COMBEST

COMBEST HOLDINGS LIMITED
康佰控股有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock code: 8190)

Annual Report 2011

* For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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
Mr. Lee Man To

NON-EXECUTIVE DIRECTOR
Mr. Chan Kin Sang (redesignated on 1 June 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Chan Ngai Sang, Kenny
Mr. Xing Fengbing
Mr. Nguyen Van Tu Peter (appointed on 1 March 2011)

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

AUDITOR
BDO Limited
Certified Public Accountants
Hong Kong

PRINCIPAL BANKER
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

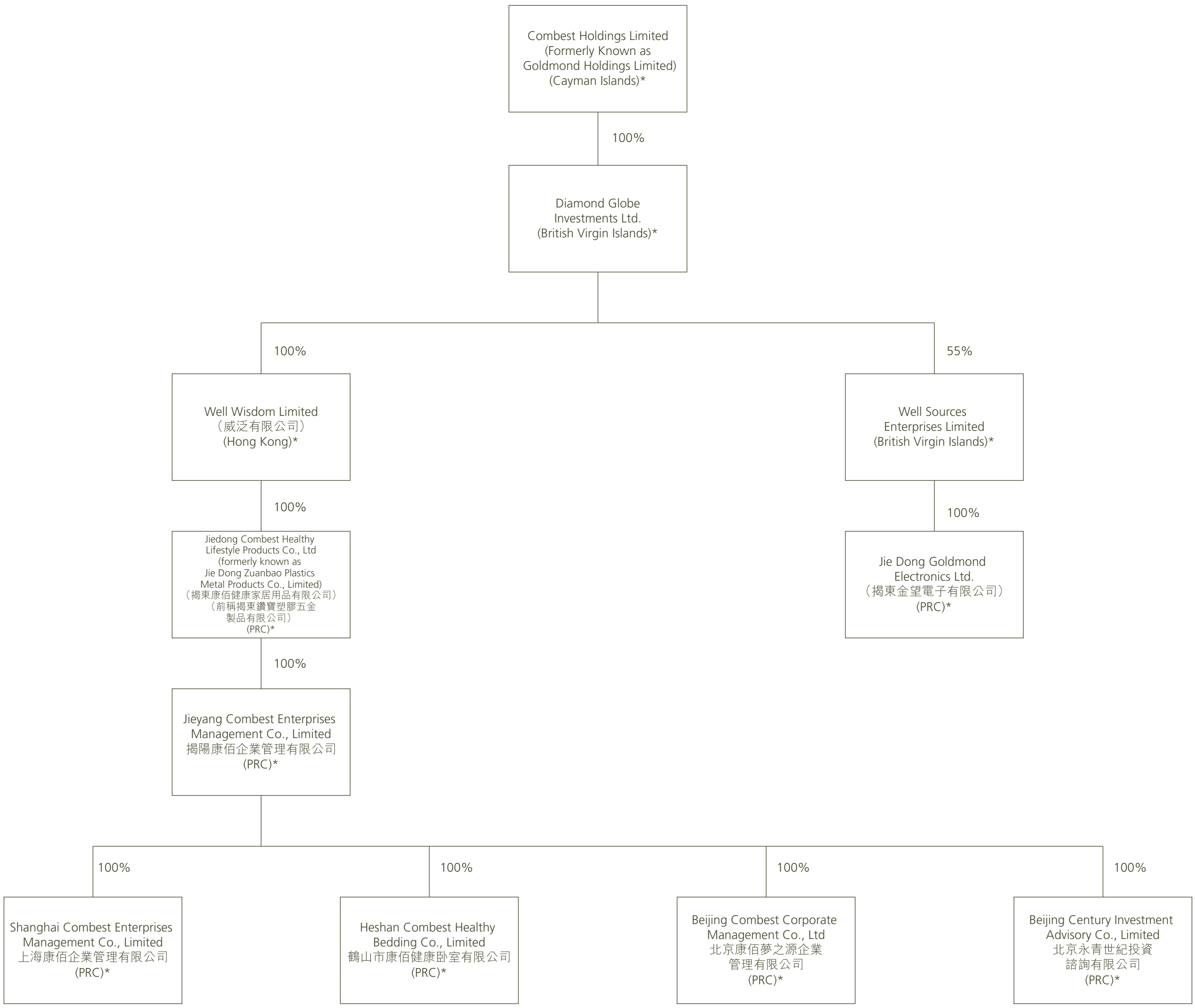
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDIT COMMITTEE
Mr. Chan Ngai Sang, Kenny
Mr. Xing Fengbing
Mr. Chan Kin Sang
Mr. Nguyen Van Tu Peter

STOCK CODE
8190

GROUP STRUCTURE

The following chart sets out the structure of the Company and its principal subsidiaries as at 30 June 2011:



* *place of incorporation*

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 2011.

	Continuing operations		Discontinued operations		Total	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**338,754**	45,331	**–**	146,720	**338,754**	192,051
Profit/(Loss) for the year attributable to owners of the Company	**69,550**	(6,431)	**–**	(267,406)	**69,550**	(273,837)
Earnings/(Loss) per share						
– basic (RMB cent(s))	**2.21**	(0.26)	**–**	(10.79)	**2.21**	(11.05)
– diluted (RMB cent(s))	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A

On 11 August 2010, the Company completed its acquisition of the 2nd tranche of the Combest Group in the PRC (comprising the remaining 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) ("Shanghai Combest") and 100% of 北京康佰夢之源企業管理有限公司 (Beijing Combest Corporate Management Co., Ltd), 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) and 廣西巴馬夢健康家紡有限公司 (Guangxi Health Co., Ltd)) (together the "Beijing Combest Group").

In order to enhance brand visibility and brand equity, to attract more franchise store owners and customers, and to provide additional sales support to our franchise owners to grow their business volume and expand their network, the Group decided to open self-managed customer service centres ("CSC") for the "Combest" brand. The first one was opened in Beijing in late August 2010. As at 30 June 2011, out of the currently targeted 100 customer service centres, the Group has already opened 23 customer service centres and the Group is in the process of selecting, establishing, opening and renovating another 77 customer service centers. These customer service centres will also host product seminars to attract new customers to understand our products and to promote interaction with them, as well as acting as a regional hub to organise training and sales and marketing events for the franchise stores within the respective regions. We also plan to utilize the customer service centres to attract more franchise operators to our sales network.

CHAIRMAN'S STATEMENT

It has been a truly rewarding year following the acquisition of the Combest Group which transformed our business into a healthcare product manufacturer with a nationwide domestic sales network. Moreover, after the completion of the acquisition and with various steps implemented by our management, our business experienced healthy and robust growth and entered into a new era of performance.

Following the relocation of our production base to a low-cost center in Jieyang, Guangdong province in July 2010, we aim to secure our competitive advantages in two key areas: our franchisees and our products.

OUR GROWING FRANCHISEE NETWORK

The number of our independent franchisees increased from around 2,500 (pre-acquisition) to exceeding 3,700, which demonstrates the vitality of our business and their faith in the business potential of Combest. We are proud of our incredibly impressive group of people, the franchisees and our employees who comprise the Combest family. We are grateful that our independent franchisees share our beliefs and further the mission of the Company, by tirelessly reaching out to the marketplace to promote our functional healthcare products. They share our confidence that they have made a positive impact on their own lives and the lives of the customers they come in contact with. We greatly treasure their trust in the Combest products and we will continue to invest in training and rewarding our invaluable franchisees for their sales successes.

CUSTOMER SERVICE CENTRES TO ENHANCE BRAND AWARENESS AND SUPPORT FRANCHISEES

Furthermore, as at the date of this report, we have also invested in our Combest brand and distribution infrastructure by opening up close to 23 self-managed CSC in various cities in China. These CSCs enhance the Combest brand awareness in the marketplace and support the franchisees in growing their business volume. We also place a strong emphasis on the ongoing training and product education of our independent franchisees as well as our staff at the CSC. This is a clear demonstration of our commitment to our people and products.

PRODUCT RANGE EXPANSION

We are investing in product research and development through our collaboration with Zhejiang University to expand the application of magnetic physics theory (being our core competence) to a wider range of consumer products such as the magnetic massage chairs and other consumer products and by upgrading the existing features and functions of some of our key selling products. We believe that by developing more new functional healthcare products through collaboration with renowned scientists and industry experts, we are well-positioned to enrich our product pipeline for distribution via our established and strong franchisee sales network. We believe that Combest stands out as a leader in commercializing the wider application of magnetic physics into various types of consumer products and helps people to attain a healthy lifestyle. Our culture of innovation echoes with our mission of promoting a healthy life through science（科學養生）.

CHAIRMAN'S STATEMENT

APPOINTMENT OF BRAND SPOKESPERSON TO SOLIDIFY BRAND AWARENESS

To solidify our brand awareness and enhance our image, we recently appointed Madam Lang Ping, the former captain and coach of the China National Volleyball team and US National Volleyball team, to act as our spokesperson. Madam Lang Ping was the star spiker of the PRC National volleyball team and played a pivotal role in the PRC volleyball team winning the Olympics gold medal in the 1984 Los Angeles Olympic Games as well as the PRC National volleyball team winning the World volleyball championship/world cup multiple times from 1981 to 1985. She is very well-regarded as a sports icon and enjoys nationwide acclaim as one of its top sports persons. Our television advertisements are now in the advanced stage of production and we expect to release our advertisements in the domestic market sometime later this year. We consider that the healthy image of Madam Lang Ping resonates strongly with our emphasis on promoting a healthy lifestyle and our dedication to perfection.

