



# COMBEST HOLDINGS LIMITED 康佰控股有限公司\*

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



Interim Report  
2011/2012

## **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 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 six months ended 31 December 2011 (the "Period") are presented as follows:

	<b>2011</b>	2010
	<b>RMB'000</b>	<i>RMB'000</i>
Revenue	<b>69,812</b>	205,175
(Loss)/Profit for the period attributable to owners of the Company	<b>(4,735)</b>	50,456
(Loss)/Earnings per share		
– basic	<b>(0.15 cent)</b>	1.64 cent
– diluted	<b>N/A</b>	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 and six months ended 31 December 2011 (“corresponding periods in 2010”) as follows:

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited			
		Three months ended 31 December		Six months ended 31 December	
		2011	2010	2011	2010
Notes		<i>RMB'000</i>	<i>RMB'000</i> (restated)	<i>RMB'000</i>	<i>RMB'000</i> (restated)
	<b>Revenue</b>	<b>34,128</b>	123,575	<b>69,812</b>	205,175
	Cost of sales	<b>(26,435)</b>	(81,638)	<b>(51,073)</b>	(129,458)
	<b>Gross profit</b>	<b>7,693</b>	41,937	<b>18,739</b>	75,717
	Other income and gains	<b>65</b>	596	<b>96</b>	596
	Selling and distribution costs	<b>(6,423)</b>	(4,432)	<b>(9,178)</b>	(8,978)
	Administrative expenses	<b>(7,436)</b>	(4,685)	<b>(14,615)</b>	(8,441)
	Other operating expenses	<b>-</b>	(116)	<b>-</b>	(116)
	<b>(Loss)/Profit from operating activities</b>	<b>(6,101)</b>	33,300	<b>(4,958)</b>	58,778
	Finance costs	<b>-</b>	(78)	<b>-</b>	(378)
	(Loss)/Profit before income tax	<b>(6,101)</b>	33,222	<b>(4,958)</b>	58,400
	Income tax credit/(expense)	<b>9</b>	(6,833)	<b>198</b>	(7,923)
	<b>(Loss)/Profit for the period</b>	<b>(6,092)</b>	26,389	<b>(4,760)</b>	50,477
	<b>Other comprehensive income for the period:</b>				
	Exchange gain/(loss) on translation of financial statements of foreign operations	<b>347</b>	(3,555)	<b>1,129</b>	(2,993)
	<b>Total comprehensive income for the period</b>	<b>(5,745)</b>	22,834	<b>(3,631)</b>	47,484

		Unaudited			
		Three months ended 31 December		Six months ended 31 December	
		2011	2010	2011	2010
Notes		<i>RMB'000</i>	<i>RMB'000</i> (restated)	<i>RMB'000</i>	<i>RMB'000</i> (restated)
<b>(Loss)/Profit for the period attributable to:</b>					
	Owners of the Company	(6,066)	26,063	(4,735)	50,456
	Non-controlling interests	(26)	326	(25)	21
		<b>(6,092)</b>	<b>26,389</b>	<b>(4,760)</b>	<b>50,477</b>
<b>Total comprehensive income attributable to:</b>					
	Owners of the Company	(5,722)	22,506	(3,475)	47,461
	Non-controlling interests	(23)	328	(156)	23
		<b>(5,745)</b>	<b>22,834</b>	<b>(3,631)</b>	<b>47,484</b>
<b>(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company during the period</b>					
	– Basic ( <i>RMB cent(s)</i> )	(0.19 cent)	0.83 cent	(0.15 cent)	1.64 cent
	– Diluted ( <i>RMB cent(s)</i> )	N/A	N/A	N/A	N/A

10

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>31 December 2011 RMB'000 (Unaudited)</b>	30 June 2011 RMB'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	<b>11,252</b>	12,852
Intangible assets	12	<b>172,358</b>	176,292
Goodwill	13	<b>61,788</b>	61,788
		<b>245,398</b>	250,932
<b>CURRENT ASSETS</b>			
Inventories	14	<b>47,496</b>	48,589
Trade receivables	15	<b>3,862</b>	3,512
Prepayments, deposits and other receivables		<b>40,423</b>	29,281
Due from a related company	16	<b>2,604</b>	–
Tax recoverable		<b>237</b>	–
Cash and cash equivalents		<b>38,389</b>	48,062
		<b>133,011</b>	129,444
<b>CURRENT LIABILITIES</b>			
Trade payables	17	<b>23,205</b>	20,204
Other payables and accruals		<b>36,174</b>	30,644
Due to a related party	18	<b>224</b>	3,576
Tax payable		<b>–</b>	2,532
		<b>59,603</b>	56,956
<b>NET CURRENT ASSETS</b>		<b>73,408</b>	72,488
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>43,090</b>	44,073
		<b>43,090</b>	44,073
<b>NET ASSETS</b>		<b>275,716</b>	279,347

