



COMBEST HOLDINGS LIMITED 康佰控股有限公司*

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



First Quarterly Report
2011/2012

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

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

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This report, for which the directors (the “Directors”) of 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.

HIGHLIGHTS

The financial highlights of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30 September 2011 (the "Period") are presented as follows:

	Total	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	35,684	81,600
Profit for the period attributable to owners of the Company	1,331	24,393
	<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share		
– basic	0.04	0.81
– diluted	N/A	N/A

RESULTS

The Board of Directors (the "Board") wishes to announce the unaudited results of the Group for the Period, together with the unaudited comparative figures for the three months ended 30 September 2010 ("Corresponding period in 2010") as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Unaudited	
		Three months ended	
		2011	2010
		RMB'000	RMB'000
Revenue	3	35,684	81,600
Cost of sales		(24,638)	(47,820)
Gross profit		11,046	33,780
Other income	3	31	–
Selling and distribution costs		(2,755)	(4,546)
Administrative expenses		(7,179)	(3,756)
Operating profit		1,143	25,478
Finance costs	5	–	(300)
Profit before income tax		1,143	25,178
Income tax credit/(expense)	6	189	(1,090)
Profit for the period		1,332	24,088
Other comprehensive income for the period:			
Exchange gain on translation of financial statements of foreign operations		782	562
Total comprehensive income for the period		2,114	24,650

		Unaudited	
		Three months ended	
		30 September	
		2011	2010
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
Profit/(Loss) for the period attributable to:			
	Owners of the Company	1,331	24,393
	Non-controlling interests	1	(305)
		1,332	24,088
Total comprehensive income attributable to:			
	Owners of the Company	2,247	24,955
	Non-controlling interests	(133)	(305)
		2,114	24,650
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share for profit attributable to owners of the Company during the period			
	– Basic	0.04	0.81
	– Diluted	N/A	N/A

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Notes:

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 "SEHK").

2. Basis of presentation

The unaudited condensed consolidated results incorporate those of the Company and its subsidiaries for the three months ended 30 September 2011.

The unaudited condensed consolidated results of the Group are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the SEHK (the "GEM Listing Rules").

The principal accounting policies and methods of computation used in the preparation of this set of results announcement are consistent with those used in the annual financial statements for the year ended 30 June 2011.

The Group has adopted a number of new and revised standards, amendments and interpretations which are effective for the Group's accounting periods beginning on or after 1 July 2011. The adoption of these new and revised standards, amendments and interpretations does not have significant impact on the accounting policies of the Group.

All significant inter-company transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

The results of the Company are presented in Renminbi ("RMB"), which is different from the functional currency of the Company, Hong Kong dollars ("HK\$"), as the Directors consider that RMB is the most appropriate presentation currency in view of the most of the underlying transactions of the Group are denominated in RMB.

3. Revenue and other income

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, where applicable.

An analysis of the Group's revenue and other income for the three months ended 30 September 2011 and 2010 is as follows:

	Unaudited	
	Three months ended	
	30 September	
	2011	2010
	RMB'000	RMB'000
Revenue		
Sales of goods	35,684	81,600
Other income		
Interest income	31	—

4. Segment information

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

- (a) Functional healthcare bedroom products include mattresses, magnetic chairs, pillows, blankets, other bedroom accessories and a range of functional healthcare clothes and accessories; and
- (b) OEM consumer electronic products include RS connectors, transmitters for consumer electronic products.

An analysis of the Group's revenue and results by principal activities, in respect of the Group's operations for the three months ended 30 September 2011 is as follows:

	Unaudited					
	Functional healthcare bedroom products		OEM consumer electronic products		Total	
	For the three months ended 30 September					
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Revenue						
– From external customers						
Reportable segment revenue	29,960	77,058	5,724	4,542	35,684	81,600
Reportable segment profit/(loss)	5,459	29,424	(267)	(190)	5,192	29,234
Depreciation	180	129	–	154	180	283
Amortisation of intangible assets	1,966	–	–	–	1,966	–

4. 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:

	Unaudited	
	For the three months ended	
	30 September	
	2011	2010
	RMB'000	RMB'000
Reportable segment revenue	35,684	81,600
Reportable segment profit	5,192	29,234
Finance costs	–	(300)
Unallocated expenses	(4,049)	(3,756)
Profit before income tax	1,143	25,178

5. Finance costs

	Unaudited	
	For the three months ended	
	30 September	
	2011	2010
	RMB'000	RMB'000
Interest on bank loans and overdrafts and other loans wholly repayable within five years	—	300

6. Income tax (credit)/expense

Hong Kong profits tax has been provided at the tax rate of 16.5% on the estimated assessable profit for the three months ended 30 September 2011 and 2010. Taxes on profits assessable elsewhere 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.