As said, we are very grateful to have a strong and dedicated force of independent franchisees, who share the beliefs and mission of the Company, by promoting our functional healthcare products to consumers. We treasure their trust in the products and future of the Company and we will continue to develop more new products to be launched in the marketplace and to take measures to expand our sales in the marketplace.

Also, I would like to express my heartfelt gratitude to all Combest staff for their dedication and outstanding performance and to our shareholders, customers and suppliers for their loyalty and support.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2011.

FINANCIAL REVIEW

We are principally engaged in two business segments, namely (i) manufacture and sales 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 is shown as follows:

Revenue and gross profit

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

In the continuing operations, the Group generated revenue of approximately RMB338,754,000, representing a significant increase of approximately 647.3% as compared to that in previous year. This was attributable to the contribution of the Combest Group. The gross profit margin ratio for the year ended 30 June 2011 was 34% compared to 17.4% 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 year.

The selling and distribution costs for the year were RMB12,474,000, representing an increase of approximately 274.6% from last year. It comprises mainly travelling and transportation cost amounting to approximately RMB6,600,000 and printing cost for marketing material of our products amounting to approximately RMB1,200,000. The increase was generally in line with the increase in revenue during the year.

The administrative expenses for the year were approximately RMB30,365,000, representing an increase of approximately 263.7%. It comprises mainly the amortization of intangible asset – franchise network amounting to approximately RMB6,500,000, operating lease charges in respect of land and building amounting to approximately RMB3,300,000 and director fee and emolument amounting to approximately RMB2,100,000. The increase was due mainly to costs incurred in connection with the acquisition of the 2nd tranche Combest Group during the year.

Other expenses for the year were approximately RMB106,000 (2010: RMB32,600,000), representing an decrease of 99.7% from the last financial year. The decrease was mainly due to the inclusion of impairment of goodwill and property, plant and equipment incurred last year.

Finance costs for the year were NIL (2010: RMB3,070,000). Imputed interest expense for convertible bonds were incurred and were fully redeemed during the financial year ended 30 June 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group generally finances its operation with internally generated cash flow. As at 30 June 2011, the cash and bank balances of the Group amounting to approximately RMB48,062,000 (2010: RMB5,045,000) and the net current assets of the Group amounted to approximately RMB72,488,000 (2010: RMB20,137,000). With such resources, the Company has adequate financial resources for its operations.

Charges on the Group's asset

As at 30 June 2011, none of the Group's assets were pledged to banks for the general banking facilities and bank loans granted to the Group (2010: 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 2011, the gearing ratio as a percentage of other borrowings, amount due to relevant parties and convertible bonds over total assets was approximately 0.9% (2010: 26.6%).

Material acquisition and disposals of subsidiaries and affiliated companies

On 11 August 2010, the Company completed its acquisition of the 2nd tranche of the Combest Group comprising 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.

Treasury policies and capital structure

Any surplus funds 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 2011, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

As at 30 June 2011, the Group and the Company did not have any significant contingent liabilities.

Employee information

For the year ended 30 June 2011, the staff cost, excluding directors' remuneration, amounted to RMB22,595,000 (including RMB22,595,000 and RMBNIL from continuing and discontinued operations respectively) (2010: RMB21,759,000, including RMB7,243,000 and RMB14,516,000 from continuing and discontinued operations respectively). 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.

BUSINESS REVIEW

We are currently principally engaged in two business segments, namely (i) manufacturing and trading of functional healthcare bedroom products, 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 11 August 2010, the Company completed its acquisition of the 2nd tranche of the Combest Group in the PRC (comprising the remaining 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) and 100% of 北京康佰夢之源企業管理有限公司 (Beijing Combest Corporate Management Co., Ltd), 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) and 廣西巴馬夢健康家紡有限公司 (Guangxi Health Co., Ltd)).

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MANAGEMENT DISCUSSION AND ANALYSIS

Manufacture and trading of OEM consumer electronic products

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

BUSINESS OUTLOOK

Future Prospects

Increasing standards of living driving growth

With increasing standards of living of consumers in the PRC market, many consumers are willing to consume and spend more on functional healthcare and personal care products which enhance their health. We view these increasingly affluent consumers as presenting a growing market for the products of the Group. We are confident of the continued growth of our business through diligently executing our business initiatives which focuses on our people and our products.

Advertisements to boost brand awareness and healthy image

One of our targets is to grow our franchisees and distributors sales force and specifically, to grow the business volume per franchisee. We aim to do this by conducting more recruitment seminars and participating in more trade fairs and exhibitions as well as by developing more new products for them to sell. The Combest TV advertisements with Madam Lang Ping, our brand spokesperson, will be broadcast over the domestic PRC TV channels later this year and together with the distribution/circulation of our print advertisements featuring her, will boost our brand awareness and assist our franchisees to increase their business volume. Madam Lang Ping was the star spiker of the PRC National volleyball team and played a pivotal role in the PRC volleyball team winning the Olympics gold medal in the 1984 Los Angeles Olympic Games as well as the PRC National volleyball team winning the World volleyball championship/world cup multiple times from 1981 to 1985. She is very well-regarded as a sports icon and enjoys nationwide acclaim as one of its top sports persons. Madam Lang Ping is a famous sports personality in the PRC market and her healthy image fits with our market position as a healthy lifestyle products company.

MANAGEMENT DISCUSSION AND ANALYSIS

Focus on Product Development and Expansion

We are applying our core competence, magnetic physics theory and applying it to other fast moving consumer goods segment such as personal care products. We are also exploring the expansion of our product range into the health supplement market which will further complement our product range. We believe that our new products will resonate with our loyal customer base built up over the years and help us achieve repeat business with them.

Our Strong Franchise Sales Network is our strength

We always draw great strength from our growing Combest family of franchisees and employees who are improving their own lives and the lives of others through using our innovative science-based products, our franchise business opportunities and our enriching and uplifting culture to live a healthy life with care and love for self and others. Our relationship with our franchisees is a win-win situation as increased sales by them brings about increased rewards to them and higher sales for the Group. To this extent, we remain confident that they remain motivated to achieve better sales in their drive to achieve higher returns for themselves.

We are confident that we will be able to sustain healthy growth given our opportunities in the market, our sales network and brand positioning and business strategies which evolve with the market. As we continually elevate and plan to grow our business, we are confident that we will be able to build a bright future for our Company and its stakeholders which includes our franchise network.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. Lim Merng Phang（林孟方）, aged 43, 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 38, 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. Mr. Lee acts as an independent non-executive director of Sino Harbour Property Group Ltd. in July 2011.

NON-EXECUTIVE DIRECTORS

Mr. Chan Kin Sang（陳健生）, aged 59, was appointed as an independent non-executive Director since 28 September 2004 and is currently the sole proprietor of Messrs. Peter K. S. Chan & Co., Solicitors and Notaries. Mr. Chan has been a practising 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 is currently an independent non-executive director of 2 Singapore listed companies, namely People's Food Holdings Limited and Luxking Group Holdings Limited and 4 Hong Kong listed companies, namely the Company, International Taifeng Holdings Limited, China Precious Metal Resources Holdings Co., 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 and United Pacific Industries Limited listed in Hong Kong. He was formerly an independent non-executive director of Sunray Holdings Limited, New Smart Energy Group Limited, Dynamic Energy Holdings Limited and Plus Holdings Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ngai Sang Kenny（陳毅生）, aged 46, 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, 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 which is listed on the Main Board of the Hong Kong Stock Exchange.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Xing Fengbing（邢鳳炳）, aged 71, 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.

Mr. Nguyen, Van Tu Peter（阮雲道先生）, age 67, is a senior counsel and was called to the Bar in England by the Honourable Society of the Middle Temple in 1970. He was an assistant crown counsel and crown counsel in the Legal Department of Hong Kong during the period from August 1970 to November 1974 and after leaving Government service was in private practice as a Barrister in Hong Kong for approximately twenty years. Mr. Nguyen was appointed as Director of Public Prosecutions in the Legal Department of Hong Kong during the period from July 1994 to October 1997 and he was the first and only Chinese to hold such position. Mr. Nguyen was appointed as a Queen's Counsel in 1995 and was a Judge of the Court of First Instance of the High Court, Hong Kong from February 1998 to April 2009. Mr. Nguyen has obtained the approval from the relevant department of the Government of Hong Kong Special Administrative Region of the People's Republic of China for his appointment as an independent non-executive Director. Currently, Mr. Nguyen is an independent non-executive director of Mayer Holdings Limited (a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with the stock code: 1116) and IPE Group Limited (a company listed on the main board of the Stock Exchange with the stock code: 929).

SENIOR MANAGEMENT

Ms. Wong Hung Flavia Yuen Yee（黃洪琬貽女士）, aged 44, 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 43, 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.

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 2011.

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 components.

Manufacturing and trading of functional healthcare bedroom products

On 11 August 2010, the Company completed its acquisition of the 2nd tranche of the Combest Group in the PRC (comprising the remaining 50% equity interests in 上海康佰企業管理有限公司 (Shanghai Combest Corporate Management Co., Limited) and 100% of 北京康佰夢之源企業管理有限公司 (Beijing Combest Corporate Management Co., Ltd), 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) and 廣西巴馬夢健康家紡有限公司 (Guangxi Health Co., Ltd)).

In order to enhance brand visibility and brand equity, to attract more franchise store owners and customers, and to provide additional sales support to our franchise owners to grow their business volume and expand their network, the Group decided to open self-managed customer service centres for the "Combest" brand. The first one was opened in Beijing in late August 2010. As at 30 June 2011, out of the currently targeted 100 customer service centres, the Group has already opened 23 customer service centres and the Group is in the process of selecting, establishing, opening and renovating another 77 customer service centers. These customer service centres will also host product seminars to attract new customers to understand our products and to promote interaction with them, as well as acting as a regional hub to organise training and sales and marketing events for the franchise stores within the respective regions. We also plan to utilize the customer service centres to attract more franchise operators to our sales network.

