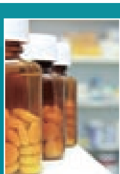
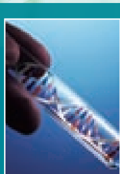
United Gene High-Tech Group Limited

(Incorporated in the Cayman Islands with limited liability)

Aware
of health care





Interim Report 2009-2010

Stock Code 399

Contents

BOARD OF DIRECTORS

Chairman

Qin Yilong

Executive Directors

Qin Yilong
Shen Xiaodong
Jiang Jian

Independent Non-Executive Directors

Zhang Huiming
Zhu Lijun
Chen Weijun

COMPLIANCE ADVISER

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

AUDITORS

ANDA Certified Public Accountants
Unit D, 21st Floor, Max Share Centre
373 King's Road, North Point
Hong Kong

COMPANY SECRETARY

Cheung Sui Ping, Annie

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 IN HONG KONG

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

399

COMPANY WEB-SITE

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

GROUP RESULTS

Turnover of United Gene High-Tech Group Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 31 December 2009 (the "Interim Period") amounted to approximately HK$294.2 million, representing approximately 55.50% increase from the six months ended 31 December 2008 (approximately HK$189.2 million). The increase in the turnover of approximately HK$105 million for the Interim Period was mainly contributed by the distribution of the gene testing services that commenced in the People's Republic of China's Region ("the PRC") in May 2009. Total comprehensive income attributable to the equity holders of the Company for the Interim Period was approximately of HK$3.97 million, compared to that of approximately HK$746.9 million in the corresponding period of the previous year. This was influenced by the release of a bank loan and other liabilities which amounted to approximately HK$631.4 million pursuant to a scheme of arrangement which became effective on 18 July 2008 (the "Scheme") and by gain on deconsolidation of the subsidiaries which amounted to approximately HK$134.5 million.

BUSINESS REVIEW

Distribution of Gene Testing Services

The Group continued to diversify within the region and expand the market share of its gene testing services business. Its subsidiary, China United Gene Health Limited ("United Gene Health"), entered into five franchise agreements (collectively the "Franchise Agreements" or individually the "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 the "Distributor") for the period of five years on 14 July 2009. Under the Franchise Agreements, United Gene Health (i) appointed each Distributor as its distributor for the gene testing services in the PRC; and (ii) advanced a non-interest bearing loan to the five Distributors named above for HK$6,000,000, HK$8,000,000, HK$8,000,000, HK$10,000,000 and HK$12,000,000 respectively (the "Loan", collectively the "Loans"), for the sole purpose of soliciting business and organizing marketing activities as permitted by United Gene Health. An undertaking has been issued to United Gene Health by Fashion Fame Limited, Grace Noble Limited, Rising Rates International Limited, Noble Hat Limited and Sky Cultures Limited that the annual sales attributable to the distribution of gene testing services in the PRC generated by them shall not be less than HK$24,000,000, HK$32,000,000, HK$32,000,000, HK$40,000,000 and HK$48,000,000 respectively (the "Specified Amounts", each as a "Specified Amount"). In the event that the sales generated by the relevant Distributor in any one year is equal to or in excess of the relevant Specified Amount, United Gene Health agrees to waive the repayment of 20% of the relevant Loan; otherwise, the relevant Distributor shall have to repay 20% of the relevant Loan to United Gene Health within three business days after the review is made by United Gene Health, pursuant to the relevant Franchise Agreement. In the event that the sales generated by the relevant Distributor falls below the relevant Specified Amount for two consecutive years, United Gene Health will have the right to terminate the relevant Franchise Agreement and to require the repayment of the relevant Loan outstanding within three business days after giving the notice of termination to the relevant Distributor.

During the Interim Period, turnover of distribution of gene testing services was approximately HK$96.7 million (approximately HK$20.4 million in the prior period). This substantial increase of approximately 374.02% was mainly due to the enlarged distribution coverage in the PRC since May 2009 which contributed approximately HK$90.3 million to the turnover during the Interim Period. However, the gross profit margin decreased from approximately 16.80% in the prior period to approximately 12.25% in the Interim Period due to the introduction of more favourable incentives to the distributors in the PRC.