		<b>31 December</b>	30 June
		<b>2011</b>	2011
	<i>Notes</i>	<b>RMB'000</b>	<i>RMB'000</i>
		<b>(Unaudited)</b>	(Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital	19	<b>30,860</b>	30,860
Reserves		<b>243,054</b>	246,529
		<hr/>	<hr/>
		<b>273,914</b>	277,389
Non-controlling interests		<b>1,802</b>	1,958
		<hr/>	<hr/>
TOTAL EQUITY		<b>275,716</b>	279,347
		<hr/>	<hr/>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Unaudited</b>	
	<b>For the six months ended 31 December</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Net cash (outflow)/inflow from operating activities	<b>(9,779)</b>	26,414
Net cash outflow from investing activities	<b>(200)</b>	(15,665)
Net cash inflow from financing activities	<b>–</b>	16,211
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	<b>(9,979)</b>	26,960
Cash and cash equivalents at beginning of the period	<b>48,062</b>	5,045
	<hr/>	<hr/>
	<b>38,083</b>	32,005
Effects of exchange rate changes on the balance of cash held in foreign currencies	<b>306</b>	(4,551)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>38,389</b>	27,454
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<b>38,389</b>	27,454
	<hr/>	<hr/>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	Unaudited							
	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 2011	30,860	419,537	8,268	2,728	(184,004)	277,389	1,958	279,347
Loss for the period	-	-	-	-	(4,735)	(4,735)	(25)	(4,760)
Other comprehensive income								
Exchange difference on translation of financial statements of foreign operation	-	-	-	1,260	-	1,260	(131)	1,129
Total comprehensive income for the period	-	-	-	1,260	(4,735)	(3,475)	(156)	(3,631)
Transfer to statutory reserves	-	-	(321)	-	321	-	-	-
Balance at 31 December 2011	<b>30,860</b>	<b>419,537</b>	<b>7,947</b>	<b>3,988</b>	<b>(188,418)</b>	<b>273,914</b>	<b>1,802</b>	<b>275,716</b>
Balance at 1 July 2010	28,216	322,469	265	333	(245,551)	105,732	1,610	107,342
Issue of new shares	2,644	97,068	-	-	-	99,712	-	99,712
Profit for the period	-	-	-	-	50,456	50,456	21	50,477
Other comprehensive income								
Exchange difference on translation of financial statements of foreign operation	-	-	-	(2,995)	-	(2,995)	2	(2,993)
Arising from disposal of subsidiaries	-	-	-	(284)	284	-	-	-
Total comprehensive income for the period	-	-	-	(3,279)	50,740	47,461	23	47,484
Balance at 31 December 2010	<b>30,860</b>	<b>419,537</b>	<b>265</b>	<b>(2,946)</b>	<b>(194,811)</b>	<b>252,905</b>	<b>1,633</b>	<b>254,538</b>

\* These reserve accounts comprise the consolidated reserves of approximately RMB243,054,000 (30 June 2011: RMB222,045,000) in the condensed consolidated statement of financial position.

*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 six months ended 31 December 2011.

The unaudited condensed consolidated results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standard ("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 report 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, other income and gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for return and trade discounts, where applicable. Analysis of the Group's revenue and other income is shown as follows:

	<b>Unaudited</b>	
	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
<b>Revenue</b>		
Sales of goods	<b>69,812</b>	205,175
<b>Other income</b>		
Interest income	<b>25</b>	10
Sales of scrap materials	<b>62</b>	586
Sundry income	<b>9</b>	–
	<b>96</b>	596

### 4. 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 products include RS connectors, transmitters for consumer electronic products.

There were no inter-segment sales and transfers during the Period (corresponding periods in 2010: Nil).