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 99.

The Directors did not recommend the payment of any dividend in respect of the year ended 30 June 2011 (2010: 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 100. 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.

REPORT OF THE DIRECTORS

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 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 27 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 27 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	35
Five largest customers in aggregate	58
The largest supplier	29
Five largest suppliers in aggregate	48

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
Mr. Lee Man To

Non-executive directors:

Mr. Chan Kin Sang (redesignated on 1 June 2011)

Independent non-executive directors:

Mr. Xing Fengbing
Mr. Chan Ngai Sang, Kenny
Mr. Nguyen Van Tu Peter (appointed on 1 March 2011)

In accordance with article 108(A) and article 111 of the Company's articles of association, Mr. Chan Kin Sang and Mr. Nguyen Van Tu Peter, 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 7 February 2011 to 6 February 2012.

Mr. Chan Kin Sang was re-designated as non-executive Director for an initial a term of one year expiring on 31 March 2012.

Mr. Nguyen Van Tu Peter was appointed as an independent non-executive Director for an initial a term of one year expiring on 29 February 2012.

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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Except for those disclosed in note 32 to the financial statements and Mr. Lim Merng Phang being a director of Chinasing, 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 2011, 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 2011, 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
Dream Star International Limited ("Dream Star") *(Note 1)*	474,285,714 ordinary shares	Beneficial owner	14.81%
Famous Kindway Limited ("Famous Kindway") *(Note 1)*	299,980,000 ordinary shares	Beneficial owner	9.37%
Kiyuhon Limited ("Kiyuhon") *(Note 1)*	103,630,000	Beneficial owner	3.24%
	774,265,714	Interest of controlled corporation	24.18%

Name	Number and class of securities	Capacity	Approximate percentage to the issued share capital of the Company
Mr. Wang Linjia (“Mr. Wang”) *(Note 1)*	877,895,714 ordinary shares	Interest of controlled corporation	27.42%
Shing Lee Holding Limited (“Shing Lee”) *(Note 2)*	650,000,000 ordinary shares	Beneficial owner	20.30%
Diamond Highway Limited (“Diamond Highway”) *(Note 2)*	39,714,286 ordinary shares	Beneficial owner	1.24%
Mr. Zeng Pei Hui (“Mr. Zeng”) *(Note 2)*	689,714,286 ordinary shares	Interest of controlled corporation	21.54%

Notes:

1. The 474,285,714, 299,980,000 and 103,630,000 shares are registered in the name of Dream Star, Famous Kindway and Kiyuhon which are wholly owned by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in all the shares in which Dream Star, Famous Kindway and Kiyuhon are interested pursuant to the SFO.

2. The 650,000,000 and 39,714,286 shares are 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.

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

As at 30 June 2011, 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	5.14%
Benep Management Limited ("Benep") *(Note 3)*	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Chinasing *(Note 3)*	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Pioneer Idea Finance Limited ("Pioneer") *(Note 4)*	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Mr. Huang Quan ("Mr. Huang") *(Note 4)*	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Treasure Focus Enterprises Limited ("Treasure") *(Note 5)*	218,000,000 ordinary shares	Beneficial owner	6.81%
Mr. Wang Weijun ("Mr. Wang WJ") *(Note 5)*	218,000,000 ordinary shares	Interest of controlled corporation	6.81%

REPORT OF THE DIRECTORS

Name	Number and class of securities *(Note 1)*	Capacity	Approximately percentage to the issued share capital of the Company
Mr. Li Jiahui	243,360,000 ordinary shares	Beneficial owner	7.60%
Brow Crown International Limited ("Brow Crown") *(Note 2)*	197,000,000 ordinary shares	Beneficial owner	6.15%
Mr. Qian Shiyu ("Mr. Qian") *(Note 2)*	198,000,000 ordinary shares	Interest of controlled corporation	6.18%

Notes:

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

2. The 197,000,000 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 218,000,000 shares are registered in the name of Treasure, which is wholly owned by Mr. Wang WJ. Accordingly, Mr. Wang WJ 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 2011.

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 2011.

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 2011.

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, one non-executive Director and three independent non-executive Directors and all Directors served for the year ended 30 June 2011. 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.

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)*	8/8
Lee Man To	8/8
Non-executive Directors	
Chan Kin Sang	4/8
Independent non-executive Directors	
Chan Ngai Sang, Kenny	4/8
Xing Fengbing	4/8
Nguyen Van Tu Peter	1/8

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 Ngai Sang, Kenny, Mr. Xing Fengbing and Mr. Nguyen Van Tu Peter. 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 officer 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.

The Audit Committee comprises four members, three independent non-executive Directors, Mr. Chan Ngai Sang, Kenny, Mr. Xing Fengbing and Mr. Nguyen Van Tu Peter and one non-executive Director, Mr. Chan Kin Sang. 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 2011, 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	4/4
Mr. Chan Kin Sang	4/4
Mr. Xing Fengbing	4/4
Mr. Nguyen Van Tu Peter (appointed on 1 March 2011)	1/4

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 four members. The Chairman of the Remuneration Committee is Mr. Chan Ngai Sang, Kenny, an independent non-executive Director, and the other members are Mr. Xing Fengbing and Mr. Nguyen Van Tu Peter, both of them being independent non-executive Directors, and one non-executive Director, Mr. Chan Kin Sang.

During the year ended 30 June 2011, 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
Mr. Nguyen Van Tu Peter (appointed on 1 March 2011)	0/1

REMUNERATION OF THE AUDITOR

For the year ended 30 June 2011, the Audit Committee of the Company had reviewed the performance of BDO Limited as the external auditor of the Company and proposed to re-appoint BDO Limited as the external auditor. For the year ended 30 June 2011, the Company agreed auditing fees of HK$680,000 (equivalent to RMB579,000) payable to BDO Limited.

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 2011, 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 AUDITOR'S REPORT

BDO

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香港干諾道中111號
永安中心25樓

To the shareholders of Combest 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 (together "the Group") set out on pages 29 to 99, which comprise the consolidated and company statements of financial position as at 30 June 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

INDEPENDENT AUDITOR'S 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 2011 and of the Group's profit 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.

BDO Limited
Certified Public Accountants
Cheung Or Ping
Practising Certificate no. P05412

Hong Kong, 2 September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
Continuing operations:			
Revenue	5	**338,754**	45,331
Cost of sales		**(223,501)**	(37,438)
Gross profit		**115,253**	7,893
Other income and gains	5	**8,194**	23,938
Selling and distribution costs		**(12,474)**	(3,330)
Administrative expenses		**(30,365)**	(8,350)
Other expenses		**(106)**	(32,600)
Finance costs	7	**–**	(3,070)
Share of profit of an associate		**–**	176
Profit/(Loss) before income tax	8	**80,502**	(15,343)
Income tax (expense)/credit	9	**(10,819)**	5,497
Profit/(Loss) after income tax from continuing operations		**69,683**	(9,846)
Discontinued operations:			
Loss for the year from discontinued operations	31	**–**	(260,476)
Profit/(Loss) for the year		**69,683**	(270,322)
Other comprehensive income for the year			
Release of exchange fluctuation reserve upon disposal of subsidiaries		**(12)**	(5,954)
Exchange gain on translation of financial statements of foreign operations		**2,622**	477
Total comprehensive income for the year		**72,293**	(275,799)
Profit/(Loss) for the year attributable to:			
Owners of the Company		**69,550**	(273,837)
Non-controlling interests		**133**	3,515
		69,683	(270,322)
Total comprehensive income attributable to:			
Owners of the Company		**71,945**	(274,758)
Non-controlling interests		**348**	(1,041)
		72,293	(275,799)
Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company during the year	12		
– Basic (RMB cent(s))			
From continuing and discontinued operations		**2.21**	(11.05)
From continuing operations		**2.21**	(0.26)
– 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 2011

	Notes	2011 RMB'000	2010 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**12,852**	3,000
Interests in an associate	14	**–**	21,535
Intangible assets	15	**176,292**	86,600
Goodwill	16	**61,788**	15,993
		250,932	127,128
Current assets			
Inventories	18	**48,589**	14,095
Trade receivables	19	**3,512**	6,621
Prepayments, deposits and other receivables		**29,281**	30,006
Due from a related company	20	**–**	7,237
Cash and cash equivalents	21	**48,062**	5,045
		129,444	63,004
Current liabilities			
Trade payables	22	**20,204**	3,145
Other payables, deposits and accruals		**30,644**	6,630
Due to a shareholder	23	**–**	1,744
Due to related companies	24	**3,576**	30,573
Taxes payable		**2,532**	775
		56,956	42,867
Net current assets		**72,488**	20,137
Total assets less current liabilities		**323,420**	147,265

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Due to a shareholder	23	–	18,273
Deferred tax liabilities	34	**44,073**	21,650
		44,073	39,923
Net assets		**279,347**	107,342
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	**30,860**	28,216
Reserves	27	**246,529**	77,516
		277,389	105,732
Non-controlling interests		**1,958**	1,610
Total equity		**279,347**	107,342

LIM MERNG PHANG
Director

LEE MAN TO
Director

STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	17	**1**	1
Current assets			
Due from subsidiaries	17	**184,243**	97,937
Due from a related company	20	**–**	1,486
		184,243	99,423
Current liabilities			
Other payables and accruals		**2,988**	2,424
Net current assets		**181,255**	96,999
Net assets		**181,256**	97,000
EQUITY			
Share capital	25	**30,860**	28,216
Reserves	27	**150,396**	68,784
Total equity		**181,256**	97,000