Co-operative Joint Venture (山東特利爾醫藥有限公司) (the "CJV") for sales of pharmaceutical products

On 18 September 2009, CJV mutually agreed with Laolaishou Biotech Company Limited (濟南老來壽生物科技有限公司) ("Laolaishou") that, for commercial reasons, to enter into the termination agreement for the exclusive distribution agreement for the products of Laolaishou in the PRC, with immediate effect. The termination of this agreement will not have any material financial impact on the Group's operations or financial position.

During the Interim Period, sales of pharmaceutical products of the CJV was approximately HK$197.5 million as compared to approximately HK$165 million in the prior period, representing an increase of approximately 19.70%, whilst the gross profit margin remained at approximately 1.65% in the Interim Period.

PROSPECTS

Distribution of Gene Testing Services

The management believes that the distribution of gene testing services has a strong potential due to increasing awareness of health care by individuals and their families, and the increasing national income in the PRC. With the exclusive distribution rights in Hong Kong and non-exclusive distribution rights in the PRC for the gene testing services, together with the Franchise Agreements which set substantial sales target for each of the forthcoming five years, the Group will be able to (i) retain the existing distributors and attract other potential distributors of gene testing services; (ii) secure more competitive pricing to capture a larger market share; and (iii) add more business partners in different regions of the PRC, thus achieve increasing profitability in the forthcoming years.

Provision of Health Care Management Services

On 23 June 2009, the Group established an indirect wholly-owned subsidiary, 聯合基因(上海)健康管理服務有限公司 (for identification purpose, United Gene HealthCare Limited, Shanghai), ("United Gene HealthCare") in Shanghai as a limited liability company with a registered capital of HK$20 million, of which HK$4 million has been injected as at 31 December 2009 and would be applied towards the start-up and development costs for the business of the health care center. The scope of business of United Gene HealthCare includes health care management service, health care consultancy, health care apparatus wholesale and provision of ancillary services.

On 20 November 2009, United Gene HealthCare established in Guangzhou the first health care centre to provide gene testing and health care services, health check services, rehabilitation services, psychology consultancy and therapy services, infirmary and nutrition services, health fitness and exercise services, traditional Chinese medical services and other ancillary services. For the period ended 31 December 2009, United Gene HealthCare had not yet generated any income because it was still in the development and coordination stage of setting up the provision of health care management services.

On 15 February 2010, United Gene HealthCare entered into a joint venture agreement with an independent third party to jointly establish 上海途舒館健康管理服務有限公司 in Shanghai ("SH HealthCare Joint Venture") which is a limited liability company with a registered capital of RMB22.5 million. United Gene HealthCare has committed to contribute a total of RMB4.5 million, representing 20% interest in the SH HealthCare Joint Venture. The scope of proposed business of SH HealthCare Joint Venture includes health care management service, health care consultancy, health care apparatus wholesale and provision of ancillary services.

United Gene HealthCare intends to set up strategically joint venture in the PRC with other health care centers in Guangzhou, Shanghai, Beijing and other regions. These development will be funded by the proceeds from the proposed rights issue as detailed in the paragraph headed "Capital Structure" of the section headed "FINANCIAL REVIEW".

Co-operative Joint Venture (山東特利爾醫藥有限公司) (the "CJV") for sales of pharmaceutical products

In October 2009, one member of the top management of the CJV fell seriously ill and had to be admitted to hospital where he is still being treated. Since then the Group has been looking for a suitable replacement. Turnover of the CJV has been affected and it has dropped significantly.

In view of the subdued financial performance and management succession problem, the Group has been discussing with the joint venture partner to try to restructure the business of the CJV. The Board is of the view that the current situation of the CJV would not have any material financial impact on the Group or its financial results.

FINANCIAL REVIEW

Capital Structure

Details of the capital structure of the Company are set out in note 17 to the unaudited condensed consolidated interim financial statements.

As at 31 December 2009, the Group had no bank borrowings or other long term financing (30 June 2009: nil).