An analysis of the Group's income tax (credit)/expense for the three months ended 30 September 2011 and 2010 is as follows:

	Unaudited	
	For the three months ended	
	30 September	
	2011	2010
	RMB'000	RMB'000
Current tax		
PRC income tax	302	1,090
Deferred tax	(491)	—
	(189)	1,090

7. Interim dividends

The Board did not recommend the payment of an interim dividend for the three months ended 30 September 2011 and 2010.

8. Earnings per share

The calculation of basic earnings per share is based on the profit for the Period attributable to owners of the Company of approximately RMB1,331,000 (Corresponding period in 2010: approximately profit of RMB24,393,000) and the weighted average of the 3,201,500,000 ordinary shares in issue during the Period (Corresponding period in 2010: the weighted average of 3,007,423,913).

No diluted earnings per share were presented for the three months ended 30 September 2011 and 2010, as the company had no potential ordinary shares outstanding at the end of the reporting periods.

9. Share capital and reserves

	Unaudited							
	Equity attributable to owners of the Company							
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserves <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>	Non-controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 July 2011	30,860	419,537	8,268	2,728	(184,004)	277,389	1,958	279,347
Profit for the Period	-	-	-	-	1,331	1,331	1	1,332
Other comprehensive income								
Exchange gain on translation of financial statements of foreign operations	-	-	-	916	-	916	(134)	782
Total comprehensive income for the Period	-	-	-	916	1,331	2,247	(133)	2,114
Transfer to statutory reserves	-	-	(443)	-	443	-	-	-
Balance at 30 September 2011	30,860	419,537	7,825	3,644	(182,230)	279,636	1,825	281,461
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	1,789	63,740	-	-	-	65,529	-	65,529
Profit for the Period	-	-	-	-	24,393	24,393	(305)	24,088
Other comprehensive income								
Exchange gain on translation of financial statements of foreign operations	-	-	-	562	-	562	-	562
Total comprehensive income for the Period	-	-	-	562	24,393	24,955	(305)	24,650
Transfer to statutory reserves	-	-	2,549	-	(2,549)	-	-	-
Balance at 30 September 2010	30,005	386,209	2,814	895	(223,707)	196,216	1,305	197,521

FINANCIAL REVIEW

For the quarter ended 30 September 2011, the Group's revenue was approximately RMB35,684,000 which represented a decrease of approximately 56.3% compared to the previous corresponding period. Such decrease in revenue was mainly contributed to by the slowdown of sales to wholesale customers and relatively higher turnover of our staff at the Customer Service Centers ("CSCs") during the period under review. Some of our franchisees took longer than expected to educate themselves on our products before promoting them to their customers and we invested some time and effort to educate them on our new products. We have also restructured some of our sales management team to increase management efficiency of the franchise sales network and to allocate our resources more effectively.

The Group's profit margin decreased to approximately 31% for the three months ended 30 September 2011 as compared to approximately 41.4% for the previous corresponding period. The decrease is due to, amongst other things, increased raw material prices. Also, due to the decrease in sales volume, the Group experienced lowered economies of scales from reduced production activities which exerted a negative impact on the profit margin.

Profit attributable to owners of the Company

The unaudited profit attributable to owners of the Company for the three months ended 30 September 2011 amounting to RMB1,331,000, as compared to the profit of RMB24,393,000 for the previous corresponding period. The decrease is due to, amongst other things, increased amortization of intangible assets and depreciation and the burden of renovation expenses and rental costs of the Group's CSCs and increased advertisement expense.

BUSINESS REVIEW

We are principally engaged in two business segments, namely (i) manufacture and sale of functional healthcare bedroom products and other accessories, and (ii) manufacturing and trading of OEM consumer electronic products and components.

Focus on New Products Training for our Franchisees

Following the Group's introduction of new series of products, particularly the different models of our dynamic magnetic household functional products, we provided updated training sessions across the nation to our franchisees on the features and functions of these new products. In addition, during the period under review, we also emphasized the provision of training to our franchisees by our provincial managers and supervisors on customer services and new sales techniques. We re-focused on our franchise retail network as the tightened credit policy in the mainland has also increased the credit risk of wholesale customers in general. Also, given the inherent volatility of the wholesale business, we decided to focus our efforts and resources in developing our retail franchise network.

Customer Service Centres Support Combest Brand Awareness

As at the date of this report, we have opened 50 self-managed CSCs in various cities in China to build up the Combest brand. It is part of our strategy to use the CSCs to enhance the Combest brand awareness in the marketplace and support franchisees in growing their business volume. Given the higher than expected turnover of staff at our CSCs, we have also carried out additional training for staff at the CSCs to focus on, amongst others, customer orientation and our Group culture. Ongoing training and product education of our independent franchisees and our CSC staff are also carried out there.