LIM MERNG PHANG
Director

LEE MAN TO
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Profit/(Loss) before income tax			
from continuing operations		80,502	(15,343)
from discontinued operations		–	(259,110)
		80,502	(274,453)
Adjustments for:			
Interest expense		–	242
Amortisation of intangible assets		6,528	–
Amortisation of land use rights		–	268
Depreciation		1,329	3,317
Interest income		(22)	(54)
Property, plant and equipment written off		121	–
Imputed interest on convertible bonds		–	2,885
Gain on step acquisition of a subsidiary		(5,547)	–
Fair value gain on the derivative component of the convertible bonds		–	(22,979)
Fair value gain on investment properties		–	(100)
Loss on disposal of subsidiaries		106	7,877
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		83,017	17,427
Increase in inventories		(33,598)	(3,270)
Decrease in trade receivables		3,135	13,390
Decrease in prepayments, deposits and other receivables		2,314	10,456
Increase/(Decrease) in trade payables		17,041	(2,437)
Increase in other payables, deposits and accruals		10,407	15,158
Increase in amount due to related companies		1,436	–
Cash generated from operations		83,752	50,724
Interest received		22	54
Income taxes paid		(10,694)	(1,050)
Net cash generated from operating activities		73,080	49,728

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(11,002)**	(1,427)
Acquisition of land use rights		**–**	(3,422)
Step acquisition of a subsidiary, net of cash acquired	33	**(3,456)**	–
Acquisition of subsidiaries, net of cash acquired	33	**(11,195)**	6,498
Net cash outflow from disposal of subsidiaries	30	**(3)**	(30,916)
Decrease/(Increase) in amount due from a related company		**7,237**	(7,237)
Net cash used in investing activities		**(18,419)**	(36,504)
Cash flows from financing activities			
Placement of new shares		**34,183**	–
Interest paid		**–**	(242)
Repayments of other borrowings		**–**	(18,350)
Redemption of convertible bonds		**–**	(92,400)
(Decrease)/Increase in amount due to a shareholder		**(20,017)**	20,017
Decrease in amount due to related companies		**(25,673)**	(6,388)
Net cash used in financing activities		**(11,507)**	(97,363)
Net increase/(decrease) in cash and cash equivalents		**43,154**	(84,139)
Cash and cash equivalents at the beginning of year		**5,045**	88,707
Effect of foreign exchange rate changes, net		**(137)**	477
Cash and cash equivalents at the end of year		**48,062**	5,045

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

	Equity attributable to owners of the Company							
	Share capital RMB'000	Share premium* RMB'000	Statutory reserves* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 July 2010	28,216	322,469	265	333	(245,551)	105,732	1,610	107,342
Transactions with owners								
Issue of new shares *(note 25)*	2,644	97,068	–	–	–	99,712	–	99,712
Profit for the year	–	–	–	–	69,550	69,550	133	69,683
Other comprehensive income								
Release of exchange fluctuation reserve upon disposal of subsidiaries *(note 30(a))*	–	–	–	(12)	–	(12)	–	(12)
Exchange gain on translation of financial statements of foreign operations	–	–	–	2,407	–	2,407	215	2,622
Total comprehensive income for the year	–	–	–	2,395	69,550	71,945	348	72,293
Transfer to statutory reserves	–	–	8,003	–	(8,003)	–	–	–
Balance at 30 June 2011	30,860	419,537	8,268	2,728	(184,004)	277,389	1,958	279,347

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

	Equity attributable to owners of the Company								
	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	Non-controlling interests RMB'000	Total equity 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 25)*	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 bond	–	–	–	–	(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 30(b))*	–	–	–	(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

* *These reserve accounts comprise the consolidated reserves of approximately RMB246,529,000 (2010: RMB77,516,000) in the consolidated statement of financial position.*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

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 17 to the financial statements. The Company and its subsidiaries are collectively referred to as the "Group" hereafter.

The financial statements for the year ended 30 June 2011 were approved for issue by the board of directors on 2 September 2011.

2. 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 2010:

Amendments to HKAS 32	Classification of Rights Issues
HKFRSs (Amendments)	Improvements to HKFRSs 2009/2010
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of these new HKFRSs did not have any material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

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 Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and revised HKFRSs that are expected to have impact on the Company's accounting policies is provided below. Certain other new and revised HKFRSs have been issued but are not expected to have a material impact on the Company's financial statements.

HKFRS 9 *Financial Instruments* is effective for annual periods beginning on or after 1 January 2013. Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements on pages 29 and 99 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 2.

The financial statements have been prepared under the historical cost convention. 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.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries *(see note 3.3 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. The results of the subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of the disposal, as appropriate.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation (Continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date the control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Company has the power to control, directly or indirectly, 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 Company controls another entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. The results of the 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.

3.4 Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associate's net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

3.5 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Foreign currency translation (Continued)

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.

3.6 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%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 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.

3.7 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired *(see note 3.9)*.

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.

3.8 Intangible assets (other than goodwill)

Brand names

Brand names for functional healthcare bedroom products with indefinite useful lives were acquired and initially recognised at cost. After initial recognition, brand names with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Franchise networks

Franchise networks for functional healthcare bedroom products, with useful lives ranged from 2 to 10 years, were acquired and initially recognised at cost. After initial recognition, franchise networks are carried at cost less any subsequent accumulated amortisation and impairment losses.

Intangible assets are tested for impairment as described below in note 3.9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Impairment of non-financial assets

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

Goodwill and intangible assets with indefinite useful life or those not yet available for use 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 assets' 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. The 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 of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow 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 loss 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.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The 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 its 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.

An impairment loss on goodwill is not reversed in subsequent periods whilst an impairment loss on other assets 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 loss recognised in an interim period in respect of goodwill is not reversed in a subsequent period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets

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. All regular way purchases and sales of financial assets are recognised on trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. 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 cost. 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. The Group's financial assets mainly comprise loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. 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. Gain and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired as well as through the amortisation process.

Impairment of financial assets

At each reporting date, loans and receivables are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment includes observable data that come to the attention of the Group about one or more of the followings loss events:

- significant financial difficulty of the debtors;
- a breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the debtors will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 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 carried at amortised cost 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 carrying amount of the asset is reduced through the use of an allowance account. The amount of impairment loss is recognised in profit or loss of the period in which the impairment occurs. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is revised by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in profit or loss to the extent that the carrying value of the asset does not exceed its amortised cost had the impairment not been recognised at the reversal date.

3.11 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.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand. For the cash flows presentation, cash and cash equivalents form an integral part of the Group's cash management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial liabilities

The Group's financial liabilities include trade payables, other payables, accruals and amounts due to related companies/a shareholder.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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.

Trade payables, other payables, accruals, amounts due to related companies/a shareholder

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

3.14 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.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership to the Group 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.

Operating leases – as 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 basis over the lease terms except where an alternative basis is more representative of the time 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 rentals are charged to profit or loss in the accounting period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 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.

3.16 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.

3.17 Revenue recognition

Revenue comprises the fair value for the sale of goods, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue recognition (Continued)

Interest income

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

3.18 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Accounting for income taxes (Continued)

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.

3.20 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.

Share of results of an associate, fair value gain or loss related to financial assets at fair value through profit or loss, income tax 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 interests in an associate and corporate assets. Corporate assets are not directly attributable to the business activities of any operating segment.

Segment liabilities include all liabilities but tax payables, deferred tax liabilities and corporate liabilities. Corporate liabilities are not directly attributable to the business activities of any operating segment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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 3.9. 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.

(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) 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	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue						
Sale of goods	**338,754**	45,331	**–**	146,720	**338,754**	192,051
Other income						
Gross rental income from investment properties	**–**	–	**–**	350	**–**	350
Bank interest income	**22**	24	**–**	30	**22**	54
Exchange gains, net	**131**	559	**–**	–	**131**	559
Sales of scrap materials	**585**	160	**–**	3,811	**585**	3,971
Others	**1,909**	216	**–**	3	**1,909**	219
	2,647	959	**–**	4,194	**2,647**	5,153
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 step acquisition of a subsidiary	**5,547**	–	**–**	–	**5,547**	–
	5,547	22,979	**–**	100	**5,547**	23,079
	8,194	23,938	**–**	4,294	**8,194**	28,232

6. SEGMENT INFORMATION

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

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

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

There were no inter-segment sales and transfers during the year (2010: Nil).