On 19 March 2010, the Company announced to its shareholders a proposed right issue on the basis of one rights share for every existing share in issue, which would result in the issue of 6,082,254,031 new ordinary shares with par value of HK$0.01 each, at the subscription price of HK$0.052 per rights share. Best Champion Holdings Limited ("Best Champion"), the controlling shareholder of the Company, and Grand Investment (Securities) Limited, both acting as underwriters, entered into an underwriting agreement with the Company on even date to fully underwrite the proposed rights shares. The proposed rights issue, if completed, will raise net funds of approximately HK$310.08 million, which is expected to be applied as to approximately 90% for future business development including but not limited to investing in the health care centers in Guangzhou, Beijing, Shanghai and other cities in the PRC and investing in the business of health care and pharmaceutical products such as oral insulin, etc and as to approximately 10% for general working capital purposes of the Group.

The proposed rights issue is conditional on, among other matters, the approval by the independent shareholders at the extraordinary general meeting (the "EGM") to be expected held on 27 April 2010. Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Best Champion, the substantial shareholders and their respective associates of the Company shall abstain from voting in favour of the resolutions approving the proposed rights issue in the EGM.

Details of the proposed rights issue are set out in the Company's announcement dated 19 March 2010.

Liquidity and financial resources

As at 31 December 2009, the Group had bank and cash balances of approximately HK$27 million (30 June 2009: approximately HK$74.1 million).

The ratio of current assets to current liabilities of the Group was 2.34 as at 31 December 2009 compared to 3.05 as at 30 June 2009. The Group's gearing ratio as at 31 December 2009 was 0.14 (30 June 2009: 0.23) which is calculated based on the Group's total liabilities of approximately HK$18.8 million (30 June 2009: approximately HK$32.3 million) and the Group's total assets of approximately HK$130.8 million (30 June 2009: approximately HK$140.2 million).

Significant investment

The Group had no significant investment, nor has it made any material acquisition or disposal of Group's companies or associated corporations during the Interim Period (30 June 2009: nil).

The details of future plans for materials investments and their expected sources of funding in the coming year is stated in the paragraph headed "Provision of Health Care Management Services" of the section headed "PROSPECTS", and the paragraph headed "Capital Structure" of the section headed "FINANCIAL REVIEW".

Charges on the Group's assets

As at 31 December 2009, the Group did not have any charges on its assets (30 June 2009: nil).

Contingent liabilities

The directors of the Company (the "Directors") are not aware of any significant contingent liabilities of the Group as at 31 December 2009.

Commitments

Commitments of the Group as at 31 December 2009 are set out in note 19 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. 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 where available should the need arise.

Number and Remuneration of Employees

As at 31 December 2009, the Group had approximately 160 (30 June 2009: approximately 184) full-time employees, most of whom were working in the subsidiaries in the PRC. It is the Group's policy that remuneration of the employees 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$3.3 million (2008: approximately HK$1.9 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 contributions.

Qin Yilong
Chairman

Hong Kong, 30 March 2010

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 2009, except for the deviations discussed below.

Code provision A.2.1

Code provision A.2.1 stipulates that the roles of the chairman and chief executive officer of the company should be separate and should not be performed by the same individual.

The Company has deviated from the Code provision A.2.1 and the roles of the chairman and chief executive officer of the Company are now performed by the same individual, Mr. Qin Yilong. The Company is looking for a suitable person to act as the chief executive officer so that it will be in compliance with the Code as soon as possible.

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 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 terms of non-executive Directors, the Directors are committed to represent 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 2009.

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 2009. In addition, the Group's external auditors have reviewed the unaudited condensed consolidated interim financial statements set out on pages 15 to 32 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 2009, none of the Directors, chief executive 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 (the "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 there was any such interest or right that had been granted or exercised by the Directors, chief executive of the Company or their associates during the Interim Period.

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

During the six months ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

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

As at 31 December 2009, 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 shareholder	Capacity	Number of shares/ underlying shares held	Percentage of the issued share capital of the Company
Dr. Mao Yumin	Interest of a controlled corporation	3,593,846,154	59.09%
United Gene Holdings Limited	Interest of a controlled corporation	3,593,846,154	59.09%
Best Champion Holdings Limited	Beneficial owner	3,593,846,154	59.09%

Other than 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 2009.

