



COMBEST HOLDINGS LIMITED
康佰控股有限公司*

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

ANNUAL REPORT 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 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.

CONTENTS

	Pages
Corporate Information	3
Group Structure	4
Chairman's Statement	5
Management Discussion and Analysis	7
Directors, Senior Management and Staff	10
Report of the Directors	12
Corporate Governance Report	19
Independent Auditor's Report	35
Consolidated Statement of Comprehensive Income	37
Consolidated Statement of Financial Position	38
Statement of Financial Position	40
Consolidated Statement of Cash Flows	41
Consolidated Statement of Changes in Equity	42
Notes to the Financial Statements	44
Five Year Financial Summary	100

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yong Kee Poh (appointed on 11 April 2012)
 Mr. Lee Man To
 Mr. Lim Merng Phang (resigned on 10 April 2012)

NON-EXECUTIVE DIRECTOR

Mr. Chan Kin Sang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ngai Sang, Kenny
 Mr. Xing Fengbing (deceased on 26 April 2012)
 Mr. Nguyen Van Tu Peter
 Mr. Liu Wei Zhong (appointed on 18 July 2012)

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. Yong Kee Poh
 Mr. Lee Man To

COMPLIANCE OFFICER

Mr. Yong Kee Poh

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

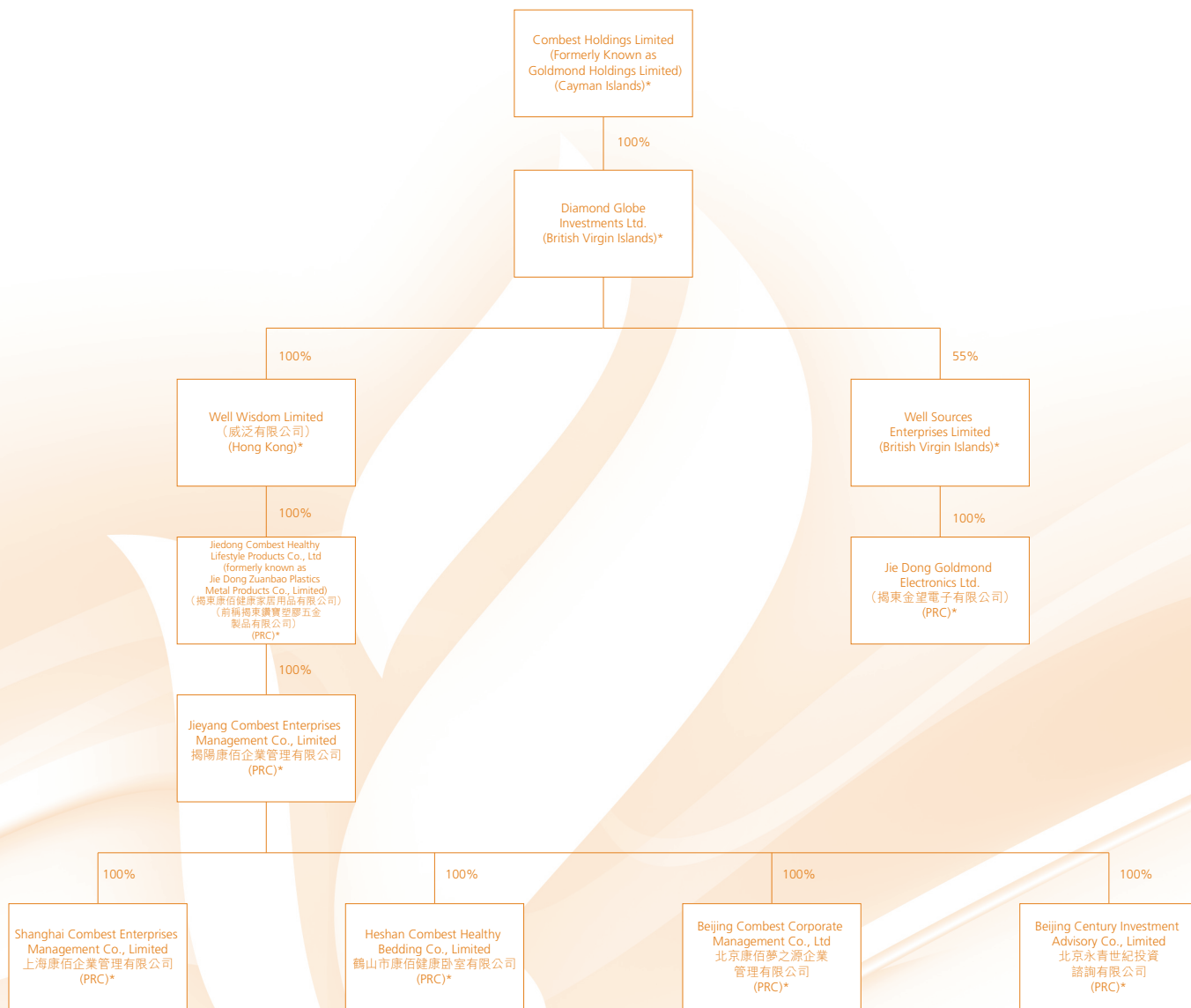
Mr. Chan Ngai Sang, Kenny
 Mr. Liu Wei Zhong
 Mr. Chan Kin Sang
 Mr. Nguyen Van Tu Peter

STOCK CODE

8190

GROUP STRUCTURE

The following chart sets out the structure of the Company and its principal subsidiaries as at 30 June 2012:



* *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 2012.

	Total	
	2012	2011
	RMB'000	RMB'000
Revenue	113,575	338,754
(Loss)/Profit for the year attributable to owners of the Company	(29,264)	69,550
(Loss)/Earnings per share		
– basic (RMB cent(s))	(0.91)	2.21
– diluted (RMB cent(s))	N/A	N/A

The Group continued to focus on (i) functional healthcare bedroom products includes mattresses, gyromagnetic chairs, gyromagnetic healthcare products, pillows, blankets, other bedroom accessories and a range of functional healthcare clothes and accessories; and (ii) OEM consumer electronic products includes RF connectors, transmitters for consumer electronic products.

FRANCHISEE NETWORK

Our independent franchisees 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

During the year, the Company restructure the CSCs. In order to concentrate on the development of CSCs, the Group maintain approximately 10 self-managed CSCs 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 CSCs. This is a clear demonstration of our commitment to our people and products.

CHAIRMAN'S STATEMENT

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 gyromagnetic 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 gyromagnetic 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).

APPOINTMENT OF BRAND SPOKESPERSON TO SOLIDIFY BRAND AWARENESS

To solidify our brand awareness and enhance our image, Madam Lang Ping, the former captain and coach of the China National Volleyball team and US National Volleyball team, 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 2012.

FINANCIAL REVIEW

We are principally engaged in two business segments, namely (i) manufacture and sales of functional healthcare bedroom and household 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:

Revenue and gross profit

During the year, the Group recorded a revenue of RMB113,575,000 representing a decrease of 66.5% as compared to that in previous year. 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 ratio for the year ended 30 June 2012 was 27% as compared to approximately 34% in the previous year. 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.

The selling and distribution costs for the year were RMB20,227,000, representing an increase of approximately 62.2% from last year. It comprises mainly travelling and CSCs daily operating cost amounting to approximately RMB7,529,000, transportation cost amounting to approximately RMB2,861,000, operating lease charges in respect of land and building amounting to approximately RMB3,400,000 and provision for product warranty amounting to approximately RMB1,353,000.

The administrative expenses for the year were approximately RMB25,060,000, representing a decrease of approximately 17.5%. It comprises mainly the amortization of intangible asset – franchise network amounting to approximately RMB7,863,000, director fee and emolument amounting to approximately RMB2,456,000 and salary and wages amounting to RMB4,637,000.

Other operating expenses for the year were approximately RMB16,330,000 (2011: RMB106,000). The increase was mainly due to the inclusion of impairment of goodwill and written off the property, plant and equipment during the year.

Liquidity and financial resources

The Group generally finances its operation with internally generated cash flow. As at 30 June 2012, the cash and bank balances of the Group amounting to approximately RMB27,109,000 (2011: RMB48,062,000) and the net current assets of the Group amounted to approximately RMB67,552,000 (2011: RMB72,488,000). With such resources, the Company has adequate financial resources for its operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Charges on the Group's asset

As at 30 June 2012, none of the Group's assets were pledged (2011: 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 2012, the gearing ratio as a percentage of other borrowings and amount due to relevant parties over total assets was approximately 0.5% (2011: 0.9%).

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 2012, the Group's business in manufacturing and trading of functional healthcare bedroom products and electronic products and other borrowings were transacted in HK\$, US dollar and RMB. The directors consider that the Group did not have significant exposure to foreign exchange fluctuation as the management monitors the related foreign currency closely and will consider hedging significant foreign currency exposure.

Contingent liabilities

As at 30 June 2012, the Group and the Company did not have any significant contingent liabilities.

