow from disposal of subsidiaries	34	**(30,916)**	1,407
Net cash used in investing activities		**(29,267)**	(6,079)
Cash flows from financing activities			
Interest paid		**(242)**	(1,995)
Proceeds from other borrowings		**–**	31,932
Repayments of bank and other borrowings		**(18,350)**	(60,960)
Redemption of convertible bonds		**(92,400)**	–
Net cash used in financing activities		**(110,992)**	(31,023)
Net decrease in cash and cash equivalents		**(84,139)**	(4,590)
Cash and cash equivalents at the beginning of year		**88,707**	92,648
Effect of foreign exchange rate changes, net		**477**	649
Cash and cash equivalents at the end of year		**5,045**	88,707
Analysis of balances of cash and cash equivalents	24		
Cash and bank balances		**5,045**	73,705
Short term bank deposit		**–**	15,002
		5,045	88,707

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2010

	Equity attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital RMB'000	Share premium* RMB'000	Statutory reserves* RMB'000	Exchange fluctuation reserve* RMB'000	Convertible bond equity reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000	RMB'000	RMB'000
Balance at 1 July 2009	23,992	224,895	16,100	6,124	72,040	(15,525)	327,626	87,232	414,858
Transactions with owners									
Issue of new shares *(note 29)*	4,224	97,574	–	–	–	–	101,798	–	101,798
Disposal of subsidiaries	–	–	(16,810)	–	(10,621)	16,810	(10,621)	(84,581)	(95,202)
Redemption of convertible bonds *(note 38)*	–	–	–	–	(38,313)	–	(38,313)	–	(38,313)
	4,224	97,574	(16,810)	–	(48,934)	16,810	52,864	(84,581)	(31,717)
Loss for the year	–	–	–	–	–	(273,837)	(273,837)	3,515	(270,322)
Other comprehensive income									
Release of exchange fluctuation reserve upon disposal of subsidiaries *(note 34(a))*	–	–	–	(5,954)	–	4,870	(1,084)	(4,870)	(5,954)
Exchange gain on translation of financial statements of foreign operations	–	–	–	163	–	–	163	314	477
Total comprehensive income for the year	–	–	–	(5,791)	–	(268,967)	(274,758)	(1,041)	(275,799)
Transfer to statutory reserves	–	–	975	–	–	(975)	–	–	–
Transfer upon redemption of convertible bonds	–	–	–	–	(23,106)	23,106	–	–	–
Balance at 30 June 2010	**28,216**	**322,469**	**265**	**333**	**–**	**(245,551)**	**105,732**	**1,610**	**107,342**
Balance at 1 July 2008	23,992	224,895	9,038	5,952	72,040	(30,125)	305,792	55,785	361,577
Profit for the year	–	–	–	–	–	21,662	21,662	31,193	52,855
Other comprehensive income									
Exchange gain on translation of financial statements of foreign operations	–	–	–	172	–	–	172	254	426
Total comprehensive income for the year	–	–	–	172	–	21,662	21,834	31,447	53,281
Transfer to statutory reserves	–	–	7,062	–	–	(7,062)	–	–	–
Balance at 30 June 2009	23,992	224,895	16,100	6,124	72,040	(15,525)	327,626	87,232	414,858

* *These reserve accounts comprise the consolidated reserves of approximately RMB77,516,000 (2009: RMB303,634,000) in the consolidated statement of financial position.*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

1. GENERAL INFORMATION

Combest Holdings Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 28 August 2001 and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Flat M-N, 24/F, Houston Industrial Building, 32-40 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 19 to the financial statements. The Company and its subsidiaries are collectively referred to as the "Group" hereafter.

Pursuant to a resolution duly passed in an extraordinary general meeting of the Company on 25 June 2010, the Company changed its name from "Goldmond Holdings Limited" to "Combest Holdings Limited" with effect from 28 June 2010.

The financial statements for the year ended 30 June 2010 were approved for issue by the board of directors on 26 August 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 29 to 103 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared under the historical cost convention except for investment properties and financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries *(see note 2.3 below)* made up to 30 June each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the portion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned by the Group and are not the Group's financial liabilities.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Profit or loss attributable to the non-controlling interests is presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results.

2.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the acquisition method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associate

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In consolidated financial statements, investments in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interests in an associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale or included in a disposal group that is classified as held for sale. The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in an associate recognised for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in the associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is any objective evidence that the investment in an associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation

The financial statements are presented in Renminbi ("RMB"). The functional currency of the Company is Hong Kong dollars ("HK$") as most of the underlying transactions of the Company are denominated in HK$.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rate at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange fluctuation reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary have been treated as assets and liabilities of the foreign operation and translated into RMB at closing rates. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Depreciation is calculated on the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Leasehold buildings	20-35 years
Leasehold improvements	Over the lease terms or estimated useful life of 5 years whichever is shorter
Computer equipment	20%
Plant and machinery	10%-33%
Furniture, fixtures and office equipment	10%-33%
Motor vehicles	10%-25%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal of an item of property, plant and equipment recognised in the profit or loss is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 costs, such as repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

2.7 Land use rights

Land use rights represent up-front payments to acquire long term interests in usage of land. These are stated at cost less accumulated amortisation and impairment losses, if any. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.15. The up-front payments are amortised over the respective lease terms on the straight-line method and the amortisation is charged to the profit or loss.

2.8 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the statement of financial position reflect the prevailing market conditions at the reporting date.

Gains or losses arising from changes in the fair value of an investment property are included in profit or loss in the period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Goodwill

Goodwill represents the excess of the fair value of consideration transferred in a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The consideration transferred is measured at the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment *(see note 2.19).*

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the fair value of consideration transferred in a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

2.10 Intangible assets (other than goodwill)

Brand name

Intangible assets representing a brand name for functional healthcare bedroom products with indefinite useful lives was acquired and initially recognised at cost. After initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Intangible assets are tested for impairment as described below in note 2.19.

Research and development costs

Costs associated with research activities are expensed in the profit or loss as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the Group has the intention to complete the development and use or sell the new products;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

All other development costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets

The Group's financial assets, other than investment in subsidiaries and associate, are classified into loans and receivables and financial assets at fair value through profit or loss.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, that is, the date that the Group commits to purchase or sell the asset. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any of such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and all derivatives other than hedging instruments.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

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

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.18 to these financial statements.

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Impairment of financial assets (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

2.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and any applicable selling expenses.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in values. For the purpose of statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Financial liabilities

The Group's financial liabilities include trade payables, other payables, accruals, amount due to a related company/a shareholder, other borrowings and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. These financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(ii) Trade payables, other payables, accruals, amount due to a related company/a shareholder

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Financial liabilities (Continued)

(iii) Convertible bonds contains liability and equity components, and early redemption options derivative

Convertible bonds issued by the Company that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible bonds and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the bonds into equity, is included in convertible bond equity reserve.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest rate method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in the convertible bond equity reserve until the embedded conversion option is exercised (in which case the balance stated in the convertible bond equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to the retained profit. No gain or loss is recognised in the profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, equity and early redemption option components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease *(see note 2.8)*; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease *(see note 2.7)*. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges as the lessee

Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line method over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

2.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefit, to the extent that they are incremental costs directly attributable to the equity transaction.

2.18 Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefit will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

From the sale of goods

Revenue, from the sale of consumer electronic products, and components, and satellite communications products, and system solutions, and functional healthcare bedroom products, is recognised upon the significant risks and rewards of ownership have passed to the customer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition (Continued)

From the rendering of services

Revenue, from the rendering services of design and development of original design manufacturing and proprietary packaged software, is recognised, based on the stage of completion of contract, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion of a contract is established by reference to physical completion of a particular phase of the contract.

Interest income

Revenue is recognised on a time-proportion basis, taking into account the principal outstanding, using the effective interest rate applicable.

Rental income

Revenue is recognised on a time proportion basis over lease terms.

2.19 Impairment of non-financial assets

The Group's goodwill, intangible assets, property, plant and equipment, land use rights and the Company's investments in subsidiaries and interests in an associate are subject to impairment testing.

Goodwill and intangible assets with indefinite useful life are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Impairment of non-financial assets (Continued)

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2.20 Employee benefits

(i) Retirement benefits scheme

Pursuant to the relevant regulations of the government in the People's Republic of China (the "PRC"), the subsidiaries operating in the PRC have participated in local municipal government retirement benefits schemes (the "Schemes"), whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to the profit or loss as incurred. There are no provisions under the Schemes whereby forfeited contributions may be used to reduce future contributions.