SHARE OPTION SCHEME

On 6 November 2009, at the annual general meeting, the Company adopted a share option scheme (the "Share Option Scheme") and, unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from that date. 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 608,225,403, being 10% of the shares in issue of the Company as at the date of adoption of the Share Option Scheme. 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 2009, the Company had not granted any options to the eligible persons of 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, chief executive 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.

安達會計師事務所
ANDA CERTIFIED PUBLIC ACCOUNTANTS

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 15 to 32 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 2009 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 Certified Public Accountants
Certified Public Accountants

Hong Kong
30 March 2010

For the six months ended 31 December 2009

	Notes	Six months ended 31 December 2009 HK$'000 (Unaudited)	2008 HK$'000 (Audited)
Turnover	3	**294,170**	189,166
Cost of sales		**(279,071)**	(183,510)
Gross profit		**15,099**	5,656
Other income	4	**27**	631,406
Selling expenses		**(3,475)**	(1,913)
Administrative expenses		**(6,980)**	(21,462)
Profit from operations		**4,671**	613,687
Gain on deconsolidation of the subsidiaries		**–**	134,516
Finance cost	6	**(182)**	(633)
Profit before tax		**4,489**	747,570
Income tax expense	7	**(508)**	(776)
Profit for the period	8	**3,981**	746,794
Other comprehensive income:			
Exchange differences on translating foreign operations		**16**	(53)
Revaluation surplus on buildings		**–**	176
Other comprehensive income for the period, net of tax		**16**	123
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**3,997**	746,917
Profit attributable to:			
Equity holders of the Company		**3,957**	746,775
Non-controlling interests		**24**	19
		3,981	746,794
Total comprehensive income attributable to:			
Equity holders of the Company		**3,973**	746,898
Non-controlling interests		**24**	19
		3,997	746,917
Earnings per share	10		
Basic and Diluted (HK cents per share)		**0.07**	13.48

Condensed Consolidated Statement of Financial Position

At 31 December 2009

	Notes	**31 December 2009 HK$'000 (Unaudited)**	30 June 2009 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**2,602**	1,718
Prepayments, deposits and other receivables	12	**84,000**	40,000
		86,602	41,718
Current assets			
Inventories	13	**335**	2,393
Prepayments, deposits and other receivables		**7,350**	17,839
Trade receivables	14	**9,465**	4,224
Bank and cash balances		**27,012**	74,065
		44,162	98,521
Current liabilities			
Trade payables	15	**10,686**	24,893
Accruals and other payables	16	**6,657**	6,415
Current tax liabilities		**1,496**	1,003
		18,839	32,311
Net current assets		**25,323**	66,210
NET ASSETS		**111,925**	107,928
Capital and reserves			
Share capital	17	**60,823**	60,823
Reserves		**50,536**	46,563
Equity attributable to equity holders of the Company		**111,359**	107,386
Non-controlling interests		**566**	542
TOTAL EQUITY		**111,925**	107,928

For the six months ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium account HK$'000	Statutory surplus reserve HK$'000	Property revaluation reserve HK$'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 2008	2,176	385,249	998	3,410	(924)	(1,179,885)	(788,976)	506	(788,470)
Total comprehensive income for the period	–	–	–	176	(53)	746,775	746,898	19	746,917
Shares issued on group restructuring	58,647	91,295	–	–	–	–	149,942	–	149,942
Deconsolidation of subsidiaries	–	–	(998)	(3,586)	1,110	4,584	1,110	–	1,110
At 31 December 2008 (audited)	60,823	476,544	–	–	133	(428,526)	108,974	525	109,499
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 (unaudited)	**60,823**	**476,544**	**–**	**–**	**131**	**(426,139)**	**111,359**	**566**	**111,925**

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2009

	Six months ended 31 December 2009 HK$'000 (Unaudited)	2008 HK$'000 (Audited)
Net cash used in operating activities	**(45,828)**	(79,487)
Net cash used in investing activities	**(1,054)**	(4,354)
Net cash (used in)/generated from financing activities	**(182)**	124,713
Net (decrease)/increase in cash and cash equivalents	**(47,064)**	40,872
Effect of foreign exchange rate changes	**11**	(78)
Cash and cash equivalents at beginning of period	**74,065**	1,710
Cash and cash equivalents at end of period	**27,012**	42,504
Analysis of cash and cash equivalents		
Bank and cash balances	**27,012**	42,504

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 with 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 2009 annual financial statements of the Company. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2009 except as stated below.