Employee information

For the year ended 30 June 2012, the staff cost, excluding directors' remuneration, amounted to RMB14,440,000 (2011: RMB22,595,000). The employee remuneration was commensurate with individual performance and experience and subject to the periodic review of the senior management of the Company.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Restructuring of the Customer Service Centres

As at the date of this report, the Group restructures the Customer Service Centres (“CSC”) programme. We have shutdown approximately 40 self-managed CSCs in various cities in China that could not benefit the Group. After the restructuring, the Group kept approximately 10 self-managed CSCs that could enhance the Combest brand awareness in the marketplace and support franchisees in growing their business volume. Ongoing training and product education of our independent franchisees and our CSC staff are also carried out there.

BUSINESS OUTLOOK

Despite the difficult business environment encountered in the last financial year due to the continuing slowdown of the domestic economy, the Board still has reasonable confidence in the medium to long term booming consumer health-care market in China. Reason being aging population, continues awareness of healthy lifestyle and never ending high medical cost in future.

To strengthening our presence in the PRC market, we will continue to expand our franchise stores in order to increase our overall market share in this unique magnetic healthcare products market. It has always been one of the focuses of the Company to enhance the Combest brand image and hence, we are exploring setting up personal healthcare retail shops in the first and second tier cities to target the mid to higher end market segments.

For further expansion, given the uniqueness of our magnetic healthcare products, the Board intends to expand into overseas markets, especially into other ASEAN countries, Middle-East and eastern Europe by way of franchising and agency model. In the long run, the Board hopes to achieve a well balance of business volume between China and overseas segment.

Apart from expanding markets, we will also continue to commit our resources and efforts in product innovation and magnetic healthcare treatment technology. This is to ensure us to stay at market leader and there will always be a steady stream of supply of competitive and attractive products to be launched every year to the markets.

The Board believes that with the right products, right sales channels, committed franchisees and diversified markets both domestic and overseas, the Group is well positioned to regain its momentum to achieve new height in the near term.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. Yong Kee Poh (楊紀寶), aged 52, is a chairman and an executive Director since 11 April 2012. He was a graduate of the National University of Singapore with an honours degree in bachelor of engineering (mechanical) in 1986. From 2011, Mr. Yong also acted as the Operations General Manager for Jiedong Combest Healthy Lifestyle Products Co., Ltd. He was responsible for the management of our operations and sale.

Mr. Lee Man To (李敏滔), aged 39, 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 15 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 61, 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 2 Hong Kong listed companies, namely International Taifeng Holdings Limited and China Precious Metal Resources Holdings Co., Limited. Mr. Chan is also a non-executive director of Pan Hong Property Group Limited listed in Singapore and the Company, Pacific Plywood Holdings Limited and United Pacific Industries Limited all listed in Hong Kong. Mr. Chan is also an alternate director of Zhongda International Holdings Limited. He was formerly an independent non-executive director of Ming Kei Holdings Limited, Sunray Holdings Limited, New Smart Energy Group Limited, Dynamic Energy Holdings Limited and a non-executive director of Mayer Holdings Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ngai Sang Kenny (陳毅生), aged 47, 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 serves as the President of the Association of International Accountants – Hong Kong Branch. He also serves on several tribunals of the HKSAR Government which includes The Solicitors Disciplinary Tribunal Panel, the Mandatory Provident Fund Schemes Appeal Board and the Tsuen Wan District Fight Crime Committee. Mr. Chan served as the District Governor of Lions Clubs International District 303 – Hong Kong & Macao, China in the year 2009/2010. 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. Liu Wei Zhong (劉偉忠), aged 59, is an independent non-executive Director of the Company since 18 July 2012. Mr. Liu has substantial experience in journalism in Hong Kong and mainland China and is a senior media practitioner. He has more than 10-year experiences in magazines editing. Mr. Liu is currently engaged in editing for a local magazine. Mr. Liu was engaged in theory and policy research in China from 1978 to 2001.

Mr. Nguyen, Van Tu Peter (阮雲道先生), age 68, 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 IPE Group Limited (a company listed on the main board of the Stock Exchange with the stock code: 929) and Goldlion Holdings Limited (a company listed on the main board of the Stock Exchange with the stock code: 533).

SENIOR MANAGEMENT

Ms. Wong Hung Flavia Yuen Yee (黃洪琬貽女士), aged 45, 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.

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 2012.

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 and household products and (ii) manufacturing and trading of OEM consumer electronic components.

CUSTOMER SERVICE CENTRES TO ENHANCE BRAND AWARENESS AND SUPPORT FRANCHISEES

During the year, the Company restructure the CSCs. In order to concentrate on the development of CSCs, the Group maintain approximately 10 self-managed CSCs 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.

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 37 to 99.

The Directors did not recommend the payment of any dividend in respect of the year ended 30 June 2012 (2011: 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 12 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

REPORT OF THE DIRECTORS

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 26 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 26 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	5
Five largest customers in aggregate	12
The largest supplier	21
Five largest suppliers in aggregate	47

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.

AUDITOR

Due to a merger of the businesses of Grant Thornton ("GTHK") and BDO Limited ("BDO") to practice in the name of BDO as announced by the Company on 19 November 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 19 November 2010. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year were:

Executive directors:

Mr. Yong Kee Poh (appointed on 11 April 2012)

Mr. Lee Man To

Mr. Lim Merng Phang (resigned on 10 April 2012)

Non-executive directors:

Mr. Chan Kin Sang

Independent non-executive directors:

Mr. Xing Fengbing (deceased on 26 April 2012)

Mr. Chan Ngai Sang, Kenny

Mr. Nguyen Van Tu Peter

Mr. Liu Wei Zhong (appointed on 18 July 2012)

In accordance with article 108(A) and article 111 of the Company's articles of association, Mr. Yong Kee Poh, Mr. Lee Man To and Mr. Liu Wei Zhong, 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 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Yong Kee Poh has entered into a service contract as a chairman and an executive Director with the Company for an initial term of one year commencing from 11 April 2012, which will continue thereafter until terminated by either party giving not less than one 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 was appointed as independent non-executive Directors for a term of one year expiring on 5 February 2012. He has renewed a service agreement with the Company for a period commencing from 6 February 2012 to 5 February 2013.

Mr. Chan Kin Sang was re-designated as non-executive Director for an initial a term of one year expiring on 31 March 2013.

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 2013.

REPORT OF THE DIRECTORS

Mr. Liu Wei Zhong was appointed as an independent non-executive Director for an initial a term of one year expiring on 17 July 2013.

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

DIRECTORS' INTERESTS IN CONTRACTS

Except for those disclosed in note 30 to the financial statements and Mr. Yong Kee Poh being a director of 揭東康保磁科技有限公司, 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 2012, 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 2012, 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%

REPORT OF THE DIRECTORS

Name	Number and class of securities	Capacity	Approximate percentage to the issued share capital of the Company
Kiyuhon Limited ("Kiyuhon") (Note 1)	103,630,000 ordinary shares	Beneficial owner	3.24%
	774,265,714 ordinary shares	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 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.

REPORT OF THE DIRECTORS

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

As at 30 June 2012, 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%
Mr. Li Jiahui	243,360,000 ordinary shares	Beneficial owner	7.60%

REPORT OF THE DIRECTORS

Name	Number and class of securities <i>(Note 1)</i>	Capacity	Approximately percentage to the issued share capital of the Company
Brow Crown International Limited ("Brow Crown") <i>(Note 2)</i>	194,000,000 ordinary shares	Beneficial owner	6.06%
Mr. Qian Shiyu ("Mr. Qian") <i>(Note 2)</i>	196,000,000 ordinary shares	Interest of controlled corporation	6.12%

Notes:

1. It represents the interests in the shares or the underlying shares of the Company.
2. The 194,000,000 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

The Company has applied the principles and save as disclosed herein, has complied the code provisions as set out in the Corporate Governance Code (the "CG Code") and Corporate Governance Report (the "CG Report") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 30 June 2012 (the "Financial Year").

COMPLIANCE OF THE CODE PROVISIONS

Throughout the Financial Year, the Company has complied with the CG Code except of the deviation from code provisions A.2.1 of the CG Code which is explained below:

Code Provision A.2.1

This code stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

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. Yong Kee Poh, 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. Yong 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transaction by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry to all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the Financial Year.

Specific employees who are likely to be possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Code of Conduct. No incident of non-compliance was noted by the Company for the year ended 30 June 2012.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decision objectively in the interests of the Company. The Board has the full support from the chief executive director of the Company and the senior management of the Company to discharge its responsibilities.

The day-to-day management, administration and operation of the Company are delegated to the chief executive director and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code.

As at the date of this report, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board and the committees of the Company are given below and their respective responsibilities are discussed in the CG Report.