	Functional healthcare bedroom products		OEM consumer electronic components		Total	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue						
– From external customers						
Reportable segment revenue	**315,152**	8,000	**23,602**	37,331	**338,754**	45,331
Reportable segment profit/(loss) (Continuing operations)	**85,572**	3,012	**2,357**	(31,429)	**87,929**	(28,417)
Depreciation	**987**	–	**342**	1,503	**1,329**	1,503
Amortisation of intangible assets	**6,528**	–	**–**	–	**6,528**	–
Impairment of goodwill	**–**	–	**–**	23,936	**–**	23,936
Impairment of property, plant and equipment	**–**	–	**–**	8,664	**–**	8,664
Reportable segment assets	**321,333**	119,873	**10,981**	36,442	**332,314**	156,315
Additions to non-current segment assets during the year, including arising from acquisition of subsidiaries	**153,317**	102,940	**–**	152	**153,317**	103,092
Reportable segment liabilities	**44,892**	6,677	**2,968**	643	**47,860**	7,320

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:

	2011 RMB'000	2010 RMB'000
Reportable segment revenue (Continuing operation)	**338,754**	45,331
Discontinued operation		
– Sales of goods:		
Consumer electronic products and component, and satellite communication products*	**–**	146,720
Group revenue	**338,754**	192,051
Reportable segment profits/(loss)	**87,929**	(28,417)
Fair value gain on the derivative component of the convertible bonds	**–**	22,979
Unallocated income	**6**	759
Finance costs	**–**	(3,070)
Unallocated expenses	**(7,433)**	(7,770)
Share of profit of an associate	**–**	176
Profit/(Loss) before income tax and discontinued operations	**80,502**	(15,343)

* *Other than OEM consumer electronic products*

	2011 RMB'000	2010 RMB'000
Reportable segment assets	**332,314**	156,315
Interests in an associate	**–**	21,535
Other corporate assets	**48,062**	12,282
Group assets	**380,376**	190,132
Reportable segment liabilities	**47,860**	7,320
Tax payables	**2,532**	775
Deferred tax liabilities	**44,073**	21,650
Other corporate liabilities	**6,564**	53,045
Group liabilities	**101,029**	82,790

6. SEGMENT INFORMATION (Continued)

The Group's revenues from external customers and its non-current assets are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Principal markets				
The PRC	**315,152**	15,788	**250,932**	127,128
Hong Kong	**13,695**	169,856	**–**	–
Taiwan	**4,686**	–	**–**	–
Europe	**4,175**	5,595	**–**	–
Others	**1,046**	812	**–**	–
	338,754	192,051	**250,932**	127,128

The Group's revenue by geographical location is determined based on locations of customers. The Group's specified non-current assets by geographical locations are determined based on physical location of the assets or location of operation in case of goodwill.

Revenues from one customer of the Group's functional healthcare bedroom products segment amounted to RMB118,845,000, which represent 10% or more of the Group's revenues for the year ended 30 June 2011. The Group did not depend on any single customers under each of the segments for the year end 30 June 2010.

7. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Interest on other loans wholly repayable within five years	**–**	185	**–**	57	**–**	242
Imputed interest on convertible bonds	**–**	2,885	**–**	–	**–**	2,885
Total interest on financial liabilities stated at amortised cost	**–**	3,070	**–**	57	**–**	3,127

8. PROFIT/(LOSS) BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Profit/(Loss) before income tax is arrived at after charging:						
Cost of sales	**223,501**	37,438	**–**	126,558	**223,501**	163,996
Auditor's remuneration	**579**	418	**–**	–	**579**	418
Amortisation of intangible assets	**6,528**	–	**–**	–	**6,528**	–
Amortisation of land use rights	**–**	–	**–**	268	**–**	268
Depreciation	**1,329**	1,503	**–**	1,814	**1,329**	3,317
Research costs	**–**	–	**–**	1,158	**–**	1,158
Loss on disposal of subsidiaries *(note 30)*	**106**	–	**–**	7,877	**106**	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	**3,352**	597	**–**	1	**3,352**	598
Property, plant and equipment written off	**121**	–	**–**	–	**121**	–
Staff costs (excluding directors' remuneration *(note 29(a))*						
– Salaries and wages	**22,404**	7,238	**–**	14,497	**22,404**	21,735
– Pension scheme contribution	**191**	5	**–**	19	**191**	24
	22,595	7,243	**–**	14,516	**22,595**	21,759

9. INCOME TAX EXPENSE/(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	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current tax						
– Hong Kong	**–**	–	**–**	51	**–**	51
– PRC	**12,451**	900	**–**	1,315	**12,451**	2,215
	12,451	900	**–**	1,366	**12,451**	2,266
Deferred tax	**(1,632)**	(6,397)	**–**	–	**(1,632)**	(6,397)
Total income tax expense/(credit)	**10,819**	(5,497)	**–**	1,366	**10,819**	(4,131)

A reconciliation of the tax expense applicable to profit/(loss) before income 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	
	2011	2010
	RMB'000	RMB'000
Profit/(Loss) before income tax:		
– Continuing operations	**80,502**	(15,343)
– Discontinued operations	**–**	(259,110)
	80,502	(274,453)
Tax on profit/(loss) before income tax, calculated at the rates applicable in the tax jurisdictions concerned	**20,751**	(44,489)
Tax effect of tax loss not recognised	**773**	–
Tax holiday of wholly-owned foreign enterprises	**(11,490)**	(3,135)
Tax effect of non-deductible expenses	**2,026**	55,051
Tax effect of non-taxable income	**(1,815)**	(5,161)
Reversal of deferred tax liabilities upon redemption of the convertible bonds	**–**	(6,397)
Others	**574**	–
Income tax expense/(credit)	**10,819**	(4,131)

9. INCOME TAX EXPENSE/(CREDIT) (Continued)

The PRC income tax is calculated based on the statutory income tax rate as determined in accordance with the relevant PRC income tax rules and regulations for the year. In accordance with the tax rules issued by State Tax Bureau and the Local Tax Bureau of the PRC, 揭東康佰健康家居用品有限公司 ("Jiedong Combest"), established as a wholly foreign-owned enterprise in the PRC, is exempted from the enterprise income tax for the first two profitable financial years, and thereafter is entitled to a 50% relief from the enterprise income tax for the following three financial years (the "Tax Holiday").

According to the new Enterprise Income Tax Law of the PRC, Jiedong Combest would be subject to the reduced tax rate of 12.5% for the three calendar years from 31 December 2010 to 31 December 2012. Upon expiry of the Tax Holiday on 31 December 2012, a unified income tax rate of 25% is applicable to Jiedong Combest.

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

Of the consolidated profit attributable to owners of the Company for the year ended 30 June 2011 included loss of approximately RMB7,057,000 (2010: loss of approximately RMB188,513,000) has been dealt with in the financial statements of the Company *(note 27)*.

11. DIVIDENDS

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

12. EARNINGS/(LOSS) PER SHARE

Basic

(1) From continuing and discontinued operations

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

	2011 RMB'000	2010 RMB'000
Profit/(Loss) for the year attributable to the owners of the Company	**69,550**	(273,837)

	No of shares '000	No of shares '000
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**3,141,349**	2,477,076

12. EARNINGS/(LOSS) PER SHARE (Continued)

Basic (Continued)

(2) From continuing operations

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

	2011 RMB'000	2010 RMB'000
Profit/(Loss) for the year attributable to the owners of the Company	**69,550**	(273,837)
Less: Loss for the year from discontinued operations attributable to owners of the Company	**–**	(267,406)
Profit/(Loss) for the year for the purpose of basic earnings/(loss) per share from continuing operations attributable to owners of the Company	**69,550**	(6,431)

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

(3) From discontinued operations

For the year ended 30 June 2010, the basic loss per share from discontinued operations is RMB10.79 cents per share which was calculated based on the loss for the year from discontinued operations attributable to owners of the Company of RMB267,406,000. The denominators used are the same as those detailed above for basic earnings/(loss) per share from continuing and discontinued operations.

Diluted

No diluted earnings/(loss) per share are presented for the years ended 30 June 2011 and 2010, as the Company had no potential ordinary shares outstanding at the end of the respective year.

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	Construction in progress RMB'000	Total RMB'000
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 carrying value	69,074	288	38,612	404	2,093	3,354	–	113,825
Year ended 30 June 2010								
Opening net carrying value	69,074	288	38,612	404	2,093	3,354	–	113,825
Acquisition of subsidiaries	–	–	3,444	71	–	183	–	3,698
Additions	727	–	516	52	47	85	–	1,427
Disposals of subsidiaries *(note 30(b))*	(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 carrying 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 carrying value	–	–	2,568	126	43	263	–	3,000
Year ended 30 June 2011								
Opening net carrying value	–	–	2,568	126	43	263	–	3,000
Acquisition of subsidiaries *(notes 33)*	–	–	–	300	–	–	–	300
Additions	–	–	1,712	964	–	213	8,113	11,002
Transfer	–	4,683	–	–	–	–	(4,683)	–
Written off	–	–	–	(121)	–	–	–	(121)
Depreciation	–	(528)	(499)	(252)	(9)	(41)	–	(1,329)
Closing net carrying value	–	4,155	3,781	1,017	34	435	3,430	12,852
At 30 June 2011								
Cost	–	4,683	13,953	1,294	55	481	3,430	23,896
Accumulated depreciation and impairment	–	(528)	(10,172)	(277)	(21)	(46)	–	(11,044)
Net carrying value	–	4,155	3,781	1,017	34	435	3,430	12,852

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 16(c). As at 30 June 2010, 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 2011, no impairment relating to the remaining property, plant and equipment was indicated.

As at 30 June 2011 and 2010, all property, plant and equipment held by the Group are located in the PRC.

14. INTERESTS IN AN ASSOCIATE – GROUP

	Group	
	2011	2010
	RMB'000	RMB'000
Share of net assets other than goodwill	**12,799**	12,799
Goodwill	**8,736**	8,736
Disposal upon step acquisition	**(21,535)**	–
	–	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 ("Shanghai Combest")	Corporation	PRC	RMB500,000	50	Trading of functional healthcare bedroom products

14. 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)

On 11 August 2010, the Group acquired further 50% equity interest in Shanghai Combest and is able to exercise control over Shanghai Combest. Shanghai Combest became a subsidiary of the Company. Further details in connection with the step acquisition are set out in note 33(a) to the financial statements.

15. INTANGIBLE ASSETS – GROUP

	Brand names RMB'000	Franchise networks RMB'000	Total RMB'000
Balance at 1 July 2009	–	–	–
Acquisition of subsidiaries *(note 33(e))*	86,600	–	86,600
Balance at 30 June 2010 and 1 July 2010	86,600	–	86,600
Step acquisition of a subsidiary *(note 33(a))*	–	31,700	31,700
Acquisition of subsidiaries *(note 33(b) and (c))*	34,540	29,980	64,520
Amortisation	–	(6,528)	(6,528)
At 30 June 2011	**121,140**	**55,152**	**176,292**

In the opinion of the directors, brand names are considered to have an indefinite life as they have 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 2011 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 2011 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 2016, and a pre-tax discount rate of 26% 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.

