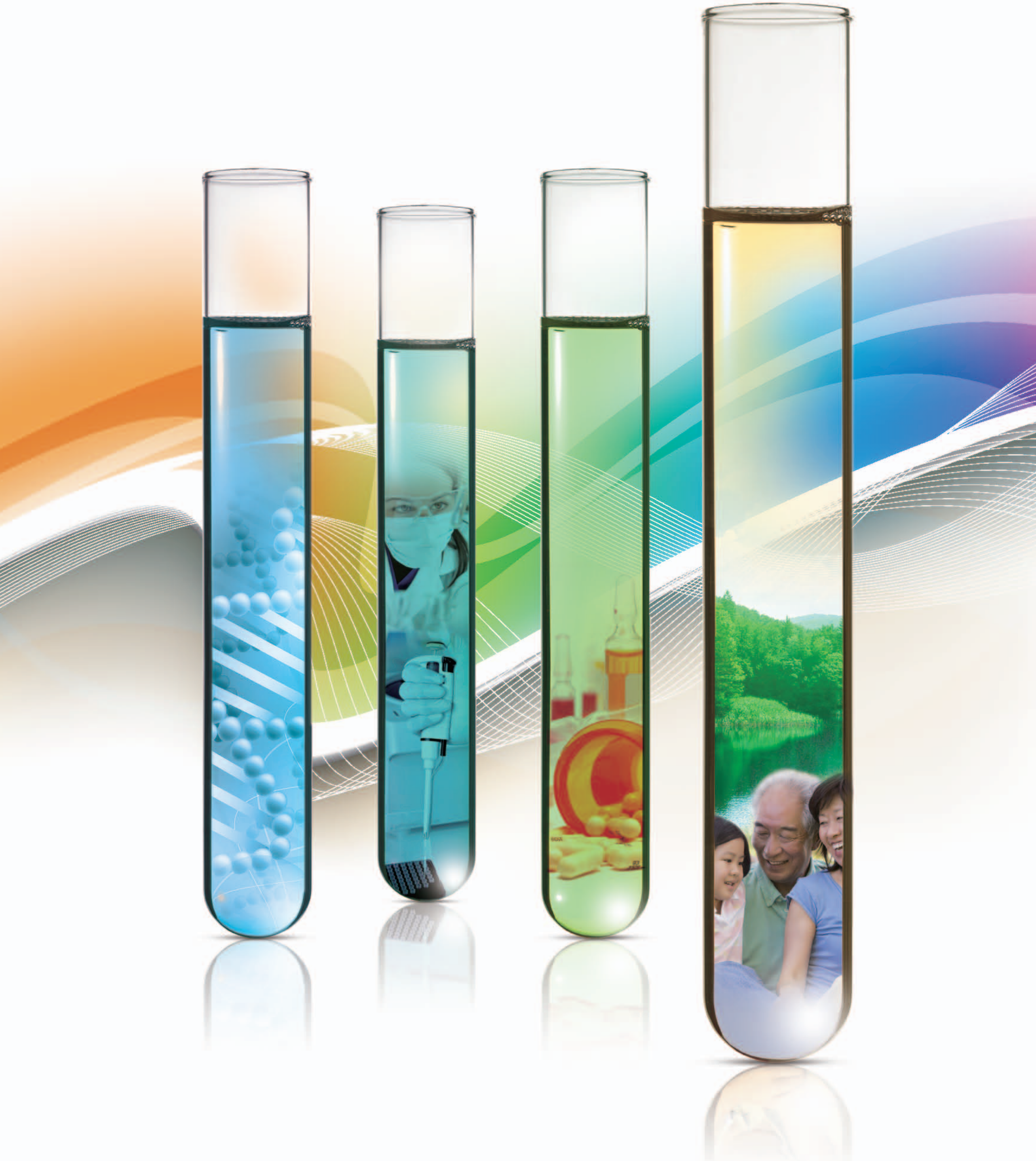
United Gene High-Tech Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 399

Interim Report **2010-2011**



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Qin Yilong *(Chairman)*
Jiang Jian

Independent Non-Executive Directors

Zhang Huiming
Chen Weijun
Jiang Di

Non-Executive Director

Jiang Nian

Audit Committee

Chen Weijun *(Chairman)*
Zhang Huiming
Jiang Di

Remuneration Committee

Zhang Huiming *(Chairman)*
Qin Yilong
Jiang Di

HONORARY CHAIRMAN

Mao Yumin

COMPANY SECRETARY

Cheung Sui Ping, Annie

COMPLIANCE ADVISER

Asian Capital (Corporate Finance) Limited
Suite 1006, Bank of America Tower
12 Harcourt Road, Central
Hong Kong

LEGAL ADVISERS

Winnie Mak, Chan & Yeung
8/F., Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms No. 1405-1406, Harbour Centre
No. 25 Harbour Road
Wanchai, Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

AUDITOR

ANDA CPA Limited
Unit D, 21st Floor, Max Share Centre
373 King's Road, North Point
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

399

COMPANY WEBSITE

www.unitedgenegroup.com
www.irasia.com/listco/hk/unitedgene

GROUP RESULTS

Turnover of United Gene High-Tech Company Limited (the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2010 (the "Interim Period") amounted to approximately HK$68.8 million, representing approximately 76.61% decrease from the six months ended 31 December 2009 (the "Previous Corresponding Period") of approximately HK$294.2 million. The decrease in the turnover of approximately HK$225.4 million for the Interim Period was mainly due to the interruption of the business of Co-operative Joint Venture（山東特利爾醫藥有限公司）(the "CJV") since July 2010. Profit attributable to the owners of the Company for the Interim Period was approximately HK$9.87 million, representing an increase of approximately HK$5.91 million compared to that of approximately HK$3.96 million in the Previous Corresponding Period. The increase in the profit was mainly contributed by the increase of gross profit margin in the business of distribution of gene testing services.