Board of Directors	Board Member	Audit Committee	Remuneration Committee	Nomination Committee
<i>Executive Directors</i>				
Mr. Yong Kee Poh (appointed on 11 April 2012)	✓			
Mr. Lee Man To	✓			
Mr. Lim Merng Phang (resigned on 10 April 2012)	✓			
<i>Non-executive Director</i>				
Mr. Chan Kin Sang	✓	✓	✓	✓
<i>Independent Non-executive Directors</i>				
Mr. Chan Ngai Sang, Kenny	✓	✓	✓	✓
Mr. Nguyen Van Tu Peter	✓	✓	✓	✓
Mr. Liu Wei Zhong (appointed on 18 July 2012)	✓	✓	✓	✓
Mr. Xing Fengbing (passed away on 26 April 2012)	✓	✓	✓	✓

CORPORATE GOVERNANCE REPORT

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors and Non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

Details of backgrounds and qualification of the Directors are set out in the "DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE" of this report.

The Board members have no financial, business, family or other material or relevant relationships with each other.

The Board meets regularly to discuss the Company's affairs and operations. During the Financial Year, the Board held 4 regular Board meetings (within the meaning of the CG Code) at approximately quarterly interval and 3 Board meetings which were convened when board-level decisions on particular matters were required. The Directors attended those meetings in person, by phone or through other electronic means of communication. The attendance record of each member of the Board during the Financial Year is set out below:

Name of Directors	Attended/ Eligible to attend
<i>Executive Directors</i>	
Mr. Yong Kee Poh (appointed on 11 April 2012)	1/7
Mr. Lee Man To	7/7
Mr. Lim Merng Phang (resigned on 10 April 2012)	5/7
<i>Non-executive Director</i>	
Mr. Chan Kin Sang	7/7
<i>Independent Non-executive Directors</i>	
Mr. Chan Ngai Sang, Kenny	6/7
Mr. Nguyen Van Tu Peter	6/7
Mr. Liu Wei Zhong (appointed on 18 July 2012)	0/7
Mr. Xing Fengbing (passed away on 26 April 2012)	5/7

During the regular meetings of the Board, the Directors discussed and formulated the overall strategies of the Group, reviewed and monitored the business and financial performances and discuss the quarterly, half-yearly and annual results, as well as discussed and decided on other significant matters.

CORPORATE GOVERNANCE REPORT

The attendance record of the general meeting of the Directors during the Financial Year is set out below:

Name of Directors	Attended/ Eligible to attend
<i>Executive Directors</i>	
Mr. Yong Kee Poh (appointed on 11 April 2012)	0/1
Mr. Lee Man To	1/1
Mr. Lim Merng Phang (resigned on 10 April 2012)	1/1
<i>Non-executive Director</i>	
Mr. Chan Kin Sang	0/1
<i>Independent Non-executive Directors</i>	
Mr. Chan Ngai Sang, Kenny	0/1
Mr. Nguyen Van Tu Peter	0/1
Mr. Liu Wei Zhong (appointed on 18 July 2012)	0/1
Mr. Xing Fengbing (passed away on 26 April 2012)	0/1

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. Yong Kee Poh, 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. Yong 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.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had at least three independent non-executive Directors at all times during the Financial Year. Except the following explanation, each of the independent non-executive Director has confirmed in writing his annual confirmation on independence as required by Rule 5.09 of the GEM Listing Rules. The Company considers all such Directors to be independent.

Subsequent to the passing away of Mr. Xing Fengbing (“Mr. Xing”) on 26 April 2012, the number of independent non-executive Directors has fallen below the minimum number required under Rules 5.05(1) of the GEM Listing Rules. On 18 July 2012, Mr. Liu Wei Zhong (“Mr. Liu”) has been appointed as an independent non-executive Director in order to fill the causal vacancy caused by the passing away of Mr. Xing as an independent non-executive Director. Mr. Liu has also been nominated as a member of the audit committee, remuneration committee and nomination committee of the Company. Upon the appointment of Mr. Liu, the number of independent non-executive Directors and the number of members of the audit committee of the Company meets the minimum requirement under rule 5.05(1) and rule 5.28 of the GEM Listing Rule.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Articles, (i) all Directors will be subject to retirement by rotation once every three years and the new Directors appointed by the Board to fill a causal vacancy during the year shall be subject to re-election by the shareholders of the Company at the next following general meeting after appointment; and (ii) one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to one-third but not less than one-third), shall retire from office by rotation and being eligible, offer themselves for re-election at each annual general meeting and that any new Director appointed by the Board during the year shall hold office until the next following general meeting after appointment, and he or she shall be eligible for re-election at that meeting.

The Board recommended the re-appointment of the retiring Directors standing for re-election at the forthcoming annual general meeting of the Company. Details of the information of the retiring Directors standing for re-election are set out in the circular accompany the notice of the annual general meeting.

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors of the Company. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.

Pursuant to the code provision A.6.5 of the CG Code with effect from 1 April 2012 and until the financial year ended 30 June 2012, all relevant Directors had participated in continuous professional development in the following manner:

Name of Director	Reading materials relevant to Directors' duties and responsibilities
<i>Executive Directors</i>	
Mr. Yong Kee Poh (appointed on 11 April 2012)	✓
Mr. Lee Man To	✓
Mr. Lim Merng Phang (resigned on 10 April 2012)	✓
<i>Non-executive Director</i>	
Mr. Chan Kin Sang	✓
<i>Independent Non-executive Directors</i>	
Mr. Chan Ngai Sang, Kenny	✓
Mr. Nguyen Van Tu Peter	✓
Mr. Liu Wei Zhong (appointed on 18 July 2012)	✓
Mr. Xing Fengbing (passed away on 26 April 2012)	✓

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with revised written terms of reference adopted on 26 March 2012 in compliance with the GEM Listing Rules. In accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company.

Currently, the Audit Committee has four members comprising three independent non-executive Directors and one non-executive Director; and namely, Mr. Chan Ngai Sang, Kenny (the chairman of the Audit Committee), Mr. Nguyen Van Tu Peter, Mr. Liu Wei Zhong (appointed on 18 July 2012) and Mr. Chan Kin Sang.

CORPORATE GOVERNANCE REPORT

The principle duties of the Audit Committee include:

- (a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, consider the external auditors' proposed audit fees, approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the Audit commences;
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, external auditor includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on where action or improvement is needed;
- (d) to monitor integrity of the Company's financial statements and the annual report and accounts, half-year report, quarterly reports, and to review significant financial reporting judgments contained in them, focusing particularly on:
 - (i) any changes in accounting policies and practices adopted by the Group;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards;
 - (vi) compliance with the GEM Listing Rules and legal requirements in relation to financial reporting;
 - (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group;
 - (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosure gives a true and fair view of the Group's financial conditions; and
 - (ix) the cashflow position of the Group;

CORPORATE GOVERNANCE REPORT

- (e) to consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (f) to discuss problems and reservations arising from the interim limited review and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (g) to review and supervise the financial reporting process, review the financial information of the Group, oversee the Group's financial controls, internal control procedures and risk management systems;
- (h) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (i) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (j) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (k) to (where an internal audit function exists) review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (l) to conduct exit interviews with any Director, manager, financial controller or internal credit control manager upon their resignation in order to ascertain the reasons for his departure;
- (m) to prepare work reports for presentation to the Board and to prepare summary of work reports for inclusion in the Group's interim and annual reports;
- (n) to consider the Board's recommendation of the appointment of any person to be an Audit Committee member, a company secretary, auditors and accounting staff either to fill a casual vacancy or as an additional Audit Committee member, company secretary, auditors and accounting staff or the Board's recommendation for the dismissal of any of them;
- (o) to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

CORPORATE GOVERNANCE REPORT

- (p) to review the Group's financial and accounting policies and practices;
- (q) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (r) to report to the Board on the matters in these terms of reference;
- (s) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
- (t) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (u) to consider other matters, as defined or assigned by the Board from time to time.

During the Financial Year under review, the Audit Committee held four meetings to consider and approve the following:

- (i) to review of the quarterly, half-year and annual financial statements before submission to the Board, with a focus on compliance with accounting standards, the GEM Listing Rules and other requirements in relation to financial reporting of the Audit Committee;
- (ii) to discuss the effectiveness of the internal controls system throughout the Group, including financial, operational and compliance controls, and risk management;
- (iii) to review the accounting principles and practices adopted by the Group and other financial reporting matters; and
- (iv) to discuss the whistleblowing policy throughout the Group.

CORPORATE GOVERNANCE REPORT

The individual attendance record of each member of the Audit Committee is as follows:

Name of Directors	Attended/ Eligible to attend
Mr. Chan Ngai Sang, Kenny	4/4
Mr. Nguyen Van Tu Peter	4/4
Mr. Xing Fengbing (passed away on 26 April 2012)	3/4
Mr. Liu Wei Zhong (appointed on 18 July 2012)	0/4
Mr. Chan Kin Sang	4/4

The Audit Committee has reviewed the Group's audited results for the Financial Year.