16. GOODWILL – GROUP

	2011	2010
	RMB'000	RMB'000
Opening net carrying amount	**15,993**	291,436
Step acquisition of a subsidiary *(note 33(a))*	**37,597**	–
Acquisition of subsidiaries *(note 33(b) and (c))*	**8,198**	16,493
Impairment loss	**–**	(291,936)
Closing net carrying amount	**61,788**	15,993

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 (before impairment) had been allocated to following CGUs:

		2011	2010
	Notes	**RMB'000**	RMB'000
Functional healthcare bedroom products	(a)	**61,788**	15,993
Consumer electronic products and components, satellite communications products	(b)	**–**	268,000
OEM consumer electronics products	(c)	**–**	23,936

Notes:

a. The recoverable amount of the CGU represents the value in use at 30 June 2011 based on the valuation report 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 2016, and a pre-tax discount rate of 26% to determine the value in use. The recoverable amount of CGU was determined to be in excess of its net carrying amount.

b. For the year ended 30 June 2010, 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 "Loss for the year from discontinued operations". Details of the disposal of this CGU were set out in note 30(b).

c. 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".

17. SUBSIDIARIES – COMPANY

	2011 RMB'000	2010 RMB'000
Investments in subsidiaries		
Unlisted shares, at cost	**1**	1
Amount due from subsidiaries		
Cost	**439,104**	352,798
Less: Provision for impairment	**(254,861)**	(254,861)
	184,243	97,937

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, particulars of principal subsidiaries are as follows:

Name	Place and date of incorporation and operation	Particulars of nominal value of issued share capital/ paid up registered capital	Percentage of equity interest attributable to the Company Directly	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")	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

17. SUBSIDIARIES – COMPANY (Continued)

Name	Place and date of incorporation and operation	Particulars of nominal value of issued share capital/ paid up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
鶴山市康佰健康臥室有限公司	7 January 2005, PRC	Registered capital of RMB1,000,000	–	100	Manufacturing of functional healthcare bedroom products
上海康佰企業管理有限公司	23 April 2009, PRC	RMB500,000	–	100	Trading of functional healthcare bedroom products
北京康栢夢之源企業管理有限公司	13 November 2008, PRC	RMB500,000	–	100	Provision of management consultancy services
北京永青世紀投資諮詢有限公司	11 July 2008, PRC	RMB1,000,000	–	100	Provision of corporate management consultancy services
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 BDO Limited for the purpose of the Group consolidation.

18. INVENTORIES – GROUP

	2011 RMB'000	2010 RMB'000
Raw materials	**13,708**	1,474
Work in progress	**8,017**	636
Finished goods	**26,864**	11,985
	48,589	14,095

19. 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:

	2011 RMB'000	2010 RMB'000
0 – 30 days	**815**	1,785
31 – 90 days	**2,010**	4,253
91 – 360 days	**687**	583
Balance at 30 June	**3,512**	6,621

The Group allows a credit period from 30 to 90 days to its customers for the years ended 30 June 2011 and 2010.

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.

19. TRADE RECEIVABLES – GROUP (Continued)

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

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**849**	2,948
1 – 90 days past due	**2,464**	3,673
91 – 360 days past due	**199**	–
Total trade receivables, net	**3,512**	6,621

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.

20. 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 2010	RMB7,237,000	RMB1,486,000
– 30 June 2011	**–**	**–**
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.

21. CASH AND CASH EQUIVALENTS – GROUP

Cash and cash equivalents of the Group include the following:

	2011	2010
	RMB'000	RMB'000
Cash and bank balances	**48,062**	5,045

The cash and bank balances of the Group denominated in RMB amounted to approximately RMB43,216,000 (2010: RMB2,123,000). 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.

22. TRADE PAYABLES – GROUP

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

	2011	2010
	RMB'000	RMB'000
0 – 30 days	**7,360**	3,067
31 – 90 days	**3,675**	72
91 – 360 days	**9,150**	5
Over 360 days	**19**	1
	20,204	3,145

23. DUE TO A SHAREHOLDER – GROUP

		2011	2010
	Notes	**RMB'000**	RMB'000
Current liabilities	(i)	**–**	1,744
Non-current liabilities	(ii)	**–**	18,273
		–	20,017

Notes:

(i) The amount due as at 30 June 2010 is unsecured, interest free and repayable on demand.

(ii) The amount due as at 30 June 2010 is unsecured, interest bearing at 3% per annum and repayable on 28 February 2012. During last year, interest expense of approximately RMB181,000 has been recognised in the profit or loss.

24. DUE TO RELATED COMPANIES – GROUP

	2011 RMB'000	2010 RMB'000
揭陽鑽寶	**2,140**	30,573
揭東康保磁科技有限公司	**1,436**	–
	3,576	30,573

As at 30 June 2011, Mr. Lim Merng Phang is a common director of the Company and 揭東鑽寶. 揭東康保磁科技有限公司 is a company indirectly wholly-owned by Mr. Wang, a substantial shareholder of the Company. The amounts due are unsecured, interest-free and repayable on demand.

25. SHARE CAPITAL – GROUP AND COMPANY

	2011		2010	
	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	**2,896,500**	**28,216**	2,416,500	23,992
New shares issued for acquisition of subsidiaries *(note (a))*	**205,000**	**1,789**	480,000	4,224
New shares issued through placement *(note (b))*	**100,000**	**855**	–	–
At the end of the year	**3,201,500**	**30,860**	2,896,500	28,216

25. SHARE CAPITAL – GROUP AND COMPANY (Continued)

Notes:

(a) On 11 August 2010 and 30 September 2010, 200,000,000 and 5,000,000 new shares were issued to Treasure Focus Enterprises Limited and Silver Sail Investment Limited respectively as the share consideration for the acquisition of Shanghai Combest *(note 33(a))*, Beijing Combest Group *(note 33(b))* and Da Hua Jin Cheng Group *(note 33(c))*. The fair values of the shares issued, determined based on the dates of acquisitions of HK$0.365 and HK$0.42 respectively, amounted to approximately RMB65,529,000. The issue of these shares resulted in the increase in share capital and share premium account of the Company by RMB1,789,000 and RMB63,740,000 respectively.

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.

(b) On 11 November 2010, 100,000,000 new shares were issued to Yongxin Development Limited at HK$0.40 each. The net proceeds from the placement, after deduction of all related expenses was applied by the Group as general working capital. The issue of these shares resulted in an increase in share capital and share premium account of the Company by RMB855,000 and RMB33,328,000 respectively.

26. 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.

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.

26. SHARE OPTION SCHEME (Continued)

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.

27. 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.

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27. RESERVES (Continued)

Company

	Share premium	Exchange fluctuation reserve	Convertible bond equity reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2009	224,895	(18,962)	72,040	(68,643)	209,330
Transactions with owners					
Issue of new shares *(note 25)*	97,574	–	–	–	97,574
Disposal of subsidiaries	–	–	(10,621)	–	(10,621)
Redemption of convertible bonds	–	–	(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)
Total comprehensive income for the year	–	(673)	–	(188,513)	(189,186)
Equity transfer upon redemption of convertible bonds	–	–	(23,106)	23,106	–
At 30 June 2010 and 1 July 2010	322,469	(19,635)	–	(234,050)	68,784
Transactions with owners					
Issue of new shares *(note 25)*	97,068	–	–	–	97,068
Loss for the year	–	–	–	(7,057)	(7,057)
Other comprehensive income					
Exchange differences	–	(8,399)	–	–	(8,399)
Total comprehensive income for the year	–	(8,399)	–	(7,057)	(15,456)
At 30 June 2011	**419,537**	**(28,034)**	**–**	**(241,107)**	**150,396**

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.

28. OPERATING LEASE COMMITMENTS

As lessee

The Group leases its offices, customer service centers and factory premises under operating leases arrangements. The leases run for an initial period of two to six 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:

	2011 RMB'000	2010 RMB'000
Within one year	9,412	354
In the second to fifth years, inclusive	12,710	355
Over 5 years	52	–
	22,174	709

At the reporting date, the Company did not have any lease commitments (2010: Nil).

29. 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:

	2011				2010			
	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. Huang Boqi*	–	–	–	–	–	325	–	325
– Mr. Lee Man To	–	507	10	517	–	515	11	526
– Mr. Lim Merng Phang**	–	1,218	10	1,228	–	291	3	294
	–	1,725	20	1,745	–	1,131	14	1,145
Independent non-executive directors:								
– Mr. Chan Ngai Sang, Kenny	123	–	–	123	127	–	–	127
– Mr. Xing Fengbing	123	–	–	123	127	–	–	127
– Mr. Chan Kin Sang#	113	–	–	113	127	–	–	127
– Mr. Nguyen Van Tu, Peter##	43	–	–	43	–	–	–	–
	402	–	–	402	381	–	–	381
Non-executive directors:								
– Mr. Chan Kin Sang#	10	–	–	10	–	–	–	–
	412	1,725	20	2,157	381	1,131	14	1,526

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

(a) Directors' emoluments (Continued)

* *Mr. Huang Boqi resigned from the position on 31 March 2010*

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

\# *Mr. Chan Kin Sang has been re-designated from an independent non-executive director to be an non-executive director on 1 June 2011*

\#\# *Mr. Nguyen Van Tu, Peter is appointed as an independent non-executive director on 1 March 2011*

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 2011 and 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30 June 2011 and 2010.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2010: three) 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:

	2011	2010
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,433**	878

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

	2011	2010
Nil – HK$1,000,000 (equivalent to RMB866,000)	**1**	2
HK$1,000,001 – HK$1,500,000 (equivalent to RMB866,001 – RMB1,299,000)	**1**	–
	2	2

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 2011 and 2010.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) On 23 November 2010, the Group has disposed of its entire interest in Well Base Enterprises Limited and its subsidiary 南昌金望科技有限公司 (collectively the "Well Base Group"), to a third party, at nil consideration as the business was loss-making. The Well Base Group has been dormant for the period since 1 July 2010.