BUSINESS REVIEW

Distribution of gene testing services

On 8 November 2010, one of the Company's subsidiaries, Bestdone Limited, entered into the conditional sale and purchase agreement (the "Acquisition Agreement") with United Gene Health Group Limited ("UG Health Group") and Fudan Health International Limited relating to the acquisition (the "Acquisition") of the entire equity interests of Fudan Health Guang Dong Ltd. ("Fudan Guang Dong") and Fudan Health International (HK) Limited ("Fudan Hong Kong") respectively. The Acquisition was completed on 13 December 2010 and both Fudan Guang Dong and Fudan Hong Kong have since become wholly-owned subsidiaries of the Company.

After completion of the Acquisition, the Group has obtained the permanent exclusive distribution rights for gene testing services in the regions of the People's Republic of China (the "PRC"), Hong Kong and Macau, the permanent non-exclusive distribution rights in other regions as well as the right of use of certain logos, which were granted by UG Health Group, on gene testing services distributed by the Group in the PRC, Hong Kong and Macau. Accordingly, the original exclusive rights and non-exclusive rights sub-granted by China United Gene Health Industry Limited ("China United") (an independent third party) to the Group for distribution of gene testing services in Hong Kong and the PRC respectively were terminated. Upon completion of the Acquisition, Shanghai Bozhong Biotechnology Co. Ltd. and Fudan Heath International (MCO) Limited, both being indirect subsidiaries of UG Health Group, will supply gene testing services to the Group on terms more favourable than those under the previous arrangement.

Message from the Chairman

On 14 July 2009, China United Gene Health Limited ("United Gene Health"), a subsidiary of the Company, entered into five franchise agreements (the "Franchise Agreements") with five independent distributors, namely Fashion Fame Limited, Grace Noble Limited, Rising Rates International Limited, Noble Hat Limited and Sky Cultures Limited (the "Distributors") for the period of five years commencing from 15 July 2009. Details of the Franchise Agreements are set out in note 13 to the unaudited condensed consolidated interim financial statements.

In order to manage the distribution channels more effectively and to achieve higher profit margin, the Group has begun to segment its market geographically and establish marketing and distribution channels in the PRC which are under its direct supervision and management since March 2010. The effect of the above sales and marketing strategy is clearly reflected by the improvement of the Group's profit margin. For the Interim Period, although turnover of distribution of gene testing services decreased from approximately HK$96.7 million in the Previous Corresponding Period to approximately HK$58.5 million, gross profit margin increased substantially from approximately 12.25% in the Previous Corresponding Period to approximately 34.69%, representing a considerable increase of approximately 183.18%.

Sales of pharmaceutical products of the CJV

As disclosed in the annual report of the Company for the financial year of 2010, a member of the top management of the CJV, who was mainly responsible for sales and marketing, encountered serious health problems in October 2009. The business operation of the CJV has been inevitably interrupted. No turnover has been generated by the CJV since July 2010.

Distribution of bio-industrial products

On 13 July 2010, the Group completed the acquisition of CNL (Pinghu) Biotech Co. Ltd. ("CNL (Pinghu)") which is principally engaged in the wholesale business of bone chips in the PRC. CNL (Pinghu) has the exclusive distribution right granted by its supplier in Holland, Sonac Vuren BV, for the distribution of bone chips and bone fat in the PRC for a period of 5 years commencing from 1 January 2010 and it shall be entitled to automatic renewal of another 10 years provided that no objection is raised by either CNL (Pinghu) or Sonac Vuren BV before 31 December 2014. As a result, the Group has since then been participating in the trading of biological raw materials through CNL (Pinghu). The Group intends to establish more cooperation arrangements with the European biotechnology enterprises and seek more acquisition opportunities, whether in terms of business, product or technology.

During the Interim Period, sales of bio-industrial products generated from wholesale of bone chips in the PRC was approximately HK$10.3 million, and the gross profit margin was approximately 20.14%.

PROSPECTS

Distribution of gene testing services

After the acquisition of Fudan Guang Dong, the Group has obtained the permanent exclusive distribution rights for gene testing services in the regions of the PRC, Hong Kong and Macau, and permanent non-exclusive distribution rights in other regions. This would substantially increase the Group's market share in the distribution of gene testing services. Moreover, as the purchase price of gene testing services under the exclusive agreements is much lower than which obtained under the previous arrangement, the Group would enjoy a higher profit margin in the business of gene testing services distribution in the future.

The Group will continue to diversify its business within the PRC and to expand its market share in distribution of gene testing services. The Group has commenced establishing distribution channels in Macau. Moreover, in order to achieve higher profit margin, the Group has been in review of the effectiveness of its distribution channels, including the performance of the Distributors pursuant to the Franchise Agreements. The Group may negotiate an alternative cooperation mechanism with the Distributors if necessary. Currently, the Group has set up different marketing policies and measures for its different geographical market segments in response to their varying market factors and for their further development. The Directors are confident that the Group would be able to achieve more sustainable and stable growth in this business sector.