Subsequent to the passing away of Mr. Xing Fengbing ("Mr. Xing") on 26 April 2012, the number of independent non-executive Directors has fallen below the minimum number required under Rules 5.05(1) of the GEM Listing Rules. On 18 July 2012, Mr. Liu Wei Zhong ("Mr. Liu") has been appointed as an independent non-executive Director in order to fill the causal vacancy caused by the passing away of Mr. Xing as an independent non-executive Director. Mr. Liu has also been nominated as a member of the audit committee, remuneration committee and nomination committee of the Company. Upon the appointment of Mr. Liu, the number of independent non-executive Directors and the number of members of the audit committee of the Company meets the minimum requirement under rule 5.05(1) and rule 5.28 of the GEM Listing Rule.

There was no disagreement between the Board and the Audit Committee on the selection, appointment of the external auditors during the Financial Year.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 1 July 2005 with revised written terms of reference adopted on 26 March 2012 which deal clearly with its authority and duties, in accordance with the requirement of the CG Code. In accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company.

Currently, the Remuneration Committee has four members comprising three independent non-executive Directors and one non-executive Director; and namely, Mr. Chan Ngai Sang, Kenny (the chairman of the Remuneration Committee), Mr. Nguyen Van Tu Peter, Mr. Liu Wei Zhong (appointed on 18 July 2012) and Mr. Chan Kin Sang.

CORPORATE GOVERNANCE REPORT

The role and function of the Remuneration Committee includes:

- (a) to make recommendations to the Board on the Company's policy and structure for all Directors and Senior Management (as defined below) remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives from time to time;
- (c) to review and approve compensation payable to Executive Directors and Senior Management (as defined below) for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (d) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
- (e) to do any such things to enable the Remuneration Committee to discharge its powers and functions conferred on it by the Board;
- (f) to have the delegated responsibility from the Board either to determine the remuneration packages of individual Executive Directors and Senior Management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment; or to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management; and make recommendations to the Board on the remuneration of Non-executive Directors, and also review and make recommendations on the Company's share option scheme and other compensation-related issues. The Remuneration Committee should consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the group;
- (g) to ensure that no Director or any of his associates is involved in deciding his own remuneration;
- (h) to determine the criteria for assessing employee performance, which should reflect the Company's business objectives and targets;

CORPORATE GOVERNANCE REPORT

- (i) to consider the annual performance bonus for Executive Directors, Senior Management and the general staff, having regard to their achievements against the performance criteria and by reference to market norms, and make recommendation to the Board;
- (j) to engage external professional advisers to advise the Remuneration Committee on issues as the Remuneration Committee considers necessary;
- (k) to consult the chairman and/or chief executive about their remuneration proposals for other Executive Directors and have access to independent professional advice if considered necessary; and
- (l) to report to the Board the findings and recommendations of the Remuneration Committee at the next meeting of the Board following each Committee Meeting.

During the Financial Year under review, the Remuneration Committee held one physical meeting. The individual attendance record of each member of the Remuneration Committee is as follows:

Name of Director	Attended/ Eligible to attend
Mr. Chan Ngai Sang, Kenny	1/1
Mr. Nguyen Van Tu Peter	1/1
Mr. Xing Fengbing (pass away on 26 April 2012)	1/1
Mr. Liu Wei Zhong (appointed on 18 July 2012)	0/1
Mr. Chan Kin Sang	1/1

The summary of work performed by the Remuneration Committee included:

- (i) to review the current remuneration policies and appraisal system;
- (ii) to consider and approve the grant of share options to Directors and senior management;
- (iii) to recommend to the Board the Directors' fee for the Financial Year; and
- (iv) to consider and approve the remuneration of the Directors and senior management.

The Remuneration Committee shall meet at least once a year.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") in March 2012 with written terms of reference adopted on 26 March 2012 which deal clearly with its authority and duties, in accordance with the requirement of the CG Code. In accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company.

Currently the Nomination Committee has four members comprising the three independent non-executive Directors and one non-executive Director; and namely, Mr. Nguyen Van Tu Peter (the chairman of the Nomination Committee), Mr. Chan Ngai Sang, Kenny, Mr. Liu Wei Zhong (appointed on 18 July 2012) and Mr. Chan Kin Sang.

The role and function of the Nomination Committee includes:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and consider and advise the Board as to any changes that may be required to achieve a balanced and appropriate qualified board and the independence of any present or proposed independent non-executive Directors;
- (b) to develop plans for orderly succession for appointments to the Board and other senior positions, and will search for, consider and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive;
- (c) to re-appointment of any independent non-executive Director at the conclusion of his or her specified term of office;
- (d) any matters relating to the continuation in office as a Director or any Director at any time;
- (e) to prepare suitable job descriptions and letter of appointment in relation to the Board and, if appropriate, chairmanship and membership of board committees;
- (f) to make a statement in the Company's annual report and accounts detailing its activities and the process it has used to make any recommendations in respect of appointments to the Board;
- (g) to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
- (h) to assess the independence of INED; and
- (i) to report to the Directors its activities as the Directors may require from time to time.

During the Financial Year under review, the Nomination Committee did not hold any meeting.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

No corporate governance committee has been established and the Board will therefore be responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements etc.

During the financial year ended 30 June 2012, the Board has reviewed the Company's policies and practices on corporate governance and established the Nomination Committee in March 2012.

COMMUNICATION WITH SHAREHOLDERS

The Company established a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. The Company communicates with the shareholders (the "Shareholders") and the potential investors (the "Investors") of the Company mainly in the following ways:

- (i) the holding of annual general meetings and extraordinary general meetings, if any, which may be convened for specific purpose and provide opportunities for the Shareholders and Investors to communicate directly with the Board;
- (ii) the publication of quarterly, half-yearly and annual reports, announcements and/or circulars as required under the GEM Listing Rules and/or press releases of the Company providing updated information of the Group; and
- (iii) the latest information of the Group will be available on the websites of the Stock Exchange and the Company.

The notice of annual general meetings and any extraordinary general meetings at which the passing a special resolution is to be considered shall be called by not less than 21 clear days' notice prior to the date of meetings. All other extraordinary general meetings maybe called by not less than 14 clear days' notice prior to the date of meetings.

Procedures for Shareholders to convene an Extraordinary General Meeting

The following procedures for Shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the GEM Listing Rules (as amended from time to time):

- (i) any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company (the "Eligible Shareholder(s)") carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary"), to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition;

CORPORATE GOVERNANCE REPORT

- (ii) Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Flat M-N, 24/F, Houston Industrial Building, 32-40 Wang Lung Street, Tsuen Wan, N.T., Hong Kong, or Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the Board and/or the Company Secretary;
- (iii) the Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered Shareholders;
- (iv) the Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM; and
- (v) If within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Procedures for Shareholders to put forward proposals at Shareholders' meetings

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, Shareholders who wish to move a resolution may by means of Requisition convene an EGM following the procedures set out above.

Procedures for sending enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the head office and principal place of business of the Company in Hong Kong at Flat M-N, 24/F, Houston Industrial Building, 32-40 Wang Lung Street, Tsuen Wan, N.T., Hong Kong, or Hong Kong branch share registrar by post or by fax to (852) 8202 0633 for the attention of the Board and/or the Company Secretary.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements. The auditors' responsibilities are set out in the "INDEPENDENT AUDITOR'S REPORT" of this annual report.

INTERNAL CONTROL

The Board has overall responsibility for the establishment, maintenance and review of the Group's system of internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal control of the Group.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the executive of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

REMUNERATION OF THE AUDITOR

For the year ended 30 June 2012, 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 2012, the Company agreed auditing fees of HK\$650,000 (equivalent to RMB570,000) payable to BDO Limited.

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.

During the Financial Year, the terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee were revised in accordance to the amendments of the GEM Listing Rules with effect from 1 January 2012 and 1 April 2012, respectively. The revised terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the websites of the Stock Exchange and the Company.