The Group has participated in a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") for its employees in Hong Kong who are eligible to participate in the MPF Scheme, in accordance with the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employee's basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

(ii) Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences are not recognised until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.22 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Accounting for income taxes (Continued)

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if, (a) the Group has the legally enforceable right to set off the recognised amounts; and (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if, (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either; (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and services lines.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that loss on disposal of subsidiaries, finance costs, share of results of an associate, fair value gain or loss related to financial assets at fair value through profit or loss, and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but financial assets at fair value through profit or loss, interests in an associate and corporate assets. Corporate assets are not directly attributable to the business activities of any operating segment which primarily applies to the Group's headquarter.

Segment liabilities include all liabilities but other borrowings, convertible bonds, tax payables, deferred tax liabilities and corporate liabilities. Corporate liabilities are not directly attributable to the business activities of any operating segment and are not allocated to a segment, which primarily applies to the Group's headquarters.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Related parties

A party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2.25 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations.

Classification as a discontinued operation occurs upon disposals. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises the post-tax profit or loss of the discontinued operations and the post-tax gain and loss on the disposal of the disposal group constituting the discontinued operation.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 July 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKAS 27 (Revised 2008)	Consolidated and separate financial statements
HKAS 39 & HK(IFRIC) – Int 9 (Amendments)	Reassessment of embedded derivatives
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 3 (Revised 2008)	Business combinations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various	Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or company statements of financial position at 1 July 2008 and accordingly the third statement of financial position as at 1 July 2008 is not presented.

3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

There is no impact on the effect of the application of the amendments in respect of the Company's interest in subsidiaries and retained earnings at 30 June 2010 in the separate statement of financial position.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

HKFRS 3 Business combinations (Revised 2008)

The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements are not set out in these financial statements.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

Annual improvements 2009

The HKICPA has issued Improvements to *Hong Kong Financial Reporting Standards 2009*. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the property, plant and equipment have been determined based on value-in-use calculations. These calculations and valuations require the use of judgement and estimates.

(ii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Management reassesses the impairment of receivables at the reporting date.

(iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses the estimations at the reporting date.

(iv) Estimated impairment of goodwill and intangible assets with an indefinite useful life

The Group test annually whether goodwill and intangible assets with an indefinite useful life have suffered any impairment in accordance with the accounting policy stated in note 2.19. It requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with an indefinite useful life is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimation uncertainty (Continued)

(v) Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for income taxes and timing of payment of related taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

(vi) Valuation of convertible bonds

The directors use their judgement in selecting an appropriate valuation technique for the Group's convertible bonds which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied. The fair value of convertible bonds is estimated by independent professional valuer based on actual transactions of the financial instruments in the market or transactions of similar financial instruments which generally represent the best estimate of the market value. Details of the key inputs into the model are disclosed in note 38. The fair value of convertible bonds varies with different variables of certain subjective assumptions. Any change in these variables so adopted may materially affect the estimation of the fair value of convertible bonds.

Judgements

In the process of applying the Group's accounting policies, management had made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Estimated useful lives of property, plant and equipment

In assessing the estimated useful lives of the property, plant and equipment, the Group takes into account factors like the expected usage of the assets by the Group based on past experience, the expected physical wear and tear, and technical obsolescence arising from changes or improvements in production or from a change in the market demand for the products. The estimation of the useful lives is a matter of judgement based on the experience of the Group.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered, after allowances for return and trade discounts during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000
Revenue						
Sale of goods	**45,331**	30,444	**146,720**	707,439	**192,051**	737,883
Rendering of services	**–**	–	**–**	68	**–**	68
	45,331	30,444	**146,720**	707,507	**192,051**	737,951
Other income						
Gross rental income from investment properties	**–**	–	**350**	1,267	**350**	1,267
Bank interest income	**24**	39	**30**	487	**54**	526
Exchange gains, net	**559**	–	**–**	–	**559**	–
Sales of scrap materials	**160**	1,137	**3,811**	17,698	**3,971**	18,835
Others	**216**	539	**3**	1,589	**219**	2,128
	959	1,715	**4,194**	21,041	**5,153**	22,756
Gains						
Fair value gain on the derivative component of the convertible bonds	**22,979**	–	**–**	–	**22,979**	–
Fair value gain on investment properties	**–**	–	**100**	–	**100**	–
Gain on disposal of subsidiaries	**–**	–	**–**	2,281	**–**	2,281
Gain on disposals of property, plant and equipment	**–**	–	**–**	104	**–**	104
	22,979	–	**100**	2,385	**23,079**	2,385
	23,938	1,715	**4,294**	23,426	**28,232**	25,141

6. SEGMENT INFORMATION

The executive directors have identified the Group's two product lines as reportable segments:

(a) Functional healthcare bedroom products includes mattresses, pillows, blankets, other bedroom accessories and a range of functional healthcare clothes and accessories; and

(b) OEM consumer electronic products includes RS connectors, transmitters for consumer electronic products.

There were no inter-segment sales and transfers during the year (2009: Nil).

	Functional healthcare bedroom products		**OEM consumer electronic products**		**Total**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Revenue						
– From external customers						
Reportable segment revenue	**8,000**	–	**37,331**	30,444	**45,331**	30,444
Reportable segment profit/ (loss) (Continuing operations)	**3,012**	–	**(31,429)**	3,582	**(28,417)**	3,582
Depreciation	**–**	–	**1,503**	1,605	**1,503**	1,605
Impairment of goodwill	**–**	–	**23,936**	–	**23,936**	–
Impairment of property, plant and equipment	**–**	–	**8,664**	–	**8,664**	–
Reportable segment assets	**119,873**	–	**36,442**	21,147	**156,315**	21,147
Additions to non-current segment assets during the year, including arising from acquisition of subsidiaries	**102,940**	–	**152**	160	**103,092**	160
Reportable segment liabilities	**6,677**	–	**643**	5,541	**7,320**	5,541

6. SEGMENT INFORMATION (Continued)

The total represented for the Group's operation segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2010 RMB'000	2009 RMB'000
Reportable segment revenue (Continuing operation)	**45,331**	30,444
Discontinued operation		
– Sales of goods:		
(i) Consumer electronic products and component, and satellite communication products*	**146,720**	707,413
(ii) System solution	**–**	26
– Rendering of services:		
(i) Proprietary packaged software	**–**	40
(ii) ODM	**–**	28
Group revenue	**192,051**	737,951
Reportable segment (loss)/profits	**(28,417)**	3,582
Fair Value gain/(loss) on the derivative component of the convertible bonds	**22,979**	(5,434)
Unallocated income	**759**	578
Finance costs	**(3,070)**	(9,823)
Unallocated expenses	**(7,770)**	(5,316)
Share of profit of an associate	**176**	–
Loss before income tax and discontinued operations	**(15,343)**	(16,413)

* *Other than OEM consumer electronic products*

6. SEGMENT INFORMATION (Continued)

	2010 RMB'000	2009 RMB'000
Reportable segment assets	**156,315**	21,147
Assets from disposed subsidiaries	–	610,393
Financial assets at fair value through profit or loss	–	10,303
Interests in an associate	**21,535**	–
Other corporate assets	**12,282**	88,707
Group assets	**190,132**	730,550
Reportable segment liabilities	**7,320**	5,541
Liabilities from disposed subsidiaries	–	139,109
Other borrowings	–	18,350
Convertible bonds	–	121,430
Taxes payables	**775**	7,266
Deferred tax liabilities	**21,650**	17,474
Other corporate liabilities	**53,045**	6,522
Group liabilities	**82,790**	315,692

The Group's revenue from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Principal markets				
The PRC	**15,788**	72,725	**127,128**	457,341
Hong Kong	**169,856**	632,782	–	4,440
Europe	**5,595**	27,059	–	–
Others	**812**	5,385	–	–
	192,051	737,951	**127,128**	461,781

The geographical location of customers is based on the location at which the goods were delivered. The geographical location of non-current assets is based on the physical location of the assets. The Company is an investment holding company where the Group has majority of its operation and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 "Operating Segments".