The Group has started to operate a laboratory for the manufacture, research and development of gene testing products and services after the acquisition of Fudan Hong Kong. UG Health Group entered into a deed of gift with Fudan Hong Kong on 8 November 2010, pursuant to which UG Health Group delivered to Fudan Hong Kong at nil consideration certain information and documents in relation to gene testing services, namely (i) the four product design schemes for Human Diseases Susceptibililty Gene Tests (inclusive of Classic v2008 series, Happy Life III series, Gene Tests for Single Disease series and Happy Family series); and (ii) technology and management system standards for laboratory of UG Health Group (inclusive of technology standards, quality control manual, standard operation procedure ("SOP") for management, SOP for experiments). The Group will continue to strengthen its ongoing research and development capacity in respect of gene testing services.

Provision of health care management services

The Group has been establishing a health care management centre, the "United Gene (Shanghai) Health Care Centre", in Shanghai, the PRC. The total investment cost is estimated to be around RMB35 million and would be funded by the net proceeds raised from the rights issue of the Company in May 2010. The United Gene (Shanghai) Health Care Centre is aimed to serve as a high-end health care management and service centre with genome technology as its core selling point. Operation of the United Gene (Shanghai) Health Care Centre will adopt the "4P medical services model" which refers to predictive, preventive, personalised and participatory medical services model. The Group would also extend its services to disease prevention and cure in order to establish an individualised comprehensive and lifelong health service system. The Directors believe that the establishment of the United Gene (Shanghai) Health Care Centre could help in strengthening the Group's reputation in the health care management and service industry and enhancing the Group's profitability.

The United Gene (Shanghai) Health Care Centre is expected to be opened in August 2011. The Group intends to set up more health care centres in Guangzhou, Beijing and other cities in the PRC, which would be funded by the net proceeds raised from the rights issue of the Company in May 2010.

Sales of pharmaceutical products of the CJV

It has been difficult for the Group to recruit a suitable competent replacement for the CJV. In view of the loss-making position of the CJV since the financial year of the Group ended 30 June 2010, the Directors do not consider it a realistic possibility for the CJV to turn the performance around in the foreseeable future even if a suitable replacement is recruited. As set out in the Company's announcement dated 25 February 2011 in more detail, the Directors determined that it would be in the best interests of the Company and its shareholders as a whole, to voluntarily wind-up First Jumbo Trading Limited ("First Jumbo"), the CJV's immediate holding company. This can simplify the corporate structure of the Group and therefore reduce administrative expenses and enhance the performance of the Group. In addition, this can enable the Group to allocate more of its resources and management efforts on its other businesses, namely, distribution of gene testing services and bio-industrial products and provision of health care management services which are proven to have higher profit margins.

Liquidators will be appointed by the Group to voluntarily wind-up First Jumbo and will try to realise its assets where appropriate. The estimated loss to the Group arising from the winding-up will be approximately HK$100,000.

Subsidiaries of the Group in the PRC will continue to explore and develop other business opportunities in the distribution of pharmaceutical products.

Distribution of bio-industrial products

In December 2010, CNL (Pinghu) commenced the construction of the production plant and office in Pinghu, the PRC and a team of experts including Mr. A. H. Grobben, a Dutch expert in hydrolyzed gelatin and bone fat refining technology, is expected to start production of hydrolyzed gelatin in about September 2011. The estimated construction costs would be approximately RMB14.5 million and the estimated annual production volume of hydrolyzed gelatin would be approximately 3,600 tones. In December 2010, Sonac Vuren BV obtained relevant permit for exporting bone fat for industrial purpose to the PRC. Under an exclusive agency agreement entered into by CNL (Pinghu) and Sonac Vuren BV on 1 January 2010, CNL (Pinghu) has the exclusive right of sale of bone chips and bone fat in the PRC for a period of fifteen years. The Directors believe that these new product lines would improve substantially the turnover and profitability of the Group's bio-industrial products business in the forthcoming years.

FINANCIAL REVIEW

Capital structure

Details of the capital structure of the Company are set out in note 18 to the unaudited condensed consolidated interim financial statements.

As at 31 December 2010, the Group had no bank borrowings or other long term financing (30 June 2010: nil).

Liquidity and financial resources

As at 31 December 2010, the Group had bank and cash balances of approximately HK$309.8 million (30 June 2010: approximately HK$344.2 million).

The ratio of current assets to current liabilities of the Group was 19.06 as at 31 December 2010 compared to 4.63 as at 30 June 2010. The Group's gearing ratio as at 31 December 2010 was 0.04 (30 June 2010: 0.18) which is calculated based on the Group's total liabilities of approximately HK$19.9 million (30 June 2010: approximately HK$97.1 million) and the Group's total assets of approximately HK$477.4 million (30 June 2010: approximately HK$526.7 million).

Significant investment

On 9 July 2010, United Gene Health entered into a share transfer agreement and a supplemental agreement with certain independent third parties to purchase a total of 70% equity interest in CNL (Pinghu) for a consideration of RMB15.12 million. On 9 September 2010, United Gene Health injected further capital investments of RMB15.88 million into CNL (Pinghu) upon completion of the share transfer. The balance of RMB4 million will be injected to CNL (Pinghu) upon the release of the audited financial statements of CNL (Pinghu) for the year ended 31 December 2010.