INDEPENDENT AUDITOR'S REPORT



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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 37 to 99, which comprise the consolidated and company statements of financial position as at 30 June 2012, 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 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited

Certified Public Accountants

Cheung Or Ping

Practising Certificate no. P05412

Hong Kong, 11 September 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
Revenue/Turnover	5	113,575	338,754
Cost of sales		(82,438)	(223,501)
Gross profit		31,137	115,253
Other income and gains	5	972	8,194
Selling and distribution costs		(20,227)	(12,474)
Administrative expenses		(25,060)	(30,365)
Other operating expenses		(16,330)	(106)
(Loss)/Profit before income tax	7	(29,508)	80,502
Income tax credit/(expense)	8	881	(10,819)
(Loss)/Profit for the year		(28,627)	69,683
Other comprehensive income for the year			
Release of exchange fluctuation reserve upon disposal of subsidiaries		–	(12)
Exchange gain on translation of financial statements of foreign operations		484	2,622
Total comprehensive income for the year		(28,143)	72,293
(Loss)/Profit for the year attributable to:			
Owners of the Company		(29,264)	69,550
Non-controlling interests		637	133
		(28,627)	69,683
Total comprehensive income attributable to:			
Owners of the Company		(28,843)	71,945
Non-controlling interests		700	348
		(28,143)	72,293
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company	11		
– Basic (RMB cent(s))		(0.91)	2.21
– Diluted (RMB cent(s))		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	5,563	12,852
Intangible assets	14	168,429	176,292
Goodwill	15	52,162	61,788
		<u>226,154</u>	<u>250,932</u>
Current assets			
Inventories	17	42,490	48,589
Trade receivables	18	1,721	3,512
Prepayments, deposits and other receivables		45,798	29,281
Cash and cash equivalents	20	27,109	48,062
		<u>117,118</u>	<u>129,444</u>
Current liabilities			
Trade payables	21	5,360	20,204
Other payables, deposits and accruals		41,102	30,644
Provision for product warranty	22	692	–
Due to related companies	23	1,870	3,576
Tax payables		542	2,532
		<u>49,566</u>	<u>56,956</u>
Net current assets		<u>67,552</u>	<u>72,488</u>
Total assets less current liabilities		<u>293,706</u>	<u>323,420</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Provision for product warranty	22	395	–
Deferred tax liabilities	32	42,107	44,073
		<u>42,502</u>	<u>44,073</u>
Net assets		<u>251,204</u>	<u>279,347</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	30,860	30,860
Reserves	26	217,686	246,529
		<u>248,546</u>	<u>277,389</u>
Non-controlling interests		<u>2,658</u>	<u>1,958</u>
Total equity		<u>251,204</u>	<u>279,347</u>

On behalf of the Board

YONG KEE POH

Director

LEE MAN TO

Director

STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	16	1	1
Current assets			
Other receivables		1,393	–
Due from subsidiaries	16	173,922	184,243
Due from a related party	19	323	–
		175,638	184,243
Current liabilities			
Other payables and accruals		2,547	2,988
Net current assets		173,091	181,255
Net assets		173,092	181,256
EQUITY			
Share capital	24	30,860	30,860
Reserves	26	142,232	150,396
Total equity		173,092	181,256

On behalf of the Board

YONG KEE POH

Director

LEE MAN TO

Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
(Loss)/Profit before income tax		(29,508)	80,502
Adjustments for:			
Amortisation of intangible assets		7,863	6,528
Depreciation		1,400	1,329
Interest income		(35)	(22)
Property, plant and equipment written off		6,605	121
Gain on step acquisition of a subsidiary		–	(5,547)
Loss on disposal of subsidiaries		–	106
Provision for product warranty		1,087	–
Impairment of goodwill		9,626	–
Operating (loss)/profit before working capital changes		(2,962)	83,017
Decrease/(Increase) in inventories		6,099	(33,598)
Decrease in trade receivables		1,791	3,135
(Increase)/Decrease in prepayments, deposits and other receivables		(16,517)	2,314
(Decrease)/Increase in trade payables		(14,844)	17,041
Increase in other payables, deposits and accruals		10,458	10,407
(Decrease)/Increase in amounts due to related companies		(1,706)	1,436
Cash (used in)/generated from operations		(17,681)	83,752
Bank interest received		35	22
Income taxes paid		(3,075)	(10,694)
Net cash (used in)/generated from operating activities		(20,721)	73,080
Cash flows from investing activities			
Purchases of property, plant and equipment		(716)	(11,002)
Step acquisition of a subsidiary, net of cash acquired	31(a)	–	(3,456)
Acquisition of subsidiaries, net of cash acquired	31(b),(c)	–	(11,195)
Net cash outflow from disposal of subsidiaries	29	–	(3)
Decrease in amount due from a related company		–	7,237
Net cash used in investing activities		(716)	(18,419)
Cash flows from financing activities			
Placement of new shares		–	34,183
Decrease in amount due to a shareholder		–	(20,017)
Decrease in amount due to related companies		–	(25,673)
Net cash used in financing activities		–	(11,507)
Net (decrease)/increase in cash and cash equivalents		(21,437)	43,154
Cash and cash equivalents at the beginning of year		48,062	5,045
Effect of foreign exchange rate changes, net		484	(137)
Cash and cash equivalents at the end of year		27,109	48,062

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Equity attributable to owners of the Company					Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium* RMB'000	Statutory reserves* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* 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 year	-	-	-	-	(29,264)	(29,264)	637	(28,627)
Other comprehensive income								
Exchange gain on translation of financial statements of foreign operations	-	-	-	421	-	421	63	484
Total comprehensive income for the year	-	-	-	421	(29,264)	(28,843)	700	(28,143)
Balance at 30 June 2012	<u>30,860</u>	<u>419,537</u>	<u>8,268</u>	<u>3,149</u>	<u>(213,268)</u>	<u>248,546</u>	<u>2,658</u>	<u>251,204</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Equity attributable to owners of the Company					Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium* RMB'000	Statutory reserves* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* 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 (<i>note 24</i>)	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 (<i>note 29</i>)	-	-	-	(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

* These reserve accounts comprise the consolidated reserves of approximately RMB217,686,000 (2011: RMB246,529,000) in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

2. ADOPTION OF NEW AND REVISED HKFRSs

2.1 Adoption of revised/amended HKFRSs – effective 1 July 2011

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 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 3 (Revised)	Business Combination
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets
HKAS 24 (Revised)	Related Party Disclosures

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKFRS 3 (Revised) – Business Combinations

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements as the Group did not have any business acquisition in current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

2. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

2.1 Adoption of revised/amended HKFRSs – effective 1 July 2011 (Continued)

HKFRS 7 (Amendments) – Financial Instruments: Disclosures

As part of the Improvements to HKFRSs issued in 2010, HKFRS 7 has been amended to enhance the interaction between quantitative and qualitative disclosures. If the carrying amount of a financial asset best represents the maximum exposure to credit risk, the standard does not require a positive statement to this effect in the financial statements. This amended disclosure requirement has been applied retrospectively. The carrying amount of the Group's trade receivables, prepayment, deposits and other receivables and amount due from a related company represent the Group's maximum exposure to credit risk in respect of these financial assets as at 30 June 2012 and 2011. The prior year financial statements included a positive statement to this effect which is removed in the 2011 financial statements following the amendments. The adoption of the amendments has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with revised definition and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

2. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosure – Offsetting Financial Assets and Financial Liabilities ²
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income ¹
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities ³
HKFRS 9 and Amendments to HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 19 (2011)	Employee Benefits ²
HKAS 27 (2011)	Separate Financial Statements ²
HKAS 28 (2011)	Investments in Associates and Joint Ventures ²
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs contained in 2009 and 2011 Cycle issued in June 2012 ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

Amendments to HKFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKFRS 7 issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 July 2013.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

2. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 – Financial Instruments

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 July 2015.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

2. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 10 – Consolidated Financial Statements (Continued)

The implementation of HKFRS 10 does not result in changes in those entities which are regarded as being controlled by the Group. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

Annual Improvements 2009-2011 Cycle

Annual Improvements 2009-2011 Cycle sets out a collection of amendments to HKFRSs (including HKFRS 1, HKAS 1, HKAS 16, HKAS 32 and HKAS 34) which is issued in response to the International Accounting Standards Board's (IASB) annual improvements project to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. The Group expects to adopt the amendments from 1 July 2013.

Save as the main changes described above, the Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements on pages 37 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 that represent present ownership interests in the subsidiary 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation (Continued)

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 that represent present ownership interests in the subsidiary 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.

3.3 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Foreign currency translation (Continued)

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 accumulated 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.

CIP represents assets in the course of construction for production or for its own use purpose. CIP is stated at cost less any impairment loss and is not depreciated. Cost includes direct costs incurred during the periods of construction, installation and testing plus interest charges arising from borrowings used to finance these assets during the construction period. CIP is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for 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 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%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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 accumulated impairment losses.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Impairment of non-financial assets

The Group's goodwill, intangible assets, property, plant and equipment 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

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 or 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 and accruals and amounts due to related companies

These balances 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 of 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

Gain on step acquisition of a subsidiary, finance costs, 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(v) Income taxes

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

(vi) Provision for product warranty

Being an industry practice, the Group provides two to three years product warranty to its customers depending on product type, under which faulty products are repaired or replaced. During the year ended 30 June 2012, provision for warranty of approximately of RMB1,087,000 (2011: Nil) is recognised for the products sold. The amount of the provision for the warranty requires judgement because it requires management to estimate defective rate of products sold. As the Group continues to develop new technologies and upgrade its product quality, it is possible that the past defective rate of products is not a good indicator of future claims by customers in respect of past sales. Any increase or decrease in the actual claims will affect profit or loss in future years.

5. 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 during the year.

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

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	113,575	338,754
Other income		
Bank interest income	35	22
Exchange gains, net	360	131
Sales of scrap materials	62	585
Others	515	1,909
	972	2,647
Gains		
Gain on step acquisition of a subsidiary	-	5,547
	972	8,194

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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 products includes RS connectors and transmitters for consumer electronic products.

There were no inter-segment sales and transfers during the year (2011: Nil).