4. Segment information (Continued)

	Unaudited six months ended 31 December					
	Functional healthcare bedroom products		OEM consumer electronic products		Total	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i> (restated)	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i> (restated)
<b>Revenue</b>						
– From external customers						
Reportable segment revenue	<b>60,468</b>	193,817	<b>9,344</b>	11,358	<b>69,812</b>	205,175
<b>Reportable segment (loss)/profit</b>	<b>(368)</b>	62,125	<b>245</b>	54	<b>(123)</b>	62,179
Depreciation	<b>1,800</b>	256	–	296	<b>1,800</b>	552
Amortization of intangible assets	<b>3,934</b>	–	–	–	<b>3,934</b>	–
	<b>31 December 2011 <i>RMB'000</i> (Unaudited)</b>	30 June 2011 <i>RMB'000</i> (Audited)	<b>31 December 2011 <i>RMB'000</i> (Unaudited)</b>	30 June 2011 <i>RMB'000</i> (Audited)	<b>31 December 2011 <i>RMB'000</i> (Unaudited)</b>	30 June 2011 <i>RMB'000</i> (Audited)
<b>Reportable segment assets</b>	<b>328,023</b>	321,333	<b>11,760</b>	10,981	<b>339,783</b>	332,314
Additions to non-current segment assets during the period, including arising from acquisition of subsidiaries	<b>200</b>	153,317	–	–	<b>200</b>	153,317
<b>Reportable segment liabilities</b>	<b>49,154</b>	44,892	<b>7,935</b>	2,968	<b>57,089</b>	47,860

#### 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:

	<b>Unaudited six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	<i>RMB'000</i>
		(restated)
Reportable segment (loss)/profit	<b>(123)</b>	62,179
Unallocated income	<b>25</b>	10
Unallocated expenses	<b>(4,860)</b>	(3,789)
	<u><b>(4,958)</b></u>	<u>58,400</u>
(Loss)/profit before income tax		
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Audited)
<b>Reportable segment assets</b>	<b>339,783</b>	332,314
Tax recoverable	<b>237</b>	–
Other corporate assets	<b>38,389</b>	48,062
	<u><b>378,409</b></u>	<u>380,376</u>
Group assets		
<b>Reportable segment liabilities</b>	<b>57,089</b>	47,860
Taxes payables	–	2,532
Deferred tax liabilities	<b>43,090</b>	44,073
Other corporate liabilities	<b>2,514</b>	6,564
	<u><b>102,693</b></u>	<u>101,029</u>
Group liabilities		

#### 4. Segment information (Continued)

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

	Revenue from external customers		Non-current assets	
	31 December 2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Audited)
<b>Principal markets</b>				
The PRC	<b>60,782</b>	194,810	<b>245,398</b>	250,932
Hong Kong	<b>2,100</b>	6,537	–	–
Taiwan	<b>1,966</b>	–	–	–
Europe	<b>4,820</b>	1,687	–	–
Others	<b>144</b>	2,141	–	–
	<b>69,812</b>	205,175	<b>245,398</b>	250,932

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

5. Other operating expenses

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Loss on disposal of subsidiaries	-	116
	<b>_____</b>	<b>_____</b>

6. Finance costs

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interest on bank loans and overdrafts and other loans wholly repayable within five years	-	378
	<b>_____</b>	<b>_____</b>

## 7. (Loss)/Profit before income tax

The Group's (loss)/profit before income tax is arrived at after charging:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Cost of inventories sold/services provided	<b>51,073</b>	129,458
Depreciation	<b>1,800</b>	552
Amortization of intangible assets	<b>3,934</b>	–
Staff costs (including directors' remuneration and retirement scheme contribution)	<b>9,711</b>	9,315

## 8. 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 six months ended 31 December 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 six months ended 31 December 2011 and 2010 is as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
PRC income tax	<b>785</b>	7,923
Deferred tax	<b>(983)</b>	–
	<b>(198)</b>	7,923



## 9. Interim dividends

The Board did not recommend the payment of an interim dividend for the six months ended 31 December 2011 (corresponding period in 2010: Nil).

## 10. (Loss)/Earnings per share

### *Basic*

The calculation of basic (loss)/earnings per share is based on the loss for the three months and six months ended 31 December 2011 of approximately RMB6,066,000 and RMB4,735,000 respectively (profit for the three months and six months ended 31 December 2010: RMB26,063,000 and RMB50,456,000 respectively) and the weighted average of the 3,201,500,000 ordinary shares in issue during the three months and six months ended 31 December 2011 (three months and six months ended 31 December 2010: the weighted average of the 3,156,934,783 and 3,082,179,348 ordinary shares respectively).