	2011 RMB'000
Net assets disposed of comprise:	
Cash and cash equivalents	3
Trade receivables	115
Group's share of net assets disposed of	118
Release of exchange fluctuation reserve upon disposal of subsidiaries	(12)
Loss on disposal of subsidiaries	(106)
	–

An analysis of the net cash outflow arising on disposal of Well Base Group is as follows:

	RMB'000
Net outflow of cash and cash equivalents	(3)

(b) 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 comprised 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 was 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.

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

(b) (Continued)

	2010 RMB'000
Net assets disposed of comprise:	
Property, plant and equipment *(note 13)*	103,969
Investment properties	11,000
Land use rights	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 related companies	(1,500)
Tax payable	(7,707)
Deferred tax liabilities	(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 (i))*	(620)
Gain on redemption of Vendors CB *(note (ii))*	(1,173)
Loss on disposal of subsidiaries	(7,877)
	98,576
Satisfied by:	
Cash	52,800
Redemption of Cytech CB *(note (i))*	45,776
	98,576

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

(b) (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)

(i) 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. 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 from Cytech Investment on 12 October 2009. The gain on redemption of Cytech CB of RMB620,000 which represented the difference between the redemption price allocated to debt component of the convertible bond 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.

(ii) Upon completion of disposal of Highway Bright Group, the Company also redeemed the convertible bonds issued to the former vendors of Highway Bright Group (the "Vendors CB") with a cash offer of approximately RMB92,400,000 to the former vendors on 12 October 2009. The gain on redemption of Vendors CB of RMB1,173,000 which represented the difference between the redemption price allocated to debt component of the convertible bond 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.

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31. DISCONTINUED OPERATIONS

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. In last financial 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 year ended 2010 are as follows:

	Period from 1 July 2009 to 12 October 2009 RMB'000
Revenue	146,720
Cost of sales	(126,558)
Gross profit	20,162
Other income and gains	4,294
Selling and distribution costs	(2,742)
Administrative expenses	(3,696)
Other expenses	(1,194)
Impairment of goodwill	(268,000)
Loss on disposal of subsidiaries	(7,877)
Finance costs	(57)
Loss before income tax	(259,110)
Income tax expense *(note 9)*	(1,366)
	(260,476)
Operating cash flows	31,210
Investing cash flows	(4,690)
Financing cash flows	–
Net increase in cash flows	26,520

32. 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	**2011 RMB'000**	2010 RMB'000
Operating lease rentals paid to related companies	(i)	**980**	253
Purchase of raw materials from a related company	(ii)	**2,397**	–
Interest expense charged on the loan facility from a shareholder	(iii)	**–**	181

Notes:–

(i) 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 and 30 June 2015.

(ii) The purchases were made from 揭東康保磁科技有限公司, which is indirectly wholly-owned by Mr. Wang, a substantial shareholder of the Company.

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

(b) Compensation of key management personnel

	2011 RMB'000	2010 RMB'000
Total remuneration of directors and other members of key management – short-term employee benefits	**3,589**	2,420

33. BUSINESS COMBINATIONS

(a) Shanghai Combest – Step acquisition from an associate to a subsidiary

On 11 August 2010, the Group acquired the remaining 50% equity interest in Shanghai Combest Corporate Management Co., Ltd. ("Shanghai Combest") at a consideration of RMB30,092,000 from a third party. Together with the 50% equity interest acquired by the Group in last year *(note 33(e))*, the Group is able to exercise control over Shanghai Combest and Shanghai Combest became a subsidiary of the Company from that date. The acquisition was made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence in the functional healthcare bedroom industry.

Shanghai Combest is principally engaged in the trading 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	5,880
– Fair value of shares consideration *(note 25)*	24,212
Total purchase consideration	30,092
Fair value of equity interest in Shanghai Combest held before the business combination	27,082
Fair value of net identified assets acquired	(19,577)
Goodwill *(note 16)*	37,597

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

The Group recognised a gain of RMB5,547,000 as a result of the remeasurement of previously held interest. The gain is included in other income and gains in the Group's consolidated statement of comprehensive income for the year ended 30 June 2011.

The goodwill arising from the acquisition is attributable to the synergies and economies of scale expected to arise from the business combination.

33. BUSINESS COMBINATIONS (Continued)

(a) Shanghai Combest – Step acquisition from an associate to a subsidiary (Continued)

The fair values of the identifiable assets and liabilities arising from the acquisition as at the date of step 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)*	138	138
Intangible assets *(note 15)*	31,700	–
Inventories	383	383
Prepayments, deposits and other receivables	1,424	1,424
Cash and cash equivalents	2,424	2,424
Other payables, deposits and accruals	(8,567)	(8,567)
Deferred tax liabilities *(note 34)*	(7,925)	–
Net assets acquired	19,577	(4,198)
Cash and cash equivalents in a subsidiary acquired		2,424
Cash consideration		(5,880)
Net cash inflow on acquisition		(3,456)

The amount of acquisition-related costs of approximately RMB225,000 have been recognised as an expense under "Administrative expenses".

Since its acquisition, the brand name and franchise network of Shanghai Combest have been integrated with the Group's existing functional healthcare bedroom business while Shanghai Combest itself contributed revenue of approximately RMB167,000 and net loss of approximately RMB1,490,000 to the Group for the period from 11 August 2010 to 30 June 2011.

33. BUSINESS COMBINATIONS (Continued)

(b) Acquisition of Beijing Combest Group

On 11 August 2010, the Group acquired 100% equity interest in Beijing Combest Corporate Management Co., Limited, Beijing Century Investment Advisory Co., Limited, Linyi Combest Co., Limited, Guangxi Health Co., Limited, and Perfect Crown Enterprises Limited, (together the "Beijing Combest Group") from a third party at a consideration of RMB49,098,000. Beijing Combest Group is principally engaged in the trading of functional healthcare bedroom products and other accessories. The acquisition was made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence in the functional healthcare bedroom industry.

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

	RMB'000
Purchase consideration:	
– Cash paid	9,594
– Fair value of shares consideration *(note 25)*	39,504
Total purchase consideration	49,098
Fair value of net identified assets acquired	(43,422)
Goodwill *(note 16)*	5,676

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 synergies and economies of scale expected to arise from the business combinations.

33. BUSINESS COMBINATIONS (Continued)

(b) Acquisition of Beijing Combest Group (Continued)

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)*	26	26
Intangible assets *(note 15)*	63,100	–
Inventories	169	169
Prepayments, deposits and other receivables	51	51
Cash and cash equivalents	891	891
Other payables, deposits and accruals	(5,040)	(5,040)
Deferred tax liabilities *(note 34)*	(15,775)	–
Net assets acquired	43,422	(3,903)
Cash and cash equivalents in a subsidiary acquired		891
Cash consideration		(9,594)
Net cash outflow on acquisition		(8,703)

The amount of acquisition-related costs of approximately RMB227,000 have been recognised as an expense under "Administrative expenses".

33. BUSINESS COMBINATIONS (Continued)

(b) Acquisition of Beijing Combest Group (Continued)

Since its acquisition, the brand names and franchise network of Beijing Combest Group have been integrated with the Group's existing functional healthcare bedroom business while Beijing Combest Group itself contributed revenue of approximately RMB671,000 and net profit of approximately RMB443,000 to the Group for the period from 11 August 2010 to 30 June 2011.

(c) Acquisition of Da Hua Jin Cheng Group

On 30 September 2010 (the "Acquisition Day"), the Group acquired 100% equity interest in Zhejiang Anji Da Hua Jin Cheng Healthcare Products Co., Ltd ("Zhejiang Da Hua") and Forever Bloom Trading Limited (together the "Da Hua Jin Cheng Group") from a third party at a consideration of RMB4,313,000. Da Hua Jin Cheng Group is principally engaged in the manufacture and sales of functional healthcare bedroom products and other accessories. The acquisition was made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence in the functional healthcare bedroom industry.

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

	RMB'000
Purchase consideration:	
– Cash paid	2,500
– Fair value of shares consideration *(note 25)*	1,813
Total purchase consideration	4,313
Fair value of net identified assets acquired	(1,791)
Goodwill *(note 16)*	2,522

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 synergies and economies of scale expected to arise from the business combinations.

33. BUSINESS COMBINATIONS (Continued)

(c) Acquisition of Da Hua Jin Cheng Group (Continued)

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)*	136	136
Intangible assets *(note 15)*	1,420	–
Inventories	344	344
Trade receivables	26	26
Prepayments, deposits and other receivables	230	230
Cash and cash equivalents	8	8
Trade payables	(18)	(18)
Deferred tax liabilities *(note 34)*	(355)	–
Net assets acquired	1,791	726
Cash and cash equivalents in a subsidiary acquired		8
Cash consideration		(2,500)
Net cash outflow on acquisition		(2,492)

The amount of acquisition-related costs of approximately RMB276,000 have been recognised as an expense under "Administrative expenses".