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

7. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000
Interest on bank loans and overdrafts wholly repayable within five years	**–**	295	**–**	1,348	**–**	1,643
Interest on other loans wholly repayable within five years	**185**	15	**57**	337	**242**	352
	185	310	**57**	1,685	**242**	1,995
Imputed interest on convertible bonds *(note 38)*	**2,885**	9,513	**–**	–	**2,885**	9,513
Total interest on financial liabilities stated at amortised cost	**3,070**	9,823	**57**	1,685	**3,127**	11,508

8. LOSS BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)		
Loss before income tax is arrived at after charging:						
Cost of inventories sold	**29,632**	12,519	**102,341**	513,798	**131,973**	526,317
Cost of services provided	**–**	–	**–**	327	**–**	327
Auditors' remuneration	**418**	484	**–**	–	**418**	484
Amortisation of land use rights	**–**	–	**268**	1,068	**268**	1,068
Depreciation	**1,503**	1,605	**1,814**	6,635	**3,317**	8,240
Fair value loss on investment properties	**–**	–	**–**	1,700	**–**	1,700
Exchange losses, net	**–**	94	**–**	1,482	**–**	1,576
Provision for impairment of other receivables	**–**	–	**–**	650	**–**	650
Research costs	**–**	–	**1,158**	5,608	**1,158**	5,608
Fair value loss on the derivative component of the convertible bonds	**–**	5,434	**–**	–	**–**	5,434
Loss on disposal of subsidiaries *(note 34(a))*	**–**	–	**7,877**	–	**7,877**	–
Impairment of goodwill	**23,936**	–	**268,000**	–	**291,936**	–
Impairment of property, plant and equipment	**8,664**	–	**–**	–	**8,664**	–
Operating lease charges in respect of land and buildings	**597**	–	**1**	235	**598**	235
Staff costs (excluding directors' remuneration)						
– Salaries and wages	**7,238**	3,657	**14,497**	52,160	**21,735**	55,817
– Pension scheme contribution	**5**	2	**19**	87	**24**	89
	7,243	3,659	**14,516**	52,247	**21,759**	55,906

9. INCOME TAX CREDIT

Taxes on profits assessable have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)		
Current tax						
– Hong Kong	**–**	15	**51**	720	**51**	735
– PRC	**900**	1,223	**1,315**	8,834	**2,215**	10,057
	900	1,238	**1,366**	9,554	**2,266**	10,792
Deferred tax *(note 39)*						
– Hong Kong	**(6,397)**	(1,485)	**–**	–	**(6,397)**	(1,485)
Total income tax (credit)/expense	**(5,497)**	(247)	**1,366**	9,554	**(4,131)**	9,307

9. INCOME TAX CREDIT (Continued)

A reconciliation of the tax expense applicable to (loss)/profit before tax using the statutory rates for the tax jurisdictions in which the Company and the majority its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
(Loss)/Profit before income tax:		
– Continuing operations	**(15,343)**	(16,413)
– Discontinued operations	**(259,110)**	78,575
	(274,453)	62,162
Tax on (loss)/profit before income tax, calculated at the rates applicable in the tax jurisdictions concerned	**(44,489)**	13,539
Tax effect of tax loss not recognised	**–**	417
Tax holiday of wholly-owned foreign enterprises	**(3,135)**	(9,691)
Tax effect of non-deductible expenses	**55,051**	5,669
Tax effect of non-taxable income	**(5,161)**	(627)
Reversal of deferred tax liabilities upon redemption of the convertible bonds	**(6,397)**	–
Income tax (credit)/expense	**(4,131)**	9,307

10. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated (loss)/profit attributable to owners of the Company for the year ended 30 June 2010 included loss of approximately RMB188,513,000 (2009: loss of approximately RMB17,629,000) has been dealt with in the financial statements of the Company *(note 31)*.

11. DIVIDENDS

No dividends were paid or declared by the Company during the years presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

12. (LOSS)/EARNINGS PER SHARE

Basic

(1) *From continuing and discontinued operations*

The calculation of basic (loss)/earnings per share from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

	2010	2009
	RMB'000	RMB'000 (Restated)
(Loss)/Profit for the year attributable to the owners of the Company	**(273,837)**	21,662

	No of shares	No of shares
	'000	'000
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**2,477,076**	2,416,500

(2) *From continuing operations*

The calculation of basic loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	2010	2009
	RMB'000	RMB'000 (Restated)
(Loss)/Profit for the year attributable to the owners of the Company	**(273,837)**	21,662
Less: (Loss)/Profit for the year from discontinued operations attributable to owners of the Company	**(267,406)**	38,988
Loss for the year for the purpose of basic loss per share from continuing operations attributable to owners of the Company	**(6,431)**	(17,326)

The denominators used are the same as those detailed above for basic (loss)/earnings per share from continuing and discontinued operations.

(3) *From discontinued operations*

Basic loss per share from discontinued operations is RMB10.79 cents per share (2009: earnings of RMB1.61 cents per share, as restated) which is calculated based on the loss for the year from discontinued operations attributable to owners of the Company of RMB267,406,000 (2009: profit of RMB38,988,000, as restated). The denominators used are the same as those detailed above for basic (loss)/earnings per share from continuing and discontinued operations.

Diluted

No diluted (loss)/earnings per share are presented for the years ended 30 June 2009 and 2010 as the outstanding convertible bonds were anti-dilutive.

13. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Computer equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 July 2008							
Cost	74,015	166	37,383	1,309	8,444	3,101	124,418
Accumulated depreciation	(1,677)	(41)	(2,732)	(853)	(5,700)	(647)	(11,650)
Net book value	72,338	125	34,651	456	2,744	2,454	112,768
Year ended 30 June 2009							
Opening net book value	72,338	125	34,651	456	2,744	2,454	112,768
Additions	–	220	9,026	49	144	1,706	11,145
Disposals	–	(4)	(38)	(1)	(6)	(520)	(569)
Disposals of subsidiaries *(note 34(b))*	(1,197)	–	–	(9)	(80)	(4)	(1,290)
Depreciation	(2,069)	(54)	(5,029)	(91)	(712)	(285)	(8,240)
Exchange differences	2	1	2	–	3	3	11
Closing net book value	69,074	288	38,612	404	2,093	3,354	113,825
At 30 June 2009							
Cost	72,171	375	46,032	524	2,753	3,856	125,711
Accumulated depreciation	(3,097)	(87)	(7,420)	(120)	(660)	(502)	(11,886)
Net book value	69,074	288	38,612	404	2,093	3,354	113,825
Year ended 30 June 2010							
Opening net book value	69,074	288	38,612	404	2,093	3,354	113,825
Acquisition of subsidiaries *(notes 37)*	–	–	3,444	71	–	183	3,698
Additions	727	–	516	52	47	85	1,427
Disposals of subsidiaries *(note 34(a))*	(69,233)	(269)	(28,871)	(384)	(1,960)	(3,252)	(103,969)
Depreciation	(568)	(19)	(2,469)	(17)	(137)	(107)	(3,317)
Impairment	–	–	(8,664)	–	–	–	(8,664)
Closing net book value	**–**	**–**	**2,568**	**126**	**43**	**263**	**3,000**
At 30 June 2010							
Cost	–	5	12,241	151	55	268	12,720
Accumulated depreciation and impairment	–	(5)	(9,673)	(25)	(12)	(5)	(9,720)
Net book value	**–**	**–**	**2,568**	**126**	**43**	**263**	**3,000**

13. PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

Plant and machinery related to the production of OEM consumer electronics products has been allocated to the cash generating unit ("CGU") relating to the sale of the OEM consumer electronics products. The details of assessment of this CGU are set out in note 18(b). The net carrying amount of CGU was determined to be in excess of its recoverable amount. The related property, plant and equipment impairment loss of approximately RMB8,664,000 was made and included under "Other expenses".

As at 30 June 2010, all property, plant and equipment held by the Group are located in the PRC. As at 30 June 2009, all property, plant and equipment held by the Group are located in Hong Kong and the PRC.

As at 30 June 2009, the Group's leasehold buildings are held under medium term leases and located in Hong Kong and the PRC.

14. LAND USE RIGHTS – GROUP

	2010	2009
	RMB'000	RMB'000
At the beginning of year		
Gross amount	**47,201**	49,342
Accumulated amortisation	**(1,581)**	(1,392)
Net book value	**45,620**	47,950
For the year		
Opening net book value	**45,620**	47,950
Addition	**3,422**	–
Amortisation	**(268)**	(1,068)
Exchange difference	**–**	2
Disposal of subsidiaries *(note 34)*	**(48,774)**	(1,264)
Closing net book value	**–**	45,620
At the end of year		
Gross amount	**–**	47,201
Accumulated amortisation	**–**	(1,581)
Net book value	**–**	45,620

As at 30 June 2009, the land use rights of the Group were situated in Hong Kong and the PRC and are held under a medium term lease.

15. INVESTMENT PROPERTIES – GROUP

	2010	2009
	RMB'000	RMB'000
Opening carrying amount	**10,900**	12,600
Fair value gain/(loss) on investment properties	**100**	(1,700)
Disposal of subsidiaries *(note 34(a))*	**(11,000)**	–
Closing carrying amount	**–**	10,900

As at 30 June 2009, the Group's PRC investment properties were revalued by an independent professional qualified valuer, at RMB10,900,000. Valuations were based on the investment method by taking into account the net rental incomes of the properties derived from the existing tenancies with due allowance for the reversionary value of the properties. These properties were held under medium term leases and were leased to third parties under operating leases.