On 8 November 2010, Bestdone Limited entered into the Acquisition Agreement with UG Health Group and Fudan Health International Limited to acquire the entire equity interests of Fudan Guang Dong and Fudan Hong Kong at a total consideration of HK$79,533,051 by reference to (i) the valuation of the permanent exclusive distribution rights for gene testing services in the regions of the PRC, Hong Kong and Macau, the permanent non-exclusive distribution rights in other regions and the right of use of certain logos granted to Fudan Guang Dong as at 8 November 2010; and (ii) the net assets value of Fudan Hong Kong as at 13 December 2010 respectively. The Acquisition was completed on 13 December 2010.

Save as disclosed above, the Group had no other significant investment, nor has it made any material acquisition or disposal of the Group's companies or associated companies during the Interim Period.

Details of the future plans for materials investments and their expected sources of funding in the coming year are stated in the paragraphs headed "Provision of health care management services" and "Distribution of bio-industrial products" under the section headed "PROSPECTS".

Charges on the Group's assets

As at 31 December 2010, the Group did not have any charges on its assets (30 June 2010: nil).

Contingent liabilities

The Directors are not aware of any significant contingent liabilities of the Group as at 31 December 2010 (30 June 2010: nil).

Commitments

Commitments of the Group as at 31 December 2010 are set out in note 21 to the unaudited condensed consolidated interim financial statements.

Foreign exchange exposure

The monetary assets and liabilities and businesses of the Group are mainly carried out and conducted in Hong Kong dollars and Renminbi ("RMB"). The Group maintains a prudent strategy in its foreign exchange risk management, with the foreign exchange risks being minimized through balancing the monetary assets against monetary liabilities, and foreign currency revenue against foreign currency expenditure. The Group did not use any financial instrument to hedge against foreign currency risk. The Group will monitor its foreign currency exposure closely and consider hedging foreign currency exposure should the need arise.

Number and remuneration of employees

As at 31 December 2010, the Group had 87 (30 June 2010: 85) full-time employees, most of whom were working in the Company's subsidiaries in the PRC. It is the Group's policy that remuneration of the employees including the Directors is in line with the market and commensurable with the level of pay for similar responsibilities within the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement schemes, training programmes and education subsidies.

Total staff costs including the Directors' remuneration for the Interim Period amounted to approximately HK$3.7 million (2009: approximately HK$3.3 million).

Segment information

Details of the segment information are set out in note 5 to the unaudited condensed consolidated interim financial statements.

APPRECIATION

I would like to take this opportunity to thank our fellow Directors for their wise counsel and support, and the management and staff at all levels for their dedication, hard work and contribution.

Qin Yilong
Chairman

Hong Kong, 28 February 2011

Other Information Provided in Accordance with the Listing Rules

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the six months ended 31 December 2010, except for the deviations discussed below.

Code provision A.2.1

The position of chief executive officer remains vacant and the Company is looking for a suitable person to assume this role.

Code provision A.4.1

Code provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term and are subject to re-election.

The Company has deviated from the Code provision A.4.1. The independent non-executive Directors and non-executive Director were not appointed for specific terms but are subject to retirement by rotation and re-election at least once every three years in accordance with the provision of the Company's articles of association. As such, the Company considers that sufficient measures have been taken to serve the purpose of this Code provision.

The board of Directors believes that, despite the absence of specified term of non-executive Directors, the Directors are committed to representing the long-term interests of the Company and its shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. All the Directors have confirmed that they have fully complied with the Model Code throughout the six months ended 31 December 2010. No incident of non-compliance was noted by the Company in the Interim Period.

AUDIT COMMITTEE

The Audit Committee is composed of three independent non-executive Directors. It reviews with the management of the accounting policies and practices adopted by the Group and discusses the auditing, internal control and financial reporting matters. It has reviewed the interim results for the six months ended 31 December 2010. In addition, the Group's external auditors have reviewed the unaudited condensed consolidated interim financial statements set out on pages 16 to 36 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2010, none of the Directors of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. Nor was there any such interest or right that had been granted or exercised by the Directors of the Company or their associates during the Interim Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Interim Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the register of interests and short positions in the shares and underlying shares of the Company kept under Section 336 of the SFO showed that, the following entities had an interest or deemed interest of 5% or more in the issued share capital of the Company:

Long positions in the shares of the Company

Name of shareholders	Capacity	Number of shares/ underlying shares held	Percentage of the issued share capital of the Company
Dr. Mao Yumin	Interest of a controlled corporation	6,652,843,853	54.69%
United Gene Holdings Limited	Interest of a controlled corporation	6,652,843,853	54.69%
Best Champion Holdings Limited	Beneficial owner	6,652,843,853	54.69%

Save as disclosed above, the Directors are not aware of any other relevant interests or short positions of 5% or more in the issued share capital of the Company as at 31 December 2010.