### *Diluted*

No diluted (loss)/earnings per share are presented for the three months and six months ended 31 December 2011 and 2010 as the outstanding convertible bonds were anti-dilutive.

## 11. Property, plant and equipment

During the six months ended 31 December 2011, after acquisition of Combest Group, the Group still have approximately RMB11,252,000 plant and machinery on hand (as at 30 June 2011: RMB12,852,000).

Interim Report 2011/2012

12. Intangible assets

	Brand names <i>RMB'000</i>	Franchise networks <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 July 2011	121,140	55,152	176,292
Amortisation	—	(3,934)	(3,934)
<b>At 31 December 2011</b>	<b>121,140</b>	<b>51,218</b>	<b>172,358</b>

13. Goodwill

	31 December 2011 <i>RMB'000</i> (Unaudited)	30 June 2011 <i>RMB'000</i> (Audited)
Opening net carrying amount	61,788	15,993
Acquisition of subsidiaries	—	45,795
Closing net carrying amount	<b>61,788</b>	61,788

14. Inventories

	31 December 2011 <i>RMB'000</i> (Unaudited)	30 June 2011 <i>RMB'000</i> (Audited)
Raw materials	5,259	13,708
Work in progress	11,367	8,017
Finished goods	30,870	26,864
	<b>47,496</b>	48,589

## 15. Trade receivables

The credit period is generally for a period of one to three months, extending up to three to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

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

	<b>31 December 2011 RMB'000 (Unaudited)</b>	30 June 2011 RMB'000 (Audited)
Within one month	<b>3,741</b>	815
One to three months	<b>121</b>	2,010
Three months to one year	–	687
	<b>3,862</b>	3,512

## 16. 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:

<b>Name of borrower</b>	揭東鑽寶科技電子有限公司 ("揭東鑽寶")
Director/Substantial Shareholder connected with the borrower	Mr. Lim Merng Phang
Amount outstanding at	
1 July 2011	NIL
31 December 2011	RMB2,604,000
Maximum amount outstanding during the period	RMB2,604,000

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

## 17. Trade payables

An aging analysis of the trade payables, based on invoice dates, is as follows:

	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within one month	<b>4,025</b>	7,360
One to three months	<b>7,341</b>	3,675
Three months to one year	<b>11,820</b>	9,150
Over one year	<b>19</b>	19
	<b>23,205</b>	20,204

## 18. Due to a related party

	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
揭陽鑽寶	—	2,140
揭東康保磁科技有限公司 (“揭東康保”)	<b>224</b>	1,436
	<b>224</b>	3,576

As at 31 December 2011 and 30 June 2011, Mr. Lim Merng Phang is a common director of the Company and 揭陽鑽寶. 揭東康保 is a company indirectly wholly owned by Mr. Wang Linjia, a substantial shareholder of the Company. The amounts due are unsecured, interest free and repayable on demand.

## 19. Share capital

	2011		2010	
	Number of shares '000	RMB'000	Number of shares '000	RMB'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	<b>20,000,000</b>	<b>210,000</b>	20,000,000	210,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.01 each				
At the beginning of the period	<b>3,201,500</b>	<b>30,860</b>	2,896,500	28,216
New shares issued for acquisition of subsidiaries ( <i>note</i> )	-	-	205,000	1,790
New issue of share	-	-	100,000	854
At the end of the period	<b>3,201,500</b>	<b>30,860</b>	3,201,500	30,860

### *Note:*

On 11 August 2010, 30 September 2010 and 11 November 2010, 200,000,000, 5,000,000 and 100,000,000 new shares were issued to Treasure Focus Enterprises Limited, Silver Sail Investment Limited and Yongxin Development Limited at HK\$0.40, HK\$0.25 and HK\$0.40 each, respectively. The issue of a total of 205,000,000 new shares of HK\$0.01 each with a total fair value of RMB69,809,000 was used as share consideration for acquisition of subsidiaries. The issue of 100,000,000 new shares was applied by the Group as general working capital.

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.

## 20. 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 scheme expired on 23 January 2012.

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.

## 20. 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 the financial statements, no options have been granted or agreed to be granted under the Scheme since its effective date on 24 January 2002.