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 that are relevant to its operations and effective for its accounting period beginning on 1 July 2009. 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 except as stated below.

(a) Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. These presentation requirements have been applied retrospectively in these condensed financial statements.

(b) Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The primary segments reported under HKAS 14 "Segment Reporting" are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Manufacturing and distribution of pharmaceutical products	**197,519**	168,728
Distribution of gene-testing services	**96,651**	20,438
	294,170	189,166

4. OTHER INCOME

	Six months ended 31 December	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Interest income	**6**	28
Release of a bank loan and other liabilities pursuant to the Scheme	**–**	631,378
Sundry income	**21**	–
	27	631,406

5. SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and distribution of pharmaceutical products and distribution of gene-testing services. An analysis of the Group's financial performance and position by business segments, namely 'Manufacturing and distribution of pharmaceutical products' and 'Distribution of gene-testing services' is as follows:

	Manufacturing and distribution of pharmaceutical products *(note)* HK$'000	**Distribution of gene testing services** HK$'000	**Total** HK$'000
Six months ended 31 December 2009 (Unaudited):			
Revenue from external customers	**197,519**	**96,651**	**294,170**
Segment profit after tax	**121**	**7,634**	**7,755**
As at 31 December 2009 (unaudited):			
Segment assets	**12,153**	**97,977**	**110,130**
Six months ended 31 December 2008 (Audited):			
Revenue from external customers	168,728	20,438	189,166
Segment (loss)/profit after tax	(5,143)	2,511	(2,632)
As at 30 June 2009 (Audited):			
Segment assets	11,530	119,348	130,878

Note:

Since 19 December 2008, the Group's control over 上海德勝科技集團(安慶)製藥有限公司 had been lost control due to the operation restructuring of the Group. As such, the Group's financial performance and position of the segment "Manufacturing and distribution of pharmaceutical products' for the six months ended 31 December 2009 was solely arising from the trading of pharmaceutical products carried by 山東特利爾醫藥有限公司 in the People's Republic of China's Region (the "PRC")

5. SEGMENT INFORMATION *(Continued)*

	Six months ended 31 December 2009 HK$'000 (Unaudited)	2008 HK$'000 (Audited)
Reconciliation of segment profit/(loss):		
Total profit/(loss) of reportable segments	**7,755**	(2,632)
Corporate and others expenses	**(3,795)**	(16,473)
Unallocated income:		
Other income	**21**	631,383
Gain on deconsolidation of the subsidiaries	**–**	134,516
Consolidated profit for the period	**3,981**	746,794

The Group's operations are principally located in Hong Kong and the PRC. An analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods/services is as follows:

	Revenue		Total assets		Capital expenditure	
	Six months ended 31 December		As at		Six months ended 31 December	
			31 December	30 June		
	2009 HK$'000 (Unaudited)	2008 HK$'000 (Audited)	2009 HK$'000 (Unaudited)	2009 HK$'000 (Audited)	2009 HK$'000 (Unaudited)	2008 HK$'000 (Audited)
Hong Kong	**6,348**	20,438	**117,559**	128,709	**72**	25
The PRC	**287,822**	168,728	**13,205**	11,530	**988**	4
	294,170	189,166	**130,764**	140,239	**1,060**	29

6. FINANCE COST

	Six months ended 31 December	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Interest on bank loans	**182**	633

7. INCOME TAX EXPENSE

	Six months ended 31 December	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Current tax provision for the period		
Hong Kong Profits Tax	**466**	684
Overseas	**42**	92
	508	776

Hong Kong Profits Tax is provided at 16.5% (2008: 16.5%) based on the assessable profit for the period.