16. INTERESTS IN AN ASSOCIATE – GROUP

	Group	
	2010	2009
	RMB'000	RMB'000
Share of net assets other than goodwill	**12,799**	–
Goodwill	**8,736**	–
	21,535	–

Particulars of the unlisted associate as at 30 June 2010 are as follows:–

Name	Form of business structure	Place of establishment and operations	Particulars of registered capital	Percentage of equity interest indirectly attributable to the Company	Principal activities
上海康佰企業管理有限公司	Corporation	PRC	RMB500,000	50	Trading of functional healthcare bedroom products

16. INTERESTS IN AN ASSOCIATE – GROUP (Continued)

The summarised unaudited financial information of the Group's associate as extracted from its management account is as follows:

	RMB'000
As at 30 June 2010	
Total assets	2,760
Total liabilities	(2,838)
For the period from 1 July 2009 to 30 June 2010	
Total revenues	4,577
Net loss	(309)

17. INTANGIBLE ASSETS – GROUP

	Brand name RMB'000
Opening carrying amount	–
Acquisition of subsidiaries *(note 37(b))*	86,600
Closing carrying amount	86,600

Intangible assets represent brand name acquired during the year *(note 37(b))*. In the opinion of the directors, brand name is considered to have an indefinite life as it has been in the market for many years and the nature of the industry in which the Group operates is that the brand obsolescence is not common if supported by appropriate level of marketing.

For impairment testing, intangible assets with indefinite useful lives at 30 June 2010 were allocated to the CGU relating to the sale of functional healthcare bedroom products ("CGU"). The recoverable amount of the CGU represents the value in use at 30 June 2010 based on a business valuation report on the Combest Group prepared by an independent professional qualified valuer. It is based on a five-year performance projection and certain key assumptions including a sustainable growth rate of 3% beyond 2015, and a discount rate of 21% to determine the value in use. The recoverable amount of CGU was determined to be in excess of its net carrying amount.

Management believes that possible changes in any of the above assumptions would not cause the carrying amounts to exceed their recoverable amounts.

18. GOODWILL – GROUP

	2010 RMB'000	2009 RMB'000
Opening net carrying amount	**291,436**	291,436
Acquisition of subsidiaries *(note 37)*	**16,493**	–
Impairment loss	**(291,936)**	–
Closing net carrying amount	**15,993**	291,436

Goodwill acquired through business combinations has been allocated to the cash generating unit ("CGU") from which it is expected to benefit. The carrying amount of goodwill had been allocated to following CGUs:

	Notes	2010 RMB'000	2009 RMB'000
Consumer electronic products and components, satellite communications products	(a)	**268,000**	268,000
OEM consumer electronics products	(b)	**23,936**	23,436
Functional healthcare bedroom products	(c)	**15,993**	–

Notes:

a. The Group's consumer electronic products and components, satellite communications products unit was disposed of at a selling price of approximately RMB108,229,000 and the net assets of this CGU together with its allocated goodwill was written down approximately to the selling price offered by the buyer. The related goodwill impairment loss of approximately RMB268,000,000 was made and included under "Other expenses". Details of the disposal of this CGU were set out in note 34(a).

b. The recoverable amount of this CGU represents the value in use at 30 June 2010 based on a business valuation report on the OEM consumer electronics products prepared by an independent professional qualified valuer. It is based on a five-year performance projection and certain key assumptions including zero growth rate beyond 2015, and a discount rate of 16.5% to determine the value in use. The net carrying amount of CGU was determined to be in excess of its recoverable amount. The related goodwill impairment loss of approximately RMB23,936,000 was made and included under "Other expenses".

c. The recoverable amount of the CGU represents the value in use at 30 June 2010 based on a business valuation report on the Combest Group prepared by an independent professional qualified valuer. It is based on a five-year performance projection and certain key assumptions including a sustainable growth rate of 3% beyond 2015, and a discount rate of 19% to determine the value in use. The recoverable amount of CGU was determined to be in excess of its net carrying amount.

As at 30 June 2009, no impairment relating to the remaining goodwill was indicated.

19. INVESTMENTS IN SUBSIDIARIES – COMPANY

The Company's investments in subsidiaries comprise:

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**1**	1

The movement in the impairment losses recognised for amounts due from subsidiaries is as follows:

	2010 RMB'000	2009 RMB'000
Balance at 1 July	**352,798**	352,798
Provision for impairment	**(254,861)**	–
Balance at 30 June	**97,937**	352,798

Amounts due from subsidiaries included in the Company's current assets are interest-free, unsecured and repayable on demand.

At the date of this report, particular of principal subsidiaries are as follows:

Name	Place and date of incorporation and operations	Particulars of nominal value of issued share capital/ paid up registered capital	Percentage of equity interest attributable to the Company: Directly	Percentage of equity interest attributable to the Company: Indirectly	Principal activities
Diamond Globe Investments Ltd.	2 January 2009 British Virgin Islands ("BVI")	100 ordinary shares of US$1 each	100	–	Investment holdings
揭東康佰健康家居用品有限公司 ("Jiedong Combest") (formerly known as 揭東鑽寶塑膠五金製品有限公司)	29 June 2006, PRC	Registered capital of US$3,380,600	–	100	Trading and manufacturing of healthcare bedroom products
揭陽康佰企業管理有限公司 ("Jieyang Combest")	1 March 2010, PRC	Registered capital of RMB5,000,000	–	100	Trading of functional healthcare bedroom products

19. INVESTMENTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Place and date of incorporation and operations	Particulars of nominal value of issued share capital/ paid up registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
鶴山市康佰健康卧室有限公司	7 January 2005, PRC	Registered capital of RMB1,000,000	–	100	Manufacturing of functional healthcare bedroom products
Well Wisdom Limited	12 January 2010, Hong Kong	10,000 ordinary shares of HK$1 each	–	100	Investment holdings
Well Sources Enterprises Limited	12 March 2009, BVI	50,000 ordinary shares of US$1 each	–	55	Trading of OEM consumer electronic products
揭東金望電子有限公司	16 September 2009, PRC	Registered capital of HK$10,000,000	–	55	Trading and manufacturing of OEM consumer electronic products

The above table lists the Group's subsidiaries which, in the opinion of the directors, principally affect the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The financial statements of the above subsidiaries are audited by Grant Thornton, Hong Kong for statutory purpose and/or for the purpose of the Group consolidation.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investments, at market value, in Hong Kong	**–**	2	**–**	–
Redemption option of convertible bonds *(note 38)*	**–**	10,301	**–**	10,301
	–	10,303	**–**	10,301

21. INVENTORIES – GROUP

	2010	2009
	RMB'000	RMB'000
Raw materials	**1,474**	3,177
Work in progress	**636**	8,542
Finished goods	**11,985**	3,925
	14,095	15,644

22. TRADE RECEIVABLES – GROUP

Ageing analysis of trade receivables as at the respective reporting dates, based on invoice date and net of provision, are as follows:

	2010	2009
	RMB'000	RMB'000
0-30 days	**1,785**	52,884
31-90 days	**4,253**	43,817
91-360 days	**583**	17,357
Over 360 days	**–**	170
	6,621	114,228

The Group allows a credit period from 30 to 90 days to its customers for the years ended 30 June 2010 and 2009.

Impairment of trade receivables is established when there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors and default or delinquency in payments are considered indicators that the trade receivables are impaired.

22. TRADE RECEIVABLES – GROUP (Continued)

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**2,948**	95,137
1-90 days past due	**3,673**	13,963
91-270 days past due	**–**	4,958
Over 270 days past due	**–**	170
Total trade receivables, net	**6,621**	114,228

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

The Group's management considers that trade receivables that were past due but not impaired for each of the reporting dates under review are of good credit quality. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

23. DUE FROM A RELATED COMPANY

Details of amount due from a related company pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	Group	**Company**
Name of borrower	揭東鑽寶科技電子有限公司 (“揭東鑽寶”)	揭陽市鑽寶電子有限公司 (“揭陽鑽寶”)
Director connected with the borrower	Mr. Lim Merng Phang	Mr. Lim Merng Phang
Amount outstanding at		
– 30 June 2009 and 1 July 2009	Nil	Nil
– 30 June 2010	**RMB7,237,000**	**RMB1,486,000**
Maximum amount outstanding during the year	RMB7,237,000	RMB1,486,000

Mr. Lim Merng Phang, a director of the Company, is also a director of 揭東鑽寶 and 揭陽鑽寶. The amount due from a related company is unsecured, interest free and repayable on demand.

24. CASH AND CASH EQUIVALENTS – GROUP

Cash and cash equivalents of the Group include the following:

	2010	2009
	RMB'000	RMB'000
Cash and bank balances	**5,045**	73,705
Short term bank deposit	**–**	15,002
	5,045	88,707

The effective interest rate of short-term time deposits for the year ended 30 June 2009 was 0.04% per annum. These deposits had maturity periods of ranging from 14 to 30 days.