## 21. Related party transactions

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

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2011</b>	2010
		<b>RMB'000</b>	RMB'000
			(restated)
Operating lease rentals paid to a related company	(i)	<b>1,876</b>	895
Purchase of raw material from a related Company	(ii)	<b>7,298</b>	–

*Note:*

- (i) The rentals were paid, in respect of the Group's office premises situated in Hong Kong and PRC to Diamond H.K. and 揭東鑽寶 respectively, of which Mr. Lim Merng Phang is a director of the aforesaid companies. The leases will expire on 30 June 2012 and 30 June 2015 respectively.
- (ii) The purchases were made from 揭東康保 which is indirectly wholly-owned by Mr. Wang Linjia, a substantial shareholder of the Company.
- (b) Compensation of key management personnel

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2011</b>	2010
		<b>RMB'000</b>	RMB'000
Total remuneration of directors and other members of key management during the Period			
– short-term employee benefits		<b>2,697</b>	1,630



## FINANCIAL REVIEW

For the six months ended 31 December 2011, the Group recorded a revenue of RMB69,812,000 representing a decrease of 66.0% as compared to the corresponding period in 2010. Such significant 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 26.8% for the six months ended 31 December 2011 as compared to approximately 36.9% 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.

### (Loss)/Profit attributable to owners of the Company

The unaudited loss attributable to owners of the Company for the six months ended 31 December 2011 amounting to RMB4,735,000, as compared to the profit of RMB50,456,000 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.

### Liquidity and financial resources

We generally finance our operations by our operating cash flow and internal resources. As at 31 December 2011, we had cash and bank balances amounting to a total of approximately RMB38,389,000 (30 June 2011: RMB48,062,000) and we had net current assets of approximately RMB73,408,000 (30 June 2011: RMB72,488,000).

Based on these resources, we are confident that we have adequate financial resources for our operations.

## Charge on the Group's assets

As at 31 December 2011, no assets have been pledged to financial institutions for banking facilities granted to the Group (30 June 2011: Nil).

## Gearing ratio

As at 31 December 2011, our gearing ratio as a percentage for amount due to a shareholder and related party over net assets was 0.08% (30 June 2011: 1.3%).

## Treasury policies and capital structure

Any surplus fund derived from operating activities will be strategically placed in savings account 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 six months ended 31 December 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.

## Contingent liabilities

As at 31 December 2011, we did not have any significant contingent liabilities (30 June 2011: Nil).

## Details of future plans for material investment or capital assets

The Group does not have any plan for material investment or capital assets.

## Employee and remuneration policies

The total number of full-time employees in the Group was approximately 600 at 31 December 2011 (30 June 2011: 600). It is our policy to remunerate and appraise our employee on the basis of performance, experience, Group's performance and the prevailing industry practice.

To maintain our service standard and for staff development, we provide comprehensive training programs for our staff.

## RESEARCH AND DEVELOPMENT

As at 31 December 2011, we have a team of 8 professional technical staff engaged in research and development activities (31 December 2010: 8 technical staff).

## BUSINESS REVIEW

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

### 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 focused on 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. Our TV advertisement featuring Madam Lang Ping was broadcast in the mainland on CCTV Channels 7, 10 and 12 commencing from 14 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. Our TV advertisements provide good opportunities 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 31 December 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 Stock 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 Stock 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 31 December 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%
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 respectively 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 31 December 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%

Name	Number and class of securities (Note 1)	Capacity	Approximately percentage to the issued share capital of the Company
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%
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 six months ended 31 December 2011.

## CORPORATE GOVERNANCE

For the six months ended 31 December 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 mergers and acquisitions 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 directors is therefore a matter for consideration and decision by the shareholders' meeting. The shareholder(s) considers that any 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 six months ended 31 December 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 six months ended 31 December 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 31 December 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 three independent non-executive directors, Mr. Chan Ngai Sang, Kenny, Mr. Nguyen Van Tu, Peter and Mr. Xing Fengbing. Mr. Chan Ngai Sang, Kenny was appointed as the Chairman of the audit committee. The primary responsibilities of the audit committee are to review the Group's annual report and financial statements, half-yearly reports and quarterly reports and to provide advice and comments to the Board of Directors. The audit committee also meets with the Group's senior management and external auditors to review the effectiveness of the internal control systems. This results announcement 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, 14 February 2012

*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 an independent non-executive directors.*