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	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Depreciation	**179**	1,024
Directors' emoluments	**658**	656
Operating lease charges of land and buildings	**954**	241
Cost of inventories sold	**194,262**	166,506
Loss on written-off of property, plant and equipment	**–**	108
Impairment on an amount due from a subsidiary deconsolidated	**–**	3,226
Staff costs including directors' emoluments	**3,258**	1,876

9. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2009 (2008: HK$NIL).

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the earnings for the period attributable to equity holders of the Company of approximately HK$3,957,000 (2008: (audited) approximately HK$746,775,000) and the weighted average number of ordinary shares of 6,082,254,031 (2008: 5,540,408,616) 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 periods ended 31 December 2009 and 31 December 2008.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2009, the Group acquired approximately HK$1,060,000 (2008: (audited) approximately HK$29,000) for the additions to property, plant and equipment, which was mainly for the business of provision of health care management services.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2009 HK$'000 (Unaudited)	30 June 2009 HK$'000 (Audited)
Deposit for entering the distributorship rights (note (a))	**40,000**	40,000
Loans under the Franchise Agreements (note (b))	**44,000**	–
	84,000	40,000

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 the 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 7 September 2009, China United agreed the Sales Target for the year ended 30 June 2010 to be maintained at the level of HK$60,000,000. For the six months ended 31 December 2009, United Gene Health has realized the Sales Target.

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

Notes: *(Continued)*

(b) On 14 July 2009, United Gene Health entered into five franchise agreements (collectively the "Franchise Agreements" or individually the "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 the "Distributor") for the period of five years. Under the Franchise Agreements, United Gene Health (i) appointed each Distributor as its distributor for the gene testing services in the PRC; and (ii) advanced a non-interest bearing loan to the five Distributors named above for HK$6,000,000, HK$8,000,000, HK$8,000,000, HK$10,000,000 and HK$12,000,000 respectively (the "Loan", collectively the "Loans"), which are non-interest bearing, for the sole purpose of soliciting business and organizing marketing activities as permitted by United Gene Health. An undertaking has been issued to United Gene Health by Fashion Fame Limited, Grace Noble Limited, Rising Rates International Limited, Noble Hat Limited and Sky Cultures Limited that the annual sales attributable to the distribution of gene testing services in the PRC generated by them shall not be less than HK$24,000,000, HK$32,000,000, HK$32,000,000, HK$40,000,000 and HK$48,000,000 respectively (the "Specified Amounts", each as a "Specified Amount"). In the event that the sales generated by the relevant Distributor in any one year is equals to or in excess of the relevant Specified Amount, United Gene Health agrees to waive the repayment of 20% of the relevant Loan; otherwise, the relevant Distributor shall have to repay 20% of the relevant Loan to United Gene Health within three business days after the review is made by United Gene Health, pursuant to the relevant Franchise Agreement. In the event that the sales generated by the relevant Distributor falls below the relevant Specified Amount for two consecutive years, United Gene Health will have the right to terminate the relevant Franchise Agreement and to require the repayment of the relevant Loan outstanding within three business days after giving the notice of termination to the relevant Distributor. For the six months ended 31 December 2009, the Distributors have been generated the Specified Amounts at a total amount approximately HK$90,303,000. The Group has made the appropriate percentage of 20% of the Loans as the selling expenses recognised in the condensed consolidated statement of comprehensive income for this period and as an accruals in the condensed consolidated statement of financial position as at 31 December 2009.

13. INVENTORIES

	31 December 2009 HK$'000 (Unaudited)	30 June 2009 HK$'000 (Audited)
Finished goods	**335**	2,393

14. 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, and net of allowance, is as follows:

	31 December 2009 HK$'000 (Unaudited)	30 June 2009 HK$'000 (Audited)
30 days or less	**6,019**	2,724
31 to 60 days	**1,789**	921
61 to 180 days	**1,605**	562
Over 180 days	**52**	17
	9,465	4,224

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

Renminbi ("RMB")	**7,042**	4,224
Hong Kong Dollars	**2,423**	–
	9,465	4,224

15. TRADE PAYABLES

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

	31 December 2009 HK$'000 (Unaudited)	30 June 2009 HK$'000 (Audited)
30 days or less	**5,158**	13,157
31 to 60 days	**1,401**	9,779
61 to 180 days	**2,536**	1,189
Over 180 days	**1,591**	768
	10,686	24,893