Apart from the above, included in the acquisition agreement are certain terms and conditions relating to contingent consideration (the "Contingent Consideration"). Under such terms and conditions, the Company is required to issue 11,800,000 shares ("Second Tranche Consideration Shares") of the Company to the vendor six months after the Acquisition Day when the Company has made an assessment on the effectiveness of the integration of and the contributions by the Da Hua Jin Cheng Group's sales networks to the Group and the vendor has transferred all the assets, rights and benefits of another potential company to Zhejiang Da Hua within six months after the Acquisition Day. In this regard, the Group shall have the sole and absolute right under the acquisition agreement to make any adjustment to the number of Second Tranche Consideration Shares to be issued by reference to the results of its assessment. The Group has determined that, no Second Tranch Consideration Shares will be issued in accordance with the terms of the acquisition agreement and hence no contingent consideration is recognised accordingly.

33. BUSINESS COMBINATIONS (Continued)

(c) Acquisition of Da Hua Jin Cheng Group (Continued)

Since its acquisition, the brand names and franchise network of Da Hua Jin Cheng Group have been integrated with the Group's existing brand name and franchise network and the Da Hua Jin Cheng Group itself contributed revenue of approximately RMB28,000 and net loss of approximately RMB279,000 to the Group for the period from 30 September 2010 to 30 June 2011.

As the Company did not have sufficient general mandate at the acquisition day to issue new Shares to vendor of Shanghai Combest and Beijing Combest Group in acquisitions (a) and (b) as part of the consideration and for commercial expediency to secure the transactions, the Company has approached its single largest Shareholder, Shing Lee Holding Limited ("Shing Lee"), which, upon request of the Company, has acquired the shares of Shanghai Combest and Beijing Combest Group ("Sale Shares") from the vendor and then resell the Sale Shares, on principally the same terms as those between Shing Lee and the vendor, to the Group.

Had the above combinations taken place on 1 July 2010, the revenue and the net profit of the Group for the year ended 30 June 2011 would have been RMB339,592,000 and RMB67,444,000 respectively. This pro forma information are 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 2010, nor are they intended to be a projection of future results.

(d) Acquisition of Jiedong Combest

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 cash consideration	38,331
Fair value of net identified assets acquired *(note 25)*	(37,831)
Goodwill *(note 16)*	500

33. BUSINESS COMBINATIONS (Continued)

(d) Acquisition of Jiedong Combest (Continued)

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 cash equivalents	9,931	9,931
Trade payables	(27)	(27)
Other payables, deposits and accruals	(1,512)	(1,512)
Net assets acquired	37,831	37,831
Cash and cash equivalents 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.

33. BUSINESS COMBINATIONS (Continued)

(e) Acquisition of Jieyang Combest Group and 50% interest in Shanghai Combest

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

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 25)*	101,798
Total purchase consideration	106,798
Fair value of net identified assets acquired	(90,805)
Goodwill *(note 16)*	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.

33. BUSINESS COMBINATIONS (Continued)

(e) Acquisition of Jieyang Combest Group and 50% interest in Shanghai Combest (Continued)

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)*	325	325
Intangible assets *(note 15)*	86,600	–
Investment in an associate	21,359	(254)
Other receivables	2,604	2,604
Cash and cash equivalents	1,567	1,567
Deferred tax liabilities *(note 34)*	(21,650)	–
Net assets acquired	90,805	4,242
Cash and cash equivalents in a subsidiary acquired		1,567
Cash consideration		(5,000)
Net cash outflow on acquisition		(3,433)

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".

34. DEFERRED TAX LIABILITIES – GROUP

Movement on the deferred tax liabilities are as follows:

Group

	Issue of convertible bonds RMB'000	Revaluation of land use rights, property, plant and equipment RMB'000	Revaluation of intangible assets RMB'000	Total RMB'000
At 1 July 2009	6,397	11,077	–	17,474
Acquisition of subsidiaries *(note 33(e))*	–	–	21,650	21,650
Disposal of subsidiaries *(note 30)*	–	(11,077)	–	(11,077)
Credited to profit or loss during year *(note 9)*	(6,397)	–	–	(6,397)
At 30 June 2010 and 1 July 2010	–	–	21,650	21,650
Acquisition of subsidiaries *(notes 33(a), (b) and (c))*	–	–	24,055	24,055
Credited to profit or loss during year *(note 9)*	–	–	(1,632)	(1,632)
At 30 June 2011	**–**	**–**	**44,073**	**44,073**

34. DEFERRED TAX LIABILITIES – GROUP (Continued)

Company

	Issue of convertible bonds
	RMB'000
At 1 July 2009	6,397
Credited to profit or loss during the year	(6,397)
At 30 June 2010, 1 July 2010 and 30 June 2011	–

The Group has tax losses of approximately RMB12,675,000 as at 30 June 2011 (2010: RMB7,754,000) 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 RMB3,658,000 as at 30 June 2011 (2010: RMB297,000) 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.

35. 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 trade receivables, other receivable, amount due from a related company, cash and cash equivalents, trade payables, other payables, accruals, and amount due to related companies/ a shareholder. The most significant financial risks to which the Group is exposed are described below.

(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 profit or losses after tax and accumulated losses. 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

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group/Company primarily operates and invests in the PRC with most of the transactions denominated and settled in RMB. No foreign currency risk has been identified for the monetary assets and liabilities in the functional healthcare bedroom business as they were largely denominated in a currency same as the functional currency of the PRC entities to which these transactions relate.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk

The Group's and Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting dates, as detailed in note (vi).

The Group's credit risk is primarily attributable to 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 customers' 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.

(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.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Liquidity risk (Continued)

As at the respective reporting date, 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

	As at 30 June 2011		
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 3 months or on demand RMB'000**
Trade payables	**20,204**	**20,204**	**20,204**
Other payables and accruals	**17,761**	**17,761**	**17,761**
Due to related companies	**3,576**	**3,576**	**3,576**
	41,541	**41,541**	**41,541**

	As at 30 June 2010			
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 3 months or on demand RMB'000	Over 1 year RMB'000
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 related company	30,573	30,573	30,573	–
	59,874	60,598	41,601	18,997

35. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Liquidity risk (Continued)

Company

	As at 30 June 2011		
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 3 months or on demand RMB'000**
Other payables and accruals	**2,988**	**2,988**	**2,988**

	As at 30 June 2010		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 3 months or on demand RMB'000
Other payables and accruals	2,424	2,424	2,424

(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 3.10 and 3.13 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets

	Group	
	2011 RMB'000	2010 RMB'000
Loans and receivables:		
– Trade receivables	**3,512**	6,621
– Other receivables	**26,092**	26,976
– Due from a related company	**–**	7,237
Cash and cash equivalents	**48,062**	5,045
	77,666	45,879

35. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Financial assets (Continued)

	Company 2011 RMB'000	Company 2010 RMB'000
Loans and receivables:		
– Due from subsidiaries	**184,243**	97,937
– Due from a related company	**–**	1,486
	184,243	99,423

Financial liabilities

	Group 2011 RMB'000	Group 2010 RMB'000
Financial liabilities measured at amortised cost:		
– Trade payables	**20,204**	3,145
– Other payables and accruals	**17,761**	6,139
– Due to a shareholder	**–**	20,017
– Due to related companies	**3,576**	30,573
	41,541	59,874

	Company 2011 RMB'000	Company 2010 RMB'000
Financial liabilities measured at amortised cost:		
– Other payables and accruals	**2,988**	2,424

36. 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 2011 and 2010 amounted to approximately RMB279,347,000 and RMB107,342,000 respectively which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

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.

	2011 RMB'000	2010 RMB'000	2009 RMB'000 (Restated)	2008 RMB'000 (Restated)	2007 RMB'000 (Restated)
Results					
Revenue					
Continuing operations	**338,754**	45,331	30,444	212,672	–
Discontinued operations	**–**	146,720	707,507	238,149	32,376
	338,754	192,051	737,951	450,821	32,376
Profit/(Loss) from operation					
Continuing operations	**80,502**	(12,273)	(6,590)	27,450	(2,803)
Discontinued operations	**–**	(259,053)	80,260	27,321	(4,338)
	80,502	(271,326)	73,670	54,771	(7,141)
Finance costs					
Continuing operations	**–**	(3,070)	(9,823)	(5,717)	–
Discontinued operations	**–**	(57)	(1,685)	(2,817)	(1)
	–	(3,127)	(11,508)	(8,534)	(1)
Profit/(Loss) before taxation					
Continuing operations	**80,502**	(15,343)	(16,413)	21,733	(2,803)
Discontinued operations	**–**	(259,110)	78,575	24,504	(4,339)
	80,502	(274,453)	62,162	46,237	(7,142)
Income tax (expenses)/credit					
Continuing operations	**(10,819)**	5,497	247	(2,779)	–
Discontinued operations	**–**	(1,366)	(9,554)	(4,312)	(5)
	(10,819)	4,131	(9,307)	(7,091)	(5)
Profit/(Loss) for the year					
Continuing operations	**69,683**	(9,846)	(16,166)	18,954	(2,803)
Discontinued operations	**–**	(260,476)	69,021	20,192	(4,344)
	69,683	(270,322)	52,855	39,146	(7,147)
Attributable to:					
– Equity holders of the Company	**69,550**	(273,837)	21,662	13,082	(6,986)
– Non-controlling interests	**133**	3,515	31,193	26,064	(161)
	69,683	(270,322)	52,855	39,146	(7,147)
Assets and liabilities and non-controlling interest					
Total assets	**380,376**	190,132	730,550	797,579	23,425
Total liabilities	**(101,029)**	(82,790)	(315,692)	(436,002)	(5,598)
Non-controlling interests	**(1,958)**	(1,610)	(87,232)	(55,785)	–
	277,389	105,732	327,626	305,792	17,827