The cash and bank balances of the Group denominated in RMB amounted to approximately RMB2,123,000 (2009: RMB44,431,000). RMB is not freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business.

25. TRADE PAYABLES – GROUP

Ageing analysis of the Group's trade payables, based on the invoice dates, is as follows:

	2010	2009
	RMB'000	RMB'000
0-30 days	**3,067**	26,950
31-90 days	**72**	60,700
91-360 days	**5**	4,735
Over 360 days	**1**	1,348
	3,145	93,733

26. DUE TO A SHAREHOLDER – GROUP

	Notes	2010 RMB'000	2009 RMB'000
Current liabilities	(i)	**1,744**	–
Non-current liabilities	(ii)	**18,273**	–
		20,017	–

Notes:

(i) The amount due is unsecured, interest free and repayable on demand.

(ii) The amount due is unsecured, interest bearing at 3% per annum and repayable on 28 February 2012. During the year, interest expense of approximately RMB181,000 has been recognised in the profit or loss.

27. DUE TO A RELATED COMPANY – GROUP

	2010 RMB'000	2009 RMB'000
揭陽鑽寶	**30,573**	–
南昌金鼎軟件發展有限公司	**–**	130
	30,573	130

As at 30 June 2010, Mr. Lim Merng Phang is a common director of the Company and 揭陽鑽寶. The amount due is unsecured, interest-free and repayable on demand.

28. OTHER BORROWINGS – GROUP

As at 30 June 2009, the amount due was unsecured and repayable on demand. The balance was interest-free since its inception and was interest bearing at 4% per annum from 1 January 2009 onwards. The balance has been fully settled during the year.

29. SHARE CAPITAL – GROUP AND COMPANY

	2010		2009	
	Number of shares '000	**RMB'000**	Number of shares '000	RMB'000
Authorised:				
Ordinary shares of HK$0.01 each	**20,000,000**	**210,000**	20,000,000	210,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At the beginning of the year	**2,416,500**	**23,992**	2,416,500	23,992
New shares issued for acquisition of subsidiaries *(note)*	**480,000**	**4,224**	–	–
At the end of the year	**2,896,500**	**28,216**	2,416,500	23,992

Note:

On 19 March 2010 and 30 June 2010, 210,000,000 and 270,000,000 new shares were issued to Glory Path Management Limited at HK$0.24 each. The issue of a total of 480,000,000 new shares of HK$0.01 each with a total fair value of RMB101,798,000 was used as share consideration for acquisition of subsidiaries *(note 37(b))*.

30. SHARE OPTION SCHEME

The Company operates a share options scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees or proposed employees of the Group, the Company's directors, including non-executive directors, suppliers of goods or services to the Group, customers of the Group, persons or entities who provide technology support to the Group, shareholders of any of the Group companies, and any other participants determined by the Company's directors as having contributed or who may contribute by way of joint venture or business alliances to the development and growth of the Group. The scheme became effective on 24 January 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group may not in aggregate exceed 30% of the Company's shares in issue from time to time. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other share option scheme of the Group) to be granted under the Scheme and any other share option scheme of the Group, may not in aggregate exceed 10% of the Company's shares in issue as at the date on which the Scheme was adopted without prior approval from the Company's shareholders.

30. SHARE OPTION SCHEME (Continued)

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, management shareholder or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Up to the approval date of this report, no options have been granted or agreed to be granted under the Scheme since its effective date on 24 January 2002.

31. RESERVES

Group

In accordance with the relevant laws and regulations of the PRC and the articles of association of the respective PRC subsidiaries within the Group, each of the PRC subsidiaries is required to transfer 10% of their profits after tax prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of their registered capital. Such reserve may be used to reduce any losses incurred or to be capitalised as paid-up capital.

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statements of changes in equity on page 35 of the financial statements.

31. RESERVES (Continued)

Company

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Convertible bond equity reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 July 2008	224,895	(19,498)	72,040	(51,014)	226,423
Loss for the year	–	–	–	(17,629)	(17,629)
Other comprehensive income					
Exchange differences	–	536	–	–	536
Balance at 30 June 2009 and 1 July 2009	224,895	(18,962)	72,040	(68,643)	209,330
Transactions with owners					
Issue of new shares *(note 29)*	97,574	–	–	–	97,574
Disposal of subsidiaries	–	–	(10,621)	–	(10,621)
Redemption of convertible bonds *(note 38)*	–	–	(38,313)	–	(38,313)
	97,574	–	(48,934)	–	48,640
Loss for the year	–	–	–	(188,513)	(188,513)
Other comprehensive income					
Exchange differences	–	(673)	–	–	(673)
	–	(673)	–	(188,513)	(189,186)
Equity transfer upon redemption of convertible bonds	–	–	(23,106)	23,106	–
At 30 June 2010	**322,469**	**(19,635)**	**–**	**(234,050)**	**68,784**

The share premium account of the Company arises on shares issued at a premium. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

32. OPERATING LEASE COMMITMENTS

As lessee

The Group leases its factory premises under operating leases arrangements. The leases run for an initial period of three years, with an option to renew the lease six months before the expiry date. None of the leases included contingent rentals.

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2010 RMB'000	2009 RMB'000
Within one year	354	–
In the second to fifth years, inclusive	355	–
	709	–

At the reporting date, the Company did not have any lease commitments (2009: Nil).

33. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Remuneration of the directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2010				2009			
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to pension scheme RMB'000	Total RMB'000	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to pension scheme RMB'000	Total RMB'000
Executive directors:								
– Mr. Li Jiahui*	–	–	–	–	–	202	–	202
– Mr. Huang Boqi**	–	325	–	325	–	325	–	325
– Mr. Lee Man To	–	515	11	526	–	178	4	182
– Mr. Lim Merng Phang#	–	291	3	294	–	–	–	–
	–	1,131	14	1,145	–	705	4	709
Independent non-executive directors:								
– Mr. Chan Ngai Sang, Kenny	127	–	–	127	127	–	–	127
– Mr. Xing Fengbing	127	–	–	127	127	–	–	127
– Mr. Chan Kin Sang	127	–	–	127	127	–	–	127
	381	–	–	381	381	–	–	381
	381	1,131	14	1,526	381	705	4	1,090

33. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

* *Mr. Li Jiahui resigned as an executive director on 25 February 2009*

** *Mr. Huang Boqi resigned as an executive director on 31 March 2010*

\# *Mr. Lim Merng Phang is appointed as an executive director on 1 April 2010*

There was no emolument paid by the Group to its directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 30 June 2009 and 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30 June 2009 and 2010.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2009: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five highest paid individuals, other than directors, during the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, bonuses, allowances and benefits in kind	**878**	2,820

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2010 Number of individuals	2009 Number of individuals
Nil – HK$1,000,000 (equivalent to RMB880,000)	**2**	3
HK$1,000,001 (equivalent to RMB880,001) – HK$1,500,000 (equivalent to RMB1,320,000)	**–**	–
HK$1,500,001 (equivalent to RMB1,320,001) – HK$2,000,000 (equivalent to RMB1,760,000)	**–**	1
	2	4

There was no emolument paid by the Group to any of these five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office during the years 30 June 2009 and 2010.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) On 12 October 2009, the Group disposed of its entire interest in Highway Bright Holdings Limited ("Highway Bright") and its subsidiaries Diamond Electronics Hong Kong Company Ltd., 揭東鑽寶, 揭東鑽寶塑膠五金制品有限公司 and 揭陽鑽寶 (collectively the "Highway Bright Group") to its then substantial shareholder, Chinasing Investment Holdings Limited ("Chinasing") for an aggregate consideration of HK$122,988,000, which comprises of a cash consideration of HK$60,000,000 (equivalent to RMB52,800,000) and the redemption of convertible bond with fair value amounting to HK$52,019,000 (equivalent to RMB45,776,000) held by Cytech Investment Limited which is a wholly-owned subsidiary of Chinasing ("Cytech CB"). The principal activities of Highway Bright Group are the manufacture, trading and sale of satellite, telecommunication products, ODM for gaming and consumer electronic products.