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

RMB	**7,584**	5,406
Hong Kong dollars	**3,102**	19,487
	10,686	24,893

16. ACCRUALS AND OTHER PAYABLES

	31 December 2009 HK$'000 (Unaudited)	30 June 2009 HK$'000 (Audited)
Accruals and other payables	**3,871**	3,547
Due to directors of subsidiaries	**1,946**	1,946
Due to a non-controlling shareholder	**840**	922
	6,657	6,415

The amounts due to directors of subsidiaries and a non-controlling shareholder are unsecured, non-interest bearing and have no fixed repayment terms.

17. SHARE CAPITAL

	31 December 2009 HK$'000 (Unaudited)	30 June 2009 HK$'000 (Audited)
Authorized:		
50,000,000,000 ordinary shares of HK$0.01 each (Note)	**500,000**	100,000
Issued and fully paid:		
6,082,254,031 ordinary shares of HK$0.01 each	**60,823**	60,823

Note:

The Company's authorized share capital was increased from HK$100,000,000 to HK$500,000,000 by creation of 40,000,000,000 new shares of HK$0.01 each, immediately upon approval by the shareholders through the way of a special resolution in the annual general meeting held on 6 November 2009.

18. CONTINGENT LIABILITIES

The Directors were not aware of any significant contingent liabilities of the Group as at 31 December 2009.

19. LEASE COMMITMENTS

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2009 HK$'000 (Unaudited)	30 June 2009 HK$'000 (Audited)
Future aggregate minimum lease payments under operating leases in respect of land and buildings		
– within one year	**2,643**	1,610
– In the second to fifth years inclusive	**560**	1,014
	3,203	2,624

Operating lease payments represent rentals payable by the Group for certain of its offices and directors' quarters. Leases are negotiated for an average term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

20. 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	
	2009 HK$'000 (Unaudited)	2008 HK$'000 (Audited)
Management services income received from a holding company	**22**	–

21. EVENTS AFTER THE REPORTING PERIOD

a) Formation of Joint Venture Company

On 15 February 2010, the Group entered into a joint venture agreement with an independent third party to jointly establish 上海途舒館健康管理服務有限公司 in Shanghai ("SH HealthCare Joint Venture") which is a limited liability company with a registered capital of RMB22.5 million. The Group has committed to contribute a total of RMB4.5 million, representing 20% interest in the SH HealthCare Joint Venture. The scope of proposed business of SH HealthCare Joint Venture includes health care management service, health care consultancy, health care apparatus wholesale and provision of ancillary services.

b) Proposed Rights Issue

On 19 March 2010, the Company announced to its shareholders a proposed right issue on the basis of one rights share for every existing share in issue, which would result in the issue of 6,082,254,031 new ordinary shares with par value of HK$0.01 each, at the subscription price of HK$0.052 per rights share. Best Champion Holdings Limited ("Best Champion"), the controlling shareholder of the Company, and Grand Investment (Securities) Limited, both acting as underwriters, entered into an underwriting agreement with the Company on even date to fully underwrite the proposed rights shares. The proposed rights issue, if completed, will raise net funds of approximately HK$310.08 million, which is expected to be applied as to approximately 90% for future business development including but not limited to investing in the health care centers in Guangzhou, Beijing, Shanghai and other cities in the PRC and investing in the business of health care and pharmaceutical products such as oral insulin, etc and as to approximately 10% for general working capital purposes of the Group.

21. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

b) Proposed Rights Issue *(Continued)*

The proposed rights issue is conditional on, among other matters, the approval by the independent shareholders at the extraordinary general meeting (the "EGM") to be expected held on 27 April 2010. Under the Listing Rules, Best Champion, the substantial shareholders and their respective associates of the Company shall abstain from voting in favour of the resolution(s) approving the proposed rights issue in the EGM.

Details of the proposed rights issue are set out in the Company's announcement dated 19 March 2010.

22. 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 30 March 2010.