SHARE OPTION SCHEME

On 6 November 2009, the Company adopted a share option scheme (the "Share Option Scheme") which, unless otherwise cancelled or amended, will remain in force for 10 years from that date. After the refreshment of the Share Option Scheme on 3 November 2010, the maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme may not in aggregate exceed 1,216,450,806, being 10% of the shares in issue of the Company as at the date of the Share Option Scheme was refreshed and approved by the shareholders of the Company on 3 November 2010. The offer of a grant may be accepted upon payment of a nominal consideration of HK$1 per acceptance.

The exercise price of the share options granted under the Share Option Scheme is determined by the board of Directors, but shall not be less than the highest of (i) the nominal value of the Company's shares, (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant, or (iii) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant.

As at 31 December 2010, the Company had not granted any options to the eligible persons of the Share Option Scheme and there was no outstanding share option under the Share Option Scheme.

Apart from the aforesaid, at no time during the Interim Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and substantial shareholders of the Company or any of their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

ANDA
CPA Limited
安達會計師事務所有限公司

TO THE BOARD OF DIRECTORS OF
UNITED GENE HIGH-TECH GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 36 which comprises the condensed consolidated statement of financial position of United Gene High-Tech Group Limited (the "Company") and its subsidiaries (collectively called the "Group") as at 31 December 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-months period then ended and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong
28 February 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2010

	Notes	Six months ended 31 December 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Turnover	3	**68,811**	294,170
Cost of sales		**(46,444)**	(279,071)
Gross profit		**22,367**	15,099
Other income	4	**2,731**	27
Selling expenses		**(2,055)**	(3,475)
Administrative expenses		**(10,174)**	(6,980)
Profit from operations		**12,869**	4,671
Finance cost	6	**–**	(182)
Profit before tax		**12,869**	4,489
Income tax expense	7	**(2,782)**	(508)
Profit for the period	8	**10,087**	3,981
Other comprehensive income:			
Exchange differences on translating foreign operations		**1,003**	16
Other comprehensive income for the period, net of tax		**1,003**	16
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**11,090**	3,997
Profit for the period attributable to:			
Owners of the Company		**9,873**	3,957
Non-controlling interests		**214**	24
		10,087	3,981
Total comprehensive income for the period attributable to:			
Owners of the Company		**10,681**	3,973
Non-controlling interests		**409**	24
		11,090	3,997
Earnings per share	10		
Basic and Diluted (HK cents per share)		**0.08**	0.07

Condensed Consolidated Statement of Financial Position

At 31 December 2010

	Notes	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**17,109**	2,115
Intangible assets	12	**97,210**	–
Goodwill		**969**	–
Prepayments, deposits and other receivables	13	**35,200**	75,200
		150,488	77,315
Current assets			
Inventories	14	**705**	569
Prepayments, deposits and other receivables		**7,727**	5,148
Trade receivables	15	**8,673**	99,426
Bank and cash balances		**309,829**	344,224
		326,934	449,367
Current liabilities			
Trade payables	16	**1,692**	87,077
Accruals and other payables	17	**9,786**	7,257
Current tax liabilities		**5,675**	2,741
		17,153	97,075
Net current assets		**309,781**	352,292
Total assets less current liabilities		**460,269**	429,607
Non-current liabilities			
Deferred tax liabilities		**2,750**	–
NET ASSETS		**457,519**	429,607
Capital and reserves			
Share capital	18	**121,645**	121,645
Reserves		**318,178**	307,497
Equity attributable to owners of the Company		**439,823**	429,142
Non-controlling interests		**17,696**	465
TOTAL EQUITY		**457,519**	429,607

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2010

	(Unaudited)						
	Attributable to owners of the Company						
	Share capital HK$'000	Share premium account HK$'000	Foreign currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2009	60,823	476,544	115	(430,096)	107,386	542	107,928
Total comprehensive income for the period	–	–	16	3,957	3,973	24	3,997
At 31 December 2009	60,823	476,544	131	(426,139)	111,359	566	111,925
At 1 July 2010	**121,645**	**726,123**	**208**	**(418,834)**	**429,142**	**465**	**429,607**
Acquisition of a subsidiary	**–**	**–**	**–**	**–**	**–**	**7,041**	**7,041**
Further capital injection by non-controlling interest	**–**	**–**	**–**	**–**	**–**	**9,781**	**9,781**
Total comprehensive income for the period	**–**	**–**	**808**	**9,873**	**10,681**	**409**	**11,090**
At 31 December 2010	**121,645**	**726,123**	**1,016**	**(408,961)**	**439,823**	**17,696**	**457,519**

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2010

	Six months ended 31 December 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Net cash generated from/(used in) operating activities	**58,988**	(45,828)
Net cash used in investing activities	**(103,507)**	(1,054)
Net cash generated from/(used in) financing activities	**9,718**	(182)
Net decrease in cash and cash equivalents	**(34,801)**	(47,064)
Effect of foreign exchange rate changes	**406**	11
Cash and cash equivalents at beginning of period	**344,224**	74,065
Cash and cash equivalents at end of period	**309,829**	27,012
Analysis of cash and cash equivalents		
Bank and cash balances	**309,829**	27,012

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited condensed consolidated interim financial statements should be read in conjunction with the 2010 annual financial statements of the Company. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2010.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA Accounting Standards Board that are relevant to its operations and effective for its accounting period beginning on 1 July 2010. HKFRSs comprise HKFRS, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current and prior periods.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. TURNOVER