	RMB'000
Net assets disposed of comprise:	–
Property, plant and equipment *(note 13)*	103,969
Investment properties *(note 15)*	11,000
Land use rights *(note 14)*	48,774
Cash at banks and in hand	83,716
Trade receivables	94,217
Inventories	13,990
Prepayments, deposits and other receivables	18,924
Financial assets at fair value through profit or loss	2
Other loans	(43,865)
Trade payables	(88,178)
Other payables, deposits and accruals	(23,484)
Amount due to a related company	(1,500)
Tax payable	(7,707)
Deferred tax liabilities *(note 39)*	(11,077)
Non-controlling interests	(84,581)
Group's share of net assets disposed of	114,200
Release of exchange fluctuation reserve upon disposal of subsidiaries	(5,954)
Gain on redemption of Cytech CB *(note 38)*	(620)
Gain on redemption of Vendors CB *(note 38)*	(1,173)
Loss on disposal of subsidiaries	(7,877)
	98,576
Satisfied by:	
Cash	52,800
Redemption of Cytech CB *(note 38)*	45,776
	98,576

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(a) (Continued)

An analysis of the net cash outflow arising on disposal of Highway Bright Group is as follows:

	RMB'000
Cash consideration	52,800
Cash and cash equivalents disposed of	(83,716)
Net outflow of cash and cash equivalents	(30,916)

(b) On 30 April 2009, the Group has disposed of entire interest in Twyla Services Limited and its subsidiaries, Jiangxi Jinding Information System Co., Ltd., Jiangxi Jinlixin Technology Co., Ltd and Goldmond (HK) Limited (collectively the "Twyla Group"), to a third party, Mr. Zeng for a cash consideration of RMB1,500,000. The principal activities of Twyla Group are design and development of ODM software and proprietary packaged software.

	RMB'000
Net liabilities disposed of comprise:	
Property, plant and equipment *(note 13)*	1,290
Land use rights *(note 14)*	1,264
Cash at banks and in hand	93
Trade receivables	40
Prepayments, deposits and other receivables	34
Trade payables	(263)
Other payables, deposits and accruals	(1,949)
Amount due to a related company	(1,290)
	(781)
Gain on disposal of subsidiaries	2,281
	1,500
Satisfied by cash	1,500

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
Cash consideration	1,500
Cash and cash equivalents disposed of	(93)
Net inflow of cash and cash equivalents	1,407

35. DISCONTINUED OPERATIONS

(a) On 12 October 2009, the Highway Bright Group have been sold to Chinasing for an aggregate consideration of RMB122,988,000. The principal activities of the Highway Bright Group are the manufacture, trading and sale of satellite, telecommunication products, ODM for gaming and consumer electronic products.

(b) On 30 April 2009, the Twyla Group have been sold to Mr. Zeng for a cash consideration of RMB1,500,000. The principal activities of the Twyla Group are design and development of ODM software and proprietary packaged software.

The Group re-presented the results of discontinued operations for prior year in accordance with HKFRS 5. During the year, the Group consolidated financial statements of the discontinued operation of Highway Bright Group for the period from 1 July 2009 to 12 October 2009.

An analysis of the results and cash flows of the discontinued operations included in the consolidated statement of comprehensive income and the consolidated statement of cash flows during the years ended 30 June 2009 and 2010 are as follows:

During the year ended 30 June 2009, the results and cash flow from the discontinued operations are presented with the aggregate totals contributed from the Highway Bright Group and Twyla Group.

	Period from 1 July 2009 to 12 October 2009 RMB'000	Year ended 30 June 2009 RMB'000 (Restated)
Revenue	**146,720**	707,507
Cost of sales	**(126,558)**	(591,593)
Gross profit	**20,162**	115,914
Other income and gains	**4,294**	23,426
Selling and distribution costs	**(2,742)**	(18,918)
Administrative expenses	**(3,696)**	(30,606)
Other expenses	**(1,194)**	(9,556)
Impairment of goodwill	**(268,000)**	–
Loss on disposal of subsidiaries	**(7,877)**	–
Finance costs	**(57)**	(1,685)
(Loss)/Profit before income tax	**(259,110)**	78,575
Income tax expense *(note 9)*	**(1,366)**	(9,554)
	(260,476)	69,021
Operating cash flows	**31,210**	922
Investing cash flows	**(4,690)**	(10,238)
Financing cash flows	**–**	(29,028)
Net increase/(decrease) in cash flows	**26,520**	(38,344)

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties:

	Notes	2010 RMB'000	2009 RMB'000
Operating lease rentals paid to a related company	(i)	**253**	235
Interest expense charged on the loan facility from a shareholder	(ii)	**181**	–

Notes:–

(i) During the year ended 30 June 2010, the rentals were paid, in respect of the Group's factory and office premises situated in the PRC and Hong Kong to Diamond Electronics Hong Kong Company Limited and 揭東鑽寶 respectively, of which Mr. Lim Merng Phang is a director of the aforesaid companies. The leases will be expired on 30 June 2012.

During the year ended 30 June 2009, the rentals were paid, in respect of the Group's office premises situated in Hong Kong, to Chinasing, a then substantial shareholder of the Company. The directors of the Company have confirmed that the monthly rentals were calculated with reference to open market rentals for similar premises. The lease was terminated during the year ended 30 June 2009.

(ii) The interest expenses were paid, in respect of the Group's loan facilities, to Shing Lee Holding Limited, a substantial shareholder of the Company.

(b) Compensation of key management personnel

	2010 RMB'000	2009 RMB'000
Total remuneration of directors and other members of key management		
– short-term employee benefits	**2,420**	3,051

37. BUSINESS COMBINATIONS

(a) On 18 March 2010, the Group acquired 100% equity interest in Jiedong Combest at a consideration of RMB38,331,000. Jiedong Combest is principally engaged in the manufacture and sales of consumer electronic products at the date of acquisition.

Details of identified net assets acquired and goodwill are as follows:

	RMB'000
Total purchase consideration	38,331
Fair value of net identified assets acquired – as shown below	(37,831)
Goodwill *(note 18)*	500

The fair values of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts are as follows:

	Fair value	**Acquiree's carrying amount**
	RMB'000	RMB'000
Property, plant and equipment *(note 13)*	3,373	3,373
Inventories	9,171	9,171
Prepayments, deposits and other receivables	16,895	16,895
Cash and bank balances	9,931	9,931
Trade payables	(27)	(27)
Other payables, deposits and accruals	(1,512)	(1,512)
Net assets acquired	37,831	37,831
Bank and cash balances in a subsidiary acquired		9,931
Cash consideration		(38,331)
		(28,400)
Add: Settled through current account		38,331
Net cash inflow on acquisition		9,931

Since its acquisition, Jiedong Combest contributed revenue of approximately RMB13,986,000 and net profit of approximately RMB2,470,000 to the Group for the period from 18 March 2010 to 30 June 2010.

37. BUSINESS COMBINATIONS (Continued)

(b) On 24 June 2010, the Group acquired 100% equity interest in Jieyang Combest and its subsidiaries (together the "Combest Group") at a consideration of RMB106,798,000. Combest Group is principally engaged in the manufacture and sales of functional healthcare bedroom products and other accessories.

Details of identified net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash paid	5,000
– Fair value of shares consideration *(note 29)*	101,798
Total purchase consideration	106,798
Fair value of net identified assets acquired – as shown below	(90,805)
Goodwill *(note 18)*	15,993

The fair value of the shares consideration was determined based on the published share price available on the acquisition date.

The goodwill is attributable to the brand name in the PRC.

The fair value of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts are as follows:

	Fair value RMB'000	**Acquiree's carrying amount** RMB'000
Property, plant and equipment *(note 13)*	325	325
Intangible assets *(note 17)*	86,600	–
Investment in an associate	21,359	(254)
Other receivables	2,604	2,604
Cash and bank balances	1,567	1,567
Deferred tax liabilities *(note 39)*	(21,650)	–
Net assets acquired	90,805	4,242
Bank and cash balances in subsidiaries acquired		1,567
Cash consideration		(5,000)
Net cash outflow on acquisition		(3,433)

37. BUSINESS COMBINATIONS (Continued)

The acquisition enables the Group to diversify its business and provide a strategic opportunity for the Group to engage into the domestic consumer market in the PRC, and therefore, provide another recurrent income stream to the Group.

Since its acquisition, Combest Group contributed revenue of approximately RMB8,000,000 and net profit of approximately RMB346,000 to the Group for the period from 24 June 2010 to 30 June 2010.

The amount of acquisition-related costs of approximately RMB662,000 have been recognised as an expense under "Administrative expenses".

Had the above combinations taken place on 1 July 2009, the revenue (including continuing and discontinued operations) and the net loss (including continuing and discontinued operations) of the Group for the year ended 30 June 2010 would have been RMB294,198,000 and RMB254,424,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2009, nor are they intended to be a projection of future results.

38. CONVERTIBLE BONDS – GROUP AND COMPANY

On 12 July 2007, the Group entered into an acquisition agreement with Dream Star International Limited ("Dream Star") and Diamond Highway Limited ("Diamond Highway") (collectively, the "Vendors") for the acquisition of 55% of the issued share capital of Highway Bright from the Vendors for a consideration of approximately HK$288,750,000. The consideration was satisfied by (1) HK$100,000,000 (equivalent to RMB93,650,000) in cash by issuing 352,500,000 new ordinary shares at HK$0.105 per share (equivalent to RMB34,661,000) and by issuing of convertible bond of HK$62,987,500 (equivalent to RMB58,989,000), being the fair value as at the issue date, to Cytech Investment ("Cytech CB"); (2) by issuing 664,000,000 new ordinary shares at HK$0.105 per share to the Vendors (equivalent to RMB65,293,000); and (3) by issuing of convertible bond of HK$119,030,000 (equivalent to RMB111,474,000), being the fair value as at the issue date, to the Vendors ("Vendors CB").