	Functional healthcare bedroom products		OEM consumer electronic products		Total	
	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
– From external customers						
Reportable segment revenue	94,118	315,152	19,457	23,602	113,575	338,754
Reportable segment (loss)/profit	(24,344)	85,572	1,617	2,357	(22,727)	87,929
Depreciation	1,381	987	19	342	1,400	1,329
Amortisation of intangible assets	7,863	6,528	–	–	7,863	6,528
Impairment of goodwill	9,626	–	–	–	9,626	–
Property, plant and equipment written off	6,605	–	–	121	6,605	121
Provision for warranty	1,353	–	–	–	1,353	–
Reportable segment assets	309,164	321,333	6,999	10,981	316,163	332,314
Additions to non-current segment assets during the year, including arising from acquisition of subsidiaries	666	153,317	50	–	716	153,317
Reportable segment liabilities	42,117	44,892	2,884	2,968	45,001	47,860

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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:

	2012 RMB'000	2011 RMB'000
Reportable segment revenue	113,575	338,754
Reportable segment (loss)/profit	(22,727)	87,929
Unallocated income	-	6
Unallocated expenses	(6,781)	(7,433)
(Loss)/Profit before income tax	(29,508)	80,502
	2012 RMB'000	2011 RMB'000
Reportable segment assets	316,163	332,314
Other corporate assets	27,109	48,062
Group assets	343,272	380,376
Reportable segment liabilities	45,001	47,860
Tax payables	542	2,532
Deferred tax liabilities	42,107	44,073
Other corporate liabilities	4,418	6,564
Group liabilities	92,068	101,029

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

6. SEGMENT INFORMATION (Continued)

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

	Revenue from external customers		Non-current assets	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Principal markets				
The PRC (country of domicile)	94,899	315,152	226,154	250,932
Hong Kong	13,642	13,695	–	–
Taiwan	3,271	4,686	–	–
Europe	1,601	4,175	–	–
Others	162	1,046	–	–
	113,575	338,754	226,154	250,932

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.

7. (LOSS)/PROFIT BEFORE INCOME TAX

	2012	2011
	RMB'000	RMB'000
(Loss)/Profit before income tax is arrived at after charging:		
Cost of inventories sold	82,438	223,501
Auditor's remuneration	748	579
Amortisation of intangible assets	7,863	6,528
Depreciation	1,400	1,329
Impairment of goodwill	9,626	–
Loss on disposal of subsidiaries (<i>note 29</i>)	–	106
Operating lease charges in respect of land and buildings	4,634	3,352
Provision for product warranty (<i>note 22</i>)	1,353	–
Property, plant and equipment written off	6,605	121
Staff costs (excluding directors' remuneration (<i>note 28(a)</i>))		
– Salaries and wages	13,562	22,404
– Pension scheme contribution	878	191
	14,440	22,595

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

8. INCOME TAX (CREDIT)/EXPENSE

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.

	2012 RMB'000	2011 RMB'000
Current tax – PRC	1,085	12,451
Deferred tax (<i>note 32</i>)	(1,966)	(1,632)
Income tax (credit)/expense	<u>(881)</u>	<u>10,819</u>

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

	Group	
	2012 RMB'000	2011 RMB'000
(Loss)/Profit before income tax	<u>(29,508)</u>	<u>80,502</u>
Tax on (loss)/profit before income tax, calculated at the rates applicable in the tax jurisdictions concerned	(6,065)	20,751
Tax effect of tax loss not recognised	1,547	773
Tax holiday of wholly-owned foreign enterprises	(873)	(11,490)
Tax effect of non-deductible expenses	4,819	2,026
Tax effect of non-taxable income	(1)	(1,815)
Others	(308)	574
Income tax (credit)/expense	<u>(881)</u>	<u>10,819</u>

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 state and local corporate income tax for the first two profitable financial years, and thereafter is entitled to a 50% relief from the state corporate income tax and exempted from the local corporate tax of the PRC 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

Of the consolidated loss attributable to owners of the Company for the year ended 30 June 2012 included loss of approximately RMB5,089,000 (2011: loss of approximately RMB7,057,000) has been dealt with in the financial statements of the Company (*note 26*).

10. DIVIDENDS

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

11. (LOSS)/EARNINGS PER SHARE

Basic

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

	2012 RMB'000	2011 RMB'000
(Loss)/Profit for the year attributable to the owners of the Company	<u>(29,264)</u>	<u>69,550</u>
	No. of Shares '000	No. of Shares '000
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	<u>3,201,500</u>	<u>3,141,349</u>

Diluted

No diluted (loss)/earnings per share are presented for the years ended 30 June 2012 and 2011 as the Company had no potential ordinary shares outstanding at the end of the respective year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

12. PROPERTY, PLANT AND EQUIPMENT – GROUP

	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 1 July 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 (note 31)	–	–	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 and 1 July 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
Year ended 30 June 2012							
Opening net carrying value	4,155	3,781	1,017	34	435	3,430	12,852
Additions	–	91	104	–	207	314	716
Transfer	3,744	–	–	–	–	(3,744)	–
Written off	(5,768)	(239)	(598)	–	–	–	(6,605)
Depreciation	(605)	(581)	(129)	(9)	(76)	–	(1,400)
Closing net carrying value	1,526	3,052	394	25	566	–	5,563
At 30 June 2012							
Cost	2,267	13,791	688	55	688	–	17,489
Accumulated depreciation and impairment	(741)	(10,739)	(294)	(30)	(122)	–	(11,926)
Net carrying value	1,526	3,052	394	25	566	–	5,563

As at 30 June 2012 and 2011, all property, plant and equipment held by the Group are located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

Property, plant and equipment amounting to RMB12,014,000 are related to the Group's healthcare bedroom products business and they were assessed individually for impairment and certain of these assets amounting to RMB6,605,000 were impaired and written off as a result of the change of marketing strategy and therefore a number of the customers services centres being shut down during the year. The net carrying amount of property, plant and equipment of healthcare bedroom products business (after the write-off) amounting to RMB5,409,000 are combined with other assets under the cash generating unit ("CGU") of healthcare bedroom products business and are assessed for goodwill impairment testing at that CGU level (*note 15*).

13. INTERESTS IN AN ASSOCIATE – GROUP

On 11 August 2010, the Group acquired further 50% equity interest in Shanghai Combest Corporate Management Co., Ltd ("Shanghai Combest") and was able to exercise control over Shanghai Combest. Shanghai Combest became a wholly-owned subsidiary of the Company. Further details in connection with the step acquisition are set out in note 31(a) to the financial statements.

14. INTANGIBLE ASSETS – GROUP

	Brand names	Franchise networks	Total
	RMB'000	RMB'000	RMB'000
At 1 July 2010	86,600	–	86,600
Step acquisition of a subsidiary (<i>note 31(a)</i>)	–	31,700	31,700
Acquisition of subsidiaries (<i>notes 31(b) and (c)</i>)	34,540	29,980	64,520
Amortisation	–	(6,528)	(6,528)
At 30 June 2011 and 1 July 2011	121,140	55,152	176,292
Amortisation	–	(7,863)	(7,863)
At 30 June 2012	121,140	47,289	168,429

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.

The intangible assets of brandnames and franchise networks are combined with other assets under the CGU of healthcare bedroom products business and are assessed for impairment at that CGU level (*note 15*).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

15. GOODWILL – GROUP

	2012 RMB'000	2011 RMB'000
At beginning of the year	61,788	15,993
Step acquisition of a subsidiary (note 31(a))	–	37,597
Acquisition of subsidiaries (notes 31(b) and (c))	–	8,198
Impairment loss	(9,626)	–
At end of the year	<u>52,162</u>	<u>61,788</u>

As at 30 June 2012, goodwill amounting to RMB61,788,000 together with property, plant and equipment amounting to RMB5,409,000 (note 12) and the intangible assets amounting to RMB168,429,000 (note 14) have been allocated to the CGU of healthcare bedroom products business for impairment testing.

The recoverable amount of the CGU of healthcare bedroom products business has been determined based on a value in use calculation using cash flow projection based on the financial budgets covering a five-year period approved by the senior management. The valuation of the CGU is made by reference to the valuation report issued by Savills Valuation and Professional Services Limited, independent qualified professional valuers. Key estimates and assumptions used for determining the recoverable amount of the CGU are as follows:

Growth rate during the five-year period	average of 18% (2011: average of 5%)
Gross margin	average of 39% (2011: average of 38%)
Pre-tax discount rate	24% (2011: 26%)
Growth rate to extrapolate cash flow projections	3% (2011: 3%)

Estimates and assumptions are determined by the management based on the past performance of the segment and management's expectation for the market development.