	Six months ended 31 December	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Distribution of:–		
Pharmaceutical products	**–**	197,519
Gene testing services	**58,493**	96,651
Bio-industrial products	**10,318**	–
	68,811	294,170

4. OTHER INCOME

	Six months ended 31 December	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest income	**972**	6
Subsidy from the People's Republic of China (the "PRC") Government for healthcare project	**1,737**	–
Sundry income	**22**	21
	2,731	27

5. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(a) distribution of pharmaceutical products

(b) distribution of gene testing services

(c) distribution of bio-industrial products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

	Distribution of pharmaceutical products		Distribution of gene testing services		Distribution of bio-industrial products		Total	
	HK$'000 (Unaudited)	HK$'000 (Unaudited)	**HK$'000 (Unaudited)**	HK$'000 (Unaudited)	**HK$'000 (Unaudited)**	HK$'000 (Unaudited)	**HK$'000 (Unaudited)**	HK$'000 (Unaudited)
Six months ended 31 December 2010 and 2009								
Revenue from external customers	**–**	197,519	**58,493**	96,651	**10,318**	–	**68,811**	294,170
Segment (loss)/profit after tax	**(92)**	121	**8,182**	2,061	**763**	–	**8,853**	2,182
	HK$'000 (Unaudited)	HK$'000 (Audited)	**HK$'000 (Unaudited)**	HK$'000 (Audited)	**HK$'000 (Unaudited)**	HK$'000 (Audited)	**HK$'000 (Unaudited)**	HK$'000 (Audited)
At 31 December and 30 June 2010								
Segment assets	**3,333**	15,550	**193,850**	174,103	**56,867**	–	**254,050**	189,653

	Six months ended 31 December	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Reconciliation of reportable segment profit:		
Profit		
Total profit after tax of reportable segments	**8,853**	2,182
Corporate and others expenses	**(3,715)**	(3,796)
Elimination of intercompanies expenses	**3,987**	5,573
Unallocated income:		
Other income	**962**	22
Consolidated profit	**10,087**	3,981

6. FINANCE COST

	Six months ended 31 December	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest on bank loans	**–**	182

7. INCOME TAX EXPENSE

	Six months ended 31 December	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax provision for the period		
Hong Kong Profits Tax	**–**	466
The PRC	**2,782**	42
	2,782	508

No provision for Hong Kong Profits Tax has been made for the six months ended 31 December 2010 as the Group does not have any assessable profits subject to Hong Kong profits tax for the six months ended 31 December 2010.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

8. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging the following:

	Six months ended 31 December	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Amortization of intangible assets	**584**	–
Depreciation	**324**	179
Directors' emoluments	**660**	658
Operating lease charges of land and buildings	**1,605**	954
Cost of inventories sold	**8,240**	194,262
Staff costs including Directors' emoluments	**3,748**	3,258

9. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2010 (2009: HK$NIL).

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share attributable to the owners of the Company is based on the unaudited profit for the period attributable to the owners of the Company of approximately HK$9,873,000 (2009: approximately HK$3,957,000) and the weighted average number of ordinary shares of 12,164,508,062 (2009: 6,082,254,031) in issue during the period.

Diluted earnings per share

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary shares during the six months period ended 31 December 2010 and 31 December 2009.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2010, the Group acquired approximately HK$6,832,000 (2009: approximately HK$1,060,000) for the additions to property, plant and equipment, which was mainly the construction in progress for the production plant of bio-industrial products business.

12. INTANGIBLE ASSETS

	Permanent exclusive & non-exclusive rights – distribution of gene testing services (note a) HK$'000 (Unaudited)	Exclusive rights – distribution of bio-industrial products (note b) HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Cost			
Additions during the period and at 31 December 2010	**79,696**	**18,098**	**97,794**
Accumulated Amortization			
Amortization for the period and at 31 December 2010	**–**	**584**	**584**
Carrying amount			
At 31 December 2010	**79,696**	**17,514**	**97,210**

Notes:

(a) On 13 December 2010, the Group obtained permanent exclusive rights for distribution of gene testing services in the regions of the PRC, Hong Kong and Macau, the permanent non-exclusive rights for distribution of gene testing services in the other regions, as well as the right of use of certain logos, which was granted by United Gene Health Group Limited, on the gene testing services distributed by the Group in the PRC, Hong Kong and Macau.

(b) On 1 January 2010, CNL (Pinghu) Biotech Co. Ltd. ("CNL (Pinghu)") entered into the exclusive agency agreement with its supplier, Sonac Vuren BV ("Sonac"). Sonac granted the exclusive distribution rights to CNL (Pinghu) for distribution of its bone chips and bone fat in the PRC for a term of five years and which would be automatically renewed for another 10 years subject to no objection is raised by either party before 31 December 2014. The Group acquired CNL (Pinghu) on 13 July 2010, and made the valuation of intangible assets for its exclusive distribution rights for the term of fifteen years by the professional surveyor at the amount of RMB15.40 million, which would be amortized under the term of fifteen years.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
Deposit for obtaining the distributorship rights (note a)	–	40,000
Loans under the Franchise Agreements (note b)	**35,200**	35,200
	35,200	75,200

Notes:

(a) On 2 May 2008, China United Gene Health Limited ("United Gene Health"), a subsidiary of the Group, entered into an exclusive distribution agreement for a period of five years with China United Gene Health Industry Limited ("China United") to act as its exclusive distributor of gene testing services in Hong Kong. On 12 August 2008, United Gene Health paid a non-interest bearing deposit of HK$40,000,000 to China United as a guarantee that the annual turnover of United Gene Health would meet the minimum annual sales figures (the "Sales Target") set out in the exclusive distribution agreement. Pursuant to a letter dated 16 March 2009, China United agreed to grant an additional non-exclusive right to United Gene Health for the distribution of gene testing services in the PRC. On 8 November 2010, United Gene Health and China United entered into a termination agreement for such sub-grants with effect from 13 December 2010. The partial of non-interest bearing deposit of HK$38,000,000 had been received before 31 December 2010 and the balance of HK$2,000,000 was received on 7 January 2011 so that the balance of deposit has been classified into the current asset of prepayment and deposits.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) United Gene Health entered into five franchise agreements (collectively the "Franchise Agreements" or individually a "Franchise Agreement") with five independent distributors, namely Fashion Fame Limited, Grace Noble Limited, Rising Rates International Limited, Noble Hat Limited and Sky Cultures Limited (collectively the "Distributors" or individually a "Distributor") for the period of five years on 15 July 2009. Under the Franchise Agreements, United Gene Health (i) appointed the Distributors as its distributors for the gene testing services in the PRC; and (ii) advanced a non-interest bearing loans to the Distributors in the amounts of HK$6,000,000, HK$8,000,000, HK$8,000,000, HK$10,000,000 and HK$12,000,000 respectively (collectively the "Loans" or individually a "Loan"), for the sole purpose of soliciting business and organizing marketing activities as permitted by United Gene Health. An undertaking has been given to United Gene Health by each of the Distributors to generate annual sales attributable to the distribution of gene testing services in the PRC of not less than HK$24,000,000, HK$32,000,000, HK$32,000,000, HK$40,000,000 and HK$48,000,000 respectively (collectively the "Specified Amounts" or individually a "Specified Amount"). In the event that the sales generated by any Distributor in any one year is equal to or in excess of the Specified Amount relevant to that Distributor, United Gene Health agrees to waive the repayment of 20% of the Loan by the relevant Distributor, which would otherwise have to be repaid to United Gene Health within three business days after the review made by United Gene Health, pursuant to the relevant Franchise Agreement. In the event that the sales generated by any Distributor falls below the relevant Specified Amount for two consecutive years, United Gene Health will have the right to terminate the Franchise Agreement pertaining to the relevant Distributor and demand the repayment of the outstanding amount of the relevant Loan within three business days after giving the notice of termination. For the financial year ended 30 June 2010, all the Distributors had achieved the Specified Amount so that United Gene Health had waived the repayment of 20% of the Loans, that is HK$8,800,000, by the Distributors. For the six months ended 31 December 2010, the Distributors had generated the Specified Amounts at a total amount of approximately HK$35,246,000. The Group has recognised the appropriate percentage of 20% of the Loans as the selling expenses in the condensed consolidated statement of comprehensive income for this period and the condensed consolidated statement of financial position as an accrual as at 31 December 2010.

14. INVENTORIES

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
Merchandise	**705**	569

15. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade receivables, based on the invoice date, is as follows:

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
30 days or less	–	26,006
31 to 60 days	**2,116**	24,751
61 to 180 days	**6,097**	47,655
Over 180 days	**460**	1,014
	8,673	99,426

As at 31 December and 30 June 2010, no allowance was made for the trade receivables.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

Renminbi ("RMB")	**8,673**	9,543
Hong Kong Dollars	–	89,883
	8,673	99,426

16. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
30 days or less	**798**	23,100
31 to 60 days	**–**	21,248
61 to 180 days	**–**	39,984
Over 180 days	**894**	2,745
	1,692	87,077

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
RMB	**1,692**	9,072
Hong Kong dollars	**–**	78,005
	1,692	87,077

17. ACCRUALS AND OTHER PAYABLES

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
Accruals and other payables	**7,840**	4,461
Due to a director of a subsidiary	**1,946**	1,946
Due to a non-controlling interest	**–**	850
	9,786	7,257

The amount due to a director of a subsidiary are unsecured, non-interest bearing and have no fixed repayment terms.

18. SHARE CAPITAL

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
Authorized:		
50,000,000,000 ordinary shares of HK$0.01	**500,000**	500,000
Issued and fully paid:		
12,164,508,062 ordinary shares of HK$0.01 each	**121,645**	121,645

19. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

i. Acquisition of a subsidiary - Fudan Health International (HK) Limited ("Fudan HK")

On 13 December 2010, the Group acquired 100% of the issued share capital of Fudan HK for a cash consideration of approximately HK$1,533,000. Fudan HK was engaged in the provision of gene testing services during the six months ended 31 December 2010 (the "Interim Period"). The acquisition is for the purpose of manufacture, research and development of gene testing products and services to the Group.