Appointment of Madam Lang Ping as Spokesperson

We appointed Madam Lang Ping as our brand spokesperson for two years commencing from July 2011. We are currently in the final stages of preparation of our TV advertisements featuring Madam Lang Ping, and we expect that our TV advertisements will be broadcast in the mainland on various channels of CCTV by late November 2011.

BUSINESS OUTLOOK

With a growing PRC domestic consumption market having increased spending power, we believe that the market represents huge potential for the Group.

Expansion of Product Range to Deepen Market Penetration

Based on the technological research and support of Zhejiang University, we will be able to further develop new products based on the applied magnetic physics and ergonomics which will improve the quality of life of consumers. In addition, we are carrying out our own product research and development and these efforts, combined with those of our collaboration with Zhejiang University will yield us a good pipeline of new or upgraded products for sale to consumers in coming quarters. These products will widen our product offerings and help to deepen our market penetration.

Focus on Franchisee Retail Sales Network

We plan to focus more on strengthening our franchisee retail network including investing in additional training for our franchisees and staff. We plan to enhance our usage of CSCs to help our sales network promote our products and to improve our brand image and promote sales.

Boost to Combest Brand Awareness through TV and other Advertisements

With our brand spokesperson Madam Lang Ping's standing in the domestic PRC market, her endorsement will certainly help to boost our image positively in the PRC market. The launch of the respective advertisements in the near future will be a good opportunity for our franchisees to take advantage of the goodwill generated to sell our products.

Furthermore, given our leading position in the functional healthcare products industry and our strategy to enhance our brand image and sales, we are confident in our ability to compete successfully. We are committed to investing in our business and will focus on taking steps which will benefit the Group in the long-term with healthy sustainable growth rather than taking short-term steps to boost sales and results.

As we continue to invest in and grow our business, we remain confident in the future of our Group and our stakeholders including our franchisees.

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

As at 30 September 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 September 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 September 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 <i>(Note 1)</i>	Capacity	Approximately percentage to the issued share capital of the Company
Cytech Investment Limited ("Cytech Investment") <i>(Note 3)</i>	164,500,000 ordinary shares	Beneficial owner	5.14%
Benep Management Limited ("Benep") <i>(Note 3)</i>	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Chinasing <i>(Note 3)</i>	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Pioneer Idea Finance Limited ("Pioneer") <i>(Note 4)</i>	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Mr. Huang Quan ("Mr. Huang") <i>(Note 4)</i>	164,500,000 ordinary shares	Interest of controlled corporation	5.14%
Treasure Focus Enterprises Limited ("Treasure") <i>(Note 5)</i>	218,000,000 ordinary shares	Beneficial owner	6.81%
Mr. Wang Weijun ("Mr. Wang WJ") <i>(Note 5)</i>	218,000,000 ordinary shares	Interest of controlled corporation	6.81%

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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules for the three months ended 30 September 2011.

CORPORATE GOVERNANCE

For the three months ended 30 September 2011, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practice of the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”) of the Stock Exchange, save as the following deviation.

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 separated 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 Executive Director of the Company, is responsible for the strategic planning, formulation of overall corporate development policy and running the business of the Group as well as the duties of Chairman. The Board considers that, due to the nature and extent of the Group’s operations, Mr. Lim is the most appropriate chief executive because he is experienced in management as well as merger and acquisition and other key corporate matters 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the three months ended 30 September 2011.

COMPETING BUSINESS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 30 September 2011.

The share option scheme of the Company ("Post-IPO Scheme") was approved and adopted on 24 January 2002. The principal purpose of the Post-IPO Scheme is to enable the Company to grant options to selected persons as incentives and rewards for their contribution to the Group.

As at 30 September 2011, no option has been granted or agreed to be granted under the Post-IPO Scheme.

AUDIT COMMITTEE

As required by Rules 5.28 of the GEM Listing Rules, the Company has established an audit committee which 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 was appointed as the Chairman of the audit committee. The audit committee meets with the Group's senior management and external auditors to review the effectiveness of the internal control systems. This report has been reviewed and approved by the audit committee of the Company which was of the opinion that the preparation of such results complied with applicable accounting standards and the requirements and that adequate disclosures have been made.

By order of the Board
Combest Holdings Limited
Lim Merng Phang
Chairman

Hong Kong, 11 November 2011

As at the date of this report, the Board is composed of Mr. Lim Merng Phang and Mr. Lee Man To as the executive directors of the Company, Mr. Chan Kin Sang as non-executive Director, and Mr. Chan Ngai Sang, Kenny, Mr. Xing Fengbing and Mr. Nguyen Van Tu Peter as independent non-executive directors.