Accordingly, the Company issued a total of HK$182,017,500 zero coupon convertible bonds (the "Convertible Bonds") at 100% of principal amount to the Vendors and Cytech Investment (collectively, the "Bondholders") on 21 November 2007 (the "Issue Date").

The Convertible Bonds, at the option of the Bondholders, are convertible at any time during the period commencing from the expiry of the sixth month from the Issue Date up to the date falling 7 days before November 2012 (the "Maturity Date") into fully paid ordinary shares with a par value of HK$0.01 each of the Company at an initial conversion price of HK$0.25 per share. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds at 100 per cent of its principle amount on the Maturity Date.

Further details of the principal terms and conditions regarding the issue of the Convertible Bonds have been set out in a circular of the Company dated 10 September 2007.

38. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

During the year ended 30 June 2010, the Cytech CB was fully redeemed at fair value of approximately RMB45,776,000 as part of the sale proceeds in connection with the disposal of Highway Bright Group and the Vendors CB was fully redeemed at cash of approximately RMB92,400,000.

Details of the disposal of Highway Bright Group are set out in note 34(a). Further details of the principal terms and conditions regarding the redemption of the Convertible Bonds during the year ended 30 June 2010 have been set out in the circular of the Company dated 13 August 2009.

The carrying values of the liability component, derivative component and equity component of the Convertible Bonds recognised in the statement of financial position are as follows:

Liability component

	Cytech CB RMB'000	**Vendors CB** RMB'000	**Total** RMB'000
Net carrying amounts at 1 July 2008	38,641	73,022	111,663
Imputed interest expenses *(note 7)*	3,292	6,221	9,513
Exchange differences	88	166	254
Net carrying amounts at 30 June 2009 and 1 July 2009	42,021	79,409	121,430
Imputed interest expenses *(note 7)*	998	1,887	2,885
Redemption of Cytech CB arising on disposal of subsidiaries *(note (a))*	(43,019)	–	(43,019)
Redemption of Vendors CB *(note (b))*	–	(81,296)	(81,296)
Net carrying amounts at 30 June 2010	**–**	**–**	**–**

38. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Derivative component

Derivative component represents redemption options of the Convertible Bonds classified under "Financial assets at fair value through profit or loss" *(note 20)*.

	Cytech CB RMB'000	Vendors CB RMB'000	Total RMB'000
Net carrying amounts at 1 July 2008	5,433	10,267	15,700
Fair value loss on the derivative component of the convertible bonds	(1,880)	(3,554)	(5,434)
Exchange differences	12	23	35
Net carrying amounts at 30 June 2009 and 1 July 2009	3,565	6,736	10,301
Fair value gain on the derivative component of the convertible bonds	3,679	19,300	22,979
Redemption of Cytech CB arising on disposal of subsidiaries *(note (a))*	(7,244)	–	(7,244)
Redemption of Vendors CB *(note (b))*	–	(26,036)	(26,036)
Net carrying amounts at 30 June 2010	**–**	**–**	**–**

Equity component

Equity component represents the option to convert the liability component into ordinary shares of the Company that grouped under "Convertible bond equity reserve".

	Cytech CB RMB'000	Vendors CB RMB'000	Total RMB'000
Net carrying amounts at 1 July 2008, 30 June 2009 and 1 July 2009	24,930	47,110	72,040
Redemption of Cytech CB arising on disposal of subsidiaries *(note (a))*	(10,621)	–	(10,621)
Redemption of Vendors CB *(note (b))*	–	(38,313)	(38,313)
	14,309	8,797	23,106
Equity transfer upon redemption of the convertible bonds arising from disposal of subsidiaries	(14,309)	(8,797)	(23,106)
Net carrying amounts at 30 June 2010	**–**	**–**	**–**

38. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Equity component (Continued)

Notes:

a. As part of the sale proceeds for the disposal of Highway Bright Group, the Company redeemed the Cytech CB with fair value of approximately RMB45,776,000 *(note 34(a))* from Cytech Investment on 12 October 2009. The gain on redemption of Cytech CB of RMB620,000 *(note 34(a))* which represented the difference between the redemption price allocated to debt component amounting to RMB35,155,000 and the total carrying amounts of liability and derivative component amounting to RMB35,775,000 has been recognised in the profit or loss as part of the calculation of loss on disposal of Highway Bright Group.

b. Upon completion of disposal of Highway Bright Group, the Company also redeemed the Vendors CB with a cash offer of approximately RMB92,400,000 to Vendors on 12 October 2009. The gain on redemption of Vendors CB of RMB1,173,000 *(note 34(a))* which represented the difference between the redemption price allocated to debt component amounting to RMB54,087,000 and the total carrying amounts of liability and derivative component amounting to RMB55,260,000 has been recognised in the profit or loss as part of the calculation of loss on disposal of Highway Bright Group.

Imputed interest expenses of approximately RMB2,885,000 (2009: RMB9,513,000) has been recognised in the profit or loss in respect of the Convertible Bonds and is calculated using the effective interest method by applying the effective interest rate of 8.5% per annum to the liability component of the Convertible Bonds.

The Convertible Bonds was valued at the disposal date of Highway Bright Group and redemption date of the Vendors CB by an independent professional valuer. The fair value of the liability component was calculated using discount rate method. The fair value of the derivative component was calculated using Binomial Model on the disposal and redemption date.

39. DEFERRED TAX LIABILITIES

Movement on the deferred tax liabilities are as follows:

Group

	Issue of convertible bonds	Revaluation of land use rights, property, plant and equipment	Revaluation of intangible assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 July 2008	7,865	11,077	–	18,942
Credited to profit or loss during the year *(note 9)*	(1,485)	–	–	(1,485)
Exchange differences	17	–	–	17
At 30 June 2009 and 1 July 2009	6,397	11,077	–	17,474
Acquisition of subsidiaries *(note 37(b))*	–	–	21,650	21,650
Disposal of subsidiaries *(note 34(a))*	–	(11,077)	–	(11,077)
Credited to profit or loss during the year *(note 9)*	(6,397)	–	–	(6,397)
At 30 June 2010	**–**	**–**	**21,650**	**21,650**

39. DEFERRED TAX LIABILITIES (Continued)

Company

	Issue of convertible bonds RMB'000
At 1 July 2008	7,865
Credited to profit or loss during the year	(1,485)
Exchange differences	17
At 30 June 2009 and 1 July 2009	6,397
Credited to profit or loss during the year	(6,397)
At 30 June 2010	–

The Group has tax losses of approximately RMB7,754,000 as at 30 June 2010 (2009: RMB11,223,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is considered not probable that future taxable profits will be available from these group companies against which the tax losses can be utilised.

The Group has deferred tax liabilities of approximately RMB297,000 as at 30 June 2010 (2009: RMB10,128,000) in respect of the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries have not been recognised. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of its subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage and monitor the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates, credit risk and liquidity risk. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risks is kept at a minimum level, the Group has not used any derivatives for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group's principal financial instruments comprise financial asset at fair value through profit or loss, trade receivables, other receivables, amount due from a related company, cash and cash equivalents, trade payables, other payables, accruals, amount due to a related company/a shareholder, other borrowings and convertible bonds. The most significant financial risks to which the Group is exposed are described below.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Interest rate risk

The Group does not have material exposure to interest rate risk. A reasonably possible change in interest rate in the next twelve months is assessed; which could have immaterial change in the Group's losses after tax and retained profit. Changes in interest rates have no material impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expenses.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is low.

(ii) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they related. The currency giving rise to this risk is US$. The Group reviews its foreign currency exposures regularly and does not consider its foreign exchange risk to be significant.

Foreign currency risk exposure

The following table details the Group's exposure at the reporting date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which they relate:

	2010 **US$'000**	2009 US$'000
Cash and cash equivalents	**264**	1,836
Trade receivables	**955**	14,375
Trade payables	**–**	(12,238)
	1,219	3,973

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Foreign currency risk (Continued)

The following table indicates the approximate change in the Group's (loss)/profit after income tax in response to the reasonably possible strengthening/weakening in the following foreign currency rates to which the Group has significant exposure at the reporting dates. There is no impact on other components of consolidated equity in response to the general increase in the following foreign currency rates.