The carrying amount of the CGU as at 30 June 2012 exceeded its recoverable amount by RMB9,626,000, resulting in impairment loss of RMB9,626,000 for the year. The impairment loss is firstly allocated to write down the carrying amount of goodwill, resulting in the amount of goodwill as at 30 June 2012 being written down by RMB9,626,000. The impairment loss for the year is mainly attributable to the significant decrease in sales derived from wholesales customers as a result of slow-down in the PRC economy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

16. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2012 RMB'000	2011 RMB'000
Investments in subsidiaries		
Unlisted shares, at cost	<u>1</u>	<u>1</u>
Amount due from subsidiaries		
Cost	428,783	439,104
Less: Provision for impairment	<u>(254,861)</u>	<u>(254,861)</u>
	<u>173,922</u>	<u>184,243</u>

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		Principal activities
			Directly	Indirectly	
Diamond Globe Investments Ltd.	2 January 2009, British Virgin Islands ("BVI")	100 ordinary shares of US\$1 each	100	–	Investment holdings
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
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

16. INVESTMENTS IN 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	
Shanghai Combest	23 April 2009, PRC	RMB500,000	–	100	Trading of functional healthcare bedroom products
Well Wisdom Limited	12 January 2010, Hong Kong	10,000 ordinary shares of HK\$1 each	–	100	Investment holdings
Well Sources Enterprises Limited	12 March 2009, BVI	50,000 ordinary shares of US\$1 each	–	55	Trading of OEM consumer electronic products
揭東金望電子有限公司	16 September 2009, PRC	Registered capital of HK\$10,000,000	–	55	Trading and manufacturing of OEM consumer electronic products

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

The financial statements of the above subsidiaries are audited by BDO Limited for statutory purpose and/or for the purpose of the group consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

17. INVENTORIES – GROUP

	2012 RMB'000	2011 RMB'000
Raw materials	9,851	13,708
Work in progress	19,707	8,017
Finished goods	12,932	26,864
	<u>42,490</u>	<u>48,589</u>

18. 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:

	2012 RMB'000	2011 RMB'000
0 – 30 days	135	815
31 – 90 days	1,160	2,010
91 – 360 days	384	687
Over 360 days	42	–
Balance at 30 June	<u>1,721</u>	<u>3,512</u>

The Group allows a credit period from 30 to 90 days to its customers for the years ended 30 June 2012 and 2011.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

18. TRADE RECEIVABLES – GROUP (Continued)

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	517	849
1 – 90 days past due	806	2,464
91 – 360 days past due	356	199
Over 360 days past due	42	–
Total	<u>1,721</u>	<u>3,512</u>

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.

19. 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:

Company	
Name of borrower	揭東康保磁科技有限公司 ("揭東康保磁")
Person connected with the borrower	Mr. Wang Linjia
Amount outstanding at	
– 30 June 2011	–
– 30 June 2012	RMB323,000
Maximum amount outstanding during the year	<u>RMB323,000</u>

揭東康保磁 is a company indirectly wholly-owned by Mr. Wang, a substantial shareholder of the Company and Mr. Yong Kee Poh becomes a common director of the Company and 揭東康保磁 at 11 April 2012. The amount is unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

20. CASH AND CASH EQUIVALENTS – GROUP

Cash and cash equivalents of the Group include the following:

	2012 RMB'000	2011 RMB'000
Cash and bank balances	<u>27,109</u>	<u>48,062</u>

The cash and bank balances of the Group denominated in RMB amounted to approximately RMB26,460,000 (2011: RMB43,216,000). 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.

21. TRADE PAYABLES – GROUP

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

	2012 RMB'000	2011 RMB'000
0 – 30 days	2,484	7,360
31 – 90 days	1,027	3,675
91 – 360 days	1,715	9,150
Over 360 days	<u>134</u>	<u>19</u>
	<u>5,360</u>	<u>20,204</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

22. PROVISION FOR PRODUCT WARRANTY

	2012 RMB'000	2011 RMB'000
At beginning of the year	–	–
Additional provision during the year (<i>note 7</i>)	1,353	–
Utilised during the year	(266)	–
At end of the year	1,087	–
Analysed for reporting purposes as:		
Current liabilities	692	–
Non-current liabilities	395	–
	1,087	–

The Group provides two to three years product warranties to its customers depending on the product types, under which faulty products are repaired or replaced. The estimate of the provision for the product warranty is based on sales volumes and past experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and revised by reference to the current defective rate of products sold.

23. DUE TO RELATED COMPANIES – GROUP

	2012 RMB'000	2011 RMB'000
揭陽鑽寶電子有限公司	–	2,140
揭東康保磁	1,870	1,436
	1,870	3,576

Up to 10 April 2012, Mr. Lim Merng Phang is a common director of the Company and 揭陽鑽寶電子有限公司. 揭東康保磁 is a company indirectly wholly-owned by Mr. Wang, a substantial shareholder of the Company and Mr. Yong Kee Poh becomes a common director of the Company and 揭東康保磁 at 11 April 2012. The amounts due are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

24. SHARE CAPITAL – GROUP AND COMPANY

	2012		2011	
	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	3,201,500	30,860	2,896,500	28,216
New shares issued for acquisition of subsidiaries (<i>note (a)</i>)	–	–	205,000	1,789
New shares issued through placement (<i>note (b)</i>)	–	–	100,000	855
At the end of the year	3,201,500	30,860	3,201,500	30,860

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, Beijing Combest Group and Da Hua Jin Cheng Group (*notes 31(a), (b) and (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.
- (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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

25. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

25. SHARE OPTION SCHEME (Continued)

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.

26. 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 42 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

26. RESERVES (Continued)

Company

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 July 2010	322,469	(19,635)	(234,050)	68,784
Transactions with owners				
Issue of new shares (<i>note 24</i>)	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 and 1 July 2011	419,537	(28,034)	(241,107)	150,396
Loss for the year	–	–	(5,089)	(5,089)
Other comprehensive income				
Exchange differences	–	(3,075)	–	(3,075)
Total comprehensive income for the year	–	(3,075)	(5,089)	(8,164)
At 30 June 2012	419,537	(31,109)	(246,196)	142,232

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

27. OPERATING LEASE COMMITMENTS

As lessee

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

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

	2012 RMB'000	2011 RMB'000
Within one year	2,870	9,412
In the second to fifth years, inclusive	4,659	12,710
Over five years	–	52
	7,529	22,174

At the reporting date, the Company did not have any lease commitments (2011: Nil).

28. 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:

	2012				2011			
	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. Lee Man To	–	498	10	508	–	507	10	517
– Mr. Lim Merg Phang*	–	897	7	904	–	1,218	10	1,228
– Mr. Yong Kee Poh**	–	590	–	590	–	–	–	–
	–	1,985	17	2,002	–	1,725	20	1,745
Independent non-executive directors:								
– Mr. Chan Ngai Sang, Kenny	117	–	–	117	123	–	–	123
– Mr. Xing Fengbing***	98	–	–	98	123	–	–	123
– Mr. Chan Kin Sang#	–	–	–	–	113	–	–	113
– Mr. Nguyen Van Tu, Peter#	122	–	–	122	43	–	–	43
	337	–	–	337	402	–	–	402
Non-executive directors:								
– Mr. Chan Kin Sang#	117	–	–	117	10	–	–	10
	454	1,985	17	2,456	412	1,725	20	2,157

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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

(a) Directors' emoluments (Continued)

- * Mr. Lim Merng Phang resigned as an executive director on 10 April 2012.
- ** Mr. Yong Kee Poh is appointed as an executive director on 11 April 2012.
- *** Mr. Xing Fengbing was deceased on 26 April 2012.
- # 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 2012 and 2011.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30 June 2012 and 2011.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2011: 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:

	2012 RMB'000	2011 RMB'000
Salaries, bonuses, allowances and benefits in kind	<u>1,882</u>	<u>1,433</u>

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

	2012 RMB'000	2011 RMB'000
Nil – HK\$1,000,000 (equivalent to RMB815,000)	–	1
HK\$1,000,001 – HK\$1,500,000 (equivalent to RMB815,000 – RMB1,223,000)	<u>1</u>	<u>1</u>

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 ended 30 June 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

On 23 November 2010, the Group 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 was 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 was as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

30. RELATED PARTY TRANSACTIONS

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

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
Operating lease rentals paid to a related company	(i)	696	980
Purchase of raw materials from a related company	(ii)	14,557	2,397

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 揭東鑽寶科技電子有限公司 respectively, of which Mr. Lim Merng Phang is a director of the aforesaid companies. The leases will be expired on 30 June 2015. Mr. Lim Merng Phang resigned on 10 April 2012.
- (ii) The purchases were made from 揭東康保磁, which is indirectly wholly-owned by Mr. Wang, a substantial shareholder of the Company and Mr. Yong Kee Poh becomes a common director of the Company and 揭東康保磁 at 11 April 2012.

(b) Compensation of key management personnel

	2012 RMB'000	2011 RMB'000
Total remuneration of directors and other members of key management		
– short-term employee benefits	4,339	3,589

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. BUSINESS COMBINATIONS

For the year ended 30 June 2012, the Group did not have any business combination. For the year ended 30 June 2011, details of the business combinations are set out as follows:

(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 at a consideration of RMB30,092,000 from a third party. Together with the 50% equity interest acquired by the Group during the year ended 30 June 2010, the Group was 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 manufacture and sales of functional healthcare bedroom products and other accessories.