The fair value of the identifiable assets and liabilities of Fudan HK acquired as at its date of acquisition was as follows:

Net assets acquired:	HK$'000 (Unaudited)
Property, plant and equipment	1,042
Inventories	68
Prepayments, deposits and other receivables	290
Bank and cash balances	133
	1,533
Satisfied by:	
Cash	1,533
Net cash outflow arising on acquisition:	
Cash consideration paid	(1,533)
Cash and cash equivalents acquired	133
	(1,400)

19. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

i. Acquisition of a subsidiary - Fudan HK *(Continued)*

Fudan HK contributed nil and loss of approximately HK$103,000 to the Group's turnover and profit for the Interim Period respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 July 2010, total Group's turnover for the Interim Period would have remained unchanged of approximately HK$68,811,000, and profit for the Interim Period would have been approximately HK$9,509,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2010, nor is intended to be a projection of future results.

ii. Acquisition of a subsidiary - CNL (Pinghu)

On 13 July 2010, the Group acquired 70% of the issued share capital of CNL (Pinghu) for a cash consideration of approximately HK$17,320,000. CNL (Pinghu) was engaged in the wholesale business of bone chips in the PRC during the Interim Period. The acquisition is for the purpose of the business of distribution of bio-industrial products to the Group.

19. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

ii. Acquisition of a subsidiary - CNL (Pinghu) *(Continued)*

The fair value of the identifiable assets and liabilities of CNL (Pinghu) acquired as at its date of acquisition was as follows:

Net assets acquired:	HK$'000 (Unaudited)
Intangible assets	17,658
Property, plant and equipment	7,226
Inventories	57
Trade receivables	2,033
Prepayments, deposits and other receivables	16
Bank and cash balances	769
Accruals and other payables	(794)
Current tax liabilities	(823)
Deferred tax liabilities	(2,750)
	23,392
Non-controlling interest in CNL (Pinghu)	7,041
	16,351
Goodwill	969
	17,320
Satisfied by:	
Cash	17,320
Net cash outflow arising on acquisition:	
Cash consideration paid*	(17,320)
Cash and cash equivalents acquired	769
	(16,551)

* The part of consideration of approximately HK$2,975,000 would be fully settled upon the release of the audited financial statements of CNL (Pinghu) for the year ended 31 December 2010 and was recognised as other payables as at 31 December 2010.

The fair value of the trade receivables acquired was approximately HK$2,033,000.

19. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

ii. Acquisition of a subsidiary - CNL (Pinghu) *(Continued)*

The goodwill arising on the acquisition of CNL (Pinghu) is attributable to the anticipated profitability of the wholesales of its products in the new markets and the anticipated future operating synergies from the business combination.

CNL (Pinghu) contributed approximately HK$10,318,000 and approximately HK$763,000 to the Group's turnover and profit for the Interim Period respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 July 2010, total Group's turnover for the Interim Period would have remained unchanged of approximately HK$68,811,000, and profit for the Interim Period would have been approximately HK$10,031,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2010, nor is intended to be a projection of future results.

20. CONTINGENT LIABILITIES

The Directors were not aware of any significant contingent liabilities of the Group as at 31 December 2010 (30 June 2010: nil).

21. COMMITMENTS

(a) Lease commitments

At 31 December 2010, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	31 December 2010 HK$'000 (Unaudited)	30 June 2010 HK$'000 (Audited)
Future aggregate minimum lease payments under operating leases in respect of land and buildings		
– within one year	**3,204**	2,128
– in the second to fifth years inclusive	**9,044**	–
	12,248	2,128

Operating lease payments represent rentals payable by the Group for certain of its offices, health care centre and director's quarter. Leases are negotiated for an average term of 5 years and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Capital commitments

The Group's capital commitments of the property, plant and equipment contracted but not provided for amounting of approximately HK$12,045,000 at 31 December 2010 (30 June 2010: nil).

22. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had the following transactions with its related parties during the period:–

	Six months ended 31 December 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Management services income received from a holding company	**22**	22
Payment of gene testing services cost to the related party	**1,062**	–

The related party is ultimately beneficial owned by Dr. Mao Yumin, who is also the substantial shareholder of the Company.

23. EVENTS AFTER THE REPORTING PERIOD

Voluntary winding-up of a subsidiary

First Jumbo Trading Limited ("First Jumbo") is an indirect wholly-owned subsidiary of the Company solely for the purpose of investment holding of the Co-operative Joint Venture (山東特利爾醫藥有限公司) (the "CJV"). The CJV is a co-operative joint venture owned as to 80% by First Jumbo and as to 20% by the CJV partner, 山東特利爾行銷策劃有限公司, respectively, principally engaged in the distribution of pharmaceutical products in the PRC.

It has been difficult for the Group to recruit a suitable competent replacement for the CJV to solve its management succession problem. In view of the loss-making position of the CJV since the financial year of the Group ended 30 June 2010, the Directors do not consider it a realistic possibility for the CJV to turn the performance around in the foreseeable future even if a suitable replacement is recruited. As set out in the Company's announcement dated 25 February 2011 in more detail, the Directors determined that it would be in the best interests of the Company and its shareholders as a whole, to voluntarily wind-up First Jumbo, the CJV's immediate holding company. This can simplify the corporate structure of the Group and therefore reduce administrative expenses and enhance the performance of the Group. In addition, this can enable the Group to allocate more of its resources and management efforts on its other businesses, namely, distribution of gene testing services and bio-industrial products and provision of health care management services which are proven to have higher profit margins.

Liquidator will be appointed by the Group to voluntarily wind-up First Jumbo and will try to realise its assets where appropriate. The estimated loss to the Group arising from the winding-up of First Jumbo will be approximately HK$100,000.

24. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of Directors on 28 February 2011.