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on (loss)/profit after income tax and retained profit**	Increase/ (decrease) in foreign exchange rates	Effect on (loss)/profit after income tax and retained profit
	%	**RMB'000**	%	RMB'000
US$	**1.35%**	**113**	0.23%	62
	(1.35%)	**(113)**	(0.23%)	(62)

The sensitivity rate 1.35% and 0.23% is used as at 30 June 2010 and 2009 respectively when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for aforementioned change in foreign currency rates. The functional currency of the Group's major operating subsidiaries is in RMB. A strengthening/weakening of the above foreign currencies again RMB at each reporting date would have had a profit/loss effect respectively to the amounts shown above, on the basis that all other variables remain constant.

The Company is not exposed to any other foreign currency risk as at reporting dates.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk

Group

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting dates, as summaries below:

	2010 RMB'000	2009 RMB'000
Classes of financial assets – carrying amounts		
Financial assets at fair value through profit or loss	–	10,303
Cash and cash equivalents	5,045	88,707
Loans and receivables:		
– Trade receivables	6,621	114,228
– Other receivables	26,976	9,134
– Due from a related company	7,237	–
	45,879	222,372

Company

	2010 RMB'000	2009 RMB'000
Classes of financial assets – carrying amounts		
Financial assets at fair value through profit or loss	–	10,301
Loans and receivables:		
– Due from subsidiaries	97,937	352,798
– Due from a related company	1,486	–
	99,423	363,099

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk (Continued)

The Group's credit risk is primarily attributable to financial assets at fair value through profit or loss, trade receivables, other receivables, amount due from a related company and cash and cash equivalents. The management has a credit policy and the exposures to credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group closely monitors the concentration of credit risk on individual customers based on their credit worthiness.

As at the reporting dates, all cash and cash equivalents were deposited in major banks in Hong Kong and the PRC without significant credit risk.

None of the Group's financial assets are secured by collateral or other credit enhancements.

(iv) Fair value

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

(v) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Liquidity risk (Continued)

As at the respective reporting dates, the remaining contractual maturity of the Group's and the Company's financial liabilities which are based on undiscounted cash flows are summaries below:

Group

	Carrying amount	Total contractual undiscounted cash flow	Within 3 months or on demand	More than 3 months but less than 6 months	More than 6 months but less than 12 months	Over 1 year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2010						
Trade payables	3,145	3,145	3,145	–	–	–
Other payables and accruals	6,139	6,139	6,139	–	–	–
Due to a shareholder	20,017	20,741	1,744	–	–	18,997
Due to a related company	30,573	30,573	30,573	–	–	–
	59,874	60,598	41,601	–	–	18,997
At 30 June 2009						
Trade payables	93,733	93,733	93,733	–	–	–
Other payables and accruals	50,357	50,357	18,425	31,932	–	–
Due to a related company	130	130	130	–	–	–
Other borrowings	18,350	18,350	18,350	–	–	–
Convertible bonds	121,430	170,462	2,346	2,346	4,691	161,079
	284,000	333,032	132,984	34,278	4,691	161,079

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Liquidity risk (Continued)

Company

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 3 months or on demand RMB'000	More than 3 months but less than 6 months RMB'000	More than 6 months but less than 12 months RMB'000	Over 1 year RMB'000
At 30 June 2010						
Other payables and accruals	2,424	2,424	2,424	–	–	–
At 30 June 2009						
Other payables and accruals	1,951	1,951	1,951	–	–	–
Convertible bonds	121,430	170,462	2,346	2,346	4,691	161,079
	123,381	172,413	4,297	2,346	4,691	161,079

(vi) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised at the reporting dates are categorised as follows. See notes 2.11 and 2.14 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets

	Group 2010 RMB'000	Group 2009 RMB'000
Financial assets at fair value through profit or loss	**–**	10,303
Loans and receivables:		
– Trade receivables	**6,621**	114,228
– Other receivables	**26,976**	9,134
– Due from a related company	**7,237**	–
Cash and cash equivalents	**5,045**	88,707
	45,879	222,372

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(vi) Summary of financial assets and liabilities by category (Continued)

Financial assets (Continued)

	Company	
	2010	2009
	RMB'000	RMB'000
Financial assets at fair value through profit or loss	**–**	10,301
Loans and receivables:		
– Due from subsidiaries	**97,937**	352,798
– Due from a related company	**1,486**	–
	99,423	363,099

Financial liabilities

	Group	
	2010	2009
	RMB'000	RMB'000
Financial liabilities measured at amortised cost:		
– Trade payables	**3,145**	93,733
– Other payables and accruals	**6,139**	50,357
– Due to a shareholder	**20,017**	–
– Due to a related company	**30,573**	130
– Other borrowings	**–**	18,350
– Convertible bonds	**–**	121,430
	59,874	284,000

	Company	
	2010	2009
	RMB'000	RMB'000
Financial liabilities measured at amortised cost:		
– Other payables and accruals	**2,424**	1,951
– Convertible bonds	**–**	121,430
	2,424	123,381

41. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(b) to support the Group's stability and growth; and

(c) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The management regards total equity as capital. The amount of capital as at 30 June 2010 and 2009 amounted to approximately RMB107,342,000 and RMB414,858,000 respectively which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

42. EVENT AFTER REPORTING DATE

(a) On 23 July 2010, the Group entered into a sale and purchase agreement with an independent third party whereby it has conditionally agreed to acquire the entire equity interests in two companies in the PRC at a total consideration of HK$7.08 million (equivalent to approximately RMB6.17 million). The purchase consideration will be satisfied by 1) cash of approximately HK$2.88 million (equivalent to approximately RMB2.51 million) and 2) by issuing 16,800,000 new ordinary shares at HK$0.25 per share to the vendor. The acquisition has not been completed at the date of this report.

(b) On 11 August 2010, the Group acquired 100% equity interests in 北京康佰夢之源企業管理有限公司, 北京永青世紀投資諮詢有限公司, 臨沂康佰巴馬夢家紡有限公司, 廣西巴馬夢健康家紡有限公司 and 50% equity interests in 上海康佰企業管理有限公司, which are engaged in the trading of functional healthcare bedroom products. The purchase consideration of approximately HK$97.65 million (equivalent to approximately RMB85.15 million) which was satisfied by (1) cash of approximately HK$17.65 million (equivalent to approximately RMB15.39 million) and (2) by issuing 200,000,000 new ordinary shares of the Company at HK$0.40 per share. The purchase consideration has been settled on or before the acquisition date.

Because the above acquisitions were effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition at the completion date. The nature and financial effect of the acquisition of the Group have been set out in a circular of the Company dated 25 June 2010.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

	2010 RMB'000	2009 RMB'000 (Restated)	2008 RMB'000 (Restated)	2007 RMB'000 (Restated)	2006 RMB'000 (Restated)
Results					
Revenue					
Continuing operations	**45,331**	30,444	212,672	–	–
Discontinued operations	**146,720**	707,507	238,149	32,376	38,565
	192,051	737,951	450,821	32,376	38,565
Profit/(Loss) from operation					
Continuing operations	**(12,273)**	(6,590)	27,450	(2,803)	(2,175)
Discontinued operations	**(259,053)**	80,260	27,321	(4,338)	(18,240)
	(271,326)	73,670	54,771	(7,141)	(20,415)
Finance costs					
Continuing operations	**(3,070)**	(9,823)	(5,717)	–	–
Discontinued operations	**(57)**	(1,685)	(2,817)	(1)	(3)
	(3,127)	(11,508)	(8,534)	(1)	(3)
Profit/(Loss) before taxation					
Continuing operations	**(15,343)**	(16,413)	21,733	(2,803)	(2,175)
Discontinued operations	**(259,110)**	78,575	24,504	(4,339)	(18,243)
	(274,453)	62,162	46,237	(7,142)	(20,418)
Income tax credit/(expenses)					
Continuing operations	**5,497**	247	(2,779)	–	–
Discontinued operations	**(1,366)**	(9,554)	(4,312)	(5)	(1)
	4,131	(9,307)	(7,091)	(5)	(1)
Profit/(Loss) for the year					
Continuing operations	**(9,846)**	(16,166)	18,954	(2,803)	(2,175)
Discontinued operations	**(260,476)**	69,021	20,192	(4,344)	(18,244)
	(270,322)	52,855	39,146	(7,147)	(20,419)
Attributable to:					
– Equity holders of the Company	**(273,837)**	21,662	13,082	(6,986)	(20,595)
– Non-controlling interests	**3,515**	31,193	26,064	(161)	176
	(270,322)	52,855	39,146	(7,147)	(20,419)
Assets and liabilities and non-controlling interest					
Total assets	**190,132**	730,550	797,579	23,425	33,514
Total liabilities	**(82,790)**	(315,692)	(436,002)	(5,598)	(7,192)
Non-controlling interests	**(1,610)**	(87,232)	(55,785)	–	(160)
	105,732	327,626	305,792	17,827	26,162