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

	RMB'000
Purchase consideration:	
– Cash paid	5,880
– Fair value of shares consideration (<i>note 24</i>)	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 (<i>note 15</i>)	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 was included in other income and gains in the Group's consolidated statement of comprehensive income for the year ended 30 June 2011 (*note 5*).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. 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 were as follows:

	Fair values RMB'000	Acquiree's carrying amounts RMB'000
Property, plant and equipment (<i>note 12</i>)	138	138
Intangible assets (<i>note 14</i>)	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 (<i>note 32</i>)	(7,925)	–
Net assets acquired	<u>19,577</u>	<u>(4,198)</u>
Cash and cash equivalents in a subsidiary acquired		2,424
Cash consideration		<u>(5,880)</u>
Net cash outflow on acquisition		<u>(3,456)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. BUSINESS COMBINATIONS (Continued)

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

Since its acquisition, the brand name and franchise network of Shanghai Combest had 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.

(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 were as follows:

	RMB'000
Purchase consideration:	
– Cash paid	9,594
– Fair value of shares consideration (<i>note 24</i>)	39,504
Total purchase consideration	49,098
Fair value of net identified assets acquired	(43,422)
Goodwill (<i>note 15</i>)	5,676

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

The goodwill was attributable to the synergies and economies of scale expected to arise from the business combinations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. 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 were as follows:

	Fair values RMB'000	Acquiree's carrying amounts RMB'000
Property, plant and equipment (<i>note 12</i>)	26	26
Intangible assets (<i>note 14</i>)	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 (<i>note 32</i>)	(15,775)	–
Net assets acquired	<u>43,422</u>	<u>(3,903)</u>
Cash and cash equivalents in a subsidiary acquired		891
Cash consideration		<u>(9,594)</u>
Net cash outflow on acquisition		<u>(8,703)</u>

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

Since its acquisition, the brand names and franchise network of Beijing Combest Group had 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. BUSINESS COMBINATIONS (Continued)

(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 were as follows:

	RMB'000
Purchase consideration:	
– Cash paid	2,500
– Fair value of shares consideration (<i>note 24</i>)	1,813
Total purchase consideration	4,313
Fair value of net identified assets acquired	(1,791)
Goodwill (<i>note 15</i>)	2,522

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

The goodwill was attributable to the synergies and economies of scale expected to arise from the business combinations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. 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 were as follows:

	Fair values RMB'000	Acquiree's carrying amounts RMB'000
Property, plant and equipment (<i>note 12</i>)	136	136
Intangible assets (<i>note 14</i>)	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 (<i>note 32</i>)	(355)	–
Net assets acquired	<u>1,791</u>	<u>726</u>
Cash and cash equivalents in a subsidiary acquired		8
Cash consideration		<u>(2,500)</u>
Net cash outflow on acquisition		<u>(2,492)</u>

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

Apart from the above, included in the acquisition agreement were some terms and conditions relating to contingent consideration (the "Contingent Consideration"). Under such terms and conditions, the Company was required to issue 11,800,000 shares ("Second Tranche Consideration Shares") of the Company to the vendor after six months after the Acquisition Day when the Company 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 had transferred all the assets, rights and benefits of Hangzhou Anji Da Hua Jin Cheng Healthcare Products Co., Ltd. ("Hangzhou Da Hua") 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. As the assets, rights and benefits of Hangzhou Anji Da Hua were not transferred to Zhejiang Da Hua, no Second Tranche Consideration Shares had to be issued in accordance with the terms of the acquisition agreement and hence no contingent consideration was recognised accordingly.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

31. 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 had been integrated with the Group's existing brand name and franchise network while 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 approached its single largest Shareholder, Shing Lee Holding Limited ("Shing Lee"), which, upon request of the Company, 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 from notes 31(a) – (c) 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 RMB70,453,000 respectively. This pro forma information was for illustrative purposes only and was 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.

32. DEFERRED TAX LIABILITIES – GROUP

Movement on the deferred tax liabilities are as follows:

	Revaluation of intangible assets	
	2012	2011
	RMB'000	RMB'000
At the beginning of the year	44,073	21,650
Acquisition of subsidiaries (notes 31(a), (b), (c))	–	24,055
Credited to profit or loss during the year (note 8)	(1,966)	(1,632)
At the end of the year	42,107	44,073

The Group has tax losses of approximately RMB18,928,000 as at 30 June 2012 (2011: RMB12,675,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

32. DEFERRED TAX LIABILITIES – GROUP (Continued)

The Group has deferred tax liabilities of approximately RMB8,313,000 as at 30 June 2012 (2011: RMB3,658,000) 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.

33. 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. 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 (loss)/profit 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

33. 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 2012		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 3 months or on demand RMB'000
Trade payables	5,360	5,360	5,360
Other payables and accruals	21,027	21,027	21,027
Due to related companies	1,870	1,870	1,870
	28,257	28,257	28,257

	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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

- (v) Liquidity risk (Continued)
Company

	As at 30 June 2012		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 3 months or on demand RMB'000
Other payables and accruals	2,547	2,547	2,547

	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

(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	
	2012 RMB'000	2011 RMB'000
Loans and receivables:		
– Trade receivables	1,721	3,512
– Other receivables	43,140	26,092
Cash and cash equivalents	27,109	48,062
	71,970	77,666

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Financial assets (Continued)

	Company	
	2012 RMB'000	2011 RMB'000
Loans and receivables:		
– Other receivables	1,393	–
– Due from subsidiaries	173,922	184,243
– Due from a related party	323	–
	<u>175,638</u>	<u>184,243</u>

Financial liabilities

	Group	
	2012 RMB'000	2011 RMB'000
Financial liabilities measured at amortised cost:		
– Trade payables	5,360	20,204
– Other payables and accruals	21,027	17,761
– Due to related companies	1,870	3,576
	<u>28,257</u>	<u>41,541</u>

	Company	
	2012 RMB'000	2011 RMB'000
Financial liabilities measured at amortised cost:		
– Other payables and accruals	<u>2,547</u>	<u>2,988</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

34. 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 amounts of capital as at 30 June 2012 and 2011 amounted to approximately RMB251,204,000 and RMB279,347,000 respectively which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2012 were approved and authorised for issue by the board of directors on 11 September 2012.

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.

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000 (Restated)	2008 RMB'000 (Restated)
Results					
Revenue					
Continuing operations	113,575	338,754	45,331	30,444	212,672
Discontinued operations	–	–	146,720	707,507	238,149
	<u>113,575</u>	<u>338,754</u>	<u>192,051</u>	<u>737,951</u>	<u>450,821</u>
(Loss)/Profit from operation					
Continuing operations	(29,508)	80,502	(12,273)	(6,590)	27,450
Discontinued operations	–	–	(259,053)	80,260	27,321
	<u>(29,508)</u>	<u>80,502</u>	<u>(271,326)</u>	<u>73,670</u>	<u>54,771</u>
Finance costs					
Continuing operations	–	–	(3,070)	(9,823)	(5,717)
Discontinued operations	–	–	(57)	(1,685)	(2,817)
	<u>–</u>	<u>–</u>	<u>(3,127)</u>	<u>(11,508)</u>	<u>(8,534)</u>
(Loss)/Profit before taxation					
Continuing operations	(29,508)	80,502	(15,343)	(16,413)	21,733
Discontinued operations	–	–	(259,110)	78,575	24,504
	<u>(29,508)</u>	<u>80,502</u>	<u>(274,453)</u>	<u>62,162</u>	<u>46,237</u>
Income tax credit/(expenses)					
Continuing operations	881	(10,819)	5,497	247	(2,779)
Discontinued operations	–	–	(1,366)	(9,554)	(4,312)
	<u>881</u>	<u>(10,819)</u>	<u>4,131</u>	<u>(9,307)</u>	<u>(7,091)</u>
(Loss)/Profit for the year					
Continuing operations	(28,627)	69,683	(9,846)	(16,166)	18,954
Discontinued operations	–	–	(260,476)	69,021	20,192
	<u>(28,627)</u>	<u>69,683</u>	<u>(270,322)</u>	<u>52,855</u>	<u>39,146</u>
Attributable to:					
– Equity holders of the Company	(29,264)	69,550	(273,837)	21,662	13,082
– Non-controlling interests	637	133	3,515	31,193	26,064
	<u>(28,627)</u>	<u>69,683</u>	<u>(270,322)</u>	<u>52,855</u>	<u>39,146</u>
Assets and liabilities and non-controlling interest					
Total assets	343,272	380,376	190,132	730,550	797,579
Total liabilities	(92,068)	(101,029)	(82,790)	(315,692)	(436,002)
Non-controlling interests	(2,658)	(1,958)	(1,610)	(87,232)	(55,785)
	<u>248,546</u>	<u>277,389</u>	<u>105,732</u>	<u>327,626</u>	<u>